INFLUENCE OF CUSTOMER RETENTION STRATEGIES ON PERFORMANCE OF INSURANCE COMPANIES IN NAIROBI, KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN MARKETING, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2014

DECLARATION

This management research project is my original work and has not been presented for examination in any other university.

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This management research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this project to my family for the relentless support they accorded me. I would like to extend my appreciation to my parents, Josephine and Titus, my siblings, Susan and Lilian and my boyfriend Michael for their moral support and encouragement.

ACKNOWLEDGEMENT

I am extremely grateful to God, my family and friends for the support extended to me during the time in carrying out this research. My special gratitude goes to my supervisor Dr. Kinoti, whose guidance, patience, and understanding made this research a success.

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LIST OF ABBREVIATIONS AND ACRONYMS

AKI – Association of Kenya Insurers

CEO's – Chief Executive Officers

CRM – Customer relationship management

ECT – Expectancy-confirmation theory

EDI – Electronic Data Interchange

GDP – Gross Domestic Product

IFIU – Insurance Fraud Investigation Unit

IIK – Insurance Institute of Kenya

IRA – Insurance Regulatory Authority

MIP – Medical Insurance Providers

SDT – Self-determination theory

SPSS – Statistical Package for Social Sciences

ABSTRACT

This study aimed to determine the influence of customer retention strategies on performance of insurance companies in Nairobi, Kenya. The study was a cross-sectional descriptive survey design which used quantitative methods. The target population for this study consisted of 48 registered insurance companies with headquarters in Nairobi. Following the small size of the population of the study, a census was carried out. The study aimed to collect both primary and secondary data; primary data was collected using a semi-structured questionnaire while secondary data was obtained from annual reports. Descriptive statistics of mean, frequency and percentages were used to analyze demographic characteristics of the respondents. Regression analysis was used to measure and predict the relationship between the customer retention strategies and performance. The analyzed findings were then presented inform of frequency tables.

The study found that a unit increase in monitoring customer relationships will increase market share by 0.223, loyalty programs will increase market share by -0.148, customer clubs will increase market share by 0.044, effective recovery systems will increase market share by 0.251, sales promotions will increase market share by 0.145, creating customer bonds will increase market share by 0.317, building commitment will increase market share by 0.29, market intelligence will increase market share by 0.247, and lastly extraordinary customer service will increase market share by 0.331. When testing the relationship between retention strategies and gross profit, the study revealed that; a unit increase in monitoring customer retention strategies will result to increase in gross profit by 0.268, loyalty programs by an increase of 0.101, customer clubs will result to an increase in profits by -0.268, effective recovery systems with an increase in 0.052, sales promotions by an increase of 0.58, creating customer bonds by an increase of 0.01, building commitment by an increase of 0.15, market intelligence by an increase of 0.433 and lastly extraordinary customer service will result to an increase by -0.327. When testing the relationship between retention strategies and sales volumes, the study revealed that; a unit increase in monitoring customer relationships will result to increase in sales volumes by 0.12, loyalty programs by an increase of -0.116, customer clubs will result to an increase of -0.453, effective recovery systems with an increase in 0.307, sales promotions by an increase of 0.16, creating customer bonds by increase of 0.409, building commitment by increase of 0.267, market intelligence by increase of 0.25 and lastly extraordinary customer service by an increase of 0.203.

Based on research findings and conclusions, the researcher recommended that companies should strengthen their customer bonds to increase customer retention, increase market share as well as grow their sales volumes. Organizations should also provide extraordinary customer service, allocate budgets to building customer clubs and expand their strategies to incorporate customer clubs in order to gain more understanding of their customers. The researcher also recommends that companies should strengthen their market intelligence so as to identify new trends in markets as well as competition. This enables counter measures thus minimizing investment risks by detecting threats and trends early.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Insurance products have become largely commoditized, and customers often choose their insurer purely on the basis of price. With little differentiation between product offerings, it is extremely challenging for insurance companies to retain customers, and this results in poor loyalty levels and increased costs. Furthermore, recruiting new members is more difficult and expensive than retaining current ones. Acquiring new customers can cost five times more than the cost of satisfying and retaining current customers (Kotler & Keller, 2009). In addition, recruiting new members sometimes means taking them away from other insurance policies, which requires more incentives to make them switch. Aside from these reduced costs, there are potential opportunities for increased value of customers being loyal over long periods of time (Kim, Park, & Jeong, 2004).

In order to increase member retention and the benefits that come along with retaining loyal members, insurance firms implement member retention strategies, or plans to get their members to renew their membership year after year (Levin, 2007). Unfortunately in today's highly competitive marketplace customer turnover is commonplace. Defection rates range from 5% to 30% annually across all industries, with rates as high as 20% not uncommon. These defection rates force companies to replace a significant percentage of their customer base every few years. Evidently, unless companies have a monopoly of their product or service, they have to work extremely hard to keep their customers over an extended period of time.

In a study conducted by the Insurance Regulatory Authority (IRA) of Kenya to assess views on insurance industry performance during the year 2012, the Principal Officers/ CEO's of the 46 registered insurance companies who were polled attributed challenges the insurance industry faced in 2012 to low business retention due to policy lapses, low market penetration, inadequacies in distribution channels, economic environment e.g. inflation and high interest rates among others (Insurance Regulatory Authority, 2013).

1.1.1 The Concept of Customer Retention Strategy

A customer retention strategy is a process through which a business ensures customers enter the sales funnel and become repeat customers. Customer retention is incredibly important especially when we consider the Pareto Principle, which states that 80 percent of a company's revenue will be generated by 20 percent of its customers. While new customer acquisition is an important part of any marketing strategy, all businesses need to include a customer retention strategy as well. A customer retention strategy has to acknowledge the different types of customers. Generally, there are three types: Prospects that have shown interest in a company but have not purchased anything; customers who have made a recent purchase and customers who purchased something in the past, but have not made any purchases recently. It has been accepted that the practice of customer retention has brought tangible financial benefits to firms so much that all classes of customers should be equally and appropriately treated. However, very few organizations have measured to the economic values of their customer retention strategies (Payne and Frow, 1999).

Customer retention is on the minds of small, medium as well as large businesses across the world. With rising customer acquisition costs, businesses need to innovate and assume a proactive role in retaining clients. While specific strategies may vary, retention starts from the first day a member interacts with the service provider. Reichheld and Sasser (1990) concluded that profits in service industries increased in direct proportion to the length of a customer’s relationship. Some reasons for this are that loyal customers tend to spend more as the relationship progresses, cost less to serve, recommend new customers, and become more willing to pay full prices as trust is gained. According to Kotler (2003), in recent times more companies are recognizing the importance of satisfying and retaining customers because they constitute the company’s relationship capital. Customer retention invariably starts with the attraction of the customer through the retention process. Companies seeking to expand their profits and sales must spend considerable time and resources searching for new customers for mutual relationship (Kotler and Keller, 2008). Unfortunately, most marketing theory and practice are

centered on the art of attracting new customers rather than on retaining and cultivation of existing ones (Kotler and Keller, 2008).

The tangible advantages of retaining customers were brought into core prominence by Dawkins and Reichheld (1990), claiming that a 5% increase in retention rate led to an increase in the net present value of customers of between 25% and 83% in a wide range of industries, e.g., credit card, insurance brokerage, motor servicing, building management etc. Despite its potential benefits, customer retention did not obtain much attention in strategic planning processes (Ahmad and Buttle, 2001). The consequences of customer retention also compound over time, and in sometimes unexpected ways, even a tiny change in customer retention can cascade through a business system and multiply over time. The fact that customer profitability tends to increase over the life of a retained customer is added incentive for businesses to allocate more resources to sharpening their customer retention strategies.

1.1.2 The Concept of Services Marketing

One of the first to define services was the American Marketing Association which as early as in 1960 defined services as “activities, benefits, or satisfactions which are offered for sale, or provided in connection with the sale of goods”. This definition took a very limited view of services as it proposed that services are offered only in connection with the sale of goods. Kotler and Bloom (1984) defined service as, “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”.

The service concept is the definition of the offer in terms of the bundle of goods and services sold to the consumer plus the relative importance of this bundle to the consumer. It enables the manager to understand some of the intangibles, elusive and implicit that affect the consumer decision and to design and operate his organization to deliver a total service package that emphasizes the important element of that package. Services have a number of unique characteristics that make them different from products; some of most commonly accepted characteristics are as follows: Intangibility, Inseparability,

Heterogeneity, Perishability and no transfer of ownership. All products whether goods or services deliver a bundle of benefits to the consumer; the benefit concept is the encapsulation of these tangible and intangible benefits in the consumer's mind. In contrast to goods, services deliver a bundle of benefits through the experience that is created for the consumer.

The activities in service marketing are different, and often do not fall in the conventional marketing mix, 4Ps classification. The traditional marketing mix became inadequate for service industries because of the following reasons: The concept of marketing mix was developed for manufacturing industries and was more oriented to deal with goods marketing situations; marketing practitioners in service sector found that it did not address their needs; due to differences in characteristics of physical products and services, marketing models and concepts had to be developed in direction of the service sector. Keeping in view the inadequacy of conventional marketing mix to address the service situations, it needs to be modified and broadened. A seven Ps framework for services has been proposed: these elements of marketing mix for services are product, price, place, promotion, people, physical evidence and process (John and Bateson, 1992).

1.1.3 Organizational Performance.

Organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment, etc.); market performance (sales, market share, etc.); and shareholder return (total shareholder return, economic value added, etc.). Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Organizational performance is the concept of measuring the output of a particular process or procedure, then modifying the process or procedure to increase the output, increase efficiency, or increase the effectiveness of the process or procedure. The primary goals of organizational performance are to increase organizational effectiveness and efficiency to improve the ability of the organization to deliver goods and or services (Cameron & Whetten, 1983).

Organizational efficacy is another area in organizational performance that sometimes targets continuous improvement. It involves the process of setting organizational goals and objectives in a continuous cycle. Organizational performance at the operational or individual employee level usually involves processes such as statistical quality control. At the organizational level, performance usually involves softer forms of measurement such as customer satisfaction surveys which are used to obtain qualitative information about performance from the viewpoint of customers (Robert, 2001).

In an increasingly dynamic and information-driven environment, the quest by business leaders and management researchers for performance measures which reflect competitive productivity strategies, quality improvements, and speed of service is at the forefront of managing company performance to be meaningful, company performance should be judged against a specific objective to see whether the objective is achieved. Without an objective, a company would have no criterion for choosing among alternative investment strategies and projects. For instance, if the objective of the company is to maximize its return on investment, the company would try to achieve that objective by adopting investments with return on investment ratios greater than the company's current average return on investment ratio (Brah, 2000).

The selection of the most appropriate performance indicators is however, an area with no defining boundaries as there are a number of purposes to which performance measurement can be put, although not all performance measurement can be used for all purposes. Even though individual firms tend to utilize firm-specific performance indicators appropriate to their needs, for many firms the main performance indicators would typically include some combination of financial; market/customer; competitor; human resource; internal business process; and environmental indicators (Camp 2008).

1.1.4 Insurance Companies in Kenya

Presently there are 48 registered insurance companies in Kenya, some offering general insurance, some life insurance while composite insurers sell both life and general (Insurance Regulatory Authority, 2014). The main role of insurance companies is taking

away risks or fears from you and promising to pay you for any losses or damage that may affect your property or life. The products offered by insurance companies are generally the same although each company has a set of value added services for consumers. It is important that any buyer seeks advice before buying a policy as this will enable them buy policies that will meet their needs. Buyers of insurance can be divided into three main categories: Individual clients and the general public; corporate clients who include registered companies and the government; the other categories are the foreign clients who buy Kenyan insurance services from Kenyan insurers (Insurance Regulatory Authority, 2014).

Insurance penetration in Kenya currently stands at a paltry 3.1 per cent of the gross domestic product (GDP). This low penetration could be blamed on various factors including poor saving culture, low levels of disposable income and negative perception towards insurance. To address these challenges, the Insurance Regulatory Authority (IRA), with the support of key stakeholders has initiated aggressive consumer education and awareness campaigns across Kenya. Despite these initiatives, the issue of affordability of insurance by low income earners, who constitute the largest segment of our society, remains a major challenge. Micro insurance therefore presents itself as the most appropriate mechanism the insurance industry could use in making insurance affordable to low income earners (Insurance Regulatory Authority, 2013). Micro insurance is the packaging of insurance for the low income earners, it aims at enabling low income earners manage risks such as accident, illness, theft, death, fire and natural disasters such as flood and drought.

The main players in the Kenyan insurance industry are insurance companies, reinsurance companies, intermediaries such as insurance brokers and insurance agents, risk managers or loss adjusters and other service providers (Insurance Regulatory Authority, 2010). The statute regulating the industry is the insurance Act; Laws of Kenya, Chapter 487. The office of the commissioner of insurance was established under its provisions to strengthen the government regulation under the Ministry of Finance. There is also self-regulation of insurance by the Association of Kenya Insurers (AKI) established in 1987 as a

consultative and advisory body to insurance companies and registered under the Society Act Cap 108 of Kenyan law (www.akinsure.com). The professional body of the industry is the Insurance Institute of Kenya (IIK), which deals mainly with training and professional education. Insurance Regulatory Authority (IRA) was established with the mandate to supervise and regulate the insurance industry players. Statistics from the IRA Licensed Industry Players for the year 2014 report indicates that; there are 48 registered licensed insurance companies, 22 medical insurance providers (MIP), 170 Insurance brokers, 123 insurance investigators, 8 risk managers; 101 motor assessors, 2 claims settling agents, 22 insurance surveyors & 22 insurance loss adjusters (Insurance Regulatory Authority, 2014)

1.2 Research Problem.

The key drivers of the overall growth witnessed in the insurance industry in 2013 were marketing (21%), staff quality service strategy (14%), dedicated management (14%), development of new products (11%), intensive market research (7%), customer service (7%), claims management (7%) and automation of office and business processes (7%). Over the same period however, the industry continued to face a number of challenges that had an influence on realization of further gains in growth. These challenges among others included premium rate undercutting (23%), claims settlement in terms of volume and costs of settlement (9%), delays in premium collection and non compliance with cash and carry system (9%), inappropriate staff skills in some areas (7%), fraud (7%) and quality of intermediary services and customer retention (7%), (Insurance Regulatory Authority, 2013).

During the last few years, the insurance industry has undergone a series of changes through financial reforms, advancement of communication and information technologies, globalization of financial services and economic development. Those changes have had a considerable effect on efficiency, productivity change, market structure and performance in the insurance industry. Competition for market share by many players has led to price wars with some insurers charging unsustainable premiums. This has compromised

service delivery as the insurers are not able to fund infrastructure for efficient delivery of services and claims settlement.

In regard to the above challenges, insurance firms have to formulate competitive intervention strategies for each to have credible market share. Some of the strategies in place to address the challenges the industry faces include: develop insurance sector image management strategy; improve Insurance Fraud Investigation Unit (IFIU) visibility and insurance companies to set clear fraud detection strategies; set intermediaries development strategy and enhance insurance brokers' disclosure requirements; deepen insurance consumer awareness and public education measures; enhance innovativeness in product development and marketing; consolidate regulations, encourage compliance and enhance enforcement. Lastly, to address the issue of low consumer demand, insurance firms should improve the overall customer service and have a focus on strategy for increasing customer retention ratio. Customer service driven by organic renewal growth strategy, customer needs focus and increased customer personal contact will address the challenge of low market penetration (Insurance Regulatory Authority, 2013).

Several international and local studies have been done; Internationally, Bhat (2007) did a study on factors affecting the renewal of health insurance policy in India, Sandhu (2011) did another study on customers' perception towards service quality of life Insurance Corporation of India, Ayimey (2013) study was on customer retention strategies of SIC Life Insurance Company Limited and StarLife Assurance Company Limited in Ghana.

Locally, Koima (2003) did a study on the challenges in the regulation of the insurance industry in Kenya, Kamanda, (2006) did another study on Insurance firms with the objective of determining the factors that influence its regional growth strategy, Ouma (2007) did a study on the relationship between value chain and competitive advantage in the insurance industry in Kenya; Kitua (2009) investigated on the internet as a source of competitive advantage for insurance firms in Kenya; Karuri (2010) investigated the factors influencing corporate image and identity among insurance companies: a case study of CIC Insurance; Aswani (2010) investigated in general the effects of marketing

strategies on performance of insurance companies in Kenya; however this study only utilized sales promotion, market intelligence and product development and innovation as its variables; Masese (2013) identified the factors influencing the uptake of insurance services in Kenya; however this study was limited to Life Insurance service ; Kiragu (2014) explored the challenges facing insurance companies in building competitive advantage in Kenya. The study objective therefore aims at answering the following research question: What is the influence of customer retention strategies on performance of insurance companies in Kenya?

1.3 Research Objectives

i. To establish the customer retention strategies adopted by the insurance companies in Nairobi, Kenya.
ii. To determine the influence of customer retention strategies on performance of insurance companies in Nairobi, Kenya.
iii. To investigate the factors influencing the choice of customer retention strategies adopted by insurance companies in Nairobi, Kenya.

1.4 Value of the Study

The government and other institutions involved in the country's policy formulation can not overlook the insurance sector as one of the major contributor to the country's GDP. The findings from this study will therefore be of importance because they will have the capacity of being used to formulate positive fiscal policies which are relevant and sensitive to the forces influencing the insurance sector performance and penetration in Kenya.

To insurance company management the realization that insurance business is one of the highly competitive businesses locally and globally calls for respective marketing department to adopt properly formulated customer retention strategies for performance improvement and thus success of the company. To the insurance companies in the country, this study's findings will be of great importance because through them, these firms will be better positioned to gauge their performance and make improvements where

necessary to boost their market performance and overall ranking in the industry. The management will be better positioned in decision making process based on the understanding of what customer retention strategies they need to adopt for their business and effectively deliver value to its policyholders.

To those who have scholarly interest in marketing of insurance companies and overall financial sector, this study will provide a source of reference; literature review and basis upon which further studies can be developed.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to highlight the work that other scholars and researchers have done concerning customer retention strategies and its relationship with performance. This chapter discusses the theories and concepts underlying the study's research objectives. The first section defines the theories and past literature on customer retention and the constructs of this study including customer retention strategies and organizational performance in relation to service industries. The final section discusses the conceptual framework and research hypothesis for this study.

2.2 Theoretical foundation of the study

Understanding effectiveness of customer retention strategies is better achieved by gaining in-depth knowledge of two theories underlying this branch of literature in services marketing. These include: expectation-confirmation theory (ECT) (Oliver, 1980) and self-determination theory (SDT) (Deci & Ryan, 1985).

2.2.1 Expectation-Confirmation Theory (ECT)

The ECT has been widely used in consumer behavior literature studying satisfaction; repurchase behavior, and services marketing (Anderson & Sullivan, 1993; Oliver, 1980, 1997; Swan & Trawick, 1981; Tse & Wilton, 1988). Oliver (1980) described the process by which consumers reach their repurchase intention. The ECT framework proposes that consumers form an initial expectation about the service, the service is accepted and used, consumers perceptions are formed about its performance. The perceived performance of the service is then assessed based upon their initial expectation to determine whether their expectation was confirmed, they form a satisfaction or affect based on their confirmation and expectation levels, and satisfied consumers form a repurchase intention or dissatisfied consumers discontinue use of the service. Findings from research of ECT show that customers base their repurchase intent or service continuance upon their satisfaction with prior use of the service or product (Anderson & Sullivan, 1993).

Koppius, Speelman, Stulp, Verhoef, and van Heck (2005) conducted research using ECT to study continuance intention of online airline ticket purchasing. The results of this study showed that there was recurring purchase of online tickets primarily because of their satisfaction with the online booking process and positive attitude toward the system. Loyalty incentives and price initiatives played only a minor role; these results confirm the ECT model. Bhattacharjee (2001) discussed a potential problem with ECT; first, ECT ignores the potential for consumers to change their expectation after their consumption experience. Since consumers pre-purchase expectations are often formed by other's opinions or information shown through outside sources such as the media, they may vary from their post-purchase expectation formed by the actual experience of the consumer firsthand. For example, post-purchase expectations may be enhanced if consumers discover the product or service has benefits beyond their initial expectations (Bhattacharjee, 2001). However, their post-purchase expectations may be lowered if the product or service is found to be less useful. These changes can be explained by the self perception theory which states that individuals continually adjust their perceptions, or expectations, as they acquire new information about loyal behavior (Bem, 1972).

2.2.2 Self-Determination Theory (SDT)

The second theoretical underpinning for this study is the self-determination theory. Self-determination theory is being used increasingly to study motivation. SDT distinguishes among three types of behavioral regulation with varying degrees of self-determined motivation: intrinsic motivation, extrinsic motivation, and amotivation (Deci & Ryan, 1985). Intrinsic motivation is the highest level of self-determined motivation and refers to situations where individuals freely engage in activities they find enjoyable. Extrinsic motivation is seen when individuals take part in an activity because they value the outcomes (rewards, praise, etc.) more than the activity itself. Lastly, amotivation represents the absence of motivation when individuals lack the willingness to engage in a specific behavior. Social factors can impact the types of motivation from the satisfaction received through the fundamental human needs of competence, autonomy, and relatedness. Various types of motivation can predict behavioral outcomes; intrinsic

motivation predicts the most positive outcomes, whereas amotivation predicts the most negative outcomes (Vallerand, 1997).

A recent study by Lin, Tsai, and Chiu (2009) is one of the earliest to link expectation-confirmation theory and self-determination theory when studying loyalty. It also translates the self-determination theory from its usual use in educational services to the commercial service industry. This research study obtained data from 207 part-time students who had previously acquired services from a salon in Taiwan. The results from this study show that loyalty is positively influenced by intrinsic motivation and service expectation; service confirmation positively influenced all four dimensions of self determined motivation. These findings show that the proposed model helps to learn about loyalty formation in service settings.

2.3 Customer Retention

Buttle (2008) defines customer retention as the number of customers doing business with a firm at the end of a financial year expressed as a percentage of customers that were active at the beginning of the year. From this definition customer retention is all about maintaining long-term relationship to generate a repurchase behavior. Customer retention may be viewed as both a behavioral and attitudinal factor (Ranaweera and Prabhu, 2003). Thus when exploring the concept we need to look at both the behavioral and attitudinal consequences of any intervention of the marketing effort. Behavioral variables include: customer contracts, transactional data, and customer response to the marketing effort and customer complaints; attitudinal on the other hand relates to customer satisfaction.

Customer orientation entails a focus on obtaining information, differentiating among and allocating resources to manage relationships with existing customers on the basis of their long-term value (Lewis, 2006). The level of customer retention refers to the magnitude of the firm’s emphasis on the acquisition of new customers as reflected in structure, leadership, culture, strategy and control. The consistency of customer retention refers to the conformity of structure, leadership, culture, strategy and control to support acquisition of new customers. The elements that comprise both customer acquisition and retention

can enhance the depth of customer knowledge because their culture and leadership aspects provide individual employees with motivation to acquire and disseminate new or existing customer information (Slater and Narver, 1995).

Relationship marketing philosophy as viewed by Gronroos (1994) aims to establish long-term relationship with the customer, to deepen the understanding with the customer, providing a platform to fully realize customer needs and thus enhance customer value. Building successful relational exchanges with customers needs an understanding of customer behaviors and a focus on those customers who can deliver long-term profits to the firm (Winer, 2001). However, no firm can hold on to all its customers and aim at full customer retention. This is due to the fact that in highly competitive markets, customers may switch either temporarily or permanently to another product or service. Today's markets and industries are characterized by high competition; therefore it's crucial for firms in such environments to create new ways to gain competitive advantage over competitors (Morgan and Hunt, 1994). Thus, firms are turning their focus to have customer retention as a strategic tool.

Increased interest in customer relationship in recent years has led to studies focusing on metrics such as customer retention rates and customer share in customer relationship management also known as CRM (Reichheld, 1996). The ways firms retain their customers are highly dependent on the goals, philosophies and the context of each firm and once the firm knows who their customers are they tend to use specific tactics to retain customers (Zeithalm and Bitner, 1996). The level of commitment between a company and a customer will influence the decision on which customers to retain. If the customer is highly committed, that is, not influenced by the appeals of competitors, you do not need to invest too much in retention. However, if you have highly significant customers who are not committed, you may want to invest considerable sums and effort in their retention. Some companies prefer to focus their retention efforts on their recently acquired customers. They often have greater future potential than longer term customers. There is some evidence that retention rates rise over time, so if defections can be prevented in the early stages of a relationship, there will be a pay-off in future revenue

streams (Reichheld, 1996). Another reason of focusing on recently acquired customers comes from research in service failures. When customers experience service failure, they may be lenient if they have a history of good service with the service provider; customers who have been recently acquired and disappointment are more likely to defect or reduce their spending than customers who have a satisfactory history with the supplier (Bolton, 1998).

2.4 Customer Retention Strategies

Egan (2004) defines customer retention strategies as the strategies focusing on a firm's existing customers with the aim of securing a customer's loyalty over time. An important distinction can be made between strategies that lock the customer in by penalizing their exit from a relationship, and strategies that reward a customer for remaining in a relationship. The former are generally considered negative, and the latter positive customer retention strategies. Negative customer retention strategies impose high switching costs on customers, discouraging their defection. Some customers find that these switching costs are so high that they remain customers, although unwillingly. The danger for CRM practitioners is that negative customer retention strategies produce customers who feel trapped. Companies that are presented with a dissatisfied customer complaining about high relationship switching costs have a choice to either enforce the terms and conditions, or not. The latter course is more attractive when the customer is strategically significant, particularly if the company can make an offer that matches that of the prospective new supplier (Keaveney, 1995). The following are customer retention strategies organizations use to add value in their relationships with existing customers as well as build commitment and attract new prospective clients.

2.4.1 Monitoring Customer Relationships

Monitoring and evaluating relationships is one of the basic strategies employed by firms to retain customers over time. Monitoring customer relationships can be employed by firms through two ways: relationship surveys and customer data bases (Zeithalm and Bitner, 1996). The current customers of a firm need to be surveyed in order to establish their perceptions on the received value, quality, satisfaction with services and satisfaction

with the service provider as opposed to competitors. A good constant communication should be established between a firm and its most valued customers. Zeithalm and Bitner (1996) argue that a well-established customer data base is a foundation to creating effective customer retention strategies. The data base could include information such as the firm's current customer's personal details, purchasing behaviors, their revenue rate, their related cost and their preferences. When customers also leave the firm, information on the termination relationship should be included in the data base.

2.4.2 Loyalty Programs

The aim of loyalty programs has been to increase customer retention in profitable segments by providing increased satisfaction and value to certain customers; increased satisfaction and loyalty leads to increased profitability (Fornell, 1992; Reichheld, 1996). Yi and Jeon (2003) argue that loyalty programs' aim is to reward customers for repeated purchases thus building customer retention. O'Brien and Jones (1995) state that managers usually believe that it is desirable as well as expected that the loyalty reward program is properly executed in order to increase retention rate. Therefore a firm needs to quantify the program's influence on future purchase behavior. Additionally firms need to verify that the financial outcomes of the rewards programs exceed the investments made in the programs. O'Brien and Jones (1995) suggested that successful schemes deliver five types of value to participants: cash value: how much is the reward worth in cash compared with what is spent to obtain it? Redemption value: how wide a range of rewards is offered? Aspiration value: how much does the customer want the reward? Relevance value: how achievable are the rewards? Convenience value: how easy is it to collect the credits and redeem them for the reward?

2.4.3 Customer Clubs

Customer Clubs are organizations established by companies to deliver a range of benefits to members. The term customer club is a gathering of different, more or less formalized gatherings of individuals where the common denominator for membership is that the individual is or has been a customer to the company. Stauss (2001) proposes that retention effect of a customer club is to be achieved by the following: customer

interaction effect, customer knowledge effect and customer benefit effect. Customer interaction effect refers to the frequency of the interactions between the firm and its customers (Stauss, 2001). This is done by creating contact and feedback opportunities. The author further argues that a close contact around the client throughout the customer relationship life cycle is vital in increasing the customer retention rate. The customer knowledge effect refers to the firm increasing its knowledge about the customer. The firm obtains detailed information about its members directly from the beginning of the relation (Stauss, 2001). This information is then collected in a central data base and constantly updated. The customer benefit effect refers to whether the members of the club receive a specific advantage or a specific benefit from the firm.

2.4.4 Effective Recovery Systems

Zeithalm and Bitner (1996) argue that even though firms need to provide the service the right way the first time, it is still quite inevitable for failures and mistakes to occur. Therefore effective recovery becomes essential in maintaining the relationship. Essentials in creating an effective delivery include: track and anticipate recovery opportunities as well as listen to the customers and be proactive in searching for potential failure points (Zeithalm and Bitner, 1996). Taking care of customer problems on the front lines is essential and most effective when a customer receives direct on spot problem solving by a frontline worker. Solving problems quickly, learning from recovery experiences and empowering the front line staff to have authority to make decisions and be motivated to engage in effective recovery are also vital tools.

2.4.5 Sales Promotions

Sales promotions offer temporary enhancements to customer values whereas loyalty programs and clubs tend to have a long life. Sales promotions oriented on retention encourage the customer to repeat purchases. Examples of these sales promotions include: In-pack or On-pack voucher; customers buy the product and receive a voucher entitling them to a discount off one or more additional purchases: rebates; rebates are refunds that the customer receives after purchase: free premium for continuous purchase; the customer collects proofs of purchase and either mails them in or presents them at retail to

obtain a free gift: self liquidating premium; a self liquidating promotion is one that recovers its own direct costs; the promoter will have reached a deal with the suppliers of the premiums to buy at a highly discounted rate: collection schemes; the customer collects it's reward with every purchase (O'Brien and Jones, 1995).

2.4.6 Creating bonds binding the customer to the firm

Researchers have identified many different forms of bond between customers and suppliers. These include: interpersonal bonds, technology bonds – electronic data interchange (EDI), legal bonds and process bonds. These different forms can be split into two major categories: social and structural bonds. Social bonds are found in positive interpersonal relationships which are characterized by high levels of trust and commitment. Structural bonds on the other hand are established when companies and customers commit resources to the relationship (Ahmad and Buttle 2002).

2.4.7 Build Commitment

Commitment is usually defined as the extent to which an exchange partner desires to continue a valued relationship (Moorman, Zaltman, and Desphandé, 1992). The affective component of commitment is the psychological attachment, based on loyalty and affiliation, of one exchange partner to the other. Various studies have indicated that customer satisfaction is not enough to ensure customer longevity. Reichheld (1996) reports that, 65 to 85 per cent of recently defected customers claimed to be satisfied with their previous suppliers. Committed customers have the following characteristics: they are very satisfied customers; they believe that your brand, offer or company is superior to other competitors; they are involved in your brand, offer or company, they have strong intention to buy that overrides promotional offers from competitors (Ulrich, 1989).

2.4.8 Market Intelligence

Market intelligence according to Cornish (2007), is "the process of acquiring and analyzing information in order to understand the market (both existing and potential customers); to determine the current and future needs and preferences, attitudes and behavior of the market; and to assess changes in the business environment that may affect

the size and nature of the market in the future. Competitive Intelligence describes the broader discipline of researching, analyzing and formulating data and information from the entire competitive environment of any organization. Market intelligence helps in market and customer orientation to promote external focus, identification of new opportunities so as to identify new trends in markets and competitors; one is able to get early warning of competitor moves. This enable counter measures thus minimizing investment risks by detecting threats and trends early, better customer interaction, inherit intensified customer market view better market selection & positioning it enables the company to understand where your offer fits and discover untapped or under-served potential market, more efficient and cost-effective information (Cornish, 2007). Website may also include a high degree of valuable information about who is looking for your products and services. Web site traffic analysis can help you understand what customers are looking for and why. Knowledge about customers, markets and competitors that comes from your staff. Often this is a poorly tapped source of information (Cornish, 2007).

2.4.9 Extraordinary Customer Service

Companies need to move the products or services they deliver into the realm of the extraordinary by delivering higher than expected levels of service to each and every customer. Key facets include: dedication to customer satisfaction by every employee; providing immediate response; going above and beyond the call of duty; consistent on-time delivery; delivering what you promise before and after the sale; a zero-defects and error-free-delivery process and recruiting outstanding people to deliver your customer service. According to Sharma and Patterson (1999) service quality is divided into two main components: technical quality and functional quality. Technical quality is related to the actual outcomes or the core service as perceived by the client, it’s relevant to the promised service; functional quality on the other hand is concerned with what is delivered, deals with how the service is delivered. The authors argued that trust had a great impact on how quality is delivered, both in terms of functional and technical quality (Sharma and Patterson, 1999).

2.5 Factors influencing the choice of Customer Retention Strategies

Customer retention strategies will vary according to the environment in which the company competes: researchers have identified the following contextual considerations to impact on customer retention strategies: Number of competitors: in some industries there is notable lack of competitors meaning companies do not suffer badly from customer churn, hence when customers are dissatisfied they have no competitor to turn to. Corporate culture: e.g. Banks have been very opportunistic in their preference for transactional credit-based relationships with customers which has resulted to a lack of real commitment to relationship banking (Schell, 1996). Channel configuration: sellers may not have the opportunity to maintain direct relationships with the ultimate buyers and users of their products instead they may rely on intermediaries. Purchasing practices: the purchasing procedures adopted by buyers can also make the practice of customer retention futile. Ownership expectations: the demand of business owners can subordinate customer retention to other goals. Ethical concerns: e.g. the public sector medical service providers cannot simply focus on their most profitable customers; this would result in neglect of some patients and a failure to address other areas of disease management (Ahmad and Buttle, 1999).

2.6 Customer Retention Strategies and Organization Performance

Reichheld and Sasser (1990) past studies concluded that 5% improvement in customer retention can cause an increase in profitability between 25% to 85% in terms of net present value depending on the industry. It has been proven in literature that there is a link between customer loyalty and organizational profitability (Reichheld, 1996). This is as a result of reduced cost of retaining a customer and the achievement of a zero defection of profitable customers.

According to Hosmer (2001) quality of professional staff is a critical issue for competitive advantage and organizational performance. Reichheld (1993) showed that a few percent reductions in employee turnover rate may have an increase in profitability by 50%. Often management decisions may generate feelings of angry, frustration, grievance, and distrust, among employees, that may contribute to a potentially detrimental effect on

the general organizational performance. Staffs in the service process therefore need to be empowered and skilled to deliver services effectively. Over time, the importance of customer service and its impact on organizational performance has been highlighted in numerous studies; customer service has been linked indirectly with organizational quality, customer satisfaction and performance of the organization.

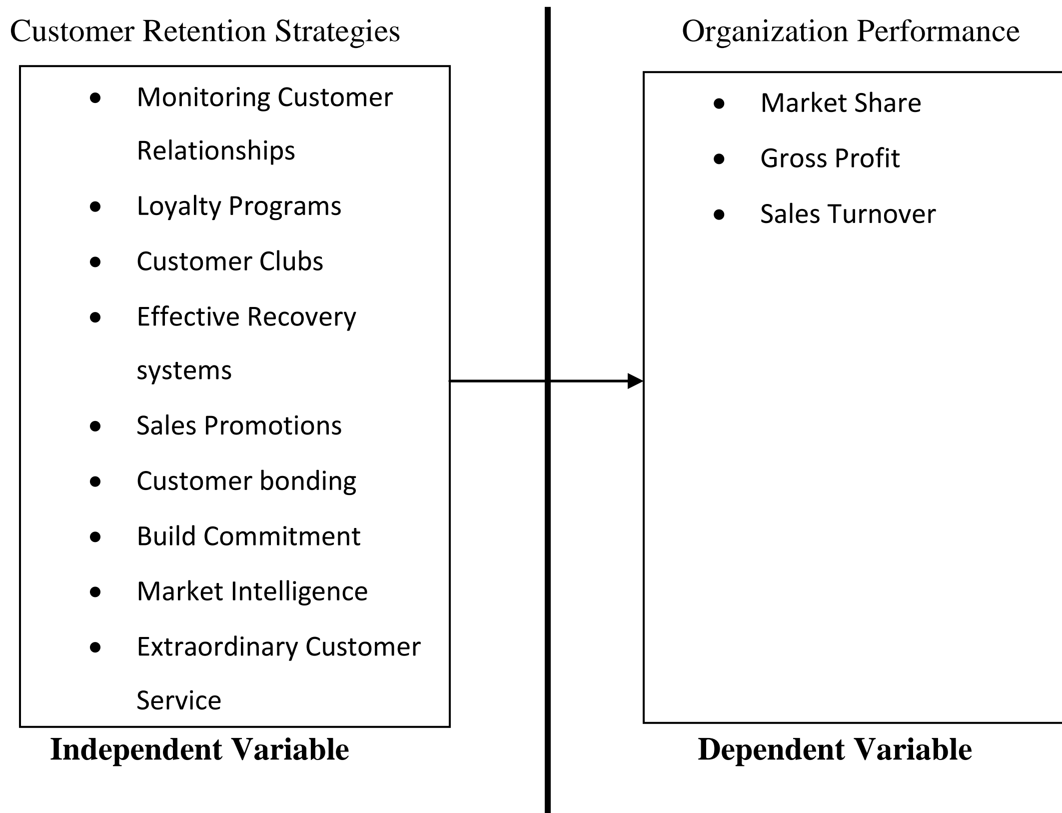
Research shows that people possess a strong drive to behave in whatever manner necessary to achieve future rewards. Loyalty programs can provide barriers to customers' switching to another supplier. Dick and Basu (1994); Klemperer (1995) stated that switching costs are an important antecedent of customer loyalty. Despite the theoretical arguments in favor of the positive effect of loyalty programs on customer retention, several researchers have questioned this effect (e.g., Dowling and Uncles 1997; Sharp and Sharp 1997). In contrast, Bolton, Kannan, and Bramlett (2000) and Rust, Zeithaml, and Lemon (2000) show that loyalty programs have a significant, positive effect on customer retention.

Sales promotions satisfy the need for organizations to achieve short-term results since they produce quicker and more measurable results (Hartley, S. and Cross, J. 2004). Kotler (2003) found in his studies that sales promotions are widely being used by top management as effective tools to increase their current sales.

2.7 Conceptual Framework

A conceptual framework also known as a theoretical framework is defined by Miles and Huberman (1994) as: something that explains either geographically or in narrative the things to be studied; the key factors, constructs or variables are the presumed relationships among them. The research for this study uses a conceptual framework in understanding the influence of the identified customer retention strategies from the literature gathered on organizational performance. The relationship between specific retention strategies and performance will be tested.

Figure 2.1: The Conceptual Framework



Source: Author 2014

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provided discussions of the research methodology used in the study. It discussed the research design, population of the study, data collection, and data analysis techniques used in the study.

3.2 Research Design

The study was a cross-sectional descriptive survey design which used quantitative methods. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design was chosen because it enabled the study to generalize the findings to a larger population.

3.3 Population of the Study

Mugenda and Mugenda (2003) define population as the entire group of individual's, events or objects having a common observable characteristic. The target population for this study consisted of 48 registered insurance companies with headquarters in Nairobi. Following the small size of the population of the study, a census was carried out (Insurance Regulatory Authority, 2014)

3.4 Data Collection

Data collection tools are the instruments which are used to collect the necessary information needed to serve or prove some facts (Mugenda & Mugenda, 2003). The study aimed to collect both primary and secondary data; primary data was collected using a semi-structured questionnaire while secondary data was obtained from annual reports of the Insurance Companies and the Insurance Regulatory Authority's Insurance Industry Outlook reports. The questionnaire consisted of five sections: section one asked questions on background information of the insurance companies, section two used the five point rating scale to investigate the extent to which the insurance companies had adopted the retention strategies discussed in the literature. Section three examined the factors influencing the choice of customer retention strategies using a rating scale; section four

measured performance in terms of market share, gross profit and sales volumes respectively: lastly section five examined the relationship between retention strategies and organization performance. Data was collected from marketing directors or operations directors due to the role they played in strategy decision making. Data collection involved a self-administered questionnaire issued to respondents at their places of work.

3.5 Data Analysis

The collected data was first edited, coded and entered in Statistical Package for Social Sciences (SPSS) version 20.0 for analysis which offered extensive data handling capabilities and numerous statistical analysis procedures that analyzed small to very large data statistics (Bell, 2007). Descriptive statistics helped to compute measures of central tendencies and measures of variability (Bell, 2007). Descriptive statistics of mean, frequency and percentages were used to analyze demographic characteristics of the respondents. Descriptive analyses are important since they provide the foundation upon which correlation and experimental studies emerge; they also provide clues regarding the issues that should be focused on leading to further studies. Regression analysis was used to measure and predict the relationship between the customer retention strategies and performance. The analyzed findings were then presented inform of frequency tables since they are user friendly. Regression model of the study is defined below.

$Y = A + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$

Where: X1= Monitoring Customer Relationships, X2 = Loyalty Programs, X3 = Customer Clubs, X4 = Effective Recovery Systems, X5 = Sales Promotions, X6 = Creating bonds binding the customer to the firm, X7= Building Commitment, X8 = Market Intelligence, X9 = Extraordinary Customer Service. β = Beta Coefficient. A = Constant and Y= Performance of Insurance Companies.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, findings, interpretation and presentation. This chapter presents a detailed analysis of the field data collected, findings, interpretation and presentation. A statistical software package (SPSS) was used to process and summarize the data collected. Statistical methods such as frequency tables, pie charts, bar charts and contingency tables were used in the analysis of the data. The purpose of the study was to determine the influence of customer retention strategies on performance of insurance companies in Nairobi. The researcher targeted 48 licensed insurance companies out of which all the 48 respondents filled and returned the questionnaires tallying the response rate to 100 percent.

4.2 General Information of the Organization

This section was based on background information of insurance companies in terms of duration of operation in Kenya, the size and ownership.

4.2.1 Age and Size of the Organization

The respondents were asked to indicate the age and size of the organization and the findings are presented in Table 4.1.

Table 4.1: Age and Size of the Organization

Age of the Organization					
	N	Minimum	Maximum	Mean	Std. Deviation
Years in operation	47	3	76	25.06	18.026
Size of the Organization					
Permanent	47	5	1600	418.23	400.820
Contract	36	10	420	108.42	115.145
Casual	9	10	100	33.44	29.484
Valid N (list wise)	8				
Average of Average				186.70	

Source: Author, 2014

As shown in Table 4.1, the average age of the insurance companies was with a mean of 25.06 with responses deviating from this mean by a standard margin of 18.026 with a minimum of 3 years and a maximum of 76 years in operation. This implies that most insurance companies have been in operation for quite long and thus understand the concept of customer retention strategies. According to the size of the insurance companies, the permanent number of employees had a mean of 418.23 with responses deviating from this mean by a standard margin of 400.820, this was followed by contract employees with a mean of 108.42 and standard deviation of 115.145; casual employees had a mean of 33.44 and a standard deviation of 29.484. The average of the mean was 186.70 which implied that the insurance companies can be categorized as mid-sized company. Mid-sized enterprises have between 51 - 250 employees (www.wikipedia.org).

4.2.2 Ownership of the Organization

The respondents were asked to indicate the ownership of the organization and the findings are presented in Table 4.2.

Table 4.2: Ownership of Organization

Type of Organization		
	Frequency	Percent
Private locally owned	40	83.3
Multinational	2	4.2
Public owned	5	10.4
Total	47	97.9
Missing	1	2.1
Total	48	100.0

Source: Author, 2014

As shown above in Table 4.2, the findings indicate that approximately 83.3 percent of the insurance companies are privately owned, 10.4 percent are public owned followed by multinationals at 4.2 percent, and none of the insurance companies in the study are a Parastatal. The findings indicate that majority of insurance companies in Kenya are privately owned.

4.3 Adoption of Customer Retention Strategies

The respondents were asked to rate on a five-point Likert scale the extent to which customer retention strategies such as: monitoring customer relationships, loyalty programs, customer clubs, effective recovery systems, sales promotions, creating bonds binding the customer to the firm, build commitment, market intelligence and extraordinary customer service have been adopted by insurance companies. Likert scale was used with high means expressing high prevalence level and high standard deviation showing the level of agreement. A mean of less than 1.4 was interpreted to imply to no extent (not at all); a mean of 1.5 – 2.4 was interpreted to indicate to a small extent; a mean of 2.5 – 3.4 was interpreted to indicate to a moderate extent and a mean of 3.5 – 4.4 was interpreted to indicate to a large extent; a mean of more than 4.5 was interpreted to indicate to a very large extent. The findings are presented below in Table 4.3.

Table 4.3: Adoption of Customer Retention Strategies

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Monitoring customer relationships	48	1	5	3.52	0.875
Loyalty Programs	48	1	3	2.10	0.592
Customer Clubs	48	1	3	1.98	0.385
Effective Recovery Systems	48	0	6	3.33	0.907
Sales Promotions	48	1	4	3.27	0.765
Customer bonding	47	1	3	1.81	0.449
Build Commitment	48	0	3	2.69	0.689
Market Intelligence	48	1	3	2.17	0.663
Extraordinary Customer Service	47	1	4	3.09	0.803
Valid N (listwise)	46				
Average of average				2.66	

Source: Author, 2014

As shown in Table 4.3, the findings indicate that monitoring customer relationships has been adopted to a large extent with mean of 3.52 and standard deviation of 0.875. Effective recovery systems has been adopted to a moderate extent (mean = 3.33 and standard deviation = 0.907); sales promotions has been adopted to a moderate extent

(mean = 3.27 and standard deviation = 0.765); extraordinary customer service has been adopted to a moderate extent (mean = 3.09 and standard deviation = 0.803); building commitment has been adopted to a moderate extent (mean = 2.69 and standard deviation = 0.689). Subsequently, market intelligence has been adopted to a small extent (mean = 2.17 and standard deviation = 0.663); loyalty programs has been adopted to a small extent (mean = 2.10 and standard deviation = 0.592); customer clubs has been adopted to a small extent (mean = 1.98 and standard deviation of 0.385); creating bonds binding the customer to the firm has been adopted to a small extent (mean = 1.81 and standard deviation = 0.449).

The findings imply that monitoring customer relationships constituted the highly adopted customer retention strategy in the insurance industry. Conversely, creating customer bonds was the least adopted customer retention strategy in the insurance firms. The average of the mean was 2.66 which imply that customer retention strategies have generally been adopted to a moderate extent by insurance companies. The findings are consistent with Payne and Frow (1999) who stated that very few organizations have measured to the economic values of their customer retention strategies. Kotler (2003) also observed that in recent times more companies are recognizing the importance of satisfying and retaining customers because they constitute the relationship capital.

4.4 Factors Influencing the Choice of Customer Retention Strategies

Respondents were asked to rate on a five-point Likert scale the extent to which factors such as: number of competitors, corporate culture, channel configuration, purchasing practices, ownership expectations and ethical concerns influence the choice of customer retention strategies. A mean of less than 1.4 was interpreted to imply to no extent (not at all); a mean of 1.5 – 2.4 was interpreted to indicate to a small extent; a mean of 2.5 – 3.4 was interpreted to indicate to a moderate extent and a mean of 3.5 – 4.4 was interpreted to indicate to a large extent; a mean of more than 4.5 was interpreted to indicate to a very large extent. The findings are presented in Table 4.4.

Table 4.4: Factors influencing the choice of Customer Retention Strategies

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Number of competitors	48	2	5	3.98	0.758
Corporate culture	48	2	5	4.02	0.838
Channel configuration	48	1	5	3.60	0.869
Purchasing practices	48	2	5	3.65	0.668`
Ownership expectations	48	2	5	4.04	0.988
Ethical concerns	48	2	6	4.48	0.772
Average of average				3.96	

Source: Author, 2014

As shown in Table 4.4, ethical concerns influences choice of customer retention strategies to a large extent with mean of 4.48 and standard deviation of 0.772; ownership expectations influences the choice of customer retention strategies to a large extent (mean = 4.04 and standard deviation of 0.988); corporate culture influences choice of customer retention strategies to a large extent (mean = 4.02 and standard deviation = 0.838). Number of competitors also influences choice of customer retention strategies to a large extent (mean = 3.98 and standard deviation = 0.758). Purchasing practices influences choice of customer retention strategies to a large extent (mean = 3.65 and standard deviation = 0.668); channel configuration rated lowest at (mean = 3.60 and standard deviation = 0.869) although it was still well above average (mid-point) implying it also influenced choice of customer retention strategies to a large extent.

The average of the mean was 3.96 which imply that generally considerable factors influence the choice of customer retention strategies to a large extent. These findings are consistent with Zeithalm and Bitner (1996) who argued that the way firms retain customers are highly dependent on the goals, philosophies and the context of each firm and once the firm knows who their customers are they tend to use specific tactics to retain customers.

4.5 Organization Performance of Insurance Companies

The respondents were asked to indicate the performance of their organization in terms of competitive advantage, market share, gross profits and sales turnover. The findings are presented in the following sections

4.5.1 Competitive Advantage

Respondents were asked to indicate the level of competitive advantage their organization enjoys within the insurance industry and findings are presented in Table 4.5.

Table 4.5: Competitive advantage

Competitive Advantage		
	Frequency	Percent
less than 15%	13	27.1
15% to 25%	16	33.3
26% to 35%	4	8.3
36% to 45%	3	6.3
46% to 50%	7	14.6
more than 50%	5	10.4
Total	48	100.0

Source: Author, 2014

As shown in Table 4.5, findings indicate that 33.3 percent of insurance companies enjoyed competitive advantage levels of (15% to 25%), 27.1 percent of companies have competitive advantage levels of (less than 15%); 14.6 percent of companies have competitive advantage levels of (46% to 50%); 10.4 percent of companies have competitive advantage levels of (more than 50%); 8.3 percent of companies have competitive advantage levels of (26% to 35%); 6.3 percent of companies have competitive advantage levels of (36% to 45%).

From these findings we can infer that few players (10.4%) command more than 50 percent levels of competitive advantage implying that they have superior resources and capabilities with either a cost or differential advantage. According to Porter (1980), the

firm's resources and capabilities together form its distinctive competencies which enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

4.5.2 Market Share

Respondents were asked to indicate the proportion of market share that their organization commands in the industry and what percentage they can attribute to customer retention strategies. Findings are presented in Table 4.6.

Table 4.6: Market Share versus Customer Retention

Market Share		
	Frequency	Percent
less than 15%	19	39.6
15% to 25%	14	29.2
26% to 35%	3	6.3
36% to 45%	2	4.2
46% to 50%	9	18.8
more than 50%	1	2.1
Total	48	100.0
Market Share / Customer Retention		
less than 5%	13	27.1
5% to 10%	10	20.8
11% to 15%	12	25.0
21% to 30%	2	4.2
more than 30%	11	22.9
Total	48	100.0

Source: Author, 2014

Findings in Table 4.6 indicates that majority of companies (39.6%) command less than 15 percent market share with a frequency of 19 responses. The companies that command a market share of more than 50% had the lowest percentage of 2.1. The others were 29.2 percent with market share of (15% to 25%); 18.8 percent with market share (46% to 50%); 6.3 percent with market share (26% to 35%); and lastly 4.2 percent of companies with market share (36% to 45%). Based on the market share indicated by the companies,

the proportion attributed to customer retention strategies are: 27.1 percent being (less than 5%); 25 percent (11% to 15%); 22.9 percent (more than 30%); 20.8 percent (5% to 10%) and 4.2 percent (21% to 30%).

The findings imply that firms with more than 30 percent market share have an effective customer retention strategy since they attribute a significant (22.9%) proportion of their market share to customer retention strategies. According to Gupta (2007) an effective customer retention strategy enables marketers to sell more and win the market share.

4.5.3 Profitability

The respondents were asked to indicate the approximate annual gross profit of their company in 2012 and 2013 respectively as well as indicate the percentage they attribute the profits to customer retention strategies. The findings are presented in Table 4.7.

Table 4.7: Annual Gross Profits versus Customer Retention

Gross Profits				
	2012		**2013**	
	Frequency	Percent	Frequency	Percent
Less than 250 million	25	52.1	21	43.8
250 to 500 million	11	22.9	13	27.1
501 million to 1 billion	6	12.5	7	14.6
More than 1 billion	6	12.5	7	14.6
Total	48	100.0	48	100.0
Gross Profit versus Customer Retention Strategies				
less than 10%	14	29.2	13	27.1
10% to 20%	9	18.8	6	12.5
21% to 30%	7	14.6	10	20.8
31% to 40%	10	20.8	10	20.8
41% to 50%	8	16.7	9	18.8
Total	48	100.0	48	100.0

Source: Author, 2014

As shown in Table 4.7, findings indicate that in 2012, 52.1 percent of insurance companies made (less than 250 million); 22.9 percent made (250 to 500 million); 12.5 percent made (501 M to 1 billion); and 12.5 percent made (more than 1 billion). In the subsequent year, 2013; 43.8 percent made (less than 250 million) which was a lower

percentage than 2012; 27.1 percent made (250 to 500 million); 14.6 percent made profits between (501M to 1 billion) and 14.6 percent made (more than 1 billion).

Findings in Table 4.7 also shows that in 2012, 29.2 percent of insurance companies attributed (less than 10%) of gross profits earned in that year to implemented customer retention strategies. 18.8 percent of companies attributed (10% to 20%) of gross profits earned to implemented customer retention strategies; 14.6 percent of companies attributed (21% to 30%) fn gross profits to implemented customer retention strategies; 20.8 percent of companies attributed (31% to 40%) of gross profits to implemented customer retention strategies; 16.7 percent of companies attributed (41% to 50%) of gross profits to implemented customer retention strategies. In 2013, 27.1 percent of companies attributed (less than 10%) of gross profits to implemented customer retention strategies. 12.5 percent of companies attributed (10% to 20%) of gross profits to implemented customer retention strategies; 20.8 percent of companies attributed (21% to 30%) of gross profits to implemented customer retention strategies; 20.8 percent of companies attributed (31% to 40%) of gross profits to implemented customer retention strategies. 18.8 percent of companies attributed (41% to 50%) of gross profits to implementation of customer retention strategies.

We can deduce from the findings that a significant number of companies (10%) attributed gross profits earned to implemented customer retention strategies with a proportion of (31% to 40%) contribution. Reichheld and Sasser (1990) concluded that profits in service industries increased in direct proportion to the length of a customer's relationship.

4.5.4 Sales Turnover

The respondents were asked to indicate the approximate annual sales turnover of their company in 2012 and 2013 respectively as well as indicate the proportion they attribute the sales turnover to customer retention strategies. The findings are presented in Table 4.8.

Table 4.8: Annual Sales Turnover versus Customer Retention

Annual Sales Turnover				
	2012		**2013**	
	Frequency	Percent	Frequency	Percent
Less than 1 Billion	20	41.7	17	35.4
1 to 5 Billion	25	52.1	25	52.1
6 to 10 Billion	1	2.1	4	8.3
More than 10 Billion	2	4.2	2	4.2
Total	48	100.0	48	100.0
Sales Turnover versus Customer Retention Strategies				
less than 10%	8	16.7	8	16.7
10% to 20%	6	12.5	6	12.5
21% to 30%	14	29.2	9	18.8
31% to 40%	11	22.9	14	29.2
41% to 50%	9	18.8	11	22.9
Total	48	100.0	48	100.0

Source: Author, 2014

As shown in Table 4.8, findings indicate that in 2012, 41.7 percent of insurance companies made sales volumes (less than 1 billion); 52.1 percent made (1 to 5 billion); 2.1 percent made (6 to 10 billion); and 4.2 percent made (more than 10 billion). In the subsequent year, 2013; 35.4 percent made (less than 1 billion) which was a lower percentage than 2012; 52.1 percent made (1 to 5 billion) similar to 2012; 8.3 percent made (6 billion to 10 billion) and 4.2 percent made (more than 10 billion) which was similar to 2012. From the findings, majority of the companies in the study (52.1%) achieved sales volumes of between 1 to 5 billion shillings.

Findings from the study indicates that in 2012, 16.7 percent of companies attributed (less than 10%) of sales turnover to implemented customer retention strategies. 12.5 percent of companies (10% to 20%) of sales turnover to implemented customer retention strategies; 29.2 percent of companies attributed (21% to 30%) of sales turnover to implemented customer retention strategies; 22.9 percent of companies attributed (31% to 40%) of sales turnover to implemented customer retention strategies; and 18.8 percent of companies attributed (41% to 50%) of sales turnover to implemented customer retention strategies.

In 2013, 16.7 percent of companies attributed (less than 10%) of sales turnover to implemented customer retention strategies. 12.5 percent of companies attributed (10% to 20%) of sales turnover to implemented customer retention strategies; 18.8 percent of companies attributed (21% to 30%) of sales turnover to implemented customer retention strategies; 29.2 percent of companies attributed (31% to 40%) of sales turnover to implemented customer retention strategies; and 22.9 percent of companies attributed (41% to 50%) of sales turnover to implemented customer retention strategies.

We can deduce from the findings that a significant number of companies (29.2%) attributed sales turnover achieved to customer retention strategies with a proportion of (31% to 40%) contribution. Reichheld (1996) concurred that there is some evidence that retention rates rise over time, so if defections can be prevented in the early stages of a relationship, there will be a pay-off in future revenue streams.

4.6 Relationship between Customer Retention Strategies and Organization Performance

The respondents were asked to rate the extent to which customer retention strategies influence performance of their company in terms of market share, gross profits and sales turnover. The findings are presented in the following sections.

4.6.1 Regression between Customer Retention Strategies and Market Share

The respondents were asked to rate on a five-point Likert scale the extent to which customer retention strategies influence market share and findings are presented in Table 4.9.

Table 4.9: Regression between Customer Retention Strategies and Market Share

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.719[a]	.517	.403	1.232	.517	4.522	9	38	.000
a. Predictors: (Constant), Extraordinary customer service, Sales promotion, Build commitment, Customer clubs, Monitoring customer relationships, Loyalty programs, Effective recovery systems, Market intelligence, Creating customer bonds									
b. Dependent Variable: Market Share									

Source: Author, 2014

As shown in Table 4.9, the coefficient of determination will explain the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (market share) that is explained by all the 9 independent variables (monitoring customer relationships, loyalty programs, customer clubs, effective recovery systems, sales promotions, creating customer bonds, build commitment, market intelligence and extraordinary customer service). The nine independent variables that were studied, explain 51.7% of variance in market share as represented by the R2.

Table 4.10: Results of the multiple regression of the influence of customer retention strategies on market share.

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	Constant	-4.069	1.164		-3.496	.001	-6.426	-1.713
	M. customer relationships	.223	.361	.107	.619	.540	-.507	.954
	Loyalty programs	-.148	.367	-.072	-.402	.690	-.891	.596
	Customer clubs	.044	.289	.027	.151	.881	-.542	.629
	Effective recovery system	.251	.370	.125	.680	.501	-.497	1.000
	Sales promotion	.145	.382	.092	.379	.707	-.629	.918
	Creating customer bonds	.317	.433	.196	.733	.468	-.559	1.193
	Build commitment	.290	.327	.149	.887	.381	-.372	.952
	Market intelligence	.247	.370	.138	.668	.508	-.502	.996
	Extraordinary customer service	.331	.345	.169	.960	.343	-.367	1.029
a. Dependent Variable: Market Share								

Source: Author, 2014

From the regression findings, the substitution of the equation ($Y = A + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$) becomes:

$Y = -4.069 + 0.223X1 + -0.148X2 + 0.044X3 + 0.251X4 + 0.145X5 + 0.317X6 + 0.29X7 + 0.247X8 + 0.331X9$. Where: Y is the dependent variable (Market Share), X1 is Monitoring customer relationships, X2 is Loyalty Programs, X3 is Customer Clubs, X4 is Effective Recovery Systems, X5 is Sales Promotions, X6 is Creating customer bonds, X7 is Build Commitment, X8 is Market Intelligence and X9 is Extraordinary customer service.

According to the equation, taking all factors (monitoring customer relationships, loyalty programs, customer clubs, effective recovery systems, sales promotions, creating customer bonds, build commitment, market intelligence and extraordinary customer service) constant at zero, market share will be -4.069. The data findings also show that a

unit increase in Monitoring customer relationships will lead to a 0.223 increase in market share; a unit increase in Loyalty Programs will lead to a -0.148 increase in market share; a unit increase in Customer Clubs will lead to a 0.044 increase in market share; a unit increase in Effective Recovery Systems will lead to a 0.251 increase in market share; a unit increase in Sales Promotions will lead to a 0.145 increase in market share; a unit increase in Creating customer bonds will lead to a 0.317 increase in market share; a unit increase in Building Commitment will lead to a 0.29 increase in market share; a unit increase in Market Intelligence will lead to a 0.247 increase in market share; a unit increase in Extraordinary Customer Service will lead to a 0.331 increase in market share.

Findings imply that the most significant customer retention strategy is extraordinary customer service followed by creating customer bonds binding the customer to the firm. The least significant retention strategy is customer clubs. Loyalty programs on the other hand has a negative coefficient (-0.148) which can be interpreted to mean that it is a negative retention strategy. Negative customer retention strategies impose high switching costs on customer discouraging their defection (Keaveney, 1995). This finding is consistent with Dick and Basu (1994); Klemperer (1995) who stated that loyalty programs can provide barriers to customers switching to another supplier and that switching costs is an important antecedent of customer loyalty. Despite the theoretical arguments in favor of the positive effect of loyalty programs on customer retention, several researchers have questioned this effect (Dowling and Uncles 1997; Sharp and Sharp 1997). In contrast to this criticism, Bolton, Kannan and Bramlett (2000) and Rust, Zeithaml, and Lemon (2000) had consistent findings with the study which they showed that loyalty programs have a significant, positive effect on customer retention.

At 5% level of significance and 95% level of confidence, monitoring customer relationships had a 0.54 level of significance; loyalty programs had a 0.69, customer clubs had a 0.881 level of significance; effective recovery systems had 0.501 level of significance; sales promotions had 0.707 level of significance; creating customer bonds had 0.468 level of significance; build commitment had 0.381 level of significance; market intelligence had 0.508 level of significance; extraordinary customer service had

0.343 level of significance implying that the most significant factor is customer clubs followed by sales promotions; loyalty programs; monitoring customer relationships, market intelligence, effective recovery systems, creating customer bonds binding the customer to the firm, build commitment and lastly extraordinary customer service.

4.6.2 Regression between Customer Retention Strategies and Profitability

The respondents were asked to rate on a five-point Likert scale the extent to which customer retention strategies influence gross profits and findings are presented in Table 4.11.

Table 4.11: Regression between Customer Retention Strategies and Profitability

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.796[a]	.633	.546	.735	.633	7.280	9	38	.000

a. Predictors: (Constant), extraordinary customer service, Sales promotion, Build commitment, Customer clubs, Market intelligence, Monitoring customer relationships, Effective recovery systems, Loyalty programs , Creating customer bonds

b. Dependent Variable: Gross Profit

Source: Author, 2014

As shown in Table 4.11, the coefficient of determination will explain the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (gross profit) that is explained by all the 9 independent variables (monitoring customer relationships, loyalty programs, customer clubs, effective recovery systems, sales promotions, creating customer bonds, build commitment, market intelligence and extraordinary customer service). The nine independent variables that were studied, explain 63.3% of variance in gross profit as represented by the R2. This therefore means that other factors not studied in this research contribute 36.7% of variance in the dependent variable. Therefore, further research should be conducted to assess the customer retention strategies impacting on gross profit in insurance industry in Kenya.

Table 4.12: Results of the multiple regression of the influence of customer retention strategies on gross profit

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.329	.644		-.512	.612	-1.633	.974
	M customer relationships	.268	.198	.211	1.353	.184	-.133	.670
	Loyalty programs	.101	.209	.076	.483	.632	-.323	.525
	Customer clubs	-.268	.197	-.237	-1.364	.181	-.667	.130
	Effective recovery system	.052	.188	.041	.276	.784	-.328	.431
	Sales promotion	.580	.194	.548	2.996	.005	.188	.973
	Creating customer bonds	.010	.264	.009	.038	.970	-.524	.544
	Build commitment	-.150	.213	-.110	-.703	.486	-.582	.282
	Market intelligence	.433	.178	.381	2.434	.020	.073	.793
	Extraordinary customer service	-.327	.192	-.255	-1.700	.097	-.716	.062
a. Dependent Variable: annual gross profits								

Source: Author, 2014

From the regression findings, the substitution of the equation ($Y = A + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$) becomes:

$Y = -0.329 + 0.268X1 + 0.101X2 + -0.268X3 + 0.052X4 + 0.58X5 + 0.01X6 + -0.15X7 + 0.433X8 + -0.327X9$. Where: Y is the dependent variable (Gross Profit), X1 is Monitoring customer relationships, X2 is Loyalty Programs, X3 is Customer Clubs, X4 is Effective Recovery Systems, X5 is Sales Promotions, X6 is Creating customer bonds, X7 is Build Commitment, X8 is Market Intelligence and X9 is Extraordinary customer service.

According to the equation, taking all factors (monitoring customer relationships, loyalty programs, customer clubs, effective recovery systems, sales promotions, creating customer bonds, build commitment, market intelligence and extraordinary customer service) constant at zero, gross profit will be -0.329. The data findings also show that a

unit increase in Monitoring customer relationships will lead to a 0.268 increase in gross profit; a unit increase in Loyalty Programs will lead to a 0.101 increase in gross profit; a unit increase in Customer Clubs will lead to a -0.268 increase in gross profit; a unit increase in Effective Recovery Systems will lead to a 0.052 increase in gross profit; a unit increase in Sales Promotions will lead to a 0.58 increase in gross profit; a unit increase in Creating customer bonds will lead to a 0.01 increase in gross profit; a unit increase in Building Commitment will lead to a 0.15 increase in gross profit; a unit increase in Market Intelligence will lead to a 0.433 increase in gross profit; a unit increase in Extraordinary Customer Service will lead to a -0.327 increase in gross profit.

This means that the most significant customer retention strategy is sales promotions, market intelligence and extraordinary customer service. Conversely, the least significant retention strategy include: creating customer bonds followed by effective recovery systems. Customer clubs, building commitment and extraordinary customer service have negative coefficients which imply that the strategies are negative strategies, they impose barrier to switching costs hence tying the customers to the firm. Reichheld (1993) showed that a few percent reductions in employee turnover rate may have an increase in profitability by 50%. Further, Reichheld and Sasser (1990) past studies concluded that 5% improvement in customer retention can cause an increase in profitability between 25% to 85% in terms of net present value depending on the industry.

At 5% level of significance and 95% level of confidence, monitoring customer relationships had a 0.184 level of significance; loyalty programs had a 0.632, customer clubs had a 0.181 level of significance; effective recovery systems had 0.784 level of significance; sales promotions had 0.005 level of significance; creating customer bonds had 0.97 level of significance; build commitment had 0.486 level of significance; market intelligence had 0.2 level of significance; extraordinary customer service had 0.97 level of significance implying that the most significant factor is creating customer bonds binding the customer to the firm, extraordinary customer service, effective recovery system, loyalty programs, build commitment, market intelligence, monitoring customer relationships, customer clubs and lastly sales promotions.

4.6.3 Regression between Customer Retention Strategies and Sales Turnover

The respondents were asked to rate on a five-point Likert scale the extent to which customer retention strategies influence sales turnover and findings are presented in Table 4.13.

Table 4.13: Regression between Customer Retention Strategies and Sales Turnover

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.769[a]	.591	.494	.542	.591	6.093	9	38	.000
a. Predictors: (Constant), Extraordinary customer service, Sales promotion, Build commitment, M customer relationships, Customer clubs, Loyalty programs, Effective recovery system, Market intelligence (sales volume), Creating customer bonds									
b. Dependent Variable: Sales Turnover									

Source: Author, 2014

As shown in Table 4.13, the coefficient of determination will explain the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (sales volumes) that is explained by all the 9 independent variables (monitoring customer relationships, loyalty programs, customer clubs, effective recovery systems, sales promotions, creating customer bonds, build commitment, market intelligence and extraordinary customer service). The nine independent variables that were studied, explain 59.1% of variance in sales volumes as represented by the R2.

This therefore means that other factors not studied in this research contribute 40.9% of variance in the dependent variable. Therefore, further research should be conducted to assess the customer retention strategies impacting on sales volumes in insurance industry in Kenya.

Table 4.14: Results of the multiple regression of the influence of customer retention strategies on sales turnover

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-1.057	.559		-1.890	.066	-2.189	.075
	M customer relationships	.120	.150	.124	.805	.426	-.182	.423
	Loyalty programs	-.116	.186	-.121	-.622	.538	-.493	.261
	Customer clubs	-.453	.151	-.575	-3.002	.005	-.759	-.148
	Effective recovery system	.307	.166	.326	1.848	.072	-.029	.643
	Sales promotion	.160	.126	.216	1.273	.211	-.095	.415
	Creating customer bonds	.409	.179	.530	2.278	.028	.045	.772
	Build commitment	-.267	.165	-.277	-1.615	.115	-.601	.068
	Market intelligence	.250	.182	.292	1.372	.178	-.119	.619
	Extraordinary customer service	.203	.151	.215	1.350	.185	-.102	.508
a. Dependent Variable: sales turnover								

Source: Author, 2014

From the regression findings, the substitution of the equation ($Y = A + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$) becomes:

$Y = -1.057 + 0.12X1 + -0.116X2 + -0.453X3 + 0.307X4 + 0.16X5 + 0.409X6 + -0.267X7 + 0.25X8 + 0.203X9$. Where: Y is the dependent variable (Sale Turnover), X1 is Monitoring customer relationships, X2 is Loyalty Programs, X3 is Customer Clubs, X4 is Effective Recovery Systems, X5 is Sales Promotions, X6 is Creating customer bonds, X7 is Build Commitment, X8 is Market Intelligence and X9 is Extraordinary customer service.

According to the equation, taking all factors (monitoring customer relationships, loyalty programs, customer clubs, effective recovery systems, sales promotions, creating customer bonds, build commitment, market intelligence and extraordinary customer service) constant at zero, sales turnover will be -1.057. The data findings also show that a

unit increase in Monitoring customer relationships will lead to a 0.12 increase in sales turnover; a unit increase in Loyalty Programs will lead to a -0.116 increase in sales turnover; a unit increase in Customer Clubs will lead to a -0.453 increase in sales turnover; a unit increase in Effective Recovery Systems will lead to a 0.307 increase in sales turnover; a unit increase in Sales Promotions will lead to a 0.16 increase in sales turnover; a unit increase in Creating customer bonds will lead to a 0.409 increase in sales turnover; a unit increase in Building Commitment will lead to a -0.267 increase in sales turnover; a unit increase in Market Intelligence will lead to a 0.25 increase in sales turnover; a unit increase in Extraordinary Customer Service will lead to a 0.203 increase in sales turnover.

Findings imply the most significant factor is customer clubs; followed by creating customer bonds, the least significant factor was loyalty programs. Loyalty programs, customer clubs and building commitment have negative coefficients implying that they are negative customer retention strategies. The findings are consistent with Kotler (2003) who found in his studies that sales promotions are widely being used by top management as effective tools to increase their current sales.

At 5% level of significance and 95% level of confidence, monitoring customer relationships had a 0.426 level of significance; loyalty programs had a 0.426, customer clubs had a 0.538 level of significance; effective recovery systems had 0.005 level of significance; sales promotions had 0.72 level of significance; creating customer bonds had 0.211 level of significance; build commitment had 0.28 level of significance; market intelligence had 0.178 level of significance; extraordinary customer service had 0.185 level of significance implying that the most significant factor is sales promotion and the least factor is effective recovery systems.

4.7 Discussion of the Findings

Findings indicate that insurance companies had a mean 186.70 employees which implied that the insurance companies can be categorized as mid-sized companies. Mid-sized enterprises have between 51 and 250 employees (www.wikipedia.org). Findings also indicate that majority of insurance companies in Kenya are privately owned.

Findings indicate that customer retention strategies have generally been adopted to a moderate extent by insurance companies with an average of the mean of 2.66. The findings are consistent with Payne and Frow (1999) who stated that very few organizations have measured to the economic values of their customer retention strategies. Kotler (2003) also observed that in recent times more companies are recognizing the importance of satisfying and retaining customers because they constitute the relationship capital.

Findings indicate that generally considerable factors influence the choice of customer retention strategies to a large extent. These findings are consistent with Zeithalm and Bitner (1996) who argued that the way firms retain customers are highly dependent on the goals, philosophies and the context of each firm and once the firm knows who their customers are they tend to use specific tactics to retain customers.

Findings indicate that few players (10.4%) commanded more than 50 percent levels of competitive advantage implying that they have superior resources and capabilities with either a cost or differential advantage. According to Porter (1980), the firm's resources and capabilities together form its distinctive competencies which enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage. Findings imply that insurance companies with more than 30 percent market share have an effective customer retention strategy since they attribute a significant (22.9%) proportion of their market share to customer retention strategies. According to Gupta (2007) an effective customer retention strategy enables marketers to sell more and win the market share. Findings also indicate that a significant number of companies (10%) attributed gross profits earned to implemented

customer retention strategies with a proportion of (31% to 40%) contribution. Reichheld and Sasser (1990) concluded that profits in service industries increased in direct proportion to the length of a customer's relationship. Findings indicate that a significant number of companies (29.2%) attributed sales turnover achieved to customer retention strategies with a proportion of (31% to 40%) contribution. Reichheld (1996) concurred that there is some evidence that retention rates rise over time, so if defections can be prevented in the early stages of a relationship, there will be a pay-off in future revenue streams.

Findings of regression between customer retention strategies and market share imply that the most significant customer retention strategy is extraordinary customer service followed by creating customer bonds binding the customer to the firm. The least significant retention strategy is customer clubs. Loyalty programs on the other hand has a negative coefficient (-0.148) which can be interpreted to mean that it is a negative retention strategy. Negative customer retention strategies impose high switching costs on customer discouraging their defection (Keaveney, 1995). This finding is consistent with Dick and Basu (1994); Klemperer (1995) who stated that loyalty programs can provide barriers to customers switching to another supplier and that switching costs is an important antecedent of customer loyalty. Despite the theoretical arguments in favor of the positive effect of loyalty programs on customer retention, several researchers have questioned this effect (Dowling and Uncles 1997; Sharp and Sharp 1997). In contrast to this criticism, Bolton, Kannan and Bramlett (2000) and Rust, Zeithaml, and Lemon (2000) had consistent findings with the study which they showed that loyalty programs have a significant, positive effect on customer retention.

Findings of regression between customer retention strategies and profitability indicate that the most significant customer retention strategy is sales promotions, market intelligence and extraordinary customer service. On the other hand, the least significant retention strategy include: creating customer bonds followed by effective recovery systems. Customer clubs, building commitment and extraordinary customer service have negative coefficients which imply that the strategies are negative strategies, they impose

barrier to switching costs hence tying the customers to the firm. Reichheld (1993) showed that a few percent reductions in employee turnover rate may have an increase in profitability by 50%. Further, Reichheld and Sasser (1990) past studies concluded that 5% improvement in customer retention can cause an increase in profitability between 25% to 85% in terms of net present value depending on the industry.

Findings of regression between customer retention strategies and sales turnover indicate that the most significant customer retention strategy is customer clubs; followed by creating customer bonds; the least significant retention strategy was loyalty programs. Loyalty programs, customer clubs and building commitment have negative coefficients implying that they are negative customer retention strategies. The findings are consistent with Kotler (2003) who found in his studies that sales promotions are widely being used by top management as effective tools to increase their current sales.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and recommendations. The chapter also gives suggestions for further study.

5.2 Summary

Findings indicated that customer retention strategies were adopted to varying extents; monitoring customer relationships has been adopted to a large extent with the highest mean score. Strategies which have been adopted to a moderate extent included effective recovery systems; sales promotions; extraordinary customer service and building commitment. Strategies adopted to a small extent included: market intelligence; loyalty programs; customer clubs; creating bonds binding the customer to the firm was the least adopted customer retention strategy.

The study also found that ethical concerns influence the choice of customer retention strategies to a large extent; this is followed closely by ownership expectations; corporate culture; number of competitors; purchasing practices and channel configuration which rated lowest.

Findings of multiple regressions when testing relationship between customer retention strategies and market share revealed that there exists a positive relationship between market share and the customer retention strategies. The study also revealed that monitoring customer relationships, customer clubs, effective recovery systems, and sales promotions, creating customer bonds, building commitment, market intelligence and extraordinary customer service are positive customer retention strategies since the strategies had positive mean scores. Loyalty programs on the other hand had a negative mean score which shows that it is a negative customer retention strategy.

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Findings of multiple regressions when testing relationship between customer retention strategies and gross profit revealed that; there exists a significant relationship between gross profits and customer retention strategies. Sales promotions has the highest influence followed by market intelligence, extraordinary customer service, monitoring customer relationships, customer clubs, building commitment, effective recovery systems, monitoring customer relationships and creating customer bonds which has the least influence on gross profits. Customer clubs and effective recovery systems had negative mean scores while the other strategies showed positive mean scores.

Findings of multiple regressions when testing relationship between customer retention strategies and sales turnover revealed that; there exists a significant influence of customer retention strategies on sales turnover. The findings showed that customer clubs had the highest influence on sales turnover followed by creating customer bonds binding the customer to the firm, effective recovery systems, building commitment, market intelligence, extraordinary customer service, sales promotions, monitoring customer relationships and loyalty programs with the least influence. The study also revealed that loyalty programs, customer clubs, and building commitment had negative mean scores which show that they are negative customer retention strategies.

5.3 Conclusion

The study concludes that monitoring customer relationships constitutes the most highly implemented customer retention strategy in the insurance companies. Conversely, creating bonds binding the customer to the firm was the lowest factor influencing customer retention strategies. Loyalty programs on the other hand have a negative coefficient which implies that it is a negative retention strategy.

It is clear from the findings that before organizations choose the customer retention strategies to adopt, they consider a number of environmental factors which influence these choices. Ethical concerns were the most influential factor followed by ownership expectation and corporate culture. This means that among other factors tested in this

study, ethical concerns, ownership expectations and corporate culture are highly considered in the decision making process when choosing customer retention strategies.

There exists a significant relationship between customer retention strategies and market share of the insurance companies. The most being extraordinary customer service followed by creating customer bonds binding the customer to the firm. The least significant factor is customer clubs,

The study also concludes that the most significant factor influencing gross profits in organizations is sales promotions, market intelligence and extraordinary customer service. The study concludes that customer clubs, building commitment and extraordinary customer service are negative strategies; they impose barriers to switching costs hence tying the customers to the firm.

The study concludes that there is a correlation between customer retention strategies and sales turnover. The most significant factor being customer clubs followed by creating customer bonds, effective recovery systems, building commitment, market intelligence, extraordinary customer service, sales promotions, monitoring customer relationships and lastly loyalty programs. From the findings we can conclude that Loyalty programs, customer clubs and building commitment have negative coefficients are negative customer retention strategies.

5.4 Limitations of the Study

The study was conducted only in the Nairobi County and among licensed insurance companies. The customer retention strategies of licensed insurance companies may differ from other regions. The customer retention strategies in this study may therefore not be applicable to other non-licensed insurance companies in Kenya. Financial and time constraints on the part of the researcher were also a major constraint. This was overcome by focusing on only licensed insurance companies with headquarters in Nairobi County.

5.5 Recommendations for Policy and Practice

Based on the research findings and conclusions, the researcher made some recommendations that are aimed at strengthening the company's performance within the Insurance industry.

The researcher recommended that companies should strengthen their customer bonds. Improved customer bonds will enable both the firms and the customers to commit resources to the relationship built on high levels of trust and commitment. In doing so these firms will increase customer retention, increase market share as well as grow their sales volumes.

In order to increase the retention rates in insurance industry, organizations should provide extraordinary customer service; go above and beyond the customers expectations. They can do so by having a dedicated outstanding team to ensure customer satisfaction, provide immediate response to complaints and questions, provide consistent on-time delivery as well as provide what the firm promises the customers before and after the sale. These methods as proven from the findings of the research will result to significant increase in both market share as well as gross profits to the firm.

The study further recommends that organizations should allocate budgets to building customer clubs. Stauss (2011) argued that creating close contacts around the client throughout the customer relationship life cycle is vital in increasing the customer retention rate. From the findings, customer clubs was among the least adopted customer retention strategy therefore the researcher recommends that organizations should expand their strategies and incorporate customer clubs in order to gain more understanding of their customers and improve the retention rate.

The researcher recommends that companies should strengthen their market intelligence so as to identify new trends in markets as well as competition. This enables counter measures thus minimizing investment risks by detecting threats and trends early. Organizations should gather knowledge about customer, markets and competitors from

staff, which according to Cornish (2007), is often a poorly tapped source of information. From the findings market intelligence leads to considerable increase in gross profits when implemented in a firm.

5.6 Recommendations for Further Studies

Given the limitations and scope of this study, the researcher suggests the following areas for further studies:

A study on customer retention strategies should be carried out in a different context and sector of the economy particularly transportation industry and the hotel sector to compliment this study.

Findings revealed that other factors not studied in this research contributed a significant percentage of variations in the performance. Therefore, further research should be conducted to assess other customer retention strategies impacting on organization performance in insurance industry in Kenya.

Factor analysis should be used in methodology to test the predictors and allocate factor loadings for comparison with the findings of this research.

A similar study should be replicated in the reinsurance companies to investigate the influence of the customer retention strategies to performance.

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APPENDIX 1: QUESTIONNAIRE

The questionnaire is designed to collect data on customer retention strategies and performance of registered insurance companies in Nairobi, Kenya. The data will be used for academic purposes only and will be treated with strict confidence. Please take a moment to respond to the questions / statements presented in the questionnaire.

Section 1: Background Information of your Organization

Q1. a. Name of the organization ____

b. Please indicate your position in the organization ______________________________

c. The number of years that the company has been in operation in Kenya ____________

d. Please indicate the total number of employees in this organization:

Permanent ____________ Contract ________________ Casual ___________________

e. Is your organization:

Private locally owned ☐

Multinational ☐

Parastatal ☐

Public Owned ☐

Other (please specify) ____

Section 2: Adoption of Customer Retention Strategies

Q2. Using the five point rating scale where 5 = to a very large extent, 4 = A Large extent, 3 = Moderate extent, 2 = Small extent, 1 = Not at all; indicate by ticking (√) the appropriate box the extent to which your organization has adopted the following customer retention strategies:

Customer Retention Strategies	To a very large extent	To a large extent	To a moderate extent	To a small extent	Not at all
	5	4	3	2	1
1. Monitoring Customer Relationships • Databases that keep track of customer's purchases, preferences, complements and complaints. • Constant communication between the firm and customers. • Relationship surveys. • Website traffic analysis to understand what customers are looking for and why. • Sourcing and analyzing information from the competitive environment – competitive intelligence.					
2. Loyalty Programs • Reward customers for their patronage. • Direct mailings. • Membership cards to attain redeemable points for heavy card usage.					
3. Customer Clubs • Unique advantage to club members. • Close contact with clients throughout the customer relationship life cycle. • Attractive offers and services.					
4. Effective Recovery Systems • Systems that identify failures. • Listen to customers and proactive search for potential failure points. • On spot problem solving by frontline staff. • Act and solve problems quickly. • Training of staff: empower frontline staff to solve problems. • Learn from previous recovery experiences.					
5. Sales Promotions • Discount vouchers for purchases • Rebates and refunds • Free premium for continuous purchase • Collection schemes					
6. Creating bonds binding the customer to the firm • Technologies: personalized customer information systems • Tying clients to a service provider					

• Financial Incentives • Contracts / common ownerships linking clients to the firm • Quality assurance and inspection programs • Exchange of resources in new product development ventures. • No-claims discounts (in insurance) • Multi-policy discounts (in insurance) • Turnover related discounts.					
7. Build Commitment • Offering best product, best access, best processes, lowest, best reputation • Emotional ties between customers and work staff • Values of the firm aligned with those of customers – environmental awareness, honesty, family centeredness • Reliance on service provider					
8. Market Intelligence • Acquire & analyze information on market and customer orientation • Identify new trends in markets and competitors • Determine current and future needs of existing and potential customers					
9. Extraordinary Customer Service • Implement customer feedback surveys • Provide Immediate response • Going above and beyond the call of duty • Consistent on-time delivery • Professional trained staff					
10. Any other (please specify) _________________					

Section 3: Factors influencing the choice of Customer Retention Strategies

Q3. Please indicate with a tick (√) the extent to which the following environmental factors have impacted your organization in implementing customer retention strategies using a rating scale where 5 = to a very large extent, 4 = A Large extent, 3 = Moderate extent, 2 = Small extent, 1 = Not at all.

Factors influencing the choice of Customer Retention Strategies	To a very large extent	To a large extent	To a moderate extent	To a small extent	Not at all
	5	4	3	2	1
1. Number of Competitors					
2. Corporate Culture					
3. Channel Configuration					
4. Purchasing Practices					
5. Ownership expectations					
6. Ethical Concerns					
7. Any other (please specify) _________________					

Section 4: Organization Performance

This question intends to measure the performance of your company in terms of market share, gross profit and sales turnover (volumes).

Q4. What level of competitive advantage does the company enjoy within the industry?*(Tick once)*

Less than 15% ☐ 36 to 45% ☐
15 to 25% ☐ 46 to 50% ☐
26 to 35% ☐ More than 50% ☐

Q5 (a) Please indicate the approximate proportion of market share that your organization commands in the industry by ticking appropriately (tick one only):

Less than 15% ☐ 15 to 25% ☐ 26 to 35% ☐
36 to 45% ☐ 46 to 50% ☐ More than 50% ☐

(b) Based on the market share indicated in Q5 (a) above, what proportion of the market share can you attribute to your customer retention strategies:

Less than 5% ☐ 11 to 15% ☐ 21 to 30% ☐
5 to 10% ☐ 16 to 20% ☐ More than 30% ☐

Q6. (a) Indicate the approximate annual gross profit of your company in the last two years:

Year	Less than 250 million	250 to 500 million	501 to 1 billion	More than 1 billion
2012				
2013				

(b) Based on annual gross profit indicated in 6 (a) above, what proportion of it can you attribute to implementation of customer retention strategies?

Year 2012

Less than 10% ☐
10 to 20% ☐
21 to 30% ☐
31 to 40% ☐
41 to 50% ☐

Year 2013

Less than 10% ☐
10 to 20% ☐
21 to 30% ☐
31 to 40% ☐
41 to 50% ☐

Q7. (a) Indicate the approximate annual sales turnover of your company in the last two years

Year	Less than 1 billion	1 to 5 billion	6 to 10 billion	More than 10 billion
2012				
2013				

(b) Based on annual sales turnover indicated in 7 (a) above, what proportion of it can you attribute to implementation of customer retention strategies.

Year 2012

Less than 10% ☐
10 to 20% ☐
21 to 30% ☐
31 to 40% ☐
41 to 50% ☐

Year 2013

Less than 10% ☐
10 to 20% ☐
21 to 30% ☐
31 to 40% ☐
41 to 50% ☐

Section 5: Relationship between Customer Retention Strategies and Organization Performance.

Q8. Please indicate with a tick (√) where appropriate the extent to which the following retention strategies influence performance in your company in terms of market share, gross profit and sales turnover.

Performance / Retention Strategies	Market Share					Sales Volumes					Gross Profit				
	To a very large extent	To a large extent	To a moderate extent	To a small extent	Not at all	To a very large extent	To a large extent	To a moderate extent	To a small extent	Not at all	To a very large extent	To a large extent	To a moderate extent	To a small extent	Not at all
	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1
1. Monitoring customer relationships															
2. Loyalty Programs															
3. Customer Clubs															
4. Effective Recovery systems															
5. Sales Promotions															
6. Creating customer bonds															
7. Build Commitment															
8. Market Intelligence															
9. Extraordinary customer service															

APPENDIX 2: LIST OF LICENSED INSURANCE COMPANIES IN KENYA

1. AAR Insurance Kenya Limited
2. AIG Kenya Insurance Company Limited
3. Africa Merchant Assurance Company Limited
4. APA Insurance Limited
5. APA Life Assurance Limited
6. British American Insurance Co.
7. Cannon Assurance Company Limited
8. Capex Life Assurance Limited
9. CFC Life Assurance Limited
10. CIC General Insurance Limited
11. CIC Life Assurance Limited
12. Corporate Insurance Company
13. Directline Assurance Company Limited
14. Fidelity Shield Insurance Company Limited
15. First Assurance Company
16. GA Insurance Limited
17. GA Life Assurance Limited
18. Gateway Insurance Company Limited
19. Geminia Insurance Company
20. Heritage Insurance Company Limited
21. ICEA LION General Insurance Co. Limited
22. ICEA LION Life Assurance Co. Limited
23. Intra Africa Insurance Company Limited
24. Invesco Assurance Company Limited
25. Jubilee Insurance Company Limited
26. Kenindia Assurance Company Limited
27. Kenya Orient Insurance Limited
28. Kenya Alliance Corporation Limited
29. Madison Insurance Company Limited

30. Mayfair Insurance Company Limited
31. Saham Assurance formerly Mercantile Insurance Company Limited
32. Metropolitan Life Insurance Company
33. The Monarch Insurance Company Limited
34. Occidental Insurance Company Limited
35. Old Mutual Life Assurance Company Limited
36. Pacis Insurance Company Limited
37. Pan Africa Life Assurance Limited
38. Phoenix of East Africa Insurance Co. Limited
39. Pioneer Assurance Company Limited
40. Real Insurance Company Limited
41. Resolution Insurance Company Limited
42. Shield Assurance Limited
43. Takaful Insurance of Africa Limited
44. Tausi Insurance Company Limited
45. Trident Insurance Company Limited
46. UAP General Insurance Company
47. UAP Life Assurance Limited
48. Xplico Insurance Company

Source: Insurance Regulatory Authority, 2014

APPENDIX 3: LETTER OF INTRODUCTION

Waithaka Lina Wangari
D65/80540/2012

September 2014

To Whom It May Concern,

RE: REQUEST FOR RESEARCH DATA

I am a student in the Master of Science in marketing degree program in the University of Nairobi.

I am required to submit as part of my coursework assessment a research project report on the influence of customer retention strategies on organization performance. In order to ensure that my study is complete, I am required to seek information from insurance companies in Nairobi and use the information to write the academic research project. I am therefore requesting your assistance to enable me collect data in your organization. The results of the report will be used solely for academic purposes and a copy of the same will be availed to your organization on request.

Thank you,

Regards

....	....
Waithaka Lina Wangari	Dr. Mary Kinoti
STUDENT	**SENIOR LECTURER**