

TITLE – Tapping the Dormant Customers: A study for Banking and Automobile Sector

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Tapping the Dormant Customers: A study for Banking and Automobile Sector

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Abstract: There are basically four factors that affect a business: Consumer, Products, Finance and Technology. This paper deals largely with the consumer aspects of business. With the opening of the Indian Economy, the entry for the global players has been facilitated in the country. For instance, allowance of 100% FDI in Indian auto industry in 2002 made the industry easily accessible and attractive for the global players. Similarly, transnational banking has also taken its roots in India. Today, the market is customer driven with performance, cost, and reliability being the key drivers. Dormant customers can be divided into two categories: Internal dormant customers and External dormant customers. Dormant customers in Auto Industry can be perceived in terms of rebuyers which are discussed in detail in this paper. Dormant customers are an inevitable part of Banking Industry as well.

Aim of the paper is to identify the factors influencing Dormant Customers in Automobile and Banking sector. For this purpose detailed survey were conducted using semi-structured questionnaire covering the customer as well as corresponding industry representatives as respondents. The paper ends with a set of suggestion and strategies for the two sectors to target the dormant customers.

Keywords: Automobile, Banking, Dormant Customers.

1.0 Introduction

India is breaking the inhibitions of world as a developing state and heading towards a developed state with its world class technology, market, and consumer power. India has a surplus population of more than a billion and more than three hundred million middle class. Thus, there is a huge market potential in terms of consumers.

India has seen a huge policy reforms over the years. During the post Independence era Industrialists were hamstrung with controls of License Raj and monopolistic environment. Consumers in India were having very few choices and had to depend on what the companies are offering. The gross domestic product of India was estimated at about 5 per cent of USA during 1975 which now stands close to 10 per cent. "Consumerism" is likely to dominate the Indian market in the next Millennium, thanks to the economic reforms ushered in and the several agreements signed under the World Trade Organization. The transition will be from a predominantly "sellers market" to a "buyers market" where the choice exercised by the consumer will be influenced by the level of consumer awareness achieved [Srinivasan, 1999]. There are four factors that affect a business: Customer, Finance, Products and Technology. All this needs to be reviewed constantly to upgrade to the needs of the customers [Hopewell, 2004].

The study will focus on two high growth sectors of Indian Economy: Automobile and Banking. Allowance of 100% FDI in Indian auto industry in 2002 made the industry easily accessible and attractive for the global players. Japanese, Korean, European, and American OEMs entered the Indian market and added more than 1 Million four-wheelers during 2005-06. Indian 2-wheeler

industry is the second largest in Asia after China. The production of 2-wheelers in India grew at a CAGR of 14.6% from FY2001 to FY2006 [28].

Until the early 1990s, the automotive sector in India was highly protected. This was in the form of steep import tariffs and measures that restricted the participation of foreign companies. Hindustan Motors (HM) and Premier Automobile (PAL) that were set up in 1940's dominated the vehicle market and industry. In the 1950s, the arrival of Tata Motors, Bajaj Auto, and Mahindra & Mahindra led to steadily increasing vehicle production in India, while the 1960s witnessed the establishment of the two- and three-wheeler industry in India. However, the automotive industry witnessed tremendous growth after the entry of Maruti Udyog in the 1980s. In 1983, the government permitted Suzuki - for some time, the only FDI player - to enter the market in a joint venture with Maruti - a state operated enterprise at the time. Ten years later, as part of a broader move to liberalise its economy, India de-licensed passenger car manufacturing and opened it up further to foreign participation. That brought a wave of FDI to India's vehicle industry. Import barriers have been progressively relaxed. Today, almost all of the major global players are present in India. The automotive industry is today a key sector of the Indian economy and a major foreign exchange earner for the country. Insegment, most of the Indians still prefer fuel-economic compact cars, but rise in disposable incomes has opened the roads for luxury cars too in India [28]. At present there are 12 manufacturers of passenger cars, 12 of two wheelers and many global players queuing up to set up their base in India. Besides, the year 2007-08 has seen a surge of low cost car manufacturing in India. The opportunity is huge in terms of attracting middle and lower middle class of India which accounts for more than 350 million customers. Despite impressive growth, automobile penetration rate is still low in India. As India is an economically growing country, there exists a huge untapped growth potential for the automobile manufacturers. Indian automotive industry contributes significantly to the overall GDP of the nation and also provides significant business and employment opportunities.

The last decade has seen many positive developments in the Indian banking sector. The policy makers, which comprise the Reserve Bank of India (RBI), Ministry of Finance and related government and financial sector regulatory entities, have made several notable efforts to improve the working of the sector. The sector now compares favorably with banking sectors in the region on metrics like growth, profitability and non-performing assets (NPAs). A few banks have established an outstanding track record of innovation, growth and value creation. However, the cost of intermediation remains high and bank penetration is limited to only a few customer segments and geographies. While bank lending has been a significant driver of GDP growth and employment, periodic instances of the “failure” of some weak banks have often threatened the stability of the system. Structural weaknesses such as a fragmented industry structure, restrictions on capital availability and deployment, lack of institutional support infrastructure, restrictive labor laws, weak corporate governance and ineffective regulations beyond Scheduled Commercial Banks (SCBs), unless addressed, could seriously weaken the health of the sector. Further, the inability of bank managements (with some notable exceptions) to improve capital allocation, increase the productivity of their service platforms and improve the performance ethic in their organizations could seriously affect future performance [Mc Kensey]. There are 28 Public sector and nationalized banks, 29 private sector banks, and 31 foreign banks operating in India. [25]

The study will focus on studying the factors important to strengthen the customer base in automobile and banking sector. Plan of the paper is as follows. The subsequent sections discuss on dormant customers, dormant customers in automobile and banking sector, methodology and results. The paper ends with a set of suggestion and strategies for the two sectors to target the dormant customers

2. Dormant Customers:

‘Dormancy’ refers to a form of being inactive but not extinct [Chambers Dictionary]. In this study, dormant customers are categorized into Internal Dormant customers and External Dormant customers. Internal Dormant customers are defined as the customers who are either inoperative or will be inoperative in the future to the company’s products or services. External Dormant customers are defined as the untapped customers or groups who are not within the influence of existing customer base of the company.

In the world of ever-changing customer expectations, cooperative and collaborative relationship with customers seems to be the most prudent way to keep track of their changing expectations and appropriately influencing those [Sheth et al, 2001]. Simply being aware of customer needs is not enough to remain competitive. Translating knowledge about customers into profitable enduring relationships require flexible, creative and dynamic approach across all company functions [Sviokla & Shapiro 1993]. Rising competition has improved the products and services offered to the customers. Customers are dissatisfied when their expectations are not met fully. Such customers would go to the competition at the earliest opportunity. Customers whose requirements are just met are satisfied but would move over to the competition if they are offered some attraction. [Mody, 1998]. Both the aspects of business that is targeting untapped customers and retaining existing customers are an essential call. Proponents of customer relationship management routinely discuss a variety of customer behaviors including customer acquisition and reacquisition (e.g., Thomas et al, 2004), customer retention (e.g., Bolton 1998; Bolton and Lemon 1999; Reinartz and Kumar 2000; Berger & Nasr-Bechwati 2001), cross-buying (e.g., Verhoef et al, 2001; Kamakura et al,2003), purchase frequency (e.g., Anderson & Weitz 1992; Kalwani & Narayandas 1995; Venkatesan & Kumar 2004). These are all important customer behaviors because they tend to be indicative of the strength of the customer-firm relationship and are drivers of the customer’s long term profitability to the firm (Reinartz et al, 2004). While the existing literature has made great strides in terms of understanding customer behavior and linking it to long-term customer profitability, individual factors describing customer preferences is still not dealt in detail.

Howard-Sheth model on Theory of Buyer Behavior incorporates all the factors that may influence the buyer behavior in terms of 12 equation system. But, studies on the model suggest that not all the variables are active or influences a consumer decision [Engel, 1986]. The EKB model is advantageous in its generality and can be applied in wide range of situations. However, it does not deal with buying by a group or with the interactive relations between a consumer and a selling company. A major developments in the understanding of human thinking was done by Bettman model. It explains much of the consumer behavior and decision process. But, it is more process oriented than variable oriented [Howard, 1989]. Over the decades, there have been major developments in understanding the consumer buying behavior. *This study is not directly related with understanding consumer behavior. Rather, it is more concerned with the factors that may*

relate with the consumer's decision to become inoperative in present situation. The study is restricted to two sectors viz. Automobile and Banking.

2.1 Dormant customer in Banking sector

In this study, internal dormant customer in banking sector is defined in terms of customers whose account has been classified under inoperative account. According to Banking Codes and Standards board of India [BCSBI] A dormant/inoperative account is a savings bank or current account which is not operated upon for a period specified by the bank. Different banks have specified different time period for account to be treated as dormant account. It varies from one to three years. When an account is classified as dormant account, bank charges a nominal fee for reactivating the accounts which varies from Rs 200 to Rs 750. In many instances a huge sum is present in dormant accounts. Table 1 shows classification of dormant accounts for different bank groups. As of December 2006, the unclaimed deposits amounted to over a staggering Rs. 1 000 crore in 1.03 crore inoperative accounts. Out of these almost 77.4 lakhs accounts are that of savings deposits which accrue to Rs 630 crore [26]

Table 1 Unclaimed deposit

BANK GROUP/ ACCOUNTS	As on December 2006, Amount in Rs. Lakhs					
	CURRENT ACCOUNT		SAVINGS ACCOUNT		FIXED DEPOSIT	
	NO. OF ACCOUNTS	AMOUNT OUTSTANDING	NO. OF ACCOUNTS	AMOUNT OUTSTANDING	NO. OF ACCOUNTS	AMOUNT OUTSTANDING
SBI AND ASSOCIATES	171182	1673	1494992	8128	153262	3736
NATIONALISED BANKS	320448	6566	5350511	48598	511444	17020
FOREIGN BANKS	11319	481	23498	1971	4292	489
SCHEDULED COMMERCIAL BANKS	77877	864	871935	4297	166960	1966
TOTAL	580826	9584	7740936	62994	835958	23211

The Internal dormant customers in banking sector can impact the bank in terms of 1] Loss of customer, 2] Redundancy of accounts, 3] Potential of frauds and forgery. The existing banking software available with some of the banks detects and classifies the account as inoperative. However, there is no proactive method to track these customers. Moreover, reasons for inoperative accounts cannot be traced. A set of 17 factors that can lead to customer becoming inoperative are found through two rounds of interactions with the bank managers and literature. These factors are listed in Table 2.

External Dormant customers are defined as the untapped customers or groups who are not within the influence of existing customer base of the company. External Dormant customers can be identified in terms 1] Present Products and services, 2] Extension to Present products and services, 3] New products and services. Despite widespread expansion of the banking sector during the last three decades, a substantial proportion of the households, especially in rural areas, are at present outside the coverage of the formal banking system. The Reserve Bank's broad

approach to financial inclusion aims at ‘connecting people’ with the banking system and not just credit dispensation; giving people access to the payments system; and portraying financial inclusion as a viable business model and opportunity. Efforts towards ‘financial inclusion’ include sensitizing the banks to the banking and financial needs of the common person and ensuring access to basic banking facilities. Financial inclusion refers to delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded from the formal banking channel [25]

Table 2 Factors influencing Banking sector customers

Nature	Code	Factors
Operational	OP1	Failure to meet the specification laid down by the bank
	OP2	Inadequate requirements of the bank
	OP3	Documentation/Transaction errors (Human or system generated)
	OP4	Time consuming procedure
Service Issues	SE1	No/Delay in actions on customer complaints
	SE2	Rude behavior of employees
	SE3	No Personalized attention
Competition and Technology	CT1	Bank is not upgrading to facilities which other banks are providing
	CT2	Bank is not upgrading its Technology
	CT3	Other banks are attracting with new set of benefits and services
Safety & Security	SS1	Poor financial performance of the bank
	SS2	In the event of major fraud discovered in the bank
	SS3	In the event of acquisition of bank
	SS4	Delay in release of customer’s funds
Personal reasons Of Customers	PR1	When a Person is deceased
	PR2	Person is in a bad health
	PR3	Person is shifted to new location

2.2 Dormant customer in Automobile sector

With the liberalization of economy, the decades old monopolistic environment of the Indian automotive industry where only a handful of vehicle models were available with a long waiting list, gradually gave way to a highly competitive, complex and rapidly changing market which was not limited to domestic market alone. Today the number of vehicle models available are more than hundred and not a month goes without offerings of newer and more advanced model. The market is customer driven with performance, cost, fuel economy and reliability being the key drivers [29].

Automobile Industry operates through a channelized distributor system. The distributors are not only a marketing and sales center but also the direct customer connection point. Internal dormant customer in Automobile sector can be targeted by identifying and persuading customer to repeat buy. In this context repeat buyers can be:

1. Customer who is expected to buy in near future

2. Customer whose family member, relative or friend is expected to buy in near future.
3. Influential people in the masses who can convince others to buy

Automobile buying falls on to the category of **complex buying behavior** because customers are highly involved in a purchase and perceives significant differences among brands. Thus customers will pass through a learning process. Moreover, attitudes of others can come in between purchase intention and purchase decision. (Kotler & Armstrong, 2006). A set of 18 variables were identified after rounds of discussion with the industry representatives and literature review. These variables are shown in Table3.

Table 3 Factors influencing Automobile sector customers

Nature	Factors
Operational issues	Performance
	Mileage
	Reliability
	Depreciation
Service issues	Maintenance
	Warranty Period
	Availability of service station
	Post purchase service guidance
Safety and Security	Safety measures incorporated
	Insurance conditions
Price	Cost of Automobile
	Cost of Ownership
Competition and Technological gradation up-	Development in service
	Development in service
	Competitive pricing
Esteem Issues	Comfort
	Style
	Luxury
	Image

External Dormant customers in automobile sectors were identified in terms of 1] Present Products and services, 2] Extension to Present products and services, 3] New products and services.

3. Methodology

The most widely used method in industrial research are case study and survey. However, this study involves collection of data from two industrial sectors; survey method of data collection was preferred. The unit of measurement was taken as industry and not any particular company. The respondents were assured about the use of data for academic purpose only and incentive in terms of accessibility to the results. The collection of data was done in two stages. In the first stage, an explorative preliminary survey was done for ten bank branches of six different banks and three automobile companies for defining the research questions and identifying the problem areas. The sole purpose of preliminary survey was to assess the application of concept in these sectors. The semi structured questionnaire was designed for the second stage on the basis of

information collected in the first stage apart from the literature review. Twenty one bank managers agreed to participate in the second stage of the survey. The composition of banks was 8 respondents from nationalized banks, 5 from cooperative banks, 3 private banks and one foreign bank. 18 respondents of 7 automobile companies have participated in the second stage of the survey. The respondents were from middle management and top management. Four population groups were considered for responding to the questionnaires. This includes bank representatives and customers, and automobile industry representatives and customers. Accordingly, four set of questionnaire was designed. A set of 17 variables were formulated in to questionnaire format and given to banking respondents. Similarly a set of 19 variables were formulated into questionnaire format and given to the automobile respondents. The survey was carried out by author and his colleagues in Mumbai and Pune region. The sample size for customers in banking and automobile industry was 31 and 26 respectively. A care was taken to prevent influencing any of the respondent's answer to questionnaire.

The survey in automobile sector was more suitable for passenger car and two wheeler segment. But the results may be applicable to other sectors as well. The respondents were asked to rate the response on a rating scale of 1 to 5 (1- least important, 2- slightly important, 3- important, 4-very important and 5-most important).

4. Research questions:

The study addresses the three research questions. First question examines the factor that is perceived important by industry respondent and customers as potential factors for customer getting dormant. Second question tries to find out consensus (if any) amongst the industry respondents and customers. Third question tries to find out the untapped areas of Indian market for the two sectors. Only first two questions are dealt in this paper.

Table 4 Descriptive statistics for Banking sector

Descriptive Statistics BANK REP					Descriptive Statistics BANK CUSTOMERS				
	N	Mean	Std. Deviation	Rank		N	Mean	Std. Deviation	Rank
OP1	21	3.428571	1.287301	6	OP1	31	3.032258	1.353609	14
OP2	21	2.190476	1.077917	16	OP2	31	2.548387	1.206613	16
OP3	21	2.571429	1.36277	14	OP3	31	3.483871	1.287659	7
OP4	21	3.904762	1.338087	4	OP4	31	4.032258	0.874981	2
SE1	21	4.047619	0.920662	2	SE1	31	4.290323	0.86385	1
SE2	21	3.238095	1.546116	9	SE2	31	4	1.21106	4
SE3	21	3.095238	1.410842	11	SE3	31	3.032258	1.110071	11
CT1	21	3.904762	1.338087	4	CT1	31	3.935484	0.997847	5
CT2	21	3.238095	1.374946	8	CT2	31	3.129032	1.05647	9
CT3	21	2.666667	1.559915	12	CT3	31	3.419355	1.258946	8
SS1	21	3.52381	1.249762	7	SS1	31	3.032258	1.224306	12
SS2	21	3.095238	1.220851	10	SS2	31	3.709677	1.188656	6
SS3	21	2.47619	1.470342	15	SS3	31	2.419355	1.148164	17
SS4	21	3.952381	1.20317	3	SS4	31	4.032258	1.168585	3
PR3	21	4.142857	1.108409	1	PR1	31	3.096774	1.135924	10
PR2	21	2.095238	1.261141	17	PR2	31	2.612903	1.229564	15
PR1	21	2.619048	1.465476	13	PR3	31	3.032258	1.303428	13
Valid (listwise)	N 21				Valid N (listwise)	31			

Table 5 Descriptive statistics for Automobile sector.

Descriptive Statistics AUTO REP.					Descriptive Statistics AUTO CUST				
	N	Mean	Std. Deviation	Rank		N	Mean	Std. Deviation	Rank
Performance	18	4.166667	0.785905	6	Performance	26	4.384615	0.697247	2
Mileage	18	4.5	0.707107	1	Mileage	26	4.153846	0.7317	3
Reliability	18	4.444444	0.704792	2	Reliability	26	3.769231	1.069867	7
Depreciation	18	2.444444	0.783823	19	Depreciation	26	2.346154	1.093336	19
Maintenance	18	4.277778	0.669113	4	Maintenance	26	4.423077	0.902134	1
Warranty	18	3.333333	0.970143	14	Warranty	26	3.423077	1.02657	12
Service station availability	18	4.166667	0.707107	5	Service station availability	26	3.961538	1.076319	5
Post purchase service and guidance	18	3.833333	0.923548	11	Post purchase service and guidance	26	3	0.894427	16
Safety measures	18	3.944444	0.937595	9	Safety measures	26	3.769231	1.031802	6
Insurance conditions	18	2.777778	1.114374	17	Insurance conditions	26	2.961538	0.915675	17
Automobile cost	18	3.722222	1.074055	12	Automobile cost	26	3.692308	1.086986	8
Ownership cost	18	3.944444	0.725358	8	Ownership cost	26	3.384615	0.982931	13
Service devpt	18	3.388889	0.849837	13	Service devpt	26	3.076923	0.97665	15
Technology devpt	18	3.888889	0.582983	10	Technology devpt	26	3.5	1.174734	11
Competitive price	18	4.222222	0.646762	3	Competitive price	26	3.653846	0.977438	9
Comfort	18	3.944444	0.639137	7	Comfort	26	4.153846	0.967153	4
Style	18	3.166667	0.923548	15	Style	26	3.615385	1.09825	10
Luxury	18	2.722222	1.017815	18	Luxury	26	3.230769	1.242826	14
Image	18	3.166667	1.294786	16	Image	26	2.769231	1.106623	18
Valid N (listwise)	18				Valid N (listwise)	26			

Hypothesis:

The Hypothesis made for the study is given below.

H0: Factors influencing dormant customers will have consensus among Industry representatives and Customers.

Alternative Hypothesis will be:

H1: There will be difference in preferences for factors influencing dormant customers among Industry representative and Customers.

The hypothesis is applicable to all the seventeen factors in banking sectors and nineteen factors in Automobile sectors.

Table 6 Test of Equality of means using two tail t-tests for independent samples.

Independent Samples Test			Independent Samples Test			Independent Samples Test			Independent Samples Test		
t-test for Equality of Means			t-test for Equality of Means			t-test for Equality of Means			t-test for Equality of Means		
	t	Sig. (2-tailed)					t	Sig. (2-tailed)			
				t	Sig. (2-tailed)					t	Sig. (2-tailed)
OP1	1.056	0.296	Performance	-0.968	0.339	SS1	1.409	0.165	Automobile cost	0.09	0.929
OP2	-1.095	0.279	Mileage	1.564	0.125	SS2	-1.809	0.076	Ownership cost	2.057	0.046
OP3	-2.449	0.018	Reliability	2.344	0.024	SS3	0.156	0.876	Service development	1.097	0.279
OP4	-0.416	0.679	Depreciation	0.327	0.745	SS4	-0.239	0.812	Competitive price	2.158	0.037
SE1	-0.968	0.338	Maintenance	-0.581	0.564	PR1	-1.323	0.192	Technology development	1.295	0.202
SE2	-1.989	0.052	Warranty	-0.291	0.772	PR2	-1.474	0.147	Comfort	-0.804	0.426
SE3	0.180	0.858	Service station availability	0.708	0.483	PR3	3.197	0.002	Style	-1.419	0.163
CT1	-0.095	0.925	Post purchase service and guidance	2.999	0.005				Luxury	-1.433	0.159
CT2	0.323	0.748	Safety measures	0.574	0.569				Image	1.093	0.281
CT3	-1.920	0.061	Insurance conditions	-0.599	0.553						

5. Results and Discussion:

A set of statistical techniques were used to analyze the raw data. The raw data was transferred and coded and the analysis was carried out using SPSS version 16.0 for Windows. Table 4 shows the descriptive statistics for respondents of banking industry. Table 5 shows the descriptive statistics for respondents of Automobile industry. The factors such as no action or delay in actions on customer complaints; delay in release of customer funds; time consuming procedure and upgradation of facilities were rated high by the customers and bank managers. Similarly for automobile sector, factors such as mileage, performance, reliability, maintenance, availability of service station, were considered important by the industry representatives as well as the customers. Table 6 shows the 2 tailed t-test conducted for the sample. According to Hypothesis H₀, there is no difference in preferences of Industry respondents and customers for factors influencing dormant customers. The hypothesis was applicable to all the factors of banking and automobile sectors. From Table 6 it was found that out of 17 factors in bank respondents only two factors, viz. factor OP3 and PR3 are having significance values less than 0.1. Similarly for Automobile respondents four factors are having significance value less than 0.1. These are reliability, post purchase service and guidance, cost of ownership and development in service. For all the other factors significance value is higher than 0.1. Thus Hypothesis H₀ does not hold good for this factors. For all other factors it can be said that there is a consensus among the industry representatives and customers for above samples. Hypothesis H₀ is supported by the results shown in Table 6.

6. Concluding Remarks:

From the study it can be said that there is a consensus between the industry representatives and customers upon the factors that can lead to a customer becoming inoperative. However, there is still a huge gap in implementing the customer retention strategies. Customer behavior model attempts in generalizing the behavior of customer across different products and services. But, researches have shown that customer behavior will vary for different products and services [Thomas, 2004]. Thus it can be said that customer will learn from his relationship with the brands of products and services. The factors that can dissatisfy customers or at least not satisfying him will be of varying nature for different sectors. These factors will have nature in terms of Operational, service related, safety and security related, price related, competition related or based on personal motives of customers. Analyzing the dormant customers for factors that can lead to their inoperative nature will provide the basis for retaining and expanding the customer base for the companies. Apart from involving technological and service upgradation, there is a need for sensitive communication channel between the industry and its customers. Uniformity of service to customers is also an important strategy to follow for containing the impacts of competition. For instance, a bank customer thinks himself as a customer of a bank and not any particular branch. Exploring newer markets through external dormant customers will also provide challenging benefits to the industry. There is a huge gap in supply in rural and lower middle class society of India. Suitable Products and services, availability of finance facilities and target marketing are the three important factors that can lead to the inclusion of a large chunk of customers in this sector.

One of the major drawbacks of this study is the small sample size. A larger sample size could have produced better results. The study does not attempt to generalize the factors under consideration and is kept for open discussion. There is future scope in terms of studying the external dormant groups of customers. The concept can also be studied in other sectors.

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