

Dormant Account Reactivation at Al-Shajar Capital

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Abstract

The case study highlights the importance of finding a simple and cost-effective solution to a core business problem. It elaborates the cost-effective approach of Al-Shajar Capital's Management in reactivating its dormant client base in order to capitalize the post Polling Stock Market rally. In order to analyze its dormant client base, Al-Shajar Capital remodelled the exercise as a capstone project and awarded it to final year MBA students of IoBM-CBM. The study used a modified form of Doreén Pick's Customer win back model to reactivate customers' accounts, not actively trading in the market. A five-week, non-scripted warm calling session was conducted, followed by a detailed report and formal presentation. Due to operational issues and human resource limitation, the exercise was conducted on weekends. The study was a success as not only it was able to revert and activate the majority of dormant client accounts but also left a positive impression on many non-returning clients.

Keywords: *Customer reactivation, Capstone, Dormant Account, PSX, Equity Brokerage*

JEL Classification: *M41*

INTRODUCTION

Yawar-uz-Zaman, the VP (Vice President) of Equity research at Al-Shajar Capital had a turbulent year-end 2017. PSX (Pakistan Stock Exchange) witnessed a significant drop of 16% amid political uncertainty, Macroeconomic weaknesses and shaken sentiment of local investors due to continued Foreign Investor selling trend. Soaring Equity trading volumes coupled with major political turmoil has forced Al-Shajar Capital's Management to rethink its strategy for CY18. As on May 13th, 2018 there were 575 companies listed in PSX and the total market capitalization is Rs. 8,849.564 billion. In CY17, despite reaching a historic all-time high, a benchmark was bleeding chips with a volatility of 1.15%, climbing as high as 52876 points, and then losing 7768 points YoY to reach 40471 points on Dec 31st 2017. This significant decline not only shackled the investor confidence but also lead the disinvestment of USD 490mn by foreign portfolio investors. The Pundits of PSX believe that the current bearish trend of the market is due to the unstable political landscape, which has been haunting every business sector in Pakistan

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The Dilemma of Al-Shajar Capital

Al Shajar capital was formed in 2010 through the acquisition of Crosby Securities. It was initially named Burj Capital but subsequently changed to Shajar Capital. The Company is licensed by Pakistan Stock Exchanges for equity brokerage. The Company specializes in M&A advisory, joint ventures & alliances and corporate advisory. Over the past 25 years, Pakistan has witnessed four general elections and being in research for past seven years, Yawar-uz-Zaman believed that new elections of the year 2018 will not only bring stability to the market volatility but will also generate trading volumes in Equity sales. However, despite being one of the major players in this industry, his company had been facing the problem of dormancy of equity trading accounts, which were prevalent in high percentage.

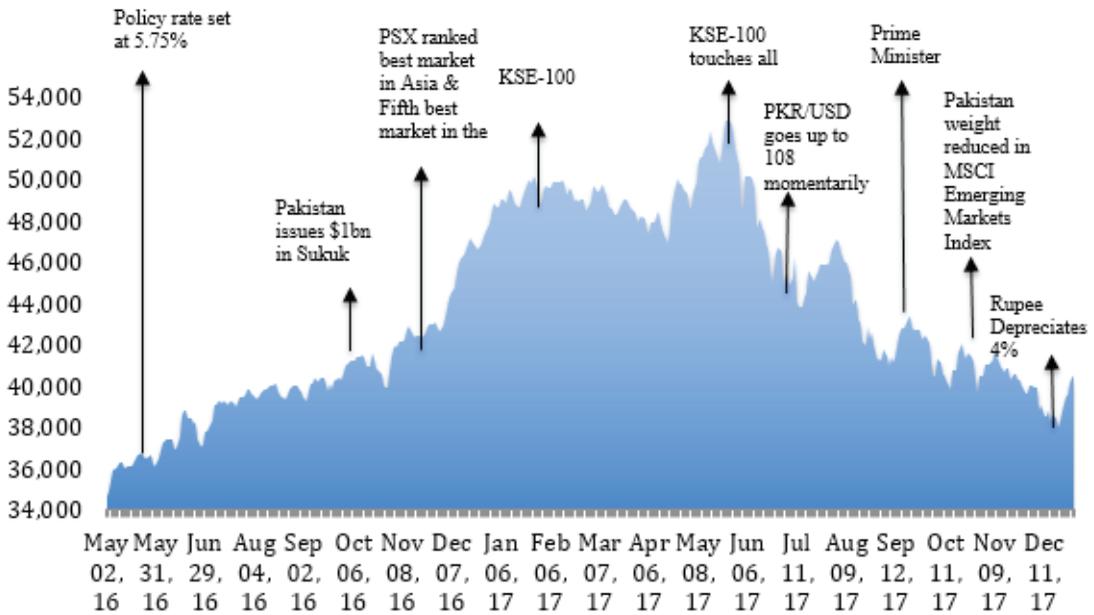


Figure 1. KSE 100 (May 16 - Dec 17), Key events

As the Table suggests, PSX has rallied between 8% - 13%, 3 months prior to general elections. On the other hand, PSX has rallied between -4% to 16% in the first three months after elections and -60% to 40% in the first year following elections. Hence, a rally in PSX was expected after General Elections of 2018.

| Election Date | Election Year | Party Elected | Before Election 3 Months | After Election | |
|---------------|---------------|---------------|-----------------------------|----------------|--------|
| | | | | 3 Months | 1 Year |
| 06-Oct-93 | 1993 | Party - A | 8% | 66% | 71% |
| 03-Feb-97 | 1997 | Party - B | 9% | -7% | 1% |
| 18-Feb-08 | 2008 | Party - C | 8% | -4% | -60% |
| 11-May-13 | 2013 | Party - D | 13% | 16% | 40% |

Figure 2. Post-Election Party Position

Like any other brokerage house, Al-Shajar Capital's revenues are generated through a commission from the client's equity trading activity. Although a conservative forecast of 46,000 points on the Benchmark, reflecting an upside of 14% from the current level was anticipated by Dec 2018, Al-Shajar Capital's was losing clients on a regular basis. To effectively capitalize the post polling Bullish sentiments, Al-Shajar Capital needs to have a strong client base that trades actively in the Equity market on a regular basis. Thus, reactivation of dormant accounts was a major issue, which needs to be addressed by the Management of Al-Shajar Capital as soon as possible.

Understanding the need for regaining the dormant Accounts of Al-Shajar Capital, Yawar uz Zaman approached Ali Sajid, a faculty of Accounting and Finance at Institute of Business Management (IoBM). Ali Sajid, a Graduate from Coburg University Germany had successfully conducted a similar exercise for Bosch Packaging Technology, Stuttgart. His previous experience in the financial industry and expertise in conducting Capstone projects at IoBM made him an ideal choice for Yawar uz Zaman to present his case. After meeting with Yawar, it became evident to Ali that not only a cost-effective solution is sought but also Management of Al-Shajar Capital requires a framework to avoid this kind of situation in future.

Factors behind soring PSX volumes

Political Instability

Panamagate scandal in 2017 proved devastating for Govt., elected in General Elections of 2013. The ruling family got under judicial scrutiny due to the leakage of and involvement in Panama papers scandal, resulting in the disqualification of Prime Minister from holding any public office (convicted subsequently). It affected the equity market negatively while creating a space for a new party as well as Govt. leadership. The exit of Finance Minister along with rumours of bi-elections added fuel to fire. Hence, the KSE 100 Index, which was hovering above 52000 points dropped to 40471 points, wiping off \$21 billion from the stock market capitalization to reach \$73.5 billion.

Increase in cost of a transaction

An Increase in transaction costs from 0.1% to 0.2% along with Govt. intention to increase taxes on Equity transactions for non-filers also created negative sentiments in the market.

Perception of the Market

China Pak Economic Corridor's effect on PSX was positive initially esp. for Cement and Engineering sector. But after the disqualification of Prime Minister, many corruption scandals raised. Export-oriented industries started registering losses amid low-cost Chinese imports such as leather, textile and manpower. Rising energy prices and increasing inflation and reduction of PSX in MSCI Emerging market index created a negative sentiment among investors. This negative sentiment was reflected in trading volumes and PSX benchmark index numbers.

Unfavourable Budget

Pakistan in the year 2016-2017 registered a net deficit of Rs. 1.2 trillion indicating an increase of 7% compared to last year. Although the growth rate was 4.7%(highest in the last

8 years), a huge gap between Govt. revenue and expenses proved devastating for investor sentiment.

Depreciation of Pak Rupee against Dollar

The anticipated targets of Pak rupee depreciation against the US dollar were not achieved. Neither it brought additional FDI in the country nor it helped in increasing exports. Rupee depreciated in the projected range of 5-7% over 1.5 years.

Foreign Investment Outflows

The continued outflow of foreign investment from PSX, despite the Chinese consortium finalizing its deal to buy a 40% stake in the PSX, jolted the market. Foreign portfolio investor, who bought shares worth \$4.4 billion, sold \$4.9 billion worth of equities, resulting in a net outflow of \$488 million.

Interest Rate Hike

After a long wait, the policy rate started to swell making stock premium less attractive and savings in banks a much safer option.

FRAMEWORK OF RESEARCH

Customer win-back is the process of firms' re-establishing relationships with its customers, whom company has failed to provide services in the past (Thomas, Blattberg, & Fox, 2004). Customers can switch to other service providers, due to many reasons but primarily due to dissatisfaction from currently offered services and being approached by a competing firm with better prospects, making the service offering of the current company, merely satisfactory. (East, Ursula, Riley, & Lomax, 2012) Thus, it is imperative for Marketing Department to opt customer retention strategies to re-engage a dissatisfied customer, rather than focusing on establishing new business relationships as cost of new customer acquisition far exceeds the cost of customer retention (Pfeifer, 2005)

Strauss and Freige (1999) defined customer win-back strategy as re-establishing relationships with customer, who have terminated the business dealings, explicitly with the company. They also suggested that to be successful in the financial industry, which is service-based and highly competitive, it is imperative for a firm to not only to keep intact, existing and prospective customer relationships, but should also manage the customers, not doing business with the firm, any more. (Stauss & Friege, 1999).

Pakistan being a developing market has a low cost of acquiring new customers but due to market size, which is very small, entry of new customer in the market rarely happens and customers switch trading houses, based on many reasons. Passive Management of customer complaints can deface customers and can lead to reducing trade volumes. Thus, Active Management of Complaints can lower the total marketing expenses by significantly reducing the cost of acquiring new customers (Fornell & Wernerfelt, 1987; Heskeett, Jones, Loveman, Sasser, & Schlesinger, 1994). In an HBR article, Reichheld discussed the pros of customer loyalty and suggested that the economic benefit of customer loyalty explains the difference

between competitors varying profits. Loyal Customers make market share and revenue go up while reducing the cost of service and customer retention. He indicated that a credit card company MBNA, within a span of five years, reported a 60 per cent increase in profit due just 5 per cent increase in customer retention rate (Reichheld, 1993). In a similar article, Reichheld and Sasser suggested that through quality innovation, manufacturing concern differentiates between winners and losers in the market, to stay competitive and move towards zero customer defection rate quality innovation in services is imperative (Reichheld & Sasser, 1990).

Thus, organizational profitability depends on two factors. One to retain in current customer base by offering valued product and services (Griffin & Michael, 2001) and 2nd to win-back or regain the dormant customers, not doing business with the company anymore (Blattberg, Fox & Jacquelyn 2010; Hegner-Kakar, Richter, & Ringle, 2018). Freige and Stauss (1999) define regain management as to control over the process to regain or win-back those customers who have terminated their relationship with the organization. While performing regain management one should make sure to conduct a cost-benefit analysis on potential customers and use the feedback from the dormant customer to improve the service quality (Stauss & Friege, 1999). However, it was also argued that customizing your win-back message, relayed to the customer, should address the reason for termination so as to improve the probability.

THE WAY FORWARD

Project Objectives

In the initial meeting, Yawar and Ali agreed on the following objectives of the project.

- Review available data of inactive clients
- Analyze inactive customer's investment history
- Analyze the satisfaction level of Inactive customers
- Identify the inactive clients' expectations from Al- Shajar and gap therein
- Suggestions regarding customer activation

Project Execution via Capstone Platform

The management of Al-Shajar Capital after a brief meeting, agreed to conduct its customer win-back and reactivation of dormant accounts exercise using the platform of Capstone project, to be conducted with the help of Graduate level students. A Capstone project at Institute of Business Management (IoBM) is a final year project of MBA students, spread over a semester with an expected student effort of 750 man-hours, that provides them with an intensive real-life exposure of studying and resolving any issue or problem faced by an industry organization. An organization benefits from the deployment of one or more student groups for a project requiring research, fieldwork, analysis and alternatives. Each project is completed under the close supervision of an IoBM Faculty.

This experience benefits the company through the provision of new and unbiased market insights gathered by the students on behalf of the company. The students also deliver an in-depth analysis and recommendation for the company's decision making on the designated task. At the same time, Capstone Project provides an opportunity to the students to engage

with real-world complexities, enhance individual competencies and develop lasting skills most importantly in thinking and analysis, communication, managing information and decision making. This also helps them to review current understanding and assess alternative approaches to the identified problem applying theoretical and conceptual framework (well researched) and demonstrating a capacity for evaluation and critical thinking.

Project Roadmap and Methodology

Good project execution requires project road mapping. A good roadmap depicts priorities, incorporates time and resource limitations and links them to project targets and execution strategy. The management insisted that as Election 2018 is fast approaching, thus it was imperative that the project is completed before the end of May.

Capstone students conducted telephonic call sessions lasting for four to five weeks in total. Students inquired the reasons for not trading actively with Al-Shajar Capital anymore from customers. Five call sessions took place every week on Saturdays at the office of Al-Shajar Capital. At the end of the calling session and after gathering the data, the finding was compiled on an excel sheet for further analysis.

| | Project Roadmap | | | | | | | | | | | | | | | | | | | |
|---------------------------------------|-----------------|----|----|----|-----|----|----|----|-----|----|----|----|----|-----|----|----|----|-----|----|----|
| | JAN | | | | FEB | | | | MAR | | | | | APR | | | | MAY | | |
| | W1 | W2 | W3 | W4 | W1 | W2 | W3 | W4 | W1 | W2 | W3 | W4 | W5 | W1 | W2 | W3 | W4 | W1 | W2 | W3 |
| 1st meeting | █ | | | | | | | | | | | | | | | | | | | |
| Project discussed | █ | | | | | | | | | | | | | | | | | | | |
| Project allotment | | █ | | | | | | | | | | | | | | | | | | |
| Allocation of project deliverables | | █ | | | | | | | | | | | | | | | | | | |
| 1st meeting with Al-Shajar supervisor | | | █ | | | | | | | | | | | | | | | | | |
| Data requirements sent | | | █ | | | | | | | | | | | | | | | | | |
| Analysing current market trends | | | | █ | | | | | | | | | | | | | | | | |
| 2nd meeting with Al-Shajar supervisor | | | | █ | | | | | | | | | | | | | | | | |
| Progress report submitted | | | | █ | | | | | | | | | | | | | | | | |
| Call Session 1 | | | | | █ | | | | | | | | | | | | | | | |
| Call Session 2 | | | | | | █ | | | | | | | | | | | | | | |
| Call Session 3 | | | | | | | █ | | | | | | | | | | | | | |
| Call Session 4 | | | | | | | | █ | | | | | | | | | | | | |
| Call Session 5 | | | | | | | | | █ | | | | | | | | | | | |
| Excel file submitted | | | | | | | | | | █ | | | | | | | | | | |
| Data compilation | | | | | | | | | | | | | | | | █ | | | | |
| Data Analysis | | | | | | | | | | | | | | | | | █ | | | |
| Report submission | | | | | | | | | | | | | | | | | | █ | | |
| Final presentation | | | | | | | | | | | | | | | | | | | █ | |

Figure 3. Project planning schedule

Realizing the importance of time factor, a project roadmap was developed which guided the team members towards the formulation of dormant accounts reactivation strategies. After allocation of the project, two meeting sessions were conducted 1st for setting the scope and parameters of the project and 2nd session for discussing the strategy formulated. The project experienced some breaks due to students’ exams sessions and delay in approvals by the management of Al-Shajar Capital.

What Drives the Return of Dormant Account?

As explained in the diagram, drivers dormant account activation can be defined either under a perceptual model or under a transactional model. Under the perceptual model, we explain

the factors, which affect the willingness of the customer to return to its former client. While switching, the customer may keep several factors in his consideration such as cost of switching to the former client, how attractive are the offers etc. Literature also suggests commitment, switching experiences, and variety seeking as central drivers of customers' switching intention.

The willingness of the customer to return also depends upon the stability of the newly formed relationship, controllability of a cause and prevention its consequences and the quality of services provided by the company. Under the transaction model, we demonstrate the link between the factors of general willingness to return and actual return behaviour of dormant customers.

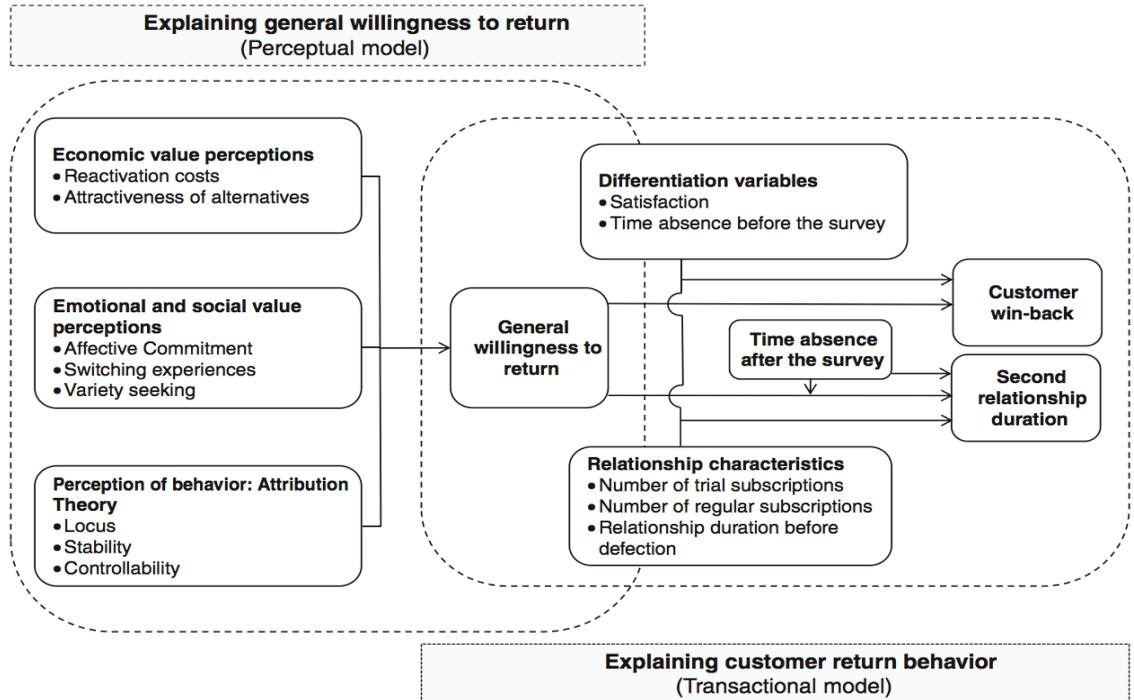


Figure 4. Research framework containing the perceptual and transactional model

Source. Pick, Thomas, Tillmanns, and Krafft (2016)

Different customers react differently depending upon the experience in client switching, delay in contacting defected account, quality of services provided by competitor etc. The model depicted below not only highlights the importance of customer win-back exercise as it helps a company evaluate its current product and service offering against its competitors and helps in understanding the current or new trends in the market.

Al-Shajar being brokerage house and acting as a financial services firm, it was believed that a lot of its dormant accounts were based on customer income, using of other services prior to termination, the time elapsed since termination, and consumers' positive associations with and evaluations of the former company (Bogomolova, 2016). It was also suggested that in the services sector, consideration must be given to customer's reasons for leaving, their relationship with the current service provider, value determinants, social capital and quality of services (Tokman, Davis, & Lemon, 2007). However, when conducted the analysis, the results were found to be very different then what prior empirical studies had shown.

After meeting defining the scope of project and time horizon, it was decided that Al-Shajar Capital would provide the list of dormant customers which included the list of customers not trading with Al-Shajar Capital anymore, list of to be dormant accounts and the list of customers trading at minimum balance.

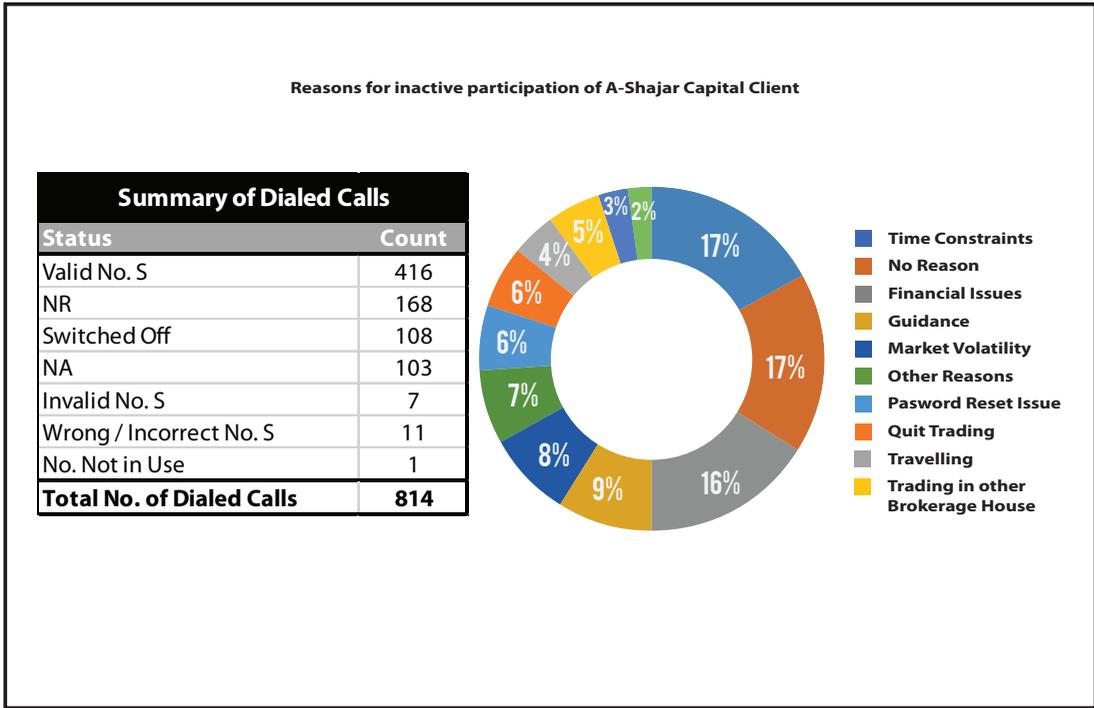


Figure 5. Summary of Inactive trading clients

| Summary of Valid Customers | |
|--------------------------------------|----------------|
| Interested/Not Interested in trading | No. of Clients |
| <i>Yes</i> | 292 |
| <i>No</i> | 114 |
| <i>Might be</i> | 4 |
| <i>Indecisive</i> | 3 |
| <i>Customer was busy</i> | 3 |
| Total | 416 |

Being provided with a list of 2500 dormant clients by Al-Shajar Capital, capstone team managed to call 814 clients in a five-week calling session. Out of 814 clients, only 416 clients attended the calls. Out of 416, only 292 managed to purport confidence in the company for future trading while remaining clients choose to not to continue with the firm as a trading client. However, those refrained from trading with a company managed to report their formal grievance.

Time constraints

It was observed during the warm calling sessions that many clients, who also included personals from the financial sector, had time management issues. Many clients informed the callers that cannot allocate dedicated time for equity trading, during PSX trading sessions either due to professional duties or due to extensive travelling. Thus, it better for them to not to get involved in equity trading due to the fear of Investment loss.

Funding and monetary issues

Financial constraints are probably one of the most important factors in deciding the investment behaviour of a brokerage client. Many clients reported a halt in equity trading from their side due to non-availability of funds. A few of them were not financially sound enough to invest in PSX or while others were waiting for funds to arrive from other sources and thus keeping a dormant profile.

Market volatility

Capital markets in Pakistan are highly sensitive to unprecedented events either they are political or economical. Despite this volatile nature, PSX has proven to be an active investment arena for both local and foreign clients due to its ability to bounce back, if investors keep an investment horizon of at least three months (Ahmad, Ahmed, Palwasha, Veinhardt, & Streimikiene, 2018). During the warm calling session, it was clear that due to recent political fiasco and a major slowdown of the global economy, the investor has become cautious and will wait till the clouds of political and economic downturns, clear the skies.

Lack of guidance

In the absence of proper guidance and research, investors are bound to ignore or misinterpret the market fundamentals, resulting in an investment in overvalued or illiquid stocks. A few clients complain about the lack of availability of analyst research reports in a timely manner, due to which they suffered losses and are now reluctant to further invest in PSX via Al-Shajar platform.

Password reset issue

It was observed during the calling session that many clients left the firm due to a password issue with their trading account. They have either forgot the password or they were not able to log into their account after the password was reset due to non-availability of a manual. Thus instead of complaining it to relevant dept., many clients opted to leave Al-Shajar capital and continue their trading sessions with another equity broker.

No Reason

Many dormant clients refused to provide any feedback on their discontinued services with Al-Shajar capital. The reason could be Saturday morning calling session, which is a napping time for many people working in financial as well as non-financial sector in Urban districts of Pakistan.

Alternate Investments horizons

Owing to high volatility of PSX, many investors shifted their capital in alternate investment vehicles such as Real Estate, Mutual funds etc. the biggest reason provided by the investor was a steady growing value of Real Estate sector and convenience of investment in Mutual funds.

CONCLUSION & SUGGESTIONS

After analyzing the data gathered from the warm calling sessions, which lasted for five consecutive weekends, management of Al-Shajar Capital required the students and faculty advisor to suggest the possible course of action for marketing dept. to win back dormant accounts. Thus, capstone project participants put the following suggestions forward.

Best Portfolio Offer

A wrong perception among the people was observed during the warm calling sessions that people tend to believe perceive that if Blue chip stocks are performing bad, the whole market will depict the same trend. This wrong perception has made people reluctant to invest. In reality, many undervalued scrips, not only perform well but also outperform the blue-chip stocks. Thus in order to overcome this problem the best portfolio, developed according to current market trends and customized according to the requirements of an investor, should be offered instead of single stock offering. Not only this will diversify individual investment but will also minimize the risks of an individual investor.

Interaction with Customers & Continuation of Cold Calls

Interacting with the customer on a periodic basis is very important. Not only it helps in understanding the problems faced by your client but the valuable feedback also helps in increasing the quality of services offered. It was suggested that the Marketing team, apart from generating new leads, should also keep in touch with the current customer base on a periodic basis. Cold calls should be made frequently in order to establish a good relationship with them.

Maintenance

Many clients, especially those having no time to trade, asked for a trader who could make a transaction on their behalf. Many times clients having ample funds are reluctant to invest due to a busy schedule, during market trading hours.

Improved IT Systems

The data gathered from the surveys made a realization that a good lot of dormant client can be reverted back to Al-Shajar Capital due to small attention to IT and services provided. Many petty problems, such as non-functional passwords, app navigation etc. could have been resolved either through one-call operation services or through periodic interaction with customers.

Updating Clients' Current Status

It was also observed that many clients are either out of the country for good or have left Al-Shajar capital many years ago. Thus it was suggested to update the status of clients on a regular

basis in order to ascertain the target market or avoid presuming wrong presumptions

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