



Effect of Product Services and Customer Service Exorbitance in Cooperative Banks of Vadodara

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ABSTRACT

This study examines the impact of exorbitant product and customer service charges on cooperative banks in Vadodara, focusing on customer satisfaction, financial sustainability, and competitive positioning. Using a mixed-method approach, including surveys and interviews, the research evaluates whether high service costs lead to customer dissatisfaction, reduced retention, and financial strain on banks. Findings will provide insights into balancing affordability and profitability, helping cooperative banks enhance pricing strategies while maintaining customer trust and regulatory compliance (Parasuraman, Zeithaml, & Berry, 1988).

Keywords: Cooperative Banks, Service Charges, Customer Satisfaction, Bank Sustainability, Pricing Strategies, Vadodara.

1. Introduction

The banking sector is a critical pillar of economic development, offering financial services that cater to individuals, businesses, and institutions. Cooperative banks play a vital role in fostering local development and empowering small communities through a cooperative model emphasizing mutual benefits and community welfare (Birchall & Ketilson, 2009). Unlike commercial banks, cooperative banks focus on serving members rather than maximizing profits, which makes pricing strategies a crucial determinant of their success.

Recent trends suggest that cooperative banks in Vadodara have expanded their service offerings to remain competitive. However, there is growing concern that certain pricing strategies particularly those perceived as exorbitant may negatively affect customer satisfaction, retention, and overall financial performance (Rust & Zahorik, 1993). This study investigates the extent to which pricing affects customer loyalty and the operational efficiency of cooperative banks. By analysing customer responses, this research aims to provide actionable recommendations to improve pricing policies while ensuring long-term financial sustainability.

❖ Research Problem and Objectives

➤ Research Problem

The increasing number of financial service offerings in cooperative banks has led to higher service charges, raising concerns about their impact on customer satisfaction and retention (Zeithaml, 1988). Many customers perceive these charges as excessive, prompting them to switch to commercial banks with lower fees. This study examines whether exorbitant pricing strategies negatively impact customer loyalty and the financial health of cooperative banks in Vadodara.

➤ Research Objectives

Analyse the impact of service charges on customer satisfaction and trust.

Assess how pricing strategies affect the financial health of cooperative banks.

Identify customer preferences regarding financial products and services.

Examine whether high service charges lead to customer migration to other banks.

Propose policy recommendations for balancing profitability and customer affordability.

2. Hypotheses

- H1: Exorbitant product and customer service charges negatively impact customer satisfaction (Parasuraman et al., 1988).
- H2: High service charges reduce customer retention in cooperative banks (Rust & Zahorik, 1993).
- H3: There is a significant relationship between pricing strategies and financial sustainability in cooperative banks (Anderson, Fornell, & Lehmann, 1994).
- H4: Customers prefer switching to alternative banks with lower service costs (Zeithaml, 1988).

3. Literature Review

The Role of Cooperative Banks in Financial Inclusion

Cooperative banks contribute significantly to financial inclusion by providing essential banking services to underserved communities. Birchall & Ketilson (2009) highlight that cooperative, being member-owned, ensure services are tailored to community needs. Credit unions and savings cooperatives play a vital role in providing credit, insurance, and savings opportunities, particularly in economically vulnerable areas.

Service Quality and Customer Retention

High service quality is a key driver of customer retention in the banking sector. According to Parasuraman, Zeithaml, & Berry (1988), service quality consists of five dimensions: reliability, responsiveness, assurance, empathy, and tangibles. Studies show that banks prioritizing these factors experience higher customer satisfaction and loyalty (Verhoef et al., 2009). However, excessive service charges may overshadow these benefits, leading to customer dissatisfaction (Rust & Zahorik, 1993).

Pricing Strategies and Competitive Positioning

Pricing strategies in cooperative banking must balance affordability and profitability. Zeithaml (1988) suggests that while customers associate high prices with quality, there is a threshold beyond which they perceive pricing as unfair. Anderson et al. (1994) argue that service pricing should be aligned with perceived value to maintain market competitiveness.

The Impact of Exorbitant Charges on Customer Behaviour

Several studies indicate that customers are likely to switch banks if they perceive service charges as excessive. A study by Voss, Roth, & Chase (2008) found that high-end service expectations must be managed carefully to avoid customer dissatisfaction. Similarly, Rust & Zahorik (1993) warn that excessive pricing may create unsustainable customer expectations, leading to long-term revenue loss.

4. Research Methodology

Research Design

This study adopts a mixed-methods approach, combining quantitative survey data with qualitative interviews. The rationale for this approach is to gather both statistical insights and deeper customer perceptions regarding pricing strategies.

Data Collection

Primary Data

A structured survey was distributed to cooperative credit societies in Vadodara via Google Forms. The survey included questions on service pricing, customer satisfaction, and perceived affordability.

Secondary Data

Published reports, academic journals, and case studies were analysed to compare findings with existing literature. Data sources include RBI guidelines, NABARD reports, and previous studies on cooperative banking models.

Sampling Techniques:

Population: credit societies in Vadodara.

Sampling Unit: Individual credit society who fill google form

Sample Size: 111 participants.

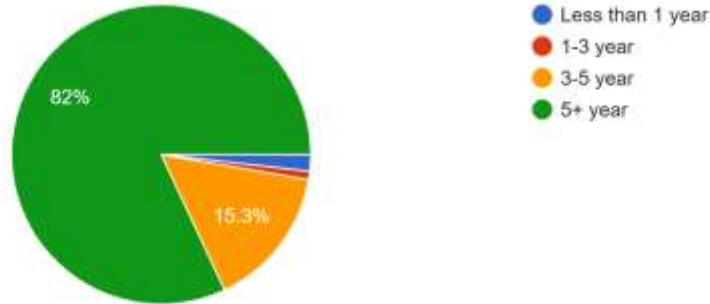
Sampling Methods: We used non-probability convenience sampling, selecting participants who were available and willing to take part.

5. Analysis of Data.

1.How long has your bank been operative in Vadodara?

How long has your bank been operative in Vadodara?

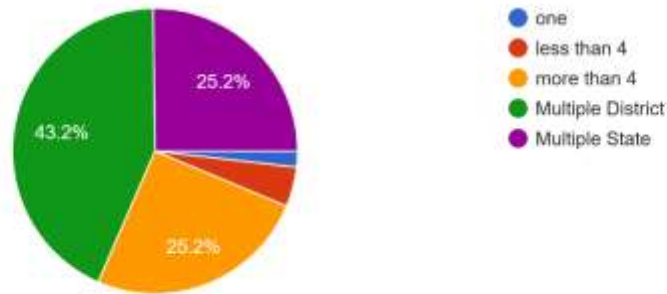
111 responses



2. How many branches exists of the bank?

How many branches exist of the bank ?

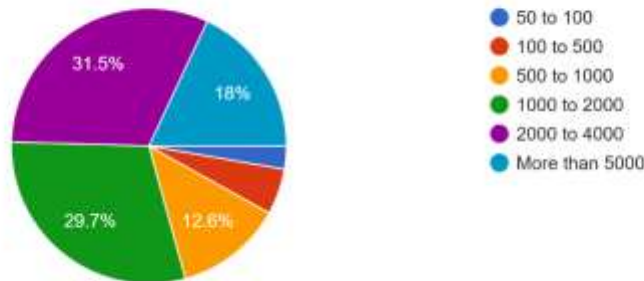
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3. Number of members in bank.

number of members in bank

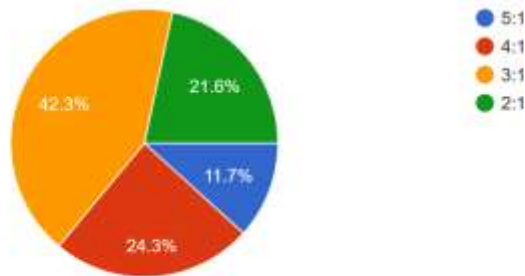
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4. Active customer : dead customer (ratio)

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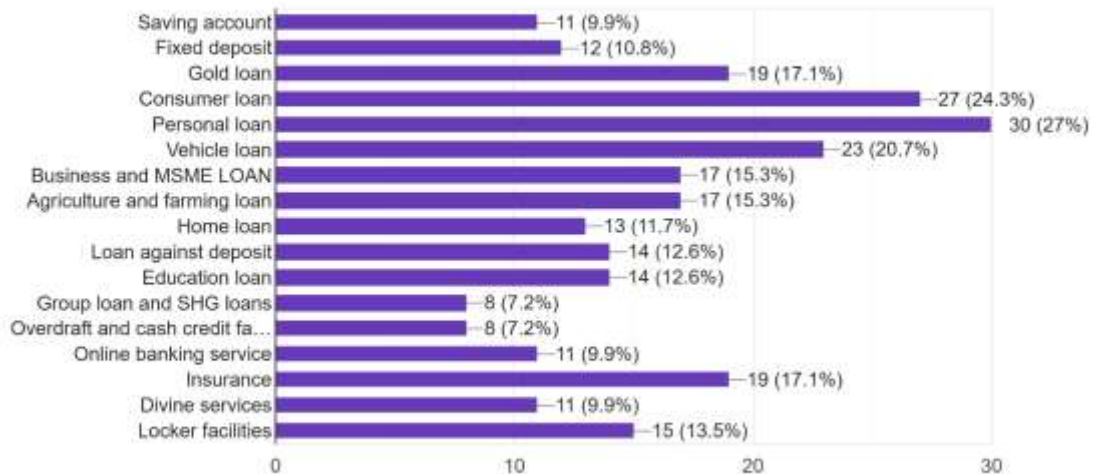
111 responses



5. Type of services provides by bank.

Type of services provides by bank

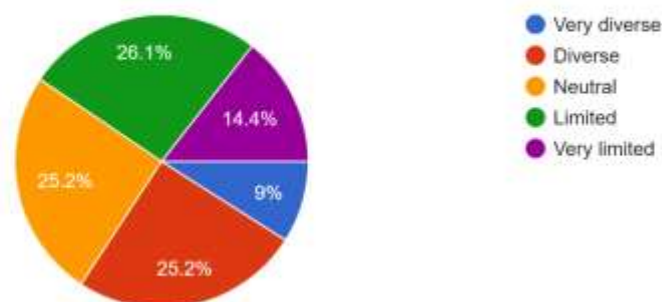
111 responses



6. How do do you rate the diversity of the product offered by your bank ?

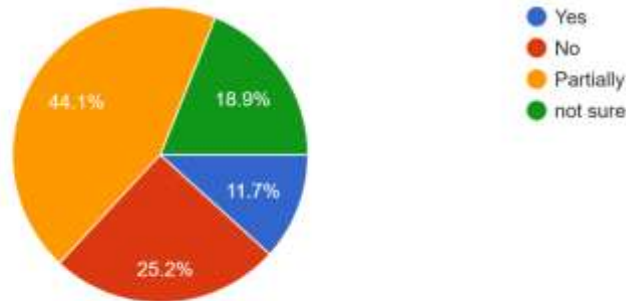
How do you rate the diversity of the products offered by your bank ?

111 responses



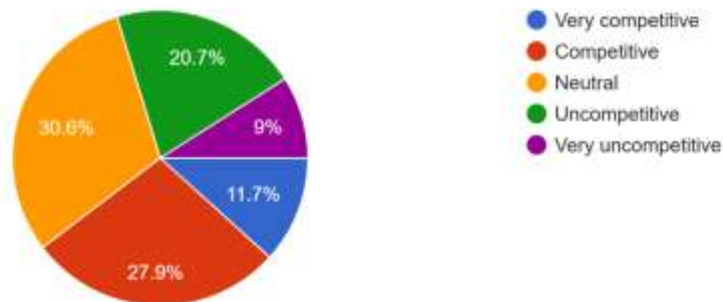
8. Do you feel that your banks financial products meet the need of the local community in Vadodara ?

Do you feel that your bank’s financial products meet the need of the local community in Vadodara ?
111 responses



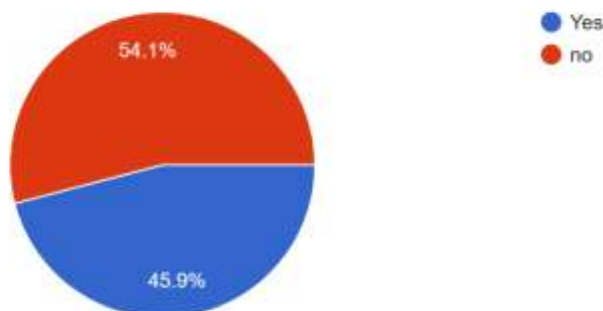
9. How would you rate the comparatives pricing of your banks products compared to other co-op banks in Vadodara?

How would you rate the comparatives pricing of your bank’s products compared to other co-op banks in Vadodara?
111 responses



10. Dose your bank offer sufficient customer support channel ? (e.g phone , in-person, online).

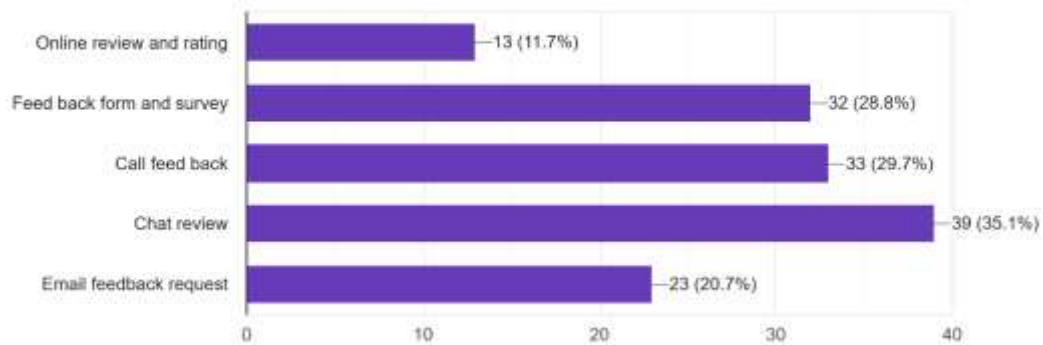
Dose your bank offer sufficient customer support channel ? (e.g phone , in-person, online)
111 responses



11. Method of conducting customer review.

Method of conducting customer review

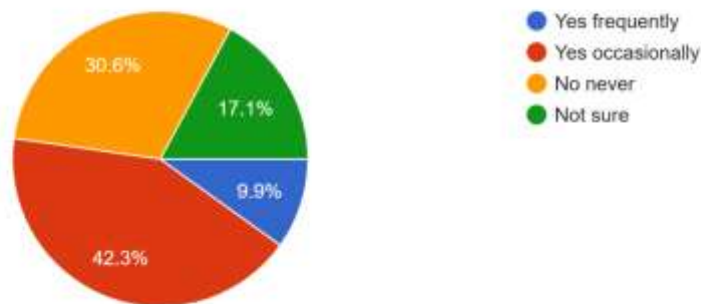
111 responses



12. Have you received customer feedback regarding high costs of services or product?(e.g interest rates, fee)

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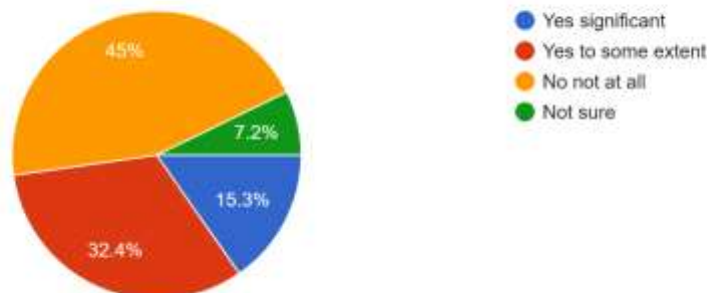
111 responses



13. Do you believe that high charge & fees impact your customer’s satisfaction with your bank ?

Do you believe that high charge & fees impact your customer’s satisfaction with your bank ?

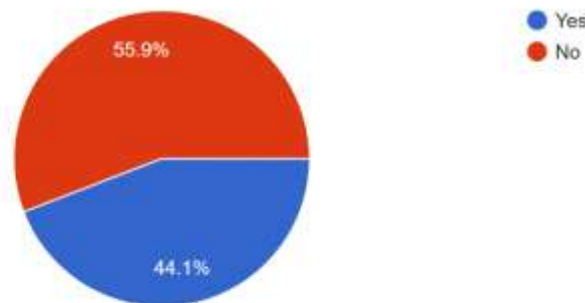
111 responses



14. dose you bank provide and wavier or discount options for high service charges based on customer loyalty or relationship ?

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111 responses



6. Findings and Discussion

➤ Bank Longevity and Market Stability

Survey results indicate that 82% of cooperative banks in Vadodara have been operational for over five years, suggesting a stable banking sector with established customer trust. Only 15.3% of banks have existed for 3–5 years, with fewer new entrants. This stability aligns with Birchall & Ketilson's (2009) findings, which highlight that cooperative banks prioritize long-term sustainability over rapid expansion.

➤ Branch Network and Membership Size

43.2% of surveyed banks operate across multiple districts, while 25.2% have a presence in multiple states.

Banks with a wider regional reach tend to have greater financial strength but may also charge higher service fees to sustain operational costs (Mazzarol, Limnios, & Reboud, 2013).

31.5% of banks have more than 5,000 members, while 18% serve only 50–100 customers, suggesting disparities in service accessibility.

➤ Customer Perception of Service Exorbitance

42.3% of customers report occasional concerns about high service charges, while 9.9% express frequent dissatisfaction.

30.6% remain neutral, indicating that while service fees are a concern, they may not be a decisive factor for all customers (Zeithaml, 1988).

45.9% of customers believe their bank provides insufficient customer support, indicating service quality concerns (Parasuraman et al., 1988).

➤ Impact of Pricing on Customer Satisfaction

30.6% of respondents find their bank's pricing uncompetitive.

Only 9% rate their bank as very competitive, reinforcing the hypothesis that pricing strategies influence customer retention (Rust & Zahorik, 1993).

55.9% of banks do not offer waivers or discounts on service charges, potentially leading to customer migration to commercial banks.

7. Limitations of the Study

Geographical Scope: The study focuses on Vadodara, limiting generalizability to other regions.

Self-Reported Data: Customer responses may include biases.

Regulatory Aspects: The study does not deeply explore RBI or NABARD policies on pricing.

Comparative Analysis: The study does not compare cooperative banks with commercial banks on pricing strategies.

8. Conclusion

This study highlights the impact of exorbitant product and customer service charges on cooperative banks in Vadodara. While many banks have established customer trust through longevity and regional expansion, service pricing remains a key concern. Findings suggest that customers prioritize affordability, and high service fees may lead to dissatisfaction and migration to other banks (Anderson, Fornell, & Lehmann, 1994).

Key Recommendations:

Review Pricing Models: Cooperative banks should align service charges with customer expectations to maintain trust (Zeithaml, 1988).

Enhance Customer Support: Improving accessibility through online and in-person support channels can improve customer satisfaction (Parasuraman et al., 1988).

Offer Flexible Pricing Strategies: Implementing discounts or waivers for long-term customers can enhance loyalty (Rust & Zahorik, 1993).

Expand Product Diversity: Diversifying financial products to meet customer needs can improve market competitiveness (Verhoef et al., 2009).

Addressing these issues will be crucial for the long-term sustainability of cooperative banks in Vadodara. Future research should examine regulatory policies and compare cooperative banks with private and commercial banks to explore alternative pricing strategies.

9. References

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