Svend Hollensen
Marc Opresnik

MARKETING

A Relationship Perspective

Second Edition



Vahlen

To content

"Marketing – A Relationship Perspective" is back for a second edition and continues to set a benchmark for achievement in introductory marketing courses across Europe. It is a comprehensive, broad-based and challenging basic marketing text which describes and analyses the basic concepts and strategic role of marketing and its practical application in managerial decision-making. It integrates the 'new' relationship approach into the traditional process of developing effective marketing plans. The book's structure fits to the marketing planning process of a company. Consequently, the book looks at the marketing management process from the perspective of both relational and transactional approach suggesting that a company should in any case pursue an integrative and situational marketing management approach. Svend Hollensen's and Marc Opresnik's holistic approach covers both principles and practices, is drawn in equal measure from research and application, and is an ideal text for students, researchers and practitioners alike.

"Marketing – A Relationship Perspective is an excellent foundation text and an ideal basis for a marketing course of one semester. The authors write in a lively style with a great deal of up-to-date examples. The well-researched and innovative content brings marketing theory to life."
Neil Selby, Former International Director, Oxford University's Said Business School

"The dynamic and global competitive landscape requires marketing professionals who have a thorough knowledge of marketing principles coupled with strong creative skills. This book provides excellent coverage of these principles and serves as a great resource for marketing students and young professionals everywhere."
Christoph Schweizer, Chief Marketing Officer, Drägerwerk AG & Co. KGaA

"Marketing – A Relationship Perspective is an exciting textbook that provides a concise introduction to the theory and practice of Marketing in the 21st century organized around an innovative customer relationship perspective. Perfectly suited to students of one semester marketing courses, this invaluable source of knowledge presents a solid grounding in the fundamentals of contemporary marketing, in a clear, lively, practical and straightforward style. Highly recommended to marketing students, educators and marketing managers everywhere."
Prof. Dr. Marko Sarstedt, Chair of Marketing, Otto-von-Guericke-Universität Magdeburg, Germany

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Marketing

A Relationship Perspective

by

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and

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Second Edition

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Preface to the Second Edition

The development of marketing theory and practice is undergoing a paradigm shift from a transactional to a relationship orientation. As many companies are still relying on the traditional marketing approach, this book will bridge the gap between **relationship marketing** (RM) and traditional (transactional) marketing (TM).

In the traditional transactional approach, **marketing management** is about planning, coordinating ad controlling marketing strategies that are aimed at satisfying customer needs and desires – and receiving money from sales.

In recent years, marketing has been undergoing considerable self-examination and internal debate. The overriding emphasis in the 'traditional' marketing approach is on acquiring as many customers as possible. Evidence is mounting, however, that traditional marketing is becoming too expensive and is less effective given the changes in the micro and macro environment of companies.

Many leading marketing academics and practitioners have concluded that many of the long-standing practices and operating modes in marketing need to be re-modelled, and we need to move towards an integrated relationship approach that is based on repeated market transactions and mutual sustainable gain for buyers and sellers.

The 'new paradigm' is commonly referred to as relationship marketing (RM). However, relationship marketing is not a new concept. Before the advent of mass production and mass media, relationship marketing was the norm; sellers usually had first-hand knowledge of buyers, and the successful ones used this knowledge to help keep customers for life.

Relationship marketing reflects a strategy and process that integrate customers, suppliers, and other partners into the company's design, development, manufacturing, and sales processes.

Fundamentally, relationship marketing draws from traditional marketing principles. Marketing can be defined as the process of identifying and satisfying customers' needs in a competitively superior manner in order to achieve the organisation's objectives. Relationship marketing builds on this.

The customer is still fundamental to a marketing relationship. Marketing exists to efficiently meet the satisfaction of customer needs, as well as those of the marketing organisation. There is a considerable body of knowledge in social sciences that sheds light on the many facets of human relationships. We draw from these sources to further our understanding of consumer relationships.

Marketing exchange seeks to achieve satisfaction for the consumer and the marketing organisation (or company). In this latter group we include employees, shareholders, and managers. Other stakeholders (like competitors, financial and governmental institutions) are also important. As we shall see later relationships can cover a wide range of organisations in the environment e.g. governmental institutions, industry associations, European Union (EU) institutions etc.

However, the main focus of this book is still on the relationships between the firm and its closest external bodies, primarily the customers.

In the transactional approach, participants focus exclusively on the economic benefits of the exchange. Even though in relational exchange the focus widens, economic benefits remain important to all of the partners in marketing relationships.

With the relationship approach in mind, an integrated view of marketing management will be presented. To do this, the latest research findings in marketing management and related disciplines are summarized. Yet, marketing management is still a very practical discipline. People still have practical needs, firms still face practical problems, and solutions still have to work in real life. Most marketers cannot and should not hide in labs. Marketing is a social science based on theories and concepts, but it also requires that most marketers meet with people, observe them, talk to them, and understand their activities. In essence, marketing is a dialogue between sellers (marketers) and buyers (customers). This book reflects this applied approach. Together with important concepts and theories, our experiences that have been obtained through work with numerous companies – large and small, domestic and international – for many years will be drawn on.

Target Audience

This book is written for people who want to know how the relationship and the traditional marketing approach (in combination) affect the development of effective and efficient marketing plans. This book is aimed primarily at students, MBA/graduate students and advanced undergraduates who wish to go into business. It will provide the information, perspectives, and tools necessary to get the job done. Our aim is to enable them to make better marketing decisions.

A second audience for this book is the large group of practitioners who want to build on the existing skills and knowledge already possessed. The book is of special interest to the manager who wishes to keep abreast of the most recent developments in the 'marketing management' field.

Unique Features of this Book

This marketing text integrates the 'new' relationship approach in the traditional process of developing effective marketing plans. Compared to other marketing management books this text will attach more importance to the following themes:

Buyer-Seller Relationships

The guiding principle of this textbook is that of building relationships between buyers and sellers. Relationships is a growing trend and for good reason. Dramatic changes in the marketing environment are presenting immense new opportunities for companies that really build and retain relationships with customers. Relationship marketing emphasizes the tremendous importance of satisfied, loyal customers. Good customer relationships happen when all employees within the organisation develop the sensitivity and desire to satisfy customers' needs and wants. It may be argued that the traditional concept of marketing does not adequately reflect the recognition of the long-term value of a customer. The argument is that many of the traditional definitions of marketing, although stressing the importance of customer needs and satisfaction, are essentially concerned with maximising the profitability of each transaction. Instead they should seek to develop long-term relationships with customers, which cannot easily be duplicated by competitors.

Buyer-Seller Interaction on a Global Scale

Today's companies are facing fierce and aggressive competition. Today most firms compete not only locally and nationally, but globally as well. Companies that have never given a thought to internationalization now also face competition in their home market from international companies. Thinking globally also requires an understanding of the international diversity in buying behaviour and the importance of cross-cultural differences, both in the **B-t-C** and **B-t-B** market. This cross-cultural approach is centred on the study of the interaction between buyers and sellers (and their companies) who have different national and/or cultural backgrounds.

Creating Competitive Advantage through Relationships Together with other Companies

Greater emphasis is given to the development of competitive advantage, and consequently to the development of resources and capabilities and competences within the organisation and with other companies. Relationship marketing seeks to build a **chain of relationships** (networks or value net) between the organisation and its main stakeholders, including customers, suppliers, distribution channel intermediaries, and firms producing complementary products and services. Relationships to competitors are also considered.

Cross-Functionalism

Marketing is not an isolated function. A marketer's ability to effectively implement a strategic marketing program depends largely on the cooperation and competence of other functional areas within the organisation. Consequently, substantial attention is given to the inter-functional approach of marketing management. This includes: the concept of competitive advantages, **cross-functional teams** in the development of new products, **supply chain management**, internationalization, quality management, and ethics.

New to the Second Edition

The second edition of the book reflects recent trends and aspects of contemporary marketing. Here is a brief summary of the **key content changes** for this edition:

- *new content:* there is a new chapter on *marketing research* with more in-depth coverage as to the tools and processes in the framework of analysing data for the marketing management planning process. In addition, the former chapter 'Internet Advertising/Promotion' has been renamed to 'Digital Marketing and Social Media' and the respective content has been expanded significantly.
- *new case studies, exhibits and examples:* the principles of marketing cannot be fully grasped without sophisticated examples of how these apply in practice. That is why in every chapter you will find a wealth of examples to support the concepts presented. These include current advertisements, brand-new case studies in every section as well as mini cases in the form of marketing exhibits that ask you to apply the principles learnt. These features will not only help you to absorb the key principles of marketing, but will also allow you to make links between the various topics and demonstrate the marketing management process at work in real-life situations.
- *an exciting new package of supporting online resources:* all cases and selected marketing exhibits from the first edition are available online in order to support you in further enhancing and applying your understanding of marketing concepts.

Outline

After outlining the fundamentals of relationship marketing in the first chapter, the book is based on the main phases involved in marketing management, i.e. the decision-making process regarding formulating, implementing, and controlling a marketing plan:

- Phase 1: Situational analysis in the Marketing Planning Process (Chapter 2)
- Phase 2: Strategy formulation in the Marketing Planning Process (Chapter 3)
- Phase 3: Marketing Mix in the Marketing Planning Process (Chapter 4)
- Phase 4: Implementation and controlling in the Marketing Planning Process (Chapter 5)

The schematic outline of the book in Figure 1.1 shows how the four basic phases are divided into four chapters. Consequently, the book has a clear structure according to the **marketing planning process** of the firm (Figure 1.1): The introduction describes the fundamentals of relationship marketing including the evolution of the relationship marketing concept. After relationship marketing is defined and relationship economics and relationship drivers are explained the chapters concludes depicting relationship marketing as an integrative management process (Chapter 1). Based on an analysis of the internal and external marketing situation of a company and its relationships (Chapter 2), the firm is able to develop marketing strategies (Chapter 3) and marketing programs (Chapter 4). At the end of the planning process, the firm has to implement and control its activity in the market and if necessary make changes in the marketing strategy (Chap-

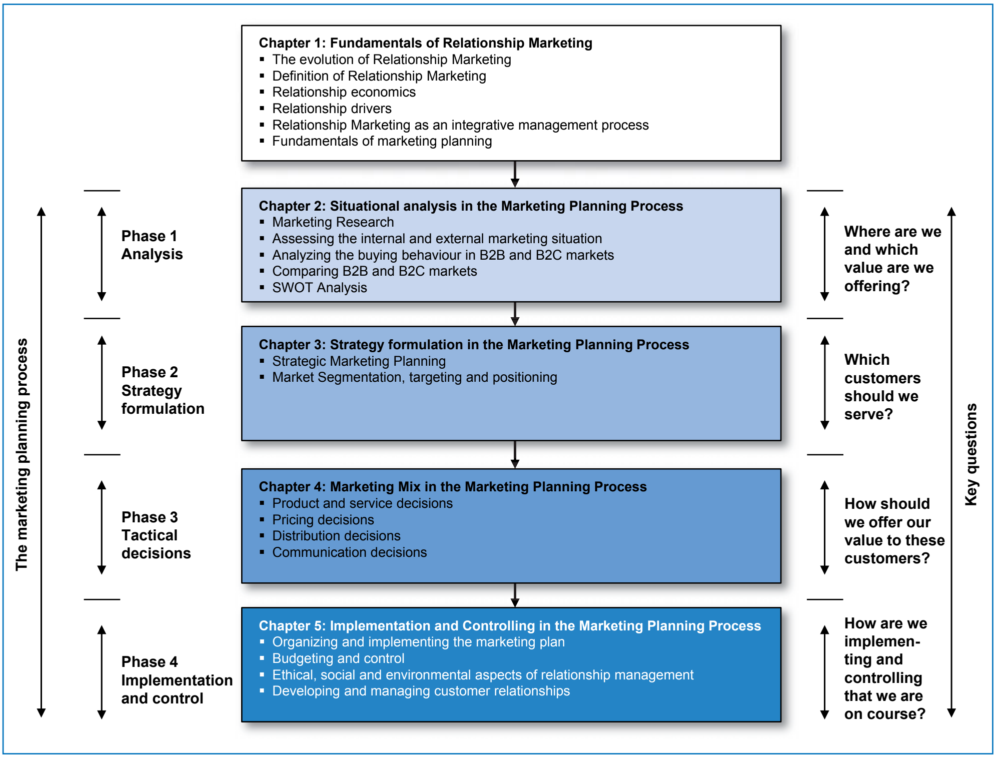

Figure 1: Structure of 'Marketing – a relationship perspective'

ter 5). Throughout the book this marketing planning process is seen in a relationship approach, as a supplement to the transactional approach. Against this background the development and management of customer relationships is explained in a separate section. Finally, the contemporary issues of ethical, social and environmental aspects of marketing planning are discussed in the last part of the book.

Chapters	Case titles/subtitles	Headquarters in following country/area	Geographical target area in the case/ Target market (B-t-B, B-t-C or both)
Ch. 1: Fundamentals of Relationship Marketing	*Case study:* **Drägerwerk AG & Co. KGaA** The German medical devices manufacturer seeks to establish a system of strategic key performance indicators (KPI`s) in order to be able to measure the performance of marketing and sales activities	Germany	World B2B
Ch. 2: Situational analysis in the Marketing Planning Process	*Case study:* **Bayer MaterialScience (BMS)** The German chemical company is introducing a new standard for supply services	Germany	World B2B
Ch. 3: Strategy formulation in the Marketing Planning Process	*Case study:* **Axel Springer Media Impact** The German media company seeks to measure advertising effectiveness with the help of an innovative iPad App	Germany	Europe B2B
Ch. 4: Marketing mix in the Marketing Planning Process	*Case study:* **Beiersdorf AG** The group of globally active companies focused on the development, manufacture, and worldwide distribution of innovative, high-quality skin care productsdisplays how consumer understanding drives innovation and marketing at NIVEA	Germany	Germany B2C
Ch. 5: Implementation and Controlling in the Marketing Planning Process	*Case study:* **L'Oréal Deutschland GmbH** The international cosmetic company introduces an innovative device under its Clarisonic brand	Germany	Germany B2C

Table 1: Overview of case studies

Pedagogical/Learning Aids

Many aids to student learning come with the book. These include:

- *chapter learning objectives:* tell the reader what he/she should be able to do after completing each chapter.

Chapters	Exhibit titles/subtitles	Headquarters in following country/area	Geographical target area in the case/ Target market (B-t-B, B-t-C or both)
Ch. 1: Fundamentals of Relationship Marketing	*Exhibit 1.1:* **OgilvyOne Worldwide, New York** – Example of effectiveness and relationship building on small budgets	USA	Germany/Europe B2C
Ch. 2: Situational analysis in the Marketing Planning Process	*Exhibit 2.1:* **Mannheimer AG Holding** – The German insurance group proves that pro-active brand management delivers measurable competitive advantages for financial services providers	Germany	Germany B2C (+ B2B)
Ch. 3: Strategy formulation in the Marketing Planning Process	*Exhibit 3.1:* **Igepa group GmbH & Co. KG** – The company is one of the largest paper merchant in Europe with 50,000 + customers and and successfully utilizes Relationship Marketing as a valuable tool in a regressive market	Germany	Germany/Europe B2C (+ B2B)
Ch. 4: Marketing mix in the Marketing Planning Process	*Exhibit 4.1:* **MAPA GmbH** – The company acts as market leader in Germany in the baby bottle sector and has a presence in over 110 countries of the world and aims at introducing a new baby care range	Germany	World B2C
Ch. 5: Implementation and Controlling in the Marketing Planning Process	*Exhibit 5.1:* **BANCA MEDIOLANUM S.p.A.** – The Italian financial services company based in Basiglio near Milan, founded by Ennio Doris in 1982, is active in the banking, life insurance and mutual fund sectors and aims much of its products towards individuals and families	Italy	Italy/Europe B2C

Table 2: Overview of exhibits

- *case studies:* there is one case study in each chapter, at the end are integrated. Each case study also contains questions. Table 1.1 lists the case studies.
- *exhibits:* examples from the real world of the chapter to illustrate the text and the marketing models. There is one exhibit for each chapter. Table 1.2 lists these exhibits.
- *summaries:* each chapter ends with a summary of the main concepts.
- *discussion questions:* at the end of each chapter the discussion issues are presented as questions.

In the development of this text a number of reviewers have been involved, whom we would like to thank for their important and valuable contribution. Especially, we would like to thank Professor Marko Sarstedt (Chair of Marketing at Otto-von-Guericke-Universität Magdeburg, Germany), Christoph Schweizer (Chief Marketing Officer at Drägerwerk AG & Co. KGaA), University of Southern Denmark and Luebeck University of Applied Sciences.

We would also like to thank the following persons for their contribution to the case studies and exhibits in the book (in alphabetical order): Ennio Doris (President, BANCA MEDIOLANUM S.p.A.), Massimo Doris (Chief Executive Officer, BANCA MEDIOLANUM S.p.), Mish Fletcher (Senior Partner / Worldwide Managing Director, OgilvyOne Worldwide, New York), Prof. Dr. Christian Führer (Studiengangsleiter BWL-Dienstleistungsmarketing, DHBW Mannheim), Christiane Heitbrink (Marketing Director NUK International, MAPA GmbH), Sigrid Hinz (Project Manager Communications & Sales Marketing, Drägerwerk AG & Co. KGaA), Ansgar Hölscher (Vice President Marketing Intelligence & Innovation, Beiersdorf AG), Reinhard Honerlage (Senior Manager Marketing & Business Intelligence, Drägerwerk AG & Co. KGaA), Ralph Kirchbeck (Business Unit Manager / Int. Key Account Management, Igepa group GmbH & Co. KG), Roland Koch (Prokurist / Bereichsleiter Marketing / Pressesprecher, Mannheimer AG Holding), Anna Witte (Marketing Manager, NUK Marketing Service International), Dr. Christine Mendoza-Frohn (Vice President CAS Industrial Marketing, Head of BMS Marketing Excellence & CAS New Segments & Applications, Bayer MaterialScience Aktiengesellschaft), Oscar di Montigny (Chief Marketing Officer, BANCA MEDIOLANUM S.p.), Nina Piechotta (Axel Springer Media Impact Werbung & Agenturkoordination, Axel Springer AG), Achim Spannagel (Brand Manager Clarisonic, L'Oréal Deutschland GmbH) and Martin Wulle (Vice President Global Business Unit Digital, Beiersdorf AG).

We are grateful to our publisher Verlag Franz Vahlen. During the writing process we had the pleasure of working with editor Hermann Schenk, whom we thank for his encouragement and professionalism in transforming the manuscript into the second edition of this book.

Throughout the writing period there has only been one constant in our lives – our families. Without them, nothing would have been possible. Thus Professor Svend Hollensen and Professor Marc Opresnik dedicate this book to their families.

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Brief contents

Detailed contents

1 Fundamentals of Relationship Marketing

Learning Objectives

After studying this chapter you should be able to:

- understand the evolution of relationship marketing (RM)
- define RM
- describe what part loyalty schemes play in relationship development
- name the different cost drivers associated with customers acquisition and customer retention
- discuss the benefits of relationship longevity
- explain the drivers of relationship management
- describe RM's context within marketing management
- understand why marketing planning is so important
- discuss the process of marketing planning
- describe the concept of the business mission
- describe rewards and problems associated with marketing planning

1.1 The Evolution of Relationship Marketing

Although relationship marketing (RM) is rising as a new phenomenon, relationship oriented marketing practices date back to the pre-industrial era. In this section, we trace the history of marketing practices and illustrate how the advent of **mass production**, the emergence of middlemen, and the separation of the producer from the customer in the industrial era led to a transactional focus of marketing. Now, due to technological advances, direct marketing is staging a comeback, leading to a relationship orientation.

Even though marketing practices can be traced back as far as 7000 B.C. (Carratu, 1987), marketing thought as a specific discipline was borne out of economics around the beginning of the 20th century. As the function gained momentum, and developed through the first three quarters of the twentieth century, the focus was on transactions and exchanges. However, the development of marketing as a field of study and practice is undergoing a re-conceptualization in its orientation from transactions to relationships (Webster, 1992). The emphasis on relationships as opposed to transaction based exchanges is likely to redefine the domain of marketing (Sheth, Gardener and Garett, 1988). Indeed, the emergence of a relationship marketing school of thought is imminent given the growing interest of marketing professionals in the relational paradigm.

The paradigm shift from transactions to relationships is related to the return of direct marketing both in business-to-business and business-to-consumer markets. As in the pre-industrial era once again direct marketing, albeit in a different form, is becoming popular, and consequently so is the relationship orientation. When producers and consumers directly deal with each other, there is a larger potential for emotional bonding that transcends economic exchange. They can understand and appreciate each others' needs and constraints better, are more inclined to cooperate, and thus, become more relationship oriented. This is in contrast to the exchange direction of the middlemen (sellers and buyers). To the middlemen, especially the wholesalers, the economics of transactions are more important, and therefore, they are less emotionally attached to products. Indeed, many middlemen do not physically see, feel, touch products but simply act as agents. The disconnection of the producers from the users was a natural outgrowth of the industrial era. On the one hand, mass production forced producers to sell through middlemen, and on the other, industrial organisations, due to specialization of corporate functions, created specialist purchasing departments and buyer professionals, thus separating the clients from the producers. However, today's technological advancements that permit producers to interact directly with large numbers of users, and because of a variety of organisational development processes, such as empowerment and total quality programs, direct interface between producers and users has returned in both consumer and industrial markets, leading to a greater relational orientation among marketers. Academic researchers are reflecting these trends in marketing practice, and searching for a new paradigm of the discipline that can better describe and explain it.

RM attempts to involve and integrate customers, suppliers and other infrastructural stakeholders into a firm's marketing strategy and activities (McKenna, 1991; Shani and Chalasani, 1991). Such involvement results in interactive relationships with suppliers, customers or other value chain partners of the corporation. An integrative relationship approach assumes overlap in the plans and processes of the interacting parties and suggests close economic, emotional and structural bonds among them. It reflects interdependence rather than independence of choice among the parties; and it emphasizes cooperation rather than competition and consequent conflict among the marketing actors. Thus, development of RM points to a significant shift in the axioms of marketing: from competition and conflict to mutual cooperation, and choice independence to mutual interdependence.

The discipline of marketing grew out of economics, and the growth was motivated by lack of interest among the economists in the details of market behaviour, in particular those related to the functions of the middlemen (Bartels, 1976; Houston, Gassenheimer and Maskulka, 1992). It coincided with the growth in the number of middlemen and the importance of distribution during the industrial era.

Unlike mainstream economists of the late nineteenth century, who were more preoccupied with public policy and economic effects of market institutions, early marketing thinkers had operational interests. The process of marketing was thought to cause additional forms of utility including time, place and possession utilities to the consumer (Macklin, 1924).

Thus, marketing as a discipline got organized around the institutional school of thought, and its main concerns centred around the tasks performed by wholesalers and retailers as marketing institutions.

Although the institutional thought of marketing was later modified by the organisational dynamics viewpoint, and marketing thinking was influenced by other social sciences, such as psychology, sociology and anthropology, exchange remained and still remains one of the central principles of marketing (Alderson, 1965; Bagozzi, 1974; Kotler, 1972). Formal marketing theory developed around the idea of exchange and exchange relationships, placing considerable emphasis on outcomes, experiences and actions related to transactions.

However, the relationship orientation of marketing is not an entirely a new phenomenon. If we look back to the practice of marketing before the 1900s, we find that relationship orientation to marketing was fairly prevalent. In short, current popularity of RM is a reincarnation of the marketing practices of the pre-industrial era in which producers and consumers interacted directly with each other and developed emotional and structural bonds.

The relationship orientation in marketing continued into the early years of the Industrial Revolution and the appearance of capitalism. Fullerton (1988) describes some of the efforts adopted by marketers during this period to build and maintain relationships with buyers. Marketing practices were also vastly individualized, relationship oriented and custom-made.

In the industrial era the market conditions gave rise to forceful selling and the development of marketing organisations that were willing to bear the risks and costs of inventory ownership and storage. Wholesalers, distributors and other marketing intermediaries assumed the role of middlemen who, on the one hand, stored the excess production of manufacturers, and, on the other hand, helped in locating and persuading more buyers to purchase. So vital became this function that early marketing thought was developed on the **concept of distribution** and the creation of time and place utilities. It was also around this time that the term 'marketing' itself was added to the lexicon as a noun opposed to its earlier use as a verb (Petrof, 1997). Among highly influential writers of the period Ralph Starr Butler and Arch W. Shaw are considered important to the evolution of the new marketing discipline. Ralph Butler (1882-1971) believed marketing was all about organisation, planning and the management of relationships. It was also in this period that theories developed that were later to become known as the **commodity approach** (focusing on all marketing actions involved in a particular product category), the **institutional approach** (focusing on describing the operations of a specialized type of marketing agency) and the **functional approach** (focusing on the purposes served by various marketing activities) (Wilkie and Moore, 2003). This period also gave rise to modern marketing practices, such as sales, advertising and promotion, for the purpose of creating new demand to absorb the oversupply of goods.

Thus emerged the **transactions orientation** of marketing whereby marketers became more concerned with sales and promotion of products and less with building enduring relationships. This shift was further accentuated during the Great Depression of 1929, when the oversupply of goods in the system heightened the pressure on marketers to sell their products. Thus the transaction orientation has been a major influence in marketing thought and scholastic research throughout the industrial era. During the height of the industrial period, marketing practices were aimed at supporting mass consumption. Developed out of the need to support the mass production machinery, the emphasis was aimed at increasing the sale of products and services. Marketing was considered successful only when it resulted in a transaction. Measures of marketing performance were linked, as is still the practice today in many corporations, to sales and market share.

Aided by the managerial school of marketing thought, two important developments occurred in the later period of the industrial era.

The first development was the marketer's realization that repeat purchase by customers was important, making it necessary to foster **brand loyalty**. Several marketing scholars also became interested in repeat purchase and brand loyalty behaviour as early as World War II (Churchill, 1942; Womer, 1944; Barton, 1946). This research was further advanced in the **buyer behaviour theory** of Howard and Sheth (1969), wherein they examined repeat purchase behaviour and brand loyalty. In order to achieve a brand image, brand differentiation and effective advertising, different marketing techniques emerged. In a seminal work, McCarthy presented the 'marketing mix' in the framework of the '**4Ps model of marketing**' (price, product, promotion and placement). Although this concept retained many of the key elements of the functional school it did shift the perspective toward the marketing management approach. In this respect, the development of market segmentation and targeting became imperative tools for marketing planning. In the face of competition, marketers realized the benefits of focusing on specific groups of customers for whom they could tailor their marketing programs and effectively differentiate themselves from their competitors (Peterson, 1962).

The second significant change was the development of administered **vertical marketing systems** (McCammon, 1965), whereby marketers not only gained control over channels of distribution, but also developed means of blocking competitors from entering into these channels. Vertical marketing systems such as franchising permitted marketers to extend their representation beyond their own corporate limits to reach final customers (Little, 1970). These developments represented the recurrence of direct marketing and in maintaining a long-term relationship with consumers.

Post-industrial era has seen substantial development toward RM, both in practice and in managerial philosophy. Marketers started realizing the need to supplement a transaction-orientation with an orientation which showed additional concern for customers. It began with the advent of compound products, which gave rise to the systems selling approach. At the same time, some companies started to insist upon new purchasing approaches such as national contracts and master purchasing agreements, making major vendors develop **key account management** programs (Shapiro and Wyman, 1981). These measures forced intimacy and durability in the buyer-seller relationships. Instead of purchasing a product or service, customers were more interested in buying a relationship with a seller. The key account management program designates account managers and account teams that assess the customer's needs and then husband the selling company's resources for the customer's benefit. Key account programs reflect higher commitment of selling organisations toward their major customers. Such programs, concurrently, led to the foundation of strategic partnering relationships that have emerged under RM (Anderson and Narus, 1991).

The expansion of relationship orientation of marketing in post-industrial era is the rebirth of **direct marketing** between producers and consumers. The impact of technological revolution is changing the nature and activities of the marketing organisations. The current development and introduction of sophisticated electronic and computerized communication systems into society is making it easier for consumers to interact directly with the producers. Producers are also becoming more knowledgeable about their consumers by maintaining and accessing sophisticated internet databases that capture information related to each interaction with individual consumers, at no or very low cost. As a result, the functions formerly performed by the middlemen are now being undertaken by either the consumer or the manufacturers. Producers are building such systems that allow them to undertake quick responses with regard to manufacturing, delivery and customer service, reducing the need for inventory management, financing and order processing through middlemen. Also, consumers have less time and thus a condensed inclination to go to the store for every purchase. They are willing to undertake some of the responsibilities of direct ordering, personal merchandising, and product use related services with little help from the producers.

Hence, given the recent technological strides and consumer attitudes, some functions performed by middlemen may be entirely removed. Similarly, the rapid convergence of technologies, such as communication and computers, mandates that companies in such industries work on joint projects to leverage their combined resources and to share risks. Thus, inter-firm partnering and alliances is becoming increasingly popular and important.

Another major force driving the adoption of RM is the area of **Total Quality Management (TQM)** that lately revolutionized industry's perspectives regarding quality and cost. Most companies saw the value of offering quality products and services to consumers at the lowest possible prices. When companies embraced Total Quality Management to improve quality and reduce costs, it became obligatory to involve suppliers and customers in implementing the program at all levels of the value chain. This needed close working relationships with customers, suppliers and other members of the marketing organisation. Thus, several companies, such as Motorola, IBM, Xerox, Ford, AT&T, etc., formed partnering relationships with suppliers and customers in order to practice TQM. Other programs such as Just-in Time (JIT) supply and Material-Resource Planning (MRP) also made use of the inter-reliant relationships between suppliers and customers (Frazier, Spekman and O'Neal, 1988).

In addition to this, another force is the growth of the **service economy**. As more and more organisations depend upon revenues from the services sector, RM becomes more and more established. One reason being that services are typically produced and delivered by the same institution. Service providers are usually involved in the production and delivery of their services. For instance, in the case of personal and professional services, such as consulting services, accounting services, and legal services, the individual producer of the service is also the service provider. In much the same way as the users of these services are directly engaged in obtaining and using the service thus, minimising or even eradicating the role of the middlemen. In such a situation, a greater emotional bond between the service provider and service user develops and the urge for maintaining and enhancing the relationship. It is therefore evident that RM is equally important for scholars and practitioners of services marketing (Berry 1983; Crosby and Stephens 1987).

Certain organisational changes have facilitated the augmentation of RM. Amongst these the most significant is the role definition of the members of the institution. Through a variety of changes in organisational processes, companies are now directly involving users of products and services in the purchase and acquisition decisions. For a considerable time, these functions were managed by the procurement department as a specialized function, with little or no input from the actual users of these products and services. Thus, the separation that existed between the producer and the consumer due to the existence of middlemen, acting as gatekeepers, is potentially bridged in many cases. Wherever such changes are being made, direct interaction and cooperative relationship between producers and users develop.

Finally, in the post-industrialization period the increase in competitive concentration is forcing marketers to be concerned with customer retention. As several studies have indicated, retaining customers is less expensive and perhaps a more sustainable competitive advantage than acquiring new consumers. Marketers are realizing that it costs less to retain customers than to compete for new ones (Rosenberg and Czepiel, 1984). On the supply side it pays more to develop closer relationships with a few suppliers than to build up more vendors (Spekman, 1988). In addition, several marketers are also concerned with keeping customers for life, rather than predominantly making a one-time sale (Cannie and Caplin, 1991).

In summary, relationship-orientation in marketing has staged a comeback. It was only during the peak of industrialization that marketing's orientation shifted toward a transactional approach. With the advent of middlemen, and the separation of producers and users, there was a superior transactions orientation. Industrialization led to a reversal in the relationship between supply and demand, when due to mass production efforts producers created excess supply of goods and were themselves preoccupied with achieving production efficiencies. Thus, they needed middlemen to service the consumer. The middlemen in turn, adopted a transactional approach as they were more interested in the economic benefits of exchange than the value of production and/or consumption. Now with one-to-one connection between the manufacturer and user, relationship orientation in marketing has returned.

In the era of RM, the roles of producers, sellers, buyers and consumers are blurring. Consumers are progressively becoming co-producers. Not only there is a not as much of a need for middlemen in the process, there is also less of a boundary between producers and consumers and other stakeholders in the value chain. In many instances, market participants jointly participate in design, innovation, production and consummation of goods and services. Sometimes these relationships and activities become so enmeshed that it is difficult to separate the marketing actors from one another. There is also a blurring of time and place boundaries. For example, Procter & Gamble has assigned twenty of its employees to live and work at Wal-Mart's headquarters to improve the speed of delivery and reduce the cost of supplying P&G goods to Wal-Mart's branch outlets (Kotler, 1994). It is therefore hard to distinguish the elements as well as the time of occurrence of exchange. In RM, organisational boundaries are hard to distinguish as companies are more likely to be involved in shared relationship with their stakeholders. Some of these activities relate to joint planning, co-production, co-marketing, co-branding, co-creation, co-invention etc. where the parties in the relationship bring their resources together for creating a greater market value.

In summary, we observe that a relational orientation to marketing existed until the early years of industrial development. It was only when mass production led to an oversupply of goods that marketers became transaction oriented. However, this transaction orientation in marketing is giving way to the return of relationship orientation. This re-emergence of RM has the potential for a new 'General Theory of Marketing' (Sheth, Gardener and Garrett, 1988), as its fundamental axioms better explain marketing practice.

1.2 Definition of Relationship Marketing

Although a clearer picture of RM is becoming evident in the framework of the above mentioned evolution of the concept we would like to determine, more specifically, what is meant by the term.

Despite considerable academic research and management interest, RM may still be regarded more as an 'umbrella philosophy' with several relational variations rather than as a wholly unified concept with strongly developed objectives. There are numerous published definitions on the concept and further other terms have been frequently used either as substitutes for RM, or to describe similar concepts. These include direct marketing, customer relationship management, micromarketing, one-to-one marketing, loyalty marketing and interactive marketing, to name but a few. In general, however, the major characteristic of these techniques are more transactional than relational in nature (Egan, 2008).

As stated above RM is not an independent philosophy but draws on conventional marketing principles (Gordon, 1998). This view implies that the basic focus upon customer needs still applies but that it is the way marketing is practiced that requires change. As RM is a descendant of traditional marketing a good starting point in developing a definition is to look at how marketing has traditionally been perceived. This view might be summed up using the Chartered Institute of Marketing's definition of marketing:

Marketing can be defined as the management process of identifying, anticipating and satisfying customer requirements profitably (CIM, 2005).

This definition of traditional marketing and others of similar nature emphasize above all the functional and process nature of traditional marketing and make no explicit recognition of the long-term value of the customer.

Berry was among the first to introduce the term 'relationship marketing' as a modern concept in marketing and suggested it to be defined as attracting, maintaining and enhancing consumer relationships (Berry, 1983). While recognising that customer acquisition was, and would still remain, part of marketer's responsibilities this viewpoint emphasized that a relationship view of marketing implied that maintenance and development were of equal or perhaps even greater importance to the company in the long run than customer acquisition. Due to the fact that customer retention is much more important than attracting new customers, companies pursuing RM principles design strategies to develop close and lifelong relationships with the most beneficial customers. By differentiating between customer types the RM concept further suggests, that not all customers or potential customers should be treated in the same way. RM, in contrast, saw the need to communicate in different ways dependent on customer's status and value.

This view of marketing also implied that suppliers were not alone in creating or benefiting from the value created by the corporation. Rather RM can be seen as an ongoing process of identifying and creating new value with individual consumers and then sharing the value benefits with them over the lifetime of the association (Gordon, 1988). This is due the fact that a higher customer value will raise customer satisfaction; thereby customer loyalty will be instilling, which, in turn, creates higher profit due to increased volume resulting from positive word-of-mouth and repeat purchases.

Thus the overall objective of RM is to facilitate and maintain long-term customer relationships, which leads to changed focal points and modifications of the marketing management process. The familiar superior objectives of all strategies are enduring unique relationships with customers, which cannot be imitated by competitors and therefore provide sustainable competitive advantages.

Most of the concepts, ideas and developments discussed briefly above are present in the following refined definition which describes the objectives of RM as to identify and establish, maintain and enhance and, when necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met; and this is done by mutual exchange and fulfilment of promises (Grönroos, 1994).

The growing interest in RM suggests a shift in the nature of marketplace transactions from discrete to relational exchanges, from exchanges between parties with no past history and future prospects to interactions between parties with a history and plans for upcoming interaction.

As Doyle noted, practitioners and marketers often made the mistake of seeing marketing as a functional discipline rather than an integrated business process (Doyle, 1995). In the following chapters and throughout the book relationship management ideas, concepts and perceptions will be explained and we will establish the importance of RM as an integrated management approach.

1.3 Relationship Economics

It is almost impossible to discuss RM without discussion of the concept of loyalty as it is frequently seen as an expected outcome of RM and the phrase 'loyalty marketing' is often used interchangeably with RM (Palmatier et al., 2006).

The frequent assumption is that, from whatever sources the loyalty is derived, it translates into an unspecified number of repeat purchases from the same supplier over a specific period. A comprehensive definition of loyalty in this context is: 'The biased (i.e.

non-random) behavioural (i.e. re-visit), expressed over time, by some decision-making unit with respect to one [supplier] out of a set of [suppliers], which is a function of psychological (decision making and evaluative) processes resulting in brand commitment' (Bloemer and de Ruyter, 1998 cited by Egan, 2008).

According to Uncles, the espoused view is that consumers actively seek an involving relationship with their brand (product manufacturer, service supplier, brand owner or retailer), which in turn offers psychological reassurances to the buyer and creates a sense of belonging (Uncles, 1999). The proposed benefit of loyalty schemes, is having this sense of belonging reinforced. The goal of such programs is to establish a higher level of customer retention in profitable segments by providing increased satisfaction and value to customers.

Although RM and loyalty marketing have several common components (e.g. the use of information technology, customer knowledge and direct customer communications), it is questionable whether the connection is any deeper (Hart et al., 1999). Loyalty programs suggest that this view of relationship formation is more similar to a stimulus-response function than anything resembling a relationship. Rarely are loyalty schemes more than a sophisticated sales promotions where the loyalty is to the program and not the brand. Consequently, loyalty schemes play a part in relationship maintenance but cannot be taken as proxy for the RM viewpoint (Pressey and Mathews, 1998).

One axiom of traditional marketing is the belief that self-interest and free competition are the key drivers of value creation. That axiom is challenged by relationship marketers who suggest that is **mutual cooperation** that delivers this value (Shet and Parvatiyar, 1995). However, the illusion that RM is unconcerned about profitability because of its above mentioned cooperative tenor is false. A paramount objective behind companies adopting an integrative relational strategy must, at least ultimately, be sustainable profitability. Even though in a relational exchange the focus is more concerned with the longer-term economic benefits profits remain important to all parties (Morgan, 2000).

Conventionally, the focus of traditional marketing has been on creating new customers. This rather 'offensive marketing strategy' included, in addition to acquiring completely new customers, attempting to attract dissatisfied customers away from competitors, particularly in periods of fierce competition (Storbacka et al., 1994). Although the acquisition of customers is important, it is only an intermediate step in the process of value creation. The first line of defence is its existing consumers (Kotler, 1992).

Therefore, RM emphasizes the proposition that, in addition to 'offensive strategies', companies need 'defensive strategies' as well which reduce customer fluctuation (Sorbacka et al., 1994). The logic behind this integrated approach can be illustrated using the metaphor of the leaky bucket (Figure 1.1). This stresses the importance of keeping customers while recognising that acquiring customers is, of course, the basis for having any customers to keep. In order to succeed, an enterprise must both have a constant flow of new customers and prevent consumer exit. To achieve sustainable profitability both strategies of acquisition and retention must be pursued in the framework of an integrative management process.

- **Customer acquisition**: Any decrease in the overall number of customers has profitability implications. As mentioned earlier, companies in the past concentrated on the consumer acquisition process. However, against the background of forecasted low or even negative population growth in many mature markets, intensified competi-

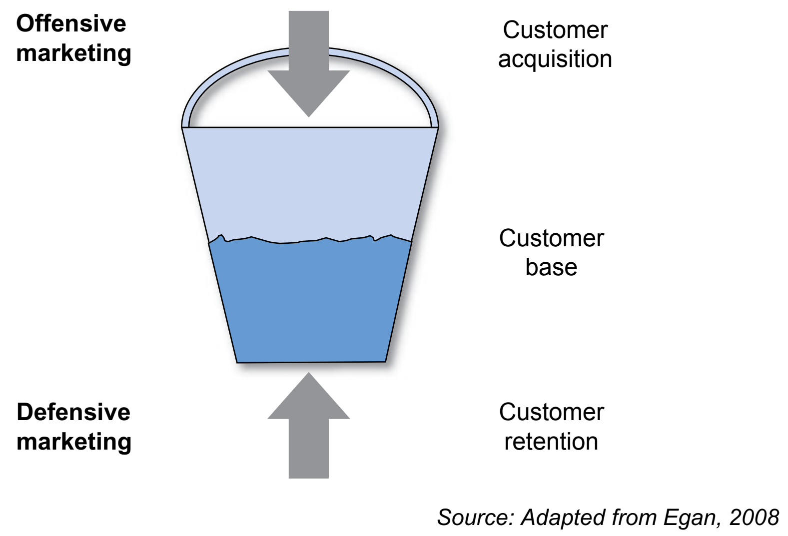

Figure 1.1: Leaky bucket theory

tive pressures and macro-economic crises customer acquisition in relative terms will become more difficult.

- **Customer retention**: Although RM requires a dual focus on both acquisition and retention strategies, it is the latter that is often given paramount prominence. In fact, it has become one of the underpinning convictions that RM fuels retention marketing first and acquisition marketing second. This view is generally supported by academics, many of whom further promote the concept by suggesting that customer acquisition is between five and ten times more expensive than customer retention (Gummesson, 1999). Although this widely accepted marketing maxim is a simplification, it has become widely accepted by an increasing number of enterprises that it is instrumental to keep existing customers satisfied rather than devote high levels of marketing effort to new customer acquisition (Barnes, 1994). To further strengthen this bias that the principal focus should be on retention, it is proposed that the longevity of relationships also provides additional profit potential stating the benefits are cumulative and that the longer the cycle continues the greater the company's financial strength. To put it in a nutshell, a major impetus for the development of RM has been a growing awareness of these potential long-term benefits.

Despite RM's concentration on retention, no company can practically hold on to all its customers. Total customer retention is never attainable as customers may switch to another product or service on the basis of criteria that may not be within the control of the enterprise. In addition to that, it may also be unprofitable to attempt to achieve a near total retention as the costs involved are likely to be prohibitive. Retention strategies should therefore not be aimed at keeping customers at any cost. Whereas in many industries it can be stated that the cost of acquisition exceeds that of retention, it is by no means a universal truth as it depends on company-specific factors and industries.

Economics of Retention Strategies

RM can be regarded as an alternative to mass marketing and, as such, marketers' commitment to such strategies are only applicable when they are affordable and practical (Berry, 2000). Consequently, the economics of costly relational techniques must, in circumstances where acquisition and retention cost ratios are small, be closely examined. This is especially evident in the case of many costly loyalty schemes in which incentives to retention are costs that (if profitability is to be maintained) may lead to higher prices. The evidence that exists suggests that, in industries where recognizable high front-end costs (i.e. cost of personal selling, direct and indirect costs of detailed information gathering, supply of equipment, advertisement and other expenditure) are involved, these are drivers to relational strategies that promote customer retention over customer acquisition. Where acquisition costs are relatively low and/or where the real difference between acquisition and retention costs is marginal, the introduction of costly relational strategies may become a financial burden.

Retention economics are also promoted as a time-based type of competitive advantage through the suggestion that investment in long-term relationships brings long-term advantages (Egan, 2008). Relationship investment in this respect refers to the time, effort and resources that the supplier invests in building stronger investments (Palmatier et al., 2006). Gummerson has introduced the phrase '**return of relationships (ROR)**' to describe the expectation that there would be a return on this investment. ROR can be defined as 'the long-term net financial outcome caused by the establishment and maintenance of an organisation's network of relationships' (Gummerson, 1999). The long-term orientation is often emphasized as it is believed that loyalty is cumulative as stated above.

Long-term benefits may be considered from two perspectives:

- relationship stages;
- the lifetime value of the consumer.

Relationship Stages

The definition of RM anticipates that, once a company begins thinking about individual customers, it must recognize that different customers are at different stages of relational development. Most importantly, it also suggests that each customer type (e.g. prospect, customer) should be treated in a different way like separate targeted messages and diverse value propositions. The appreciation of different relational stages in RM also includes the assumption that the higher the stage of development the greater the profitability to the business.

Dwyer et al. suggest a *five-stage model* where each phase represents a major transition in how parties in a relationship regard each other (Dwyer et al., 1987).

These are the following (Figure 1.2):

- **Awareness** is where one party realizes that the other party is a 'feasible exchange partner'. Interaction has not yet taken place although there may be 'positioning' by the parties.
- **Exploration** refers to the 'research and trial stage'. Partners consider obligations, benefits and burdens of the exchange.
- **Expansion** refers to the period where there is a continual increase in benefits obtained by partners and where they become progressively more interdependent.

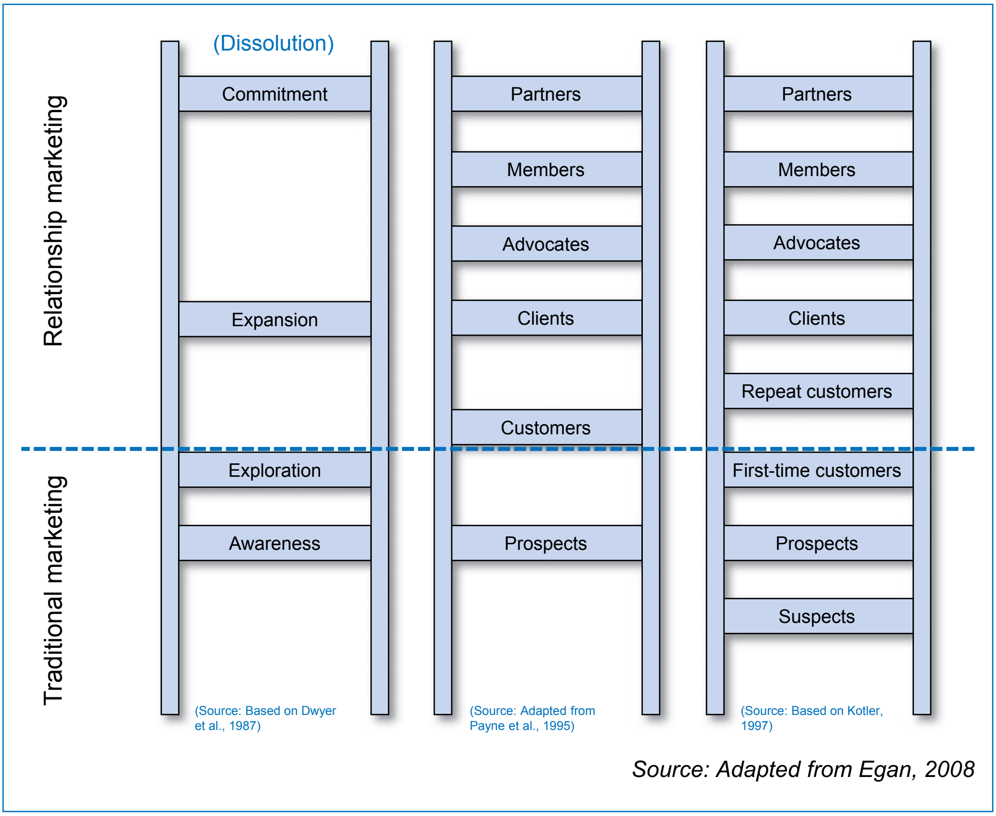

Figure 1.2: Relationship ladder and stages

- **Commitment** relates to the implicit or explicit promise of relational continuity between the parties.
- **Dissolution** implies that disengagement always remains a possibility in any relationship.

Other models suggest relational stages of customer development. The established concept of a 'ladder of loyalty' was adapted by Payne et al. to create a '**relationship ladder**' (Payne et al., 1995) . Kotler also proposes a stages model.

All of the three models illustrated in Figure 1.2 promote the belief that, whereas traditional marketing's interest end with the sale, RM's interest extends beyond this to the development and enhancement of the customer relationship.

In the Kotler model the process begins with the suspects. Prospects are at a higher level and have in most cases given some indication that they are likely to purchase the goods or services on offer. Kotler differentiates between 'first-time' and 'repeat customers'. With repeat purchases the consumer has actual experience to persist. It is at this point that the relational marketer is seen to diverge from the traditional marketer, whose interest is seen to be predominantly in the single transaction. The essential task of the relational marketer from this point is to become skilful at moving customers to higher stages of relationship, with each stage representing a strengthening of the company's relationship with the customer (Kotler, 1997). The Kotler model suggests that the enterprise is looking to transform repeat customers into 'clients'. The further jump to the status of 'advocate' implies that the customer moves from being responsive to the company to becoming actively involved, most usually through word-of-mouth recommendation. 'Members' implies even greater affinity to the company while finally 'partnership' suggests a relationship on such a high level, that the customer becomes part of the value-creation process.

Lifetime Value of the Customer

The increasing importance of RM was driven, in part, by the realization that people engage in relationships over lifetimes. The '**lifetime value**' concept concludes that an enterprise should restrict taking a short-term view but rather should consider the income derived from that company's lifetime association with the consumer. In the framework of an integrative customer retention strategy a company should consequently project the value of individual customers over time rather than focus on customer numbers only (Dawes and Swailes, 1999).

Decisions concerning investment in relational approaches should be made on the basis of the customer's lifetime value. These investments may include those designed to enhance product or service quality in order to improve competitive positioning, or defensively to discourage defection to the competition. In the latter case the enterprise can create '**exit barriers**' to promote retention by making **switching costs** high.

Switching costs are effectively barriers to exit from the relationship from the perspective of the customer. In this respect RM strategies are likely to be more successful if there are long time horizons and high switching costs. These are monetary and non-monetary costs that customers face when switching from one supplier to another. (Kinard and Capella, 2006). Switching costs may be created by the supplier, by the customer or by the relationship itself and include for example search costs, learning costs, emotional costs, financial costs and legal barriers (Egan, 2008).

Relationship Longevity

As stated above, customer retention leads to enhanced revenue, reduced costs and improved financial performance. The benefits that contribute to an entire 'life cycle of profits' from the customer are as follows (Figure 1.3):

- profit growth as a result of increased buying frequency and higher average purchases
- profit due to lower distribution and administration costs
- profit because of recommendation
- profit out of mark-ups

1.4 Relationship Drivers

Within the previous sections the concept of 'driver' toward relational strategy was already introduced and discussed, such as high customer acquisition costs and high exit barriers. In this part we will look at other drivers that appear to have an important bearing on the decision to develop a relationship marketing approach, in particular:

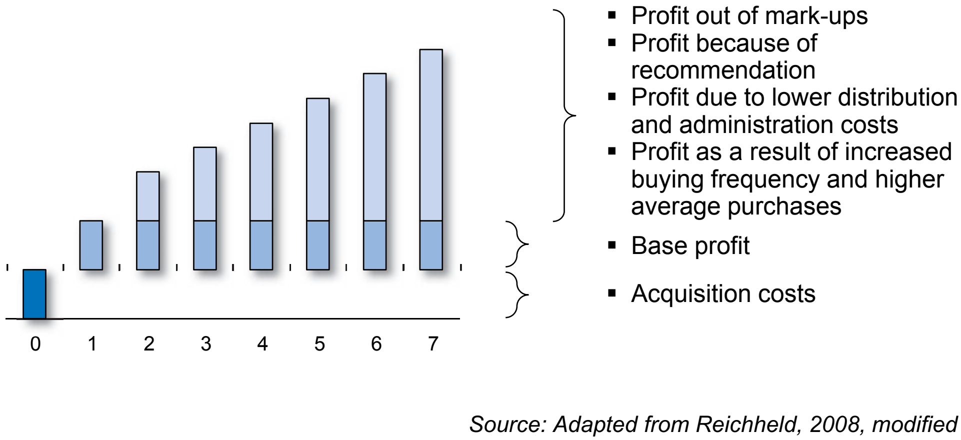

Figure 1.3: Profit growth over time

- risk, salience and emotion
- trust and commitment
- customer satisfaction (Egan, 2008)
- customer gratitude (Palmatier et al., 2009)

Risk, Salience and Emotion

As noted above, marketing academics and the relationship marketing literature suggest that the greater the **perceived risk**, the greater a customer's propensity to engage in relational-type behaviour and the more such strategies prove to be successful. A key reason why so-called high-risk purchases are likely to benefit from RM strategies is that a relationship is likely to lower the perceived risk as the customer gets to know the supplier. The existence of risk creates an opportunity for trust (Rousseau et al., 1998).

Salience may be regarded as the level of importance or prominence associated with the relationship. In situations characterized by high risk and salience, the consumer may enter the exchange with specific expectations associated with rather intense emotions. Consequently, a customer is intensively seeking specific reassurance and reduction of risk and uncertainty. These situations therefore appear to benefit from the closer ties and more frequent communication associated with RM strategies.

Products and services that generate emotions tend to be highly personalized and usually associated with self-worth. These categories include products such as clothing and services such as beauty. If the benefits associated with these products and services are emotionally important to consumers, then they are salient and the customer is likely to be risk averse. In these circumstances, relational strategies are instrumental to secure customer's loyalty and drive RM strategies (Egan, 2008).

Trust and Commitment

Trust creates benefits for the customer (e.g., relationship efficiency through decreased transaction costs) that in turn foster his or her commitment and loyalty to the relationship (Morgan, 2000). Therefore, confidence benefits/trust should positively influence the customer's commitment to the relationship. Morgan and Hunt define trust as confidence in the exchange partner's reliability and integrity (Morgang and Hunt, 1994).

Trust is seen as an important driver to both relationships and relationship enhancement in that it would seem to reduce risk perception. As well as generating cooperative behaviour, trust may (Rousseauch et al., 1998):

- reduce harmful conflict;
- decrease transactional costs (e.g. negating the need for constant checks);
- promote adaptive organisational forms (e.g. network relationships);
- facilitate the rapid formation of ad hoc groups;
- promote effective response to a crisis.

Berry (1995) suggested trust in a relationship reduces uncertainty and vulnerability, especially for so-called black-box-type services that are difficult to evaluate due to their intangible, complex, and technical nature. As such, he proposed that customers who develop trust in service suppliers based on their experiences with them have good reasons to remain in these relationships. This implies that loyalty to the firm will be greater when consumers have perceptions of trust or confidence in the service provider. Bitner (1995) echoed this proposition when she asserted that each service encounter represents an opportunity for the provider to build trust and thus increase customer loyalty.

Relationship commitment is suggested to be central to relationship marketing as well. Commitment implies the importance of the relationship to the parties and their desire to continue it (Wilson, 2000). It also suggests that both parties will be loyal, reliable and show stability in the relationship. As it usually takes time to reach a point where a commitment may be made, it may also imply a certain 'maturity' in a relationship (Bejou and Palmer, 1998). High levels of commitment are also associated with perceptions of future rewards, relationship identification, limited desire to seek out alternatives, the amount of effort expended in a relationship and the individuals assumed accountability (Grossmann, 1998).

What these descriptions of trust and commitment suggest is that, whatever the industry, it is important to build trust and commitment if the establishment of a relationship is the final goal.

Customer Satisfaction

Aside from confidence benefits/trust, relationship quality is generally considered to be composed of satisfaction and commitment. A high level of satisfaction provides the consumer with a repeated positive reinforcement, thus creating commitment-inducing emotional bonds. In addition, satisfaction is related to the fulfilment of customers' social needs, and the repeated fulfilment of these needs is likely to lead to bonds of an emotional kind that also constitute commitment (Hennig-Thurau and Klee, 1997). The relevance of satisfaction in gaining loyal customers and generating positive word-of-mouth is largely undisputed. Indeed, studies have found satisfaction to be a leading factor in determining loyalty (e.g. Rust and Zahorik, 1993). Similarly, satisfaction has been identified as a key driver in the generation of (positive) customer word-of-mouth behaviour.

Satisfaction is a psychological process of evaluating perceived performance outcomes based on predetermined expectations. Customers are, therefore, satisfied when their expectations of values are positively disconfirmed. In contrast, the greater the gap between