

# Relationship Marketing: A Contemporary Evaluation

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## ABSTRACT:

Trade though not a recent phenomenon brought a radical change in every country. In the early times, trade took place in order to gratify the requirements of the individuals. The increasing demand for the goods and services brought about the industrial revolution. Later to reach the target customers and bring awareness about the products the companies had to enforce some strategies so that the customers would be aware of the company's products and could reach them. Thus, marketing concept came into existence. A change in the marketing structure has strengthened the relationship between the buyer and the seller. Globalization has also contributed to embrace various relationship marketing strategies. This paper tries to highlight the contemporary evaluation to provide a platform for the customer centre philosophy and the application of relationship marketing at present and in future. The paper also stresses upon bridging the gap between pre-industrialization and post-industrialization marketing practices.

## KEYWORDS:

Relationship marketing, pre-industrialization and post-industrialization.

Trade is not a recent phenomenon though it has brought about a radical change in every country. In the early times, trade has been taking place to gratify the requirements of the individuals. Pre – industrialization marketing practices were highly customized as production was primarily based on customer request in mass production and mass consumption. The increasing demand for the goods and services due to the widening of markets followed by geographical discoveries of the late 15<sup>th</sup> and 16<sup>th</sup> centuries created the need for inventions. Industrial revolution was the result of the inventions of many English Scientists in 1760 and 1820. Later to reach the target customers and bring awareness about the products the companies had to enforce some strategies so that the customers would be aware of the company's products and could reach them. Thus, marketing concept came into existence. In the past few years the marketing concept has seen a drastic change. A change in the marketing structure has thus strengthened the relationship between the buyer and the seller.

Table 1: Highlights of Pre and Post Industrialization Era

- |   |   |
|---|---|
| • | Production Era<br>Prior to 1920s<br>Production orientation<br>Business success often defined solely in terms of production victories                  |
| • | Sales Era<br>Prior to 1950s<br>Customers resist nonessential goods and services<br>Personal selling and advertising's task is to convince them to buy |
| • | Marketing Era<br>Since 1950s Marketing Concept Emerges<br>Satisfying customer needs   |
| • | Relationship Era  |

Began in 1990s  
Carried customer orientation even further  
Focuses on establishing and maintaining relationships with both customers and suppliers  
Involves long-term, value-added relationships

- Customer relationship management  
The combination of strategies and tools that drive relationship programs, re-orientating the entire organization to a concentrated focus on satisfying customers

## MARKETING

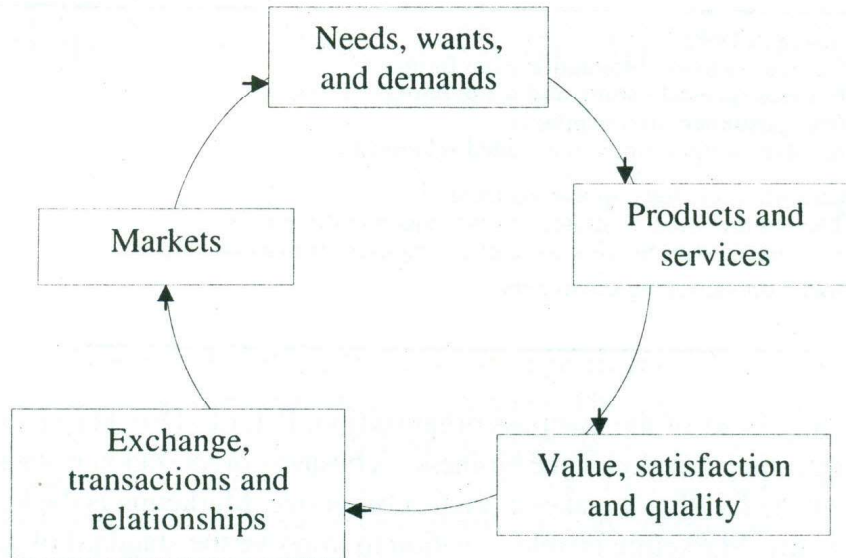
Marketing is the beating heart of the business organization. Peter F. Drucker (1961) points out that marketing is the distinguishing function of the business. A business organization is set apart from all other human organization by the fact that it makes a product or service. Marketing is the kingpin that sets the revolving of the economy. Marketing enables a nation to improve the standard of goods and services and consequently business values.

Different authors define the term marketing in different ways. According to American Marketing (2004), "Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders." J. F. Pyle views marketing as that phase of business activity through which human wants are satisfied by the exchange of goods and services.

Thus we can say that Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services, organizations, and events to create and maintain relationships that will satisfy individual and organizational objectives.

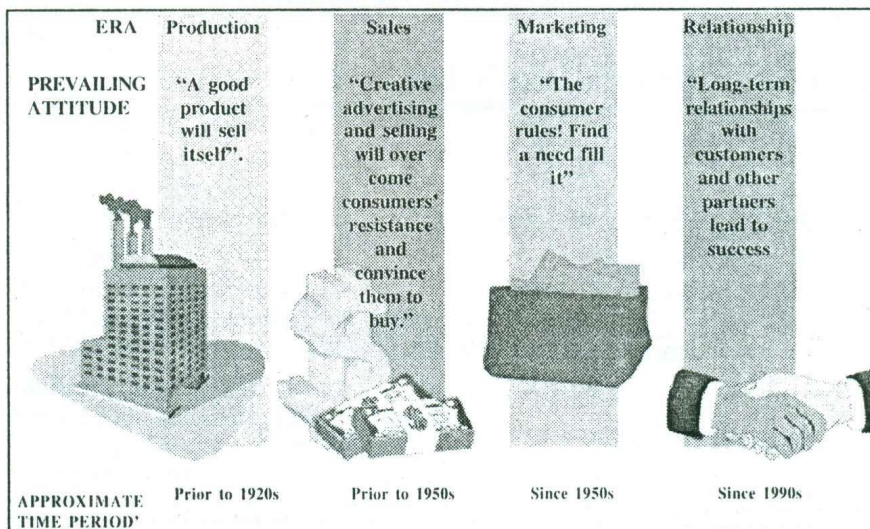
Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others.

The following figure explains the term marketing by identifying the core marketing concepts: needs, wants and demand; products; exchange, transactions and relationships; and markets. The most basic concept underlying marketing is that of human needs. The human need is a state of deprivation. Included are the basic physical needs for food, clothing, warmth and safety as well as social needs for belonging, affection, fun, and relaxation.



**Fig 1: Core Marketing Concepts (Source: Philip Kotler, 2004)**

The second basic concept of marketing is that of human wants, the form of human needs take as they are shaped by culture and individual personality. Wants are how people communicate their needs. People have unlimited wants but limited resources. They choose products that produce the most satisfaction for their money. When backed by power, wants become demands. People satisfy their wants with products. A product is anything that can be offered to satisfy a need or want. Customer value is the difference between the benefits that the customer gains from owning or using a product and the costs of obtaining the product. Customer satisfaction depends on a product’s perceived performance in delivering value relative to a buyer’s expectations. Quality begins with customer needs and ends with customer satisfaction. Exchange is the act of obtaining a desired object from someone by offering something in return. A transaction is marketing’s unit of measurement. A transaction consists of a trade of values between two parties. Smart marketers work at building relationships with valued customers, distributors, dealers and suppliers. The concept of transactions leads to the concept of market. A market is a set of actual and potential buyers who might transact with a seller. The concept of markets finally brings us full circle to the concept of marketing. Thus we can say that marketing is working with markets to bring about exchanges for satisfying human needs and wants.



**Fig 2: Four Ears in the History of Marketing**

TRADITIONAL MARKETING

The traditional marketing concept concentrates on the 4P’s of marketing namely the product, price, place and promotion. Transaction marketing is most appropriate when marketing relatively low value consumer products, when the product is a commodity, when switching costs are low, when consumer preferences prefer single transaction to relationships, and customer involvement in production is low.

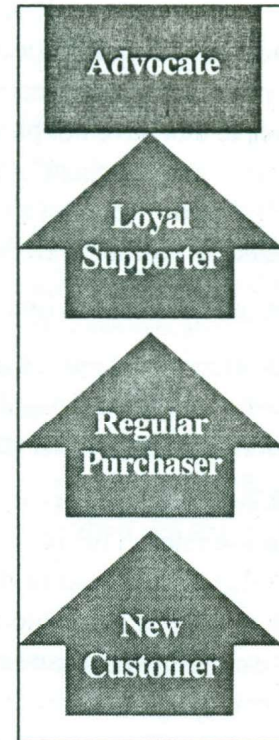
The factors that led to decline of the traditional marketing paradigm are as follows:

- This perspective is no longer sufficient
- The powerful forces of industry globalization
- The “value” movement
- Rapid advances in technology
- Shift in the balance of power toward customers have coalesced to change the rules for business success.

Thus the decline of traditional concept gave rise to a new concept of relationship marketing.

**Fig 3: From Transaction Based Marketing to Relationship Marketing**

- Transaction based marketing (Simple exchanges)
  
- Relationship marketing
  - Lifetime value of a customer
  - Converting new customers to advocates



RELATIONSHIP MARKETING

Relationship marketing is a form of marketing that evolved from direct response marketing in the 1960s and emerged in the 1980s, in which emphasis is placed on building longer term relationships with customers rather than on individual transactions. It involves understanding the customer’s needs as they go through their life cycles. It emphasizes providing a range of products or services to existing customers as they need them.

The initial research was done by Leonard Berry at Texas A&M (Berry, L. 1982) and Jag Sheth at Emory, both of whom were early users of the term “Relationship Marketing”, and by marketing theorist Theodore Levitt at Harvard (Levitt, T. 1983) who broadened the scope of marketing beyond individual transactions.

In practice, relationship marketing originated in industrial and B2B markets where long-term contracts have been quite common for many years. Academics like Barbara Bund Jackson at Harvard re-examined these industrial marketing practices and applied them to marketing proper. According to Leonard Berry, relationship marketing can be applied: when there are alternatives to choose from; when the customer makes the selection decision; and when there is an ongoing and periodic desire for the product or service.

Relationship marketing environment and business organization changed radically toward the end twentieth Century. Markets became more global and technologically sophisticated; and with intense competition and demanding consumers. Companies placed greater emphasis on service (Boride, 1999). Relationship marketing was now advocated as the appropriate paradigm for all business for all business (Christopher, 1991). It was argued that traditional marketing with its 4 P s frame work is simple for today's competitive environment, but that relationship marketing, in contrast seeks to improve business performance by manse of relationships, networks and interaction.

It is clear that relationship marketing moved from transaction to integrate marketing by providing more value to customer. Recent studies claim that, it has potential to forge new synthesis between quality management, customer service management. It involves the application of the marketing philosophy to all parts of the organization .It is true that, relationship marketing is a more pure form of marketing than traditional marketing. Relationship marketers speak of the "relationship ladder of customer loyalty". It groups types of customers according to their level of loyalty. The ladder's first rung consists of "prospects", that is, people that have not purchased yet but are likely to in the future. This is followed by the successive rungs of "customer", "client", "supporter", "advocate", and "partner". The relationship marketer's objective is to "help" customers get as high up the ladder as possible. This usually involves providing more personalized service and providing service quality that exceeds expectations at each step.

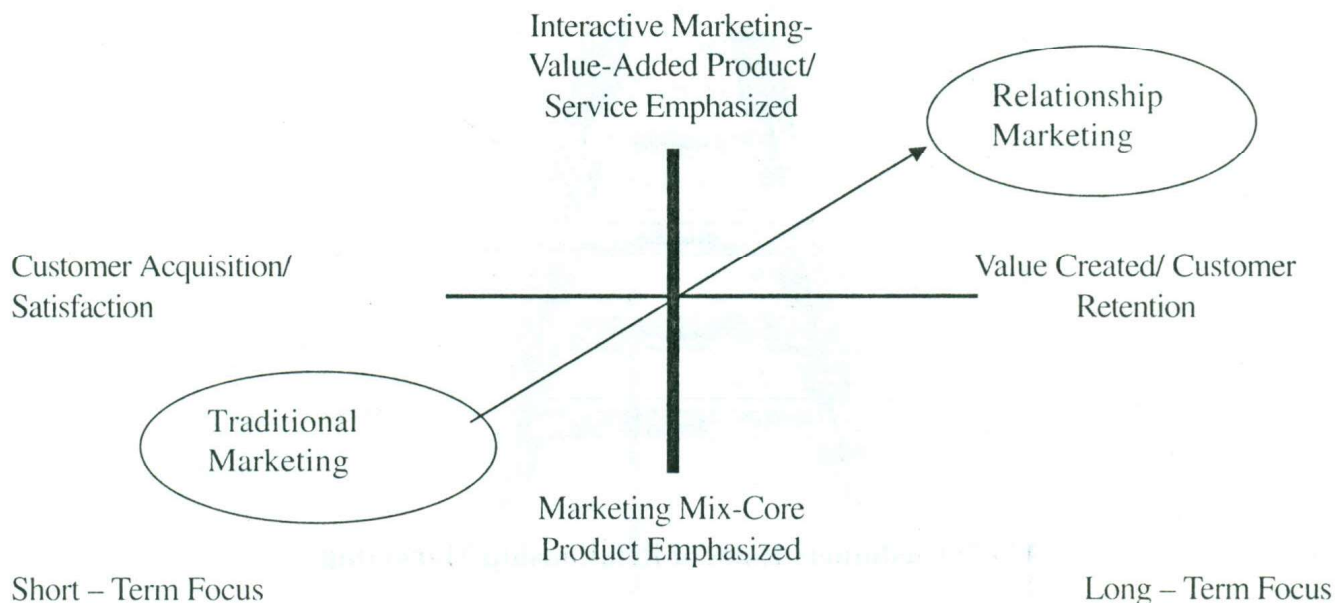
Customer retention efforts involve considerations such as the following:

- Customer valuation - Gordon (1999) describes how to value customers and categorize them according to their financial and strategic value so that companies can decide where to invest for deeper relationships and which relationships need to be served differently or even terminated.
- Customer retention measurement - Dawkins and Reichheld (1990) calculated a company's "customer retention rate". This is simply the percentage of customers at the beginning of the year that are still customers by the end of the year. In accordance with this statistic, an increase in retention rate from 80% to 90% is associated with a doubling of the average life of a customer relationship from 5 to 10 years. This ratio can be used to make comparisons between products, between market segments, and over time.
- Determine reasons for defection - Look for the root causes, not mere symptoms. This involves probing for details when talking to former customers. Other techniques include the analysis of customers' complaints and competitive benchmarking.
- Develop and implement a corrective plan - This could involve actions to improve employee practices, using benchmarking to determine best corrective practices, visible endorsement of top management, adjustments to the company's reward and recognition systems, and the use of "recovery teams" to eliminate the causes of defections.

Many relationship marketers use a team-based approach. The rationale is that the more points of contact between the organization and customer, the stronger will be the bond, and the more secure the relationship.

**Fig 4: Traditional Versus Relationship Marketing**

(Source: Jag Seth, 1996)



RELATIONSHIP MARKETING – MEANING AND DEFINITION

Relationship marketing is defined to be the process of attracting, maintaining, and in multi-service organizations – enhancing customer relationships (Berry, 1983). A similar definition says, “Relationship marketing is defined to be the process of establishing, maintaining, and enhancing the relationships with the customers and other partners at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises.”(Gronroos, 1990). Shani and Chaasani (1992) define relationship marketing to be “an integrated effort to identify, maintain, and build up a network with individual customers and to continuously strengthen the network for the mutual benefits of both sides, through interactive, individualized and value-added contacts over a long period of time.” Sheth and Parvatiyar (1996) defined relationship marketing to be the ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value at a reduced cost.

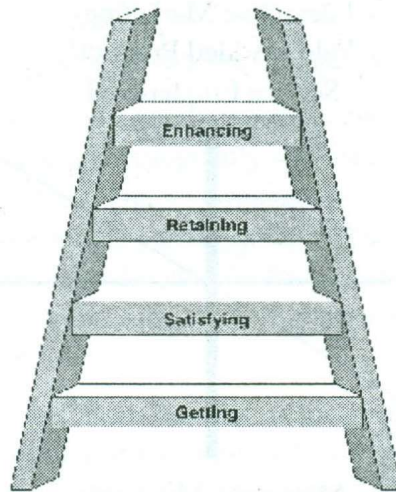
Thus relationship marketing focuses on building a relationship with a company’s profitable customers. Most companies are finding that they can earn a higher return from resources invested in getting repeat sales from current customers than from money spent to attract new customers.

RELATIONSHIP MARKETING - GOALS AND OUTCOMES

Relationship marketing focuses on:

- Whereas the goal of traditional marketing is customer acquisition, under relationship marketing the focus shifts to creating value
- The objective is to create more value through interdependent and collaborative relationships with customers, the outcome is customer retention
- Relationship marketing is ongoing, constantly looking for opportunities to generate new value

- Retaining customers requires marketers to exhibit care and concern after they have made a purchase
- The sale often represents only the beginning of the relationship between the buyer and seller.

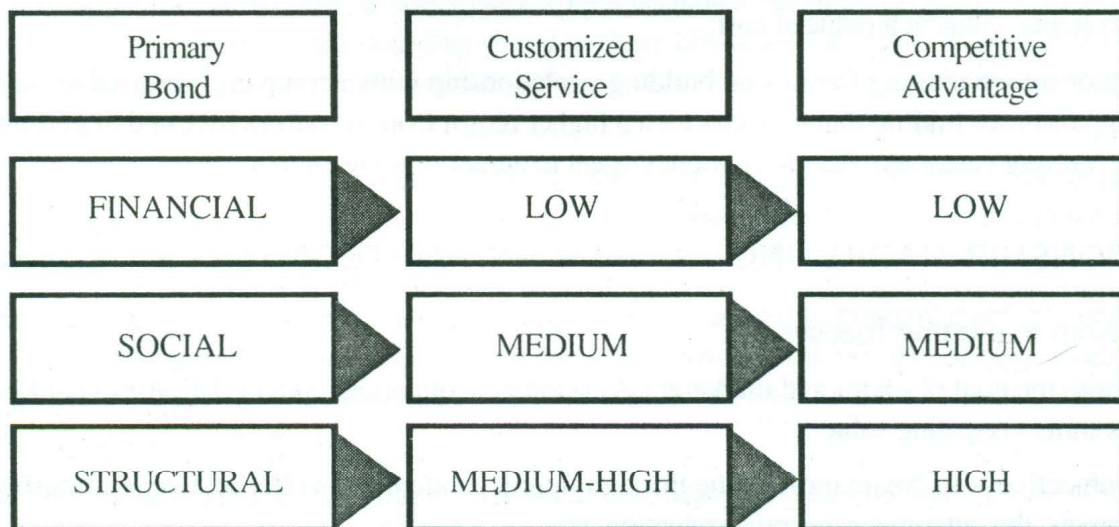


**Fig 5: Customers Roles of Relationship Marketing**

**WHEN TO USE RELATIONSHIP MARKETING**

Relationship marketing and transactional marketing are not mutually exclusive and there is no need for a conflict between them. However, one approach may be more suitable in some situations than in others. Transactional marketing is most appropriate when marketing relatively low value consumer products, when the product is a commodity, when switching costs are low, when customers prefer single transactions to relationships, and when customer involvement in production is low. When the reverse of all the above is true, as in typical industrial and service markets, then relationship marketing can be more appropriate. Most firms should be blending the two approaches to match their portfolio of products and services. Virtually all products have a service component to them and this service component has been getting larger in recent decades.

**Fig 6: 4 Levels of Relationship Marketing**

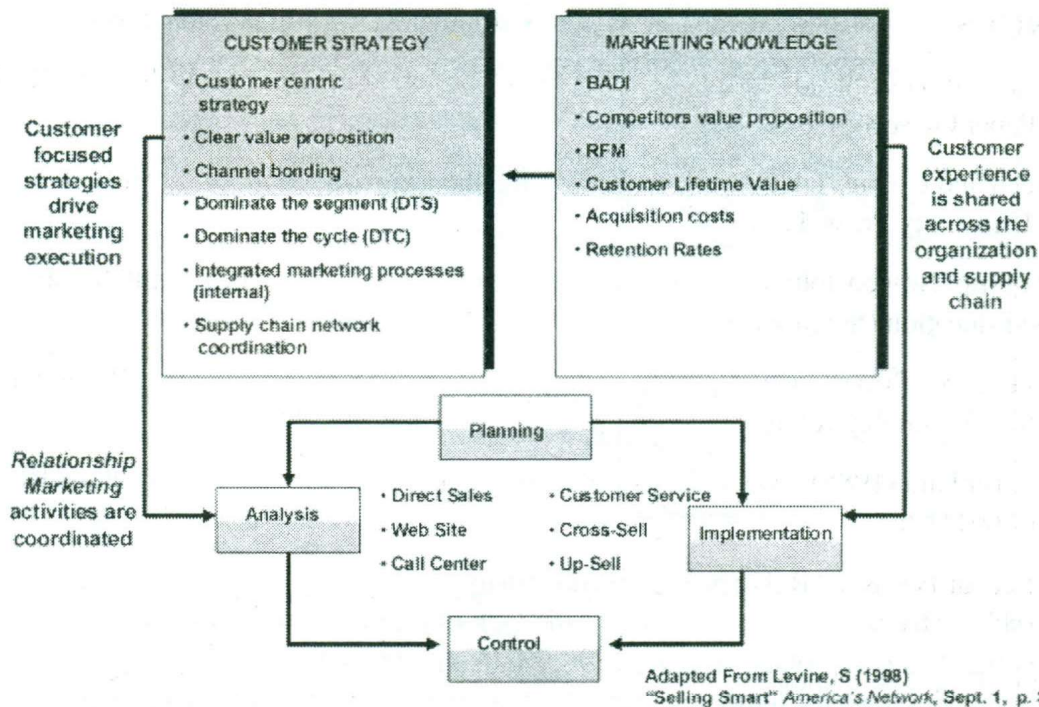


\*Source : Beny,L. (1995)

## CUSTOMER RELATIONSHIP MANAGEMENT(CRM)

Customer relationship management is a term for methodologies, technologies and e-commerce capabilities used by the companies to manage customer relationships. Customer relationship management is a business strategy that involves selecting and managing customer relationships to optimize the long-term value of a company. The goal of CRM is to acquire, grow and retain the right customer relationships – those with the best long-term profit potential.

**Fig 7: Customers Relationship Model**



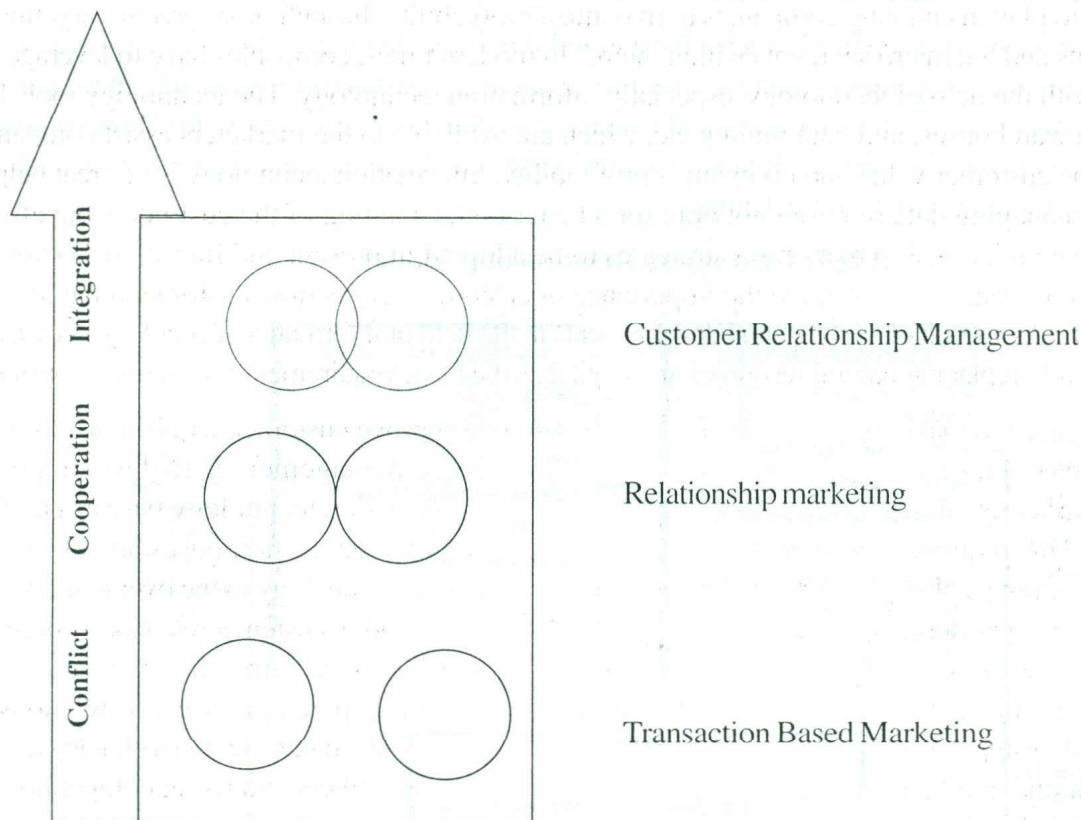
Customer relationship management is the establishment, development, maintenance and optimization of long-term mutually valuable relationships between customer and the organizations. Successful customer relationship management focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization’s strategy, people, technology, and business processes. (Fox, Stead, 2001).

## CRITICISMS OF RELATIONSHIP MARKETING

At the core of marketing is the marketing philosophy of first determining what the market wants, then providing it. It is doubtful that this is what is occurring in influence markets, supplier markets, recruitment markets, or internal markets. What is occurring is closer to public relations, persuasion, and management. It appears to be marketing because it uses some marketing techniques, but it would more accurately be described as salesmanship.

Relationship theorists tend to compare themselves to traditional marketing. In doing so, they frequently present traditional marketing in an unfavourable light. For example, Adrian Payne (1991) claims that traditional marketing concentrates on product features, has minimal interest in customer service, limited customer contact, and quality is primarily a concern of production. Although there may still be some marketers that think this way, these statements have not reflected marketing best practices for more than three decades.

**Fig 8: Forms of Buyer-Seller Interactions on a Continuum from Conflict to Cooperation**



The current state of relationship marketing

The relationship marketing area is notable for the lack of empirical work to underpin the conceptual development that has taken place (Buttle, 1996; Mattson, 1997). However, it is possible to outline a number of broad directions for future research. For example, building upon Cooper, Gardner and Pullins (1997), a bibliometric study could be carried out in order to assess the current state of relationship marketing. A list of key words for searching the abstracts of articles in top marketing journals and the most cited articles in the relationship marketing literature could be generated. Conclusions as to whether or not there is now a consistent theory of what constitutes relationship marketing could then be reached based upon underlying relationship marketing, or is relationship marketing in a state of transition? In contrast to earlier studies now dating back to the mid-1990's, articles related to this research direction is the examination of the academic and the managerial output of the different relationship marketing schools, for example, in terms of research methodologies, research discoveries, and best practice.

RELATION BETWEEN IT AND RELATIONSHIP MARKETING

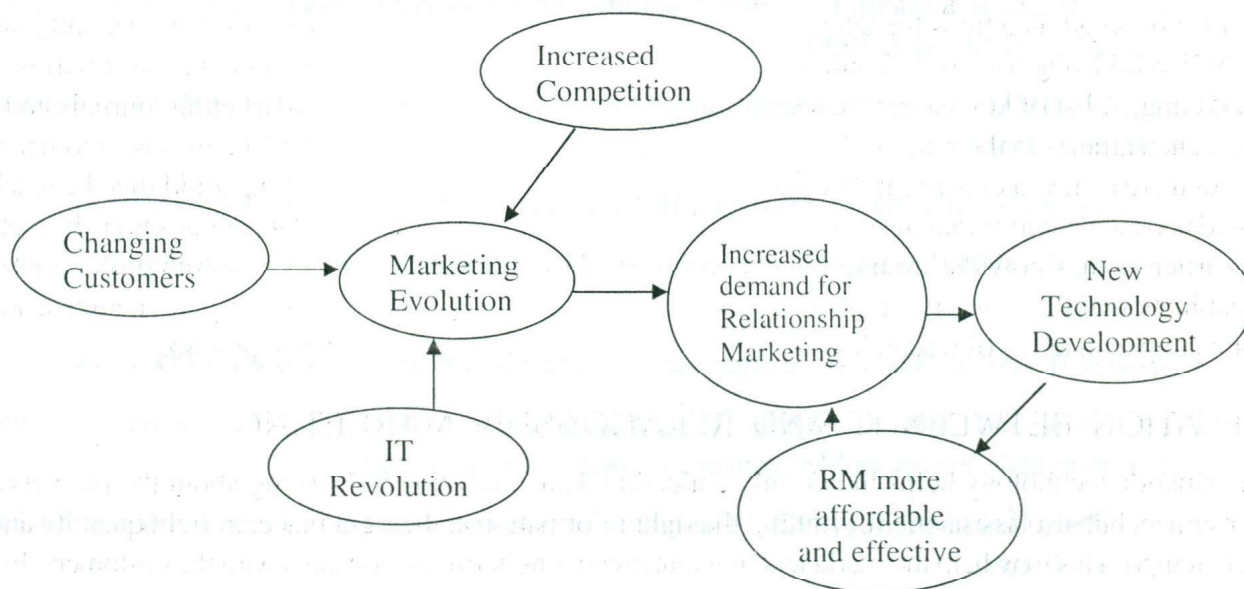
Information technology helps in not only collecting data, analyzing it, learning about the markets and consumers but also assists in transmitting the right information at the right place, in right quantity and in right tempo. This may help the marketers in maintaining long-term relationships with the customers. Every transaction with the customer or the prospect is an opportunity to gather information, invest in relationship marketing and build shareholder value. Moreover, the real time communication enables the marketer to influence each transaction as and when it occurs. (Stanley Brown, 2000). Thus, IT has a greater role to play in expanding the opportunities in marketing and also in the overall functioning of relationship marketing.

According to Adrian Payne, “In considering how CRM should be implemented, information technology has a vital role to play in enabling companies to maximize profitability through more precise targeting of market segments and the micro segments within them.” In modern times, companies have to leverage the relationships with the help of technology, especially information technology. The technology tools like databases, data warehouses, and data mining etc. which are available to the marketers assist companies in increasing the customer value and company’s profitability. Information technology is of great help in gathering and managing data required not only for a better understanding of the customers but also to frame appropriate relationship marketing strategies to be adopted in present and future. Moreover, IT can enable the companies to determine the importance of customer acquisition, customer retention and its life time value. As a result of the profound developments in the field of information technology knowledge is slowly but surely replacing natural resources and capital as the basic requirement for running a business.

The companies need to make use of appropriate technologies to improve customer acquisition, customer retention and customer’s life time value. The primary job of the management is to develop proper relationship marketing strategy and then develop appropriate information technology base as per their requirements. This requires a proper blend of databases, data marts, data warehouses and electronic commerce. The ultimate objective for the incorporation of information technology in the overall marketing strategy is to create opportunities for increasing the profitability with the aid of customer retention, acquisition and targeted cross-selling. There exists a symbiotic relationship or a “virtuous cycle” between advancements in information technology and the change in marketing paradigm towards relationship marketing. Relationship marketing has grown because of the developments in information technology, some pitfalls of traditional marketing, the increased expectations of the consumers and rising competition. The cycle is represented in the figure.

**Fig 9: The Virtuous Cycle between IT and Relationship Marketing**

(Source: Sheth and Parvatiyar)



## CONCLUSION

Relationship marketing initiatives could target key representatives of the general public, clientele, media, and decision makers. In developing, maintaining, and enhancing relationships with elected governmental officials, we need to employ “high touch and personalized technology” communication strategies.

Relationship marketing still lacks the insight into how to leverage the potential of information technology for marketing purposes (Wehmeyer, 2005). Wehmeyer further explains that “the challenge of aligning marketing needs and IT solutions both strategically and operationally has grown as IT and marketing have become increasingly intertwined. The marketing practice chosen by a particular company is likely to be reflected in the way IT issues are integrated into its management process.” There has to be a greater alignment between the IT strategy and relationship marketing strategy for designing better processes which aid in the production of successful products and services. For the sustainable growth of an organization there has to be a strategic alignment between IT and relationship marketing.

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