Abstract

This paper tracks the development of RM within the industrial and service marketing literature and investigates the relevance of RM to consumer marketing. In doing so a number of issues are revealed which question the appropriateness and applicability of RM to consumer markets.

Introduction

The paper evaluates the claim that the continued evolution of Marketing has created a Relationship Marketing (RM) era. We begin by tracing the appearance of RM in the marketing literature followed by its considerable development and refinement in the Business-to-Business and Services Marketing literature.

Reviewing the RM literature emanating from the services marketing and business-to-business marketing reveals strong theoretical and empirical arguments to legitimise RM as a valid marketing concept in these areas. Based on this evidence it would appear that RM is an attractive proposition for consumer markets. The question is to what extent can these same principles be directly translated into consumer marketing? Whilst it is safe to assume that the movement towards closer relations with customers has been endorsed by many consumer marketers, can this be cited as evidence of RM being embraced by such organisations? Does RM mean the same thing in consumer markets as it does in business-to-business and services marketing?

In writing this paper we are not questioning the contribution that RM has made in encouraging organisations to re-examine their approach to their customers and the nature of the relationships which they have with them, which it can be argued has benefited both parties. What we are suggesting is that the approach taken by some who argue that RM principles should be fully embraced by organisations regardless of which markets they are serving should be subject to more scrutiny and debate.

In an increasingly challenging, sophisticated and competitive marketplace, represented by both ever-changing and increasingly complex consumer behaviour, it is imperative that organisations remain vigilant, innovative and forward thinking in their approaches to conducting business. As such, all new forms of technology and management techniques are assessed in their ability to provide organisations with a competitive edge.

---

1 Simon Earp, The University of Edinburgh Management School, 7 Bristo Square, Edinburgh 0131 650 8067. Fax 0131 650 8077 Email: S.Earp@ed.ac.uk

2 Dr Tina Harrison, The University of Edinburgh Management School, 50 George Square, Edinburgh 0131 650 3820. Email: T.Harrison@ed.ac.uk

It is in this environment that both the marketing function and marketing practice are under scrutiny in their ability to contribute to this competitive edge. As with all business tactics, we would expect that experience, knowledge and analysis will guide innovation and develop more sophisticated and effective techniques for conducting business and sustaining profits.

This deliberate 'evolution' of business tactics has led us to the position, today, where we examine its applicability to marketing practices. From its most basic and still highly relevant focus on the 4 P's to today's focus on RM, we will assess the extent to which the marketing principles which guide the latter of these is more progressive and effective in achieving organisational objectives.

The Evolution Of Marketing

It is generally acknowledged that the evolutionary path of marketing is characterised by the successive transition through the production, sales and customer orientations. By the second half of the 19th century mass-production capabilities, brought about by the industrial revolution, provided a means by which strong consumer demand could be met. As such, consumers favoured products that were widely available and low in cost. Business response was centred on mass production and distribution. A change in focus from the product to the sale transpired with a belief that consumers, if left alone, will not buy enough of an organisation's products and must be encouraged to do so through aggressive selling. Thus, the selling concept focuses upon the sale and coaxing customers into buying (circa 1930-1950). The marketing concept presented a challenge to both of the previous, short-term focused concepts (circa 1950-present) it held (and holds) that any business' focus must be geared towards the customer. Only by determining the needs and wants of the target audience, and delivering results better than the competition, can the business hope to stay buoyant in the long-term. This change in focus from product to sale to customer has very much shaped current-day thinking on how to achieve and sustain long-term profits.

It could, of course, be argued that the fundamental philosophy of marketing remains unchanged - an unerring and unstinting quest to satisfy the needs of the customer in such a way as to eliminate competitive threats. The precise nature employed by organisations in optimising their customer-orientation is where we begin to examine the case for a paradigm shift in marketing approaches.

In a marketplace swamped with customer information and with the tools to effectively categorise and analyse this data, marketers are becoming increasingly proficient in determining precise dimensions of the traditional 'target market'. The advantages of such specific profiling are numerous leading to:

- An ability to further segment traditional segments and, thereby, capture newly defined sub-segments;
- The ability to reject, confidently, those 'groups' or sub-segments which conform less closely to the organisation's objectives or specific offerings;
- An ability to provide very specific details on the bases which determine these segments (e.g. high likelihood purchasers, supporting service preferences).
• An ability to develop very precisely constructed marketing efforts, in targeting these segments and sub-segments;
• An ability to ‘track’ more closely the traits of these more clearly defined target segments and to monitor trends and anticipate future opportunities.

Each of the above, points to the key concern of the marketing-oriented organisation ‘...to get as close as possible to the customers.’ Grönroos, (1996), p. 12 This tracking and analysis places a hefty burden upon the organisation’s resources in terms of technological tools, personnel and time. Only in pursuit of long-term, profitable relationships with customers can these investments be justified. As such, this shift towards marketing techniques, which seek to optimise customer relationships, could indeed be hailed as the most innovative approach to marketing practice. Webster (1992) notes: ‘The core firm will be defined by its end-use markets and its knowledge base, as well as its technical competence ... Customer focus, market segmentation, targeting, and positioning, assisted by information technology, will be the flexible bonds that hold the whole thing together.’ p15

As has been shown, the ‘evolutionary process’ detailed above has been driven by the need to define how organisations can best provide for consumers. Robinson (1999) provides an apt summary of the marketing evolution: ‘Twenty years ago, people did mass marketing. They believed a differentiated product gave them the market lead. In the 80s and early 90s people began to do target marketing where they tried to identify common characteristics in target groups. More recently, people talk about one-to-one marketing, relationship marketing and mass customisation which is about targeting a market of one.’ p52

A shift in marketing focus

Thus the focus now lies firmly with the optimisation of customer relationships, and how this offers a better opportunity for the organisation’s long-term sustainability. Palmer (1996) notes: ‘...relational exchange which profitably adds to customer value corresponds closely to definitions of the philosophy of marketing.’ p19 Webster (1992) describes this as: ‘... movement away from a focus on exchange in the narrow sense of transaction and towards a focus on building value-laden relationships and marketing networks.’ p1 This shift is further explained by the following change in marketing perception: ‘American marketers began to see the necessity of moving away from a focus on the individual sale, the transaction as a conquest, and towards an understanding of the need to develop long-term, mutually supportive relationships with their customers.’ (p.7). This shift is aptly summarised by Wolfe (1998) as ‘collaboration with consumers as opposed to control of the consumer.’ p450.

Grönroos (1997), in his analysis of the ‘shift’ in marketing emphasis, is critical of the shortcomings and ineffectiveness of the traditional 4Ps: ‘One can easily argue that the 4Ps of the marketing mix are not well able to fulfil the requirements of the marketing concept... the view implicit in the 4Ps approach is that the customer is somebody to whom something is done ... the marketing mix and its 4Ps constitute a production-oriented definition of marketing.’ p325. Thus, Grönroos encourages a more holistic and dynamic view of marketing, which encapsulates the unpredictability and change which is present in this social process, whilst at the same time, recognising the consumer’s...
inherent need to embrace the organisation’s offering, to the detriment of all other offerings. As such, the specific area of customer-focus must be the relationship between consumer and organisation. Takala and Uusitalo (1996) reiterate this view on the weakness of the 4Ps, and suggest that marketers must look beyond these to ‘establishing, strengthening and developing customer relations.’p45. Grönroos’ (1997) questioning of the effectiveness and relevance of the 4 Ps in addressing current-day market challenges goes so far as to proclaim: ‘The use of the marketing mix management paradigm and the four Ps has made it very difficult for the marketing function to earn credibility.’p327

Gummesson (1996), in his analysis of relevant, current-day marketing practice identifies the ‘blurring’ which has occurred between traditional boundaries, leading to more complex roles of the key players. This is characterised by such things as the physical and psychological closeness between suppliers and customers and the levels of formality and informality, which exist within their relationships. Employees have become more loosely tied to their organisations through an increased need to differentiate offerings at the point of contact with the customer and in their quest to optimise customer relationships.

The views above represent a growing body of opinion, which recognises that in keeping with marketing philosophy, which identifies long-term customer-orientation as an organisational imperative, marketing strategies and practices must evolve. The latest era is characterised by the quest to both fully understand and anticipate the customer’s needs, in a bid to develop long-lasting and mutually profitable relationships. Grönroos (1997) argues: ‘...what marketing deserves is new perspectives, which are more market-oriented and less manipulative, and where the customer indeed is the focal point as suggested by the marketing concept... relationship marketing will develop into such a new approach to managing marketing problems, to organising the firm for marketing, and to other areas as well. Today, it is still an exotic phenomenon on the outskirts of the marketing map.’p336.

Relationship marketing - definitional issues

Whilst relationship marketing, per se, has largely been accepted as an effective model in determining ‘fit’ between today’s marketplace and marketing practice, the term, itself, is somewhat ambiguous and non-specific. As shall be demonstrated, the plethora of definitions that exist tend to focus on aspects of customer loyalty, retention, long-term relationships, reciprocity, trust and mutuality of benefits. Takala and Uusitalo (1996) provide an all-encompassing definition which states that RM is: ‘...aimed at reaching a critical mass of relationships with customers, distributors, suppliers, public institutions, individuals, etc.’p46 The ‘relationship’ is later embellished by the description of ‘...mutually rewarding connection between the provider and the customer both parties expect to obtain benefits from the contact... commitment to the relationship over time... willing to make adaptations in their own production processes...’ (p.48)

This definition goes beyond the customer-organisation relationship to include all bodies impinging upon that relationship. This holistic view has much in common with TQM principles, where all possible influences on the organisation’s offering must derive from the same principles, with all involved bodies working towards common goals. It is not
difficult to see that where suppliers, distributors, manufacturers, etc. are ‘tied into’ the same strategic context with the same goals and aspirations, the mutual benefits will serve to reinforce the ‘relationship’ concept. This emphasis on relationships with stakeholders is reiterated by Gummesson (1996): ‘Whereas traditional marketing sees competition as the driving force of a market economy, RM puts collaboration in focus.’ p.34. What is less clear is how the relationship ‘contract’ between consumer and organisation is constructed and the explicit, mutual benefits to be gained from engaging in the relationship.

A key feature of RM is an understanding of and willingness to sacrifice short-term advantage for long-term gain, in the hope of securing permanence within the relationship. An article in the Financial Times (1 December 1995) explains this as: ‘...[a] shift [in] attention from short-term transactions and immediate profits towards a process of creating value through building and managing a network of value-added, long-term relationships.’

According to Ford (1980), the analysis of relationships needs to be separated out according to the overall relationship itself and the individual episodes that comprise it. Furthermore, it is necessary to understand the interaction between the episodes and the overall relationship. Operationally, a relationship consists of a number of episodes—buying something twice, or making two episodes—is considered to be a minimum for the existence of a relationship. However, this type of ‘relationship’ will obviously differ from one built on a far greater number of exchange episodes. Moreover, as noted above, episodes do not necessarily need to be based on economic exchange, or purchase, but may involve purely social exchange.

As can be seen, the key terms associated with defining RM are numerous and largely, of a very general nature. This ambiguity also exists in practice where many organisations which claim to be guided by and/or practice RM fail to articulate how these can be differentiated from traditional, transactional marketing and the extent to which they have been successful in developing long-term relationships, through customer loyalty and retention. Such organisations, which have yet to experience or understand the place of RM within the marketing evolution, are less likely to achieve a ‘fit’ between RM philosophy and organisational strategy. Palmer (1996) suggests that: ‘...like previous prescriptions such as TQM which have preceded it, RM cannot be introduced in a prescriptive manner without a thorough comprehension of its context.’ p.23

**Prerequisites for effective RM**

What is clear from the extensive literature available on RM is that where organisations, themselves, have not gone through the marketing ‘evolution’ referred to earlier, they will lack an understanding and appreciation of how this differs from traditional marketing. Whilst marketing philosophy remains unchanged, the tactics employed in achieving optimised customer-orientation have moved beyond the transactional sphere. The long-term focus which characterises RM impacts upon the organisation’s ‘contracts’ with all influential bodies and is described by Palmer (1996) as ‘...the integration of a customer orientation, competitor orientation and inter-functional orientation.’ p.19. In contrast to a management fad, Grönroos (1996) states that RM
Indeed, early work by the IMP group took the ‘relationship’ as the unit of analysis. Both the buyer and the seller enter into a relationship for their own ends, and seek to achieve their aims through the relationship. Sometimes this occurs in conjunction with the other party; sometimes at the other party’s expense. According to IMP, it is only possible to make sense of what happens in business markets by studying simultaneously both sides of the relationship. More recently, Gummesson (1996) notes it has been possible to discern a trend towards a merger of IMP thinking with that of the Interaction Approach and services marketing concepts into ‘relationship marketing’. According to Gummesson (1996) the term ‘relationship marketing’ (RM) was not used in a general sense until about 1990. Prior to this, terms like long-term interactive relationships, marketing through networks, interactive marketing were used. Thus, RM would seem to represent a convergence of various schools of thought.

Numerous factors have been put forward as to why the RM approach has come about; Christopher Payne and Ballantyne (1991) argue that increased competition, more sophisticated customers and a trend to commodity markets has required marketers to place more emphasis on a relationship, rather than a transaction, focus, a broader definition of the term market and a recognition that quality, customer service and marketing activities needs to be integrated. Aijo (1996) along similar lines cites the gradual realisation by companies of the importance of relationships, and a general transformation of business brought about by changes within the environment.

Why Relationships Exist in Business Markets

Since the business-to-business marketing arena constitutes one of the research streams identified as having made a major contribution to the development of RM, it is appropriate to review the circumstances by which this happened. There are a number of factors that lead to the existence of relationships in business markets. Many of these factors relate to the specific conditions which define business markets, and which make them distinct from consumer markets. They can be categorised according to market forces, the importance and complexity of the product and the purchasing function, and the nature of the transaction.

Market Structure

As a general rule, business markets have fewer sellers and, in particular, fewer buyers in any market segment compared with consumer markets. While business customers vary widely in size and requirements, some of them often bigger than their suppliers, business marketers, in many cases, are not dealing with mass markets. On the contrary, business marketers seem to talk about their customers individually and, to a large extent, deal with them individually. As a result of this, the opportunities for developing closer relationships with customers based on a deeper understanding of their requirements are far more likely.

The fact that business markets tend to be largely oligopolistic has an impact on the balance of power between buying and supplying firms. While the balance of power can

in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999

Page 6 of 21
vary greatly from one customer and supplier to another, and is also a matter of continuous negotiation, the likelihood of customers having some degree of power or influence over their suppliers is greater than in a consumer market situation.

Furthermore, businesses do not operate in isolation. The network approach takes the view that each company is enmeshed in an even more complex network of relationships. According to Ford et al (1986), a company can be viewed as an ever-widening pattern of interactions, some of which it is a direct participant in, some of which only affect it indirectly, and some of which occur independently of it. The web of interactions has been described as being so complex that it defies full description or analysis. The relationship one company has with another company will affect that company's relationship with other companies. For example, a powerful retailer may seek to affect the operations of its immediate suppliers and, thus, their suppliers, thereby, influencing the chain of derived demand.

Importance and Complexity of the Product and the Purchasing Function

Business buyers buy products not for personal use but as component parts of products and services to be produced or to serve the operations of the firm in some way. As a result of this, business buyers tend to place greater concern on the technical aspects of the product, its performance, service and support. Business buyers, therefore, tend to be professionally trained and technically qualified.

The purchasing function in business organisations makes a major contribution to cost reduction and profit enhancement. Purchasing also enables a company to achieve a competitive advantage by using the skills and resources of suppliers. Thus, purchasing performs an important strategic function for the organisation. Because of this it is necessary that firms build relationships with suppliers to ensure both the quality and quantity of supply.

Nature of the Transaction

Many business situations take place over an extended time period, involving varying degrees of interaction and meetings. Thus, each business purchase is not simply a single transaction, but merely an episode among many in an on-going relationship between two companies.

As a result of the specific conditions shaping the structure of business markets, the importance of purchasing and the nature of the transaction, it has been argued that business-to-business exchanges are more interactive, based on a greater degree of mutual dependence and founded on commitment and trust than business-to-consumer exchanges.

Interactive Relationships

The interaction approach sees buyer-seller relationships taking place between two active parties. Thus, business markets do not consist of active sellers and passive buyers. Often a buying company is extremely active and takes the lead role in specifying and defining requirements and negotiating terms and contracts. Indeed, suppliers may even adapt in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999
their products or processes to fit the buyer's plant or way of operating. The supplying company effectively becomes an extension of the buying company. Thus, the process is not one of action and reaction, as is often the case in consumer markets, but one of interaction. This is in contrast to the more traditional view that analyses the reactions of an aggregate market to a seller's offering. Either buyer or seller can take the initiative in seeking a partner.

A fundamental characteristic of interaction is that it is at least bilateral, and sometimes multilateral.

**Mutual dependence**

The existence of fewer supply alternatives and the complexity and risk of the product and purchase mean that customers often become dependent on their suppliers. In many cases the dependency is mutual, since the customer is a significant customer and the seller needs him as much as the buyer needs the security of supply.

It has been noted that buyer-seller interdependence is a crucial characteristic of business marketing. This means that firms establish relationships that are often close, complex and frequently long term. The concept of mutuality rests on the importance of collective goals or common interests between more than one company. Many businesses will share technology with suppliers, for example. Mutuality can only really be demonstrated over time. It is the mirror of trusts that exists between parties.

Some degree of mutuality is necessary in any long-term relationship, but it can be considered along a continuum. According to Campbell (1997), mutuality is different from compliance. It presumes that both parties recognise the ongoing value of maintaining a relationship in order to reap shared gains, whereas compliance assumes that constraints on behaviour stem from reference to outside constituents. However, not all relationships result in mutual benefits. It is useful to understand the attitudes and expectations that buyers and sellers bring to their relationships.

Traditional marketing views competition as the driving force of a market economy. RM puts collaboration in focus. Collaboration suggests that all parties actively assume responsibility to make the relationship functional. Part of this is the reciprocity agreements that many firms have. This does not exist to the same extent in consumer marketing and serves to tie the bonds even more in business markets.

**Commitment, trust and bonding**

According to Wilson and Vlosky (1998) commitment is the most common dependent variable used in buyer-seller relationship studies. It has been identified as the variable that distinguishes between relationships that break down and those that continue (Mummalaneni and Wilson, 1991). It implies importance of the relationship to the parties and a desire to continue the relationship in the future. Commitment suggests a binding agreement. It is indicative of the most advanced stage of the relationship. And at this point both parties are actively involved in maintaining the relationship. Once commitment is reached the emphasis moves to one of co-operation and long term maintenance of that relationship.
The bonding process begins with the very basic need for the seller to find a buyer for their product, and the desire for the buyer to purchase a product that will satisfy their needs. As time progresses, this relationship advances towards interdependency, leading to a situation of total commitment. The social bond is an outgrowth of the personal relationships that develop between the parties. The better the 'personal fit' between the parties, the stronger the social bonds. According to Czepiel (1990), closing social distances is important for the development of long-term relationships.

Yet, commitment to a partner can leave a firm vulnerable to exploitation. In order for firms to make that commitment there must be some mechanism which protects them from exploitation. One such mechanism is trust. It reduces the likelihood that the other party will act opportunistically. When managers perceive mutual trust between themselves and their trading partners they are more likely to commit to a partnership (Campbell, 1997). Morgan and Hunt (1994) also investigated the importance of trust as a pre-requisite for relationships to exist and suggested that "the presence of relationship commitment and trust is central to successful relationship marketing, not power and its ability to condition others" p 22. The Services marketing literature has also recognised the importance of mutual commitment (Berry and Parasuraman 1991).

A major disadvantage of a highly committed relationship is that there are very high termination costs. The parties are so committed and involved that they cannot afford to separate. Thus, termination costs restrict or prohibit the dissolution of the bond (Cann, 1998). This can lead to customers becoming merely detained by the organisation. Banks customers have traditionally been deterred from changing banks due to perceived switching costs and therefore it could be said they have been detained, but this has been gradually changing. Lewis (1991) observed that 43 per cent of a sample of US bank customers and 27 per cent of a sample of UK customers had changed banks within a 5-year period. It should be noted that this research was carried out before the rapid increase in new entrants into UK retail banking which one might assume has increased the options for consumers to switch banks. Where customers are detained it is probable that over time either customers themselves will overcome the issue or else competitors will seek to attract customers away from the retaining company. Finally, it should be remembered that termination or switching costs are a by-product of the relationship not a causal determinant.

Indeed, the above factors are mentioned in the marketing literature as perhaps the most important among a number of criteria necessary for a relationship to exist (see for example, Wilson and Vlosky (1998), Mummalaneni and Wilson (1991), Cann (1998), Bitner (1995) and Czepiel (1990)). In social psychology, Duck (1991, 1992) notes, in addition, accommodation of the other party, mutual respect, affection, good communication, prioritising interests of the other party, support and assistance of the other party's long-term goals.

Where the benefits exceed the risks it is desirable to build long-term relationships. A relationship is warranted in a situation where there is goal congruence between the seller and customer, where they both realise that the potential gains from acting cooperatively will exceed those from acting opportunistically (Cann, 1998). In addition to this, relationships can be beneficial in situations where there is a presence of substantial
information asymmetries, product complexity, and a relatively high degree of perceived risk.

Not All Relationships Are Close

Early writings on relationships seemed to suggest that business relationships were closer and more co-operative than is always the case. It may be fair to say that perhaps most of the business relationships are close, complex and long-term. However, this does not define all relationships. In many cases, firms do not know everything about one another, neither do they always act in the other party’s best interests. Some relationships merely focus on a single transaction - such as the purchase of capital equipment - even though the decision to purchase and the period of negotiation may take several months or years. Some business relationships are not balanced, one party may dominate. They may not be based on honesty and trust, but on deceit. Indeed, the risk of viewing relationships as if they must involve commitment and trust is to ignore the rich diversity of relationships which not only exist but are appropriate in different contexts. The relationships that exist within a distribution chain for example have been described by Hyvonen (1990) and others as struggles for power, domination and control. Furthermore, relationships may not always be harmonious but based on conflict. Some are short-term and opportunistic leaving one party taking advantage of the other. Thus, relationships can be close or arm’s length.

However, whatever form relationships take, they exist. Relationship is not a dichotomous variable. Indeed, Blois (1998) argues that unless a counter-intuitive definition of a ‘relationship’ is used, it is impossible for firms not to have relationships. It is argued that a firm cannot choose to have a relationship with a customer or supplier, or not have one. The issue should be what the nature of the relationship will be. This is determined not by one side, but by both sides.

Why Business-To-Consumer Relationships Do Not Always Work

Recently the idea of RM has come to prominence in the consumer market field. This has resulted primarily from the realisation that consumer marketing, like business marketing, is about repeat purchases. Many consumer markets are mature markets, competition is intense and there are few opportunities of winning ‘new-to-the business’ customers. Yet another driver of RM in consumer markets is technology. The growth in database marketing has meant that practitioners are now able to know much more about their customers, their attitudes, lifestyles, purchasing habits than they were previously able to. Thus, firms not only recognise the importance of getting closer to consumers; they also have the ability to do so through technology. This raises the question of whether RM, with its foundations in the services and industrial marketing arenas, can be transferred successfully into the consumer marketing context? If RM signifies a true paradigm shift in marketing, as is suggested by such authors as Aijo (1996), Grönroos (1994), Ravald and Grönroos (1996), surely that shift needs to be reflected in the relationships that exist between consumers and the organisations supplying them.

Within this context, a number of other questions emerge. For example, does RM exist in consumer markets to the same extent as it does in business markets? Do business-to-consumer relationships take the same form as business-to-business relationships?
consumers in fact want to have relationships with the companies they buy goods and services from? Are relationships between businesses and consumers indeed necessary and beneficial? Yet Takala and Uusitalo (1996) have posed a more fundamental question. They ask whether it is even possible for individuals to have relationships with organisations. This stems from two problems. First, that organisations are abstract entities, which makes it difficult for consumers to relate to them. Second, that the relationship between individuals and organisations is often asymmetrical or unconscious i.e. customers may not be aware of the existence of a relationship.

According to Palmer (1996) the RM literature can be classified into three broad approaches: tactical (where RM is seen as a promotional tool), strategic (where RM utilises ‘bonds’ to tie-in customers to companies), and philosophical (in which RM represents a true holistic approach embracing both internal and external customers). If a paradigm shift has occurred (or is occurring) in marketing, surely this requires that RM be embraced in the ‘philosophical’ sense by organisations regardless of which market they are serving. While it is recognised in the business-to-business and services marketing literature that relationships may take different forms, RM in this context represents much more of an holistic approach, tending towards an organisational philosophy. It is questionable to what extent this is currently the case for consumer goods markets. The following discussion debates this and the other questions posed above.

**Extent to which business-to-consumer relationships are mutually dependent**

One of the key issues is whether there exists a mutual dependence between consumers and companies to the extent that both sides need to develop a relationship. From the firm’s point of view, is there a desire or need to have relationships with consumers in the same way, as there might be a need to develop relationships with business customers? In comparison to business customers, consumers are not considered to be individually significant. The loss of an individual shopper to a retail outlet has much less of an impact on the business than the loss of the retail customer to a manufacturer. Furthermore, there exists an asymmetry of power in the relationships between consumers and firms. Consumers form a mass audience that, as a mass audience, has potential access to power. However, individually consumers have insignificant power compared with individual business customers. Thus, the ability of individual consumers to influence their relationship with an organisation is perhaps far less than it is for a business customer to do so. This also extends to the broader networks of relationships that exist. Consumers may not have as much influence over their supplier’s suppliers as business customers would.

Similarly, we may question whether consumers actually need to develop long-term relationships with firms. In contrast to business markets where there are usually limited supply alternatives, security of supply is not such an issue for consumers since there are usually a number of suppliers to choose from. Hence, consumers do not need to commit themselves to one supplier in order to ensure that the goods are available for purchase. One of the assumptions behind RM is that consumers are willing to reduce their choice set by selecting to have a relationship with one organisation (Sheth and Parvatiyar, 1995). Whilst this may well reduce the search activities which a consumer has to engage in and therefore be of benefit to them there is growing evidence that consumers are
preferring to develop a wide portfolio of companies they deal with rather than reduce them (Palmer, 1996). Why should consumers wish one bank to handle all their financial transactions? Due to the quality and amount of information available to consumers it is likely for the informed customers to want to shop around for the best deal.

**Extent to which business-to-consumer relationships are mutually beneficial**

The idea that relationships are mutually beneficial hinges on the exchange of value between the two parties (Takala and Uusitalo, 1996). The concept of exchange is central to marketing – both the buyer and the seller have something of value to exchange with one another. Exchange may be viewed from an economic perspective as well as a social perspective. Economic exchange models assume the ‘economic man’ behaviour, that economic rewards and financial or monetary incentives and gains will motivate customers. Thus, according to economic theory, behaviour will be motivated by rational and calculable motives. According to social exchange theory, however, relationships will be motivated by each party’s social investment and anticipated social gain, that is each party can hope to benefit socially or personally from the relationship.

From the point of view of the supplier, the economic benefits of retaining existing customers compared with attracting new ones clear. The majority of early work on retention focused on the service and industrial marketing areas (see for example Rosenberg and Czepiel (1984); Fornell and Wernerfelt (1987, 1988); Jones and Sasser (1990); Reicheld and Sasser (1990); Reicheld (1993, 1996a, 1996b)). The work of Bain and Company is probably the most cited in showing the financial benefits of customer retention. Their work (Reicheld and Sasser, 1990) claims an improvement in profitability of between 20% to 85% following a reduction of just 5% in customer defections. The economic benefits are accrued as a result of:

- sales, marketing and set up costs being amortised over a longer customer lifetime.
- satisfied customers providing positive word-of-mouth thus reducing advertising costs.
- satisfied customers being willing to pay a price premium.
- retained customers costing less to service.
- retained customers increasing their expenditure with the company over time.

However, there have been several studies which raise a cautionary note finding that not all long term customers are the most profitable (Cooper and Caplan 1991; Nigbaka (1994)).

The key issue surrounding retention is that most of the research focuses on the benefits that are to be achieved by the company and not the customer. For the relationship to exhibit the equality which has been cited as important, it is necessary to know what are the benefits that can accrue to consumers, and what value they derive from their relationship or interaction with companies. Only then can the balance between the parties be re-addressed. Sheth and Parvatiyar (1995) put forward the case that consumers do look for and benefit from relationships with retailers and manufacturers, but the evidence, which they use to support their arguments, is rather weak.

*in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999*
For example, it is argued that the use of customer databases and loyalty schemes can assist in developing an intimate knowledge of consumers, and by doing so enables marketing effort to be more specifically targeted which, in turn, adds value for consumers. The concept of added value for the consumer is seen as being an important aspect in forging genuine relationships Palmer (1996). Sheth and Parvatiyar (1995) claim that the growth of store membership cards and frequent flyer programmes is an indication of the consumer’s willingness to engage in and accept relationships with marketers. At the same time, there have been increasing doubts as to the true value which loyalty schemes actually bring to either consumers or companies. O’Brien and Jones (1995) and Gilbert and Karabeyekian (1995) provide several examples where firms such as American Express and most of the major airlines have embarked on loyalty programmes that failed to produce the desired outcomes.

One explanation for the lack of effectiveness of loyalty programmes is their inability to influence attitudes and the nature of the emotional relationship the consumer has with the company. Does the consumer’s decision to join a loyalty programme really reflect their desire to engage in a relationship with a company, or is it merely that the consumer is exhibiting rational economic behaviour and taking advantage of discounted prices? If it is the latter, it may be argued that firms’ efforts to build relationships through increased use of databases are in fact contributing to an increase in customer promiscuity. Indeed, the evidence from retailer loyalty cards would seem to suggest that such marketing efforts are failing to create exclusive relationships with consumers, but are instead encouraging them to collect cards from a number of retailers and so maximise their value and discount potential. The result is polygamous or divided loyalty.

It is only in the consumer’s interests to remain with the company provided increased value can be achieved. As Palmer (1996), states: “For firms, the most rewarding relationships with customers result from continued investments to create loyalty, rather than financially based incentives” p22. Barnes (1994) is also critical of loyalty schemes that have a tendency to create loyalty to the incentive and not to the company.

**Extent to which business-to-consumer relationships are interactive**

It was recognised earlier that relationships in the business-to-business context are interactive. Thus, both parties involved in a relationship are aware of the existence of a relationship and take an active part. In consumer markets the term ‘relationship marketing’ is often used in situations where a relational database is used. Palmer (1996) argues that it is this increase in computing power that has led to the rise of RM. Database marketing has enabled much greater level of personalisation and individual treatment of consumers, which Gronroos (1996) argues, is an important tactical activity for companies engaging in RM. However, there is the argument that such use of databases does not actually facilitate interaction, it merely enables individual contacts to be made. RM based entirely on such tactical activities may fail to recognise the importance of taking a holistic approach to the development and maintenance of customer relationships.

Relational databases are so named because they enable relationships to be identified within the data, not relationships between the company and the customer. In many in McLoughlin, Damien. and C. Horan (eds.), *Proceedings of The 15th Annual IMP Conference*, University College, Dublin 1999
respects, database marketing is very one-sided. Databases can be used to underpin the company’s marketing activities without the customer necessarily being aware that they are ‘participants’ in a relationship marketing campaign (Blois, 1998). Thus, it relies on an active seller approaching a passive buyer. By comparison, in business markets it is acknowledged that relationships are explicitly recognised by both the buyer and the seller and that they are both active parties. Tracey and Wiersema (1993) provide a good example of how Kraft in America utilises customer databases in order to develop a tailored and focussed relationship marketing campaign. However the customer plays a very passive role in this; their personal information is utilised by Kraft without customers being aware of how it is being used.

Indeed, far from actually forging closer relationships with their customers, companies can in fact run the risk of creating severe customer annoyance and potential alienation either by over-using or inappropriately using customer data. If consumers perceive that they, and the data that they provide to companies, are being exploited by a company as a warm sales target to cross-sell additional products or services to, firms risk consumers terminating any form of relationship which they may have with the company. A study by the Henley Centre (1995) into consumers’ perceptions of companies’ use of personal information concluded that “…companies need to invite their customers to have greater control over the information they hold about them and how it is used.”

One of the factors driving the degree of interactivity in business-to-business markets relates to the complexity and importance of the product. However, for the consumer these issues perhaps have much less of an influence. There are some circumstances in consumer marketing that are very close to interactive business buying situations, such as a major extension to a house or some other customised work. For many services there exists inseparability between production and consumption of the offering. This essentially creates the ‘space’ or condition for interaction that may not necessarily occur for the vast majority of consumer goods.

The ‘space’ afforded to interactivity in the service setting also provides the opportunity for social bonds to develop, thus, strengthening the relationship. However, the extent to which social bonds can be created in all consumer exchanges is limited. Do consumers always have the opportunity to interact with the same sales person during each relationship episode? Companies, such as financial institutions, operating predominantly from call centres have attempted to personalise the service through technology. Sophisticated software allows call operators to add salient details of each telephone conversation to the customer’s file so that the next time the customer calls whoever answers the call will be aware of the details of previous communications, thereby creating an apparently seamless interaction with the organisation.

Furthermore, services are largely intangible entities and often there is a high reliance on credence qualities. In such situations where information asymmetries and the perceived risk associated with the purchase is high, an on-going relationship can help to reduce the risk. However, what is interesting to note is that much of the RM efforts of firms are directed at mass retail markets and not necessarily conditions that are necessarily conducive to relationship development.

*in* McLoughlin, Damien. and C. Horan (eds.), *Proceedings of The 15th Annual IMP Conference*, University College, Dublin 1999

Page 14 of 21
To what extent is the relationship with the company?

Takala and Uusitalo (1996) question whether it is possible for the consumer to develop a relationship with an organisation since an organisation is an abstract entity. This then leads on to another debate. If a consumer embarks upon a relationship, with whom or what is it? In the context of business-to-business and services marketing the relationship is normally a direct one, between the supplier and the customer. Yet, this is not normally the case with consumer products. The intervention of one or more intermediaries in the supply chain can lead to a distancing of the manufacturer and their ultimate consumer. A consumer’s perception of a car can, for example, be greatly enhanced or damaged by the service provided by the car dealer rather than the core product itself. The problem lends support to the argument put forward by Groenroos (1996) that all firms should redefine themselves as service businesses. But is it realistic for the majority of manufacturers to be able to control the impact which intermediaries have on a customer relationship?

Car manufacturers certainly have made large investments in trying to improve the impact which their dealers have on customers, but this would be impossible to do for example by a supplier of Australian wines sold through supermarkets, off licences etc? The focus of the relationship would then be between the retailer and the customer. Sheth and Parvatiyar (1995) estimate that customers go to the same supermarket or shopping complex up to 90% of the time, and go on to argue that store loyalty, brand loyalty and process loyalty are relational phenomena. Denison (1993) whose study found that, on average, shoppers are only 60% loyal contradicts their findings. Just because someone demonstrates store loyalty (i.e. repeatedly patronises a particular store) it does not necessarily mean that the customer has embarked on a relationship with the store. Customers are often loyal by default, with their choice of shop driven by such factors as location, time constraints, income, or lack of suitable alternatives. Indeed, Barnes (1994) notes that consumers are exhibiting loyalty to loyalty schemes and their incentives rather than loyalty to the firms providing them.

Measurement and Evaluation of RM Success

The problem of retention and loyalty of customers in the retail sector has been examined by East et al (1998) and East (1999). They argue that one of the major problems facing retailers is that it is very difficult for retailers to distinguish between retained customers, loyal customers, recovered customers and recruited customers. Without the ability to identify these accurately then retailers cannot effectively implement a successful RM strategy. East (1999) also argues that the logic of focussing upon and investing in a company’s best customers as propositioned by Woolf (1996) is incorrect. Since, by definition, the most loyal customers are the ones which are least likely to leave, the costs of investing in these customers and channelling greater marketing effort at them are perhaps unlikely to be justified when compared with the incremental benefits accrued as a result. Obviously, such customers must be retained, but surely marketing effort would be better directed at customers who are most likely to leave and, in doing so, may make a noticeable impact on company profits.

Following on from the problems mentioned above regarding defining and distinguishing between types of consumer behaviour is the related topic of how does one actually...
measure the relationships which are being developed between companies and customers. Ambler (1995) suggests that two approaches can be taken: an indirect approach and a direct approach. The indirect approach uses actual consumer behaviour, in terms of purchase and repurchase, to measure the consequences of a relationship. There are, however, weaknesses attached to this, notably that they are historical measures and by the time a company reacts to the information a customer may well have exited any relationship that they had with the company. An emphasis upon purchase patterns has also been demonstrated to include much 'spurious loyalty' (Day, 1970). The direct approach to measurement, involving directly asking consumers about the nature of the relationships which they are involved in with companies, does overcome the historical problem associated with the indirect approach, but it also suffers from cognitive bias - i.e the rationalisation of behaviour where customers try to make sense of their own behaviour. Whilst measurement problems do not in themselves prevent the transferability of RM into consumer markets they do certainly present a marketing research problem which needs to be tackled before an RM strategy is implemented.

Doubts amongst the founders

Interestingly a number of the early writers on RM have questioned the transferability of the concept into consumer markets. Grönroos (1994) for example developed the notion of a RM continuum. At one end of the continuum is RM whilst at the other end is placed transactional marketing. Grönroos suggests that placed on this continuum are various types of goods and services, and importantly locates consumer-packaged goods towards the transaction end of the continuum: “Marketers of consumer packaged goods will probably benefit most from a transaction-type strategy” p12

Ford (1994) writing from the industrial marketing perspective distinguishes between the nature of relationships that exist between companies and their customers within industrial markets. In doing so he draws comparison with relationships between companies and consumers: “They can be distant to those which might exist between consumers and the marketers of non-durable goods” p 1

Conclusions

It is generally accepted that the RM concept and the discipline that it brings on focussing companies on the nature of all its interactions is both useful and relevant to today’s marketers. What is also clear is that there are a number of fundamental issues that need to be addressed when looking at the transferability of RM principles into consumer markets. These issues are both of a philosophical and empirical nature and include:

Do companies and their customers perceive themselves to be in a relationship? If they do what is the nature of the understanding of that relationship of the two parties? For example, a consumer might perceive a number of relationships with different financial service providers, but the respective providers might not perceive themselves to be in a relationship with that customer since their share of the customer’s spend is, in relative terms, very small. Conversely a customer might exclusively purchase one particular brand and this may lead the manufacturer to believe that they have a relationship with

in McLoughlin, Damien, and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999
that customer however the customer may be exhibiting loyalty due to situational or other mediating factors.

A clearer understanding of the term relationship needs to be developed. The term is used in a multitude of ways that fail to add clarity to the concept of RM. If a consensus could be achieved on what constitutes a marketing relationship the issues surrounding measurement, benefits etc would be easier to address.

Much of the empirical research into RM has concentrated on the benefits accruing to companies and business customers rather than individual consumers. Research needs to be conducted with consumers to reveal the benefits of them engaging in long term relationships with companies.

If companies are going to implement a RM strategy, how do they decide which customers they choose to focus on? What constitutes a ‘good’ customer? How do they identify and measure the characteristics of these customers? How should companies go about trying to measure the effects of and benefits of such a RM strategy?

Does the increasingly sophisticated use of IT by companies to facilitate customer contact constitute a relationship?

These questions provide a useful research agenda to enable the debate surrounding RM to be moved forward. Whether RM is indeed relevant to consumer marketers, and the nature of its applicability are dependent upon the above questions receiving answers.

Whether RM constitutes a paradigm shift in marketing is harder to evaluate. However the notion of a RM continuum put forward by Grönroos (1994), is conceptually an attractive one.

References


Barnes, J (1994) ‘Close to the customer but is it really a relationship?’ Journal of Marketing Management Vol 10 No 7 pp561-70


in McLoughlin, Damien. and C. Horan (eds), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999
the Academy of Marketing Science, Vol.23, Fall, pp.246-251.


in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999

Page 18 of 21


Grönnroos, C (1996) ‘Relationship Marketing: strategic and tactical implications’ Management Decision 34 3 pp 5-14


Henley Centre ‘Dataculture’ 1995

Hyvonen, S (1990).“Integration in vertical marketing systems – A study on power and contractual relationships between wholesalers and retailers” Acta Academica Helsingiensis Publications from the Helsinki School of Economics. V. 72 Helsinki


in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999


in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999