Creating Value Through Customer and Supplier Relationships

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Abstract

Companies that deliver superior value to customers and suppliers on an ongoing basis are able to keep them over the long term. Relationship marketing represents a key strategy for retaining more existing customers, upgrading customer relationships, and creating business advocates. This paper reviews key insight on customer value and relationship marketing in a business market context. Five variables (trust, commitment, dependence, cooperation, and information exchange)-the relationship enablers-are identified as the foundation elements for building profitable, long-term business relationships.

How Value Is Created Through Relationship Marketing

Customer Value: An Overview of the Literature

The term “value” has been studied and defined from several perspectives. Customer value is a topic of keen and growing interest to managers and researchers (Parasuraman, 1997). It has become an important theme for both academicians and practitioners who are searching for excellence in today’s business. Customer value is so important in this decade because customer value can be utilized by firms to differentiate themselves from the pack (Weinstein and Pohlman, 1998). Woodruff (1997: 141) collects some key definitions by several researchers, as follows:

Value is the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given.

Value in business markets (is) the perceived worth in monetary units of the set of economic, technical, service, and social benefits received by a customer firm in exchange for the price paid for a product, taking into consideration the available suppliers’ offerings and prices.

Buyers’ perceptions of value represent a tradeoff between the quality or benefits they perceive in the product relative to the sacrifice they perceive by paying the price.

Customer value is market perceived quality adjusted for the relative price of your product.

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However, Woodruff (1997) defines meaning of customer value as “a customer’s perceived preference for and evaluation of those product attributes, attributes performances, and consequences arising from use that facilitates (or blocks) achieving the customer’s goals and purposes in use situations (p. 142).”

Zeithaml (1988) conceptualizes value four ways: value is low price, value is whatever customers want in a product; value is the quality a customer gets for the price that he/she pays, and value is what the customer gets for what he/she gives. Drawing on these categories, Zeithaml defines perceived value as “the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given (p. 13).”

Weinstein and Pohlman (1998) indicate that value may be an old concept but it is a new paradigm in business. Customer value is a strategic driver that help any firms differentiate themselves from the pack in the mind of the customers.

Treacy (1995) suggests that firms adopt one of three value disciplines: product leadership, operational excellence, or customer intimacy. These disciplines will provide the best product, the best total cost, and the best total solution, respectively. Also, Naumann (1995) states that the customer value triad consists of three key ingredients: value-based prices, product quality, and service quality. Fredericks and Salter (1995) point out that price, product quality, service quality, innovation, and image are the factors that create what the customers perceive as a superior value. They also note that such factors must stem from customer requirements. According to Berry (1996), customer value is the total experience—it includes product assortment, respect for customers, time and energy savings, fun, and fair prices.

The value concept also influences the other management disciplines. Sustainable competitive advantage requires superior customer value (Jensen, 1995). Supply chain management is studied in terms of a virtual value chain to best serve customers (Rayport and Sviokla, 1995). Segmentation and the marketing mix are also focal points for value creation research (Keane and Wang’s, 1995; Sukhdial, Chakraborty, and Steger’s, 1995). According to Langley and Holcomb (1992), logistics can bear a principal responsibility in the task of creating value for the customer. They suggest the unique framework of how to establish a competitive advantage of customer value through logistics management.

Another main line of research is developed from the proposition that value must be created from internal systems. The Service Profit Chain model—the line of research relating value, internal service quality, customer satisfaction, and profitability—has been developed by Heskett, Sasser, and Schlesinger (1997). The model is a path model which outlines a chain of events starting with a company’s human resource practices, leading to revenue growth and profitability. The model asserts that internal service quality—which is driven by adequate tools to serve customers, rewards or recognition which is measured from customer value index, or management support which is based on

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customer value-drives employee satisfaction. Providing high internal service quality to employees serves as a first step to generate employee satisfaction. When employees are satisfied, they are more likely to be productive. Thus, they can provide high external service value or high quality customer service. This leads to customer satisfaction and customer loyalty. Eventually, high customer loyalty level will increase firm’s revenue growth and profitability.

Finally value is created in relationships, how firms connect with their customers personally and systematically. Sheth and Sharma (1997) believe that the relationships between firms and suppliers will enable firms to receive better product quality, service quality, and lower cost. Thus, strong business relationships increase efficiency (lower cost) and effectiveness (better product/service quality) yielding superior value for partners. The study by Cooper and Gardner (1993) suggests that building good business relationships is so important because this will build value in partnerships.

Another perspective on this main line of research comes from Anderson and Narus’s (1991) research. They emphasize that value can be created in supplier-customer relationships. The supplier can gain this success by “flaring out” in pure transactional exchange and pure collaborative exchange relationships. Suppliers adopting this relationship strategy can gain competitive advantage over the other suppliers because the supplier innovates to provide relationships more closely aligned to customer requirements.

The above discussion has established the idea that firms wanting to survive in today's highly competitive world must recognize the importance of creating superior value for customers. Next, the paper will discuss about relationship marketing—a new paradigm shift in marketing.

Relationship Marketing: An Overview of the Literature

According to Gronroos (1994), today's environment has been changing and several new concepts in marketing have been emerging—the globalization of business, customer retention, the market economies, and relationship marketing, among other trends. He feels that the marketing mix which emerged in 1950s should be changed to a new concept for approaching marketing problems in today's environment. The traditional marketing concept or the marketing mix is a production-oriented paradigm, but the paradigm has already seen a shift to a customer or market orientation. Thus, the four Ps of the marketing mix are no longer suitable to fulfill the requirements of the marketing concept in this value decade. He states firmly that relationship marketing is the new paradigm shift in marketing.

In recent years, relationship marketing has been defined in several ways. Gronroos (1994) defines relationship marketing as marketing which is “to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met (p.9).” Morgan and Hunt (1994) mention that relationship marketing is establishing, developing, and maintaining successful relational exchange.
Relationship marketing can be viewed as a process. Copulinsky and Wolf (1990) consider relationship marketing as a process where the main goal is to create a database including existing and potential customers. Evans and Laskin (1994) also define relationship marketing as a process. They offer a conceptual framework for relationship marketing. This framework consists of three portions—inputs (understanding customer expectations, building service partnerships, empowering employees, and total quality management), outcomes (customer satisfaction, customer loyalty, increased profitability, and quality products), and ongoing assessment (customer feedback, integrating marketing into the firm's strategic planning framework).

Other researchers analyze relationship marketing in the long-term view of buyer-seller relationships. Turnbull and Wilson (1989) state that relationship marketing is the formation of long-term buyer-seller relationships through the creation of structural and social bonds between companies. Sheth and Parvatiyar (1995) say that relationship marketing is developing close interactions with selected customers, suppliers, and competitors for value creation through collaborative effort.

Notice that relationship marketing is ongoing. A business relationship is like a marriage—success is achieved not just through good intentions but also through hard work and close attention to the other party’s needs. Further, the goal is to identify and create new value with individual customers. Amazon.com does this via a “personalization” technology known as collaborative filtering. Once you have made a purchase from them, Amazon.com, recommends a new book by comparing your tastes with those of fellow book buyers who have reported liking the kinds of books that you enjoy. Not only should value be created, but the resulting benefits need to be shared over the lifetime of the relationship.

The relationship will endure only to the extent that “win-win” situation exists. For example, Compaq computers has reached an agreement with internet service providers America Online and GTE Corp., along with on-line retailer Amazon.com, where each of the these companies agree to share with Compaq a slice of the revenues generated using Compaq computers. Another case is that American Airlines create a program called “Airpass” for one of its large corporate customers, Perot Systems. When Perot employees book flights, they don’t have to bother waiting for tickets; they just simply present a card at the ticket counter or gate. Miles are automatically credited to the employee’s American frequent flyer account. Upgrade are readily available and American allows Perot employees to use its Ambassadors Clubs for business and leisure travel.

Considering the case of Ryder System Inc. in the mid-1980s, Ryder began a relationship with one of the large Bell operating companies via a short-term truck rental. Over time, Ryder has provided more value to the customer, including full-service equipment leases, drivers, a full outbound delivery network, and logistics solutions. In the last years, Ryder also has assumed operation of all inbound transportation and distributor-center packaging/shipping/cross docking and storeroom operations, all staffed and operated by Ryder personnel. From the humble beginning of a single truck
rental, this account has grown into a totally integrated supply-chain system worth $30 million to Ryder, with a 1998 estimated account value of $50 million, including extended support into Latin America.

The foregoing discussion of customer value and relationship marketing raises the question of how value is created through relationship marketing, the topic of the next section.

**Creating Value Through Relationship Marketing**

Evidence indicates that the relationship between customer and supplier is increasing in frequency and importance under the relationship marketing paradigm. Gummesson (1998) states: “the ethics and values of relationship marketing are different from the practice of conventional marketing. Although a relationship between a supplier and a customer is commercial, it is a relationship and that requires a long-term view, mutual respect, a win-win strategy, and the acceptance of the customer as a partner and coproducer of value and not just a passive recipient of a supplier’s product (p.243).” Sheth and Sharma (1997) indicate that firms have to move away from traditional transaction oriented marketing strategies and move toward relationship marketing strategies. They emphasize that value can emerge through supplier-buyer relationship. They state: “developing relationship with suppliers will be critical for the functioning of firms (p.95).” They conclude that organizational buying is shifting from the transaction oriented to the relational oriented philosophy. Relationship marketing requires a shift away from the traditional buying process to a supplier relationship process. They mention that there are four underlying reasons for building supplier relationships: increased cost efficiency, increased effectiveness, enabling technologies, and increased competitiveness.

Kalwani and Narayandas (1995) studied the long-term relationship perspective and conclude: “supplier firms in long-term relationships with select customers are able to retain or even improve their profitability levels more than firms which employ a transactional approach (p.14).”

Furthermore, some researchers have been concerned with the evolving changes in relationships characteristics. Heide and John (1990) review the literature and suggest that during the recent years, the nature of customer-supplier relationships have been undergoing dramatic changes. The ties between customers and suppliers are increasingly characterized by term like “closer”, “alliances”, and “partnerships” and in contrast to more traditional “arm’s-length” type of interaction. Wheatley (1991) also supports this proposition that firms have been shifting away from adversarial interactions, typical of the arm’s-length, traditional buyer-seller transaction, and seeking longer-term relationships which is based on mutual advantage and mutual survival.

The concept of relationship marketing and customer value can also be applied toward new logistics management. Langley and Holcomb (1992) state: “in their quest for new ways to establish a competitive edge, many companies are recognizing the unique types...”
of customer value that can be created through logistics management (p.1)." They offer a new strategic logistics management perspective which requires the coordination between buyers and sellers. Such logistics management approaches have three generic ways of creating customer value: effectiveness (performance to meet customer requirements in certain critical result areas), efficiency (the firm's ability to provide the desired product/service mix at a level of cost that is acceptable to the customer), and differentiation (the firm's ability to create value for the customer through uniqueness and distinctiveness of logistical service). The study by Gardner, Cooper, and Noordewier (1994) reveals that carriers and warehousers prefer more partnerships in their relationships with their core customers to achieve the objectives of the relationship. According to Mentzer (1993), one of main drivers that shape the new management of logistics channel relations is value-driven concept. He asserts: "value emphasizes not just the delivery of the quality customers require but also the guarantee that customers perceive the quality they are receiving (p.35)." Thus, new logistics management must represent cooperation between organizations and individuals to satisfy the customers' time, place, quantity, form, and possession utilities. Sigua, Simpson, and Baker (1998) posit that market orientation between suppliers and distributors will strengthen their relationships, which finally leads to distributor satisfaction with better financial performance.

The literature review on supply chain management reveals the importance of integration among buyer-seller relationships, relationship marketing, creating value, and supply chain activities. For example, Cooper, Ellram, Gardner, and Hanks (1997) state: "the logistics function has played a leading role for industry in building and defining partnership-style relationships. Thus, the confluence of two recent changes, the emergence of logistics as one of the most cross-functional of corporate entities, and the new marketing emphasis on the style of the relationships combine to place logistics managers in the position with the best view for vertical channel integration across multiple channel levels (p.67)." They propose the value tree which is the integration of supply chain viewpoint and the partnership building process.

The preceding discussion of customer value, relationship marketing, and customer-supplier relationships has provided a perspective of how to create value through customer-supplier relationships under the relationship marketing paradigm. Customer value is the ultimate goal of any firm in this decade. Relationship marketing provides a new framework for how marketers can develop new strategy to meet customer value. Since "relationships involve an ongoing process that requires partnership maintenance and responses to change (Keep et al., 1998)" marketers must focus on the maintenance of a set of customer-supplier relationships that represent the firm's most important business assets (Webster, 1992)." Thus, there is a need to determine which factors strengthen and maintain the relationship between customers and suppliers leading to value creation. The purpose of the next section is to present determinants of relationship value.
The Five Key Relationship Variable for Relationship Enablers

The literature suggests that in recent years the determinants of successful buyer-seller or customer-supplier relationships have received a great deal of attention from marketing scholars. For example, Olsen and Ellram (1997) explain that there are four main factors which describe the strength of the buyer-supplier relationship: economic factors, character of the exchange relationship, cooperation between buyer and supplier, and distance between the buyer and supplier. Landry (1998) reports the research by Lawrence and Gulati that the most effective alliances with external suppliers are built on four pillars: power balancing, co-specialization, target costing, and personal ties. Keep, Hollander, and Dickinson’s (1998) study of long-term business-to-business relationships reveals that economic growth, information asymmetry partially prompted by geographic dispersion, entry barriers in one or both industries, dependence asymmetry and economies of scale are important forces impinging on relationship development. Heide and John (1990) offer a purchasing relationship models which consists of three dimensions: joint action, expected continuity, and verification effort of suppliers.

Moore (1998) considers the relationship under the logistics management perspective and mentions that successful logistics alliances have a long-term orientation that requires trust, loyalty, and a sharing of information, risks, and rewards. Wilson’s (1995) integrated model of buyer-seller relationships is built on the following variables: commitment, trust, structural bonds, comparison level of the alternatives, adaptation, nonretrievable investments, shared technology, and social bonds. Furthermore, Johnson (1999) who investigates the interfirm relationship in industrial distribution channels as a strategic integration, reveals that dependence, flexibility, continuity expectations, and relationship age encourage the distributor’s strategic integration of its supplier relationship.

In sum, there are some common relationship building variables which marketing scholars view as being the most critical. We refer to these variables as “relationship enablers”. We propose that relationship enablers will minimize relationship decay and strengthen the bonds that lead to long-term customer-supplier relationships. The relationship enablers consist of trust, commitment, dependence, cooperation, and information exchange.

Trust

Trust is one factor that has been strongly suggested as having an important role in facilitating closer buyer-supplier relationships by reducing the tendency of firms to take advantage of each other (Zaheer, McEvily, and Perrone, 1998). A seller can create confidence in the eyes of the buyer by being credible and following on what they promise. For example, Fedex dominates the market overnight delivery because they promise to have the customer’s package there “absolutely, positively, overnight.” Fedex’s customers rest easy at night knowing that this statement is not simply an advertising slogan, but a pledge to deliver on what they promise. Baker, Simpson, and Siguaw (1999) conclude from their extensive literature review in seeing how important
trust is in the relationship building that: "while a number of constructs have emerged as potential indicators of an attitude and perspective toward the creation and maintenance of a long-term relationship, the greater support has been provided for trust, cooperation, commitment, and satisfaction (p.51)." Ganeson (1994) proposes that high levels of trust characteristics during relational exchanges enable both parties to focus on the long-term benefits of the relationship. The performance outcomes from trust-based relationship will enhance competitiveness and reducing transaction cost (Noordewier, John, and Newin, 1990).

Trust has received a great deal of attention in social psychology, sociology, economics, as well as marketing (Doney and Cannon, 1997). Also, trust is a major area of research in international marketing topic (e.g., Dacin, Hitt, and Levitas, 1997; Johnson, Cullen, Sakano, and Takenouchi, 1996; Madhok, 1995). Each discipline provides insights into the nature of trust, its definition, and its processes to build the efficient relationship between partners.

Under the relationship marketing literature, trust has been defined in various ways. Wilson (1995) proposes that trust is a fundamental relationship model building block. He also lists four of the most often cited definitions of trust:

- A willingness to rely on an exchange partner in whom one has confidence.
- One party believes that its needs will be fulfilled in the future by actions taken by the other party.
- A party's expectation that another party desires coordination, will fulfill obligations, and will pull its weight in the relationship.
- The belief that a party's word or promise is reliable and a party will fulfill his/her obligations in an exchange relationship.

Drawing from these perspectives, Smeltzer defines trust by stating: "a trustworthy customer or supplier is one that displays the following characteristics—does not act in a purely self-serving manner, accurately discloses relevant information when requested, does not change supply specifications, standards, or costs to take advantage of other parties, and generally acts according to normally accepted ethical standards (p.41)."

The preceding discussion shows that trust no doubt is one of the most crucial factors in strengthening customer-supplier relationships.

**Commitment**

Besides trust, commitment is another crucial relationship enabler representing a key construct in both conceptual and empirical models of various interorganizational exchange relationships (Anderson and Wietz, 1992; Morgan and Hunt, 1994; Ring and Van de Ven, 1992). Commitment reflects the actions and values of key decision makers regarding continuation of the relationship, acceptance of the joint goals and values of the partnership, and the willingness to invest resources in the relationship (Shamdasani and Sheth, 1995). For instance, UPS and J.C.Penny recently formed a $1 billion partnership in which UPS becomes Penney's sole mail-order carrier, as well as their logistics carrier, bringing their equipment and expertise to the partnership. Such a
commitment signals a willingness by each player to modify their existing systems to fit
the other, inextricably binding these companies together.

Further, commitment can be described as “an exchange partner believing that an
ongoing relationship with another is so important as to warrant maximum efforts at
maintaining it; that is, the committed party believes the relationship is worth working on
to ensure that it endures indefinitely (Morgan and Hunt, 1994: 23)”. Commitment
implies an importance of the relationship to the partners and the desire to continue the
relationship into the future, leading to a positive effect on relationship profitability
(Holm, Eriksson, and Johanson, 1996). Anderson and Witz (1992) note that
commitment comprises three facets: a desire to develop a stable relationship; a
willingness to make short term sacrifices to maintain the relationship; and a confidence
in the stability of the relationship.

Lund (1985) states that a committed partner is more likely to expend the time and
resources needed to achieve the goals of the relationship, while showing the desire and
intent to maintain a strong relationship. Moore (1998), drawing from the literature on
commitment, suggests that “commitment involves continuity or a long-term orientation
with both parties cooperating to maintain the relationship”; also “commitment is
believing that an ongoing relationship is so important that it warrants maximum efforts
to maintain it and ensure that it continues indefinitely” (p.25)."

In sum, we maintain that trust and commitment are the two most crucial relationship
variables. Finding a successful relationship without trust and commitment is rare.
Furthermore, trust and commitment seem to be strongly associated with complaint
handling satisfaction.

Cooperation

Cooperation is defined as the activity that both the customer and supplier are working
jointly to achieve mutual and individual goals (Baker et al., 1999). Cooperation also
involves coordinated activities between customer and supplier aimed at producing
desirable results for both firms. Anderson and Narus (1990) define cooperation as
“similar or complementary coordinated actions taken by firms in interdependent
relationships to achieve mutual outcomes or singular outcomes with expected
reciprocity and return over time (p.45).”

Olsen and Ellram (1997) offer a portfolio approach to supplier relationships, in which
they note that the cooperation between buyers and suppliers can be described in three
terms: cooperation in development; technical cooperation; and integration of
management.

The gains experienced by cooperating in the customer-supplier relationship can more
than offset the loss of autonomy in a relationship (Johnson and Weinstein, 1999).
Moreover, cooperation frequently involves a willingness to develop joint goals and even
share resources. Procter & Gamble actually manages Wal-Mart’s inventory, and it’s
P&G’s responsibility to decide when Wal-Mart needs shipments. To do this, P&G has
complete access to Wal-Mart’s inventory. It manages everything and makes decisions

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on its own shipments. This arrangement is beneficial for both parties. Wal-Mart can charge less because it does not have the cost of tracking or storing inventory, while P&G has a much bigger share of business and it does not have to compete with other suppliers.

Dependence

Dependence is a need to maintain the channel relationship to achieve desired goals (Frazier, 1983). Weinstein and Johnson (1999) define dependence as a willingness to invest time and dedicate resources for the purpose of establishing and strengthening a business relationship. For instance, take Gillette’s relationship with ADC, a promotional materials supplier. ADC’s partner relationship with Gillette initially started when ADC was chosen to help develop a display program for Gillette’s new men’s toiletry line, The Gillette Series, consisting of shaving preparation products, deodorants, antiperspirants, and after-shave products. ADC’s involvement began with the initial display concept, followed by prototyping, engineering and assembling pre-packed displays which were shipped to Gillette’s major distribution centers. ADC acted as an extension of Gillette’s manufacturing and marketing by providing coordinated logistics, display development, pack-out, and distribution. ADC committed 54,000 square feet of manufacturing space and over a hundred employees to this product launch.

There are some scholars who argue that a firm should avoid depending on its partners (e.g., Gaski, 1984). However, some oppose this proposition. For example, Lusch, and Brown (1996) offer empirical support which suggests that wholesale-distributors and suppliers should form relationships in which they both have a high need for each other. Johnson (1999) posits that when dependence is involved in the industrial distribution channel, substantial gains emerge. Such gains include a higher level of shared information, streamlined and efficient transactions, cost savings, technological and process innovation, shortened lead times in product development, logistics management, and other marketing programs such as joint promotions and shortened response times. He also states that such gains also contribute to value creation. Etgar and Valency (1983) reveal that the more dependent on the supplier the distributor is, the greater the extent to which a formal agreement is signed between the distributor and the major supplier.

Another view of dependence is based on the proposition that mutual dependence between buyer and supplier is high, it is likely that both parties will have a high stake in ensuring the relationship’s success because of investments of time, effort, and money (Anderson and Weitz, 1992; Buchanan, 1992). Some scholars suggest that if firms need to engage in economic exchange to obtain necessary resources outside their control (resource-specific investments) it will increase the dependence on each partner in relationship (Ganesan, 1994; Gundlach and Cadotte, 1994).

Thus, any customer-supplier relationship should promote dependence and, given the right conditions, relationship quality will be enhanced (Buchanan, 1992).

Information Exchange

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Information exchange assists the buyer and seller in foreseeing and responding to each other’s objectives which strengthens the relationship (Lusch and Brown, 1996). Information exchange works as the lubricant in keeping the other four relationship enablers from corroding (Weinstem and Johnson, 1999). When buyers offer more information sellers in turn are willing provide more services, creating a win-win situation. McKesson Corporation, a major drug wholesaler representing thousands of independent pharmacies, helps them set up accounting and inventory systems, as well as computer ordering systems. The retailers gain value from improved stock planning, resulting in fewer stock-outs and more satisfied customers. McKesson benefits by creating “captive” retail accounts who grant McKesson unprecedented access to their sales and financial data. Because resellers are forced to collect and respond to information regarding customer needs, they are likely to share information and engage in cooperative effort with their suppliers to meet customer needs (Baker et al., 1999).

Noordewier, John, and Nevin (1990) investigate industrial buyer-vendor relationships and state that three factors—the exchange of long-term forecasts, market information, and structural planning information—lead to a greater willingness to share knowledge essential to coordination. The factors leading to close relationships between buyers and sellers are examined based on the interaction model and the result demonstrates that the exchange of information along with interpersonal contacts produces a cooperative atmosphere between buyer and seller that eventually sets the stage for mutual adaptation in the relationship (Metcalf, Frear, and Krishman, 1992).

In summary, each of the relationship enablers will be evident to varying degrees in successful buyer-seller relationships. Clearly, some of these factors will become more important over the life of the business relationship than others. Trust and cooperation, for example, are critical during the initial stages of relationship building; commitment, dependence, and information exchange become more important later in the relationship (Weinstein and Johnson, 1999).

**Conclusion**

This paper examines the emergence of customer value and relationship marketing as a new paradigm shift in marketing. Firms wanting to survive in today’s highly competitive business world must recognize the importance of creating superior value for customers by practicing the relationship marketing concept. The marketing paradigm has shifted from traditional transactional marketing to relationship marketing. The ultimate goal of relationship marketing is to create strong long-term business relationships to survive in this value decade. To meet this critical requirement, the paper proposes companies focus on five key relationship enablers—trust, commitment, dependence, cooperation, and information exchange. Firms must continuously create, strengthen, and maintain each of these relationship enablers over the lifetime of business relationships.

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