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A NEW PARAGRIM: RELATIONSHIP MARKETING

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A New Paragrim: Relationship Marketing

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Abstract – As companies increasingly recognize the importance of interaction with customers, relationship marketing is assuming a central place in both marketing theory and practice. The purpose of this working paper is to offer a general overview of the roots of relationship marketing as well as of its conceptual background. The dominant conclusion arising from this study is that customers do perceive that relationships exist between the customer and the department store. These relationships develop as a result of positive personal interactions between customers and department store staff and as a result of certain value driven relationship marketing strategies. Essentially it was determined that the development of these relationships is predicated upon customer satisfaction. Once satisfied a customer is more likely to become loyal and develop a relationship with one store over another. This research concludes that the challenge for department stores is to identify the drivers of satisfaction and in doing so build positive relationships with their customers.

Keywords: Relationship Marketing, Transactional Marketing, Customer Loyalty, Customer Relationships

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INTRODUCTION

At a time of intense competition and increasingly demanding consumers, relationship marketing has attracted the attention of both researchers and managers. Academics have focused their attention on its scope, and developed a conceptual framework aimed at understanding the nature and value of the relationships not only with customers but also with a number of other stakeholders. What are the origins of this approach? It is generally accepted that the roots of the expression “relationship marketing” can be found in the early 1980s. It appears for the first time in academic literature in 1983 when Leonard Berry, in a book on marketing to services, writes a chapter entitled “Relationship Marketing.” in the context of a project related to industrial marketing, Barbara Jackson uses the same expression of “relationship marketing” in her book *Winning and Keeping Industrial Customers* as well as in an article published in *Harvard Business Review* in 1985. This fact bears mentioning: the two researchers who introduced the expression – one in the area of services and the other in the industrial field – indicate, to some extent, its conceptual pillars. Finally, we must also mention the great

Theodore Levitt, who in 1983, without using the term “relationship marketing” in those exact words, states that the objective of a business should not be limited to sales in itself but should also provide the greatest customer satisfaction, which depends on “how well the relationship is managed by the seller” (Levitt, 1983, p. 111). So *Relationship marketing (RM) is the process of*

identifying, developing, maintaining, and terminating relational exchanges with the purpose of enhancing performance. Relationship marketing applies to many different contexts with varying degrees of effectiveness. For example, a meta-analysis of more than 38,000 relationships shows that building strong relationships is more effective for improving performance among services than among product offerings, in business-to-business versus business-to-consumer markets, and for channel partners rather than direct customers.

OBJECTIVES AND METHODOLOGY

The objective of relationship marketing, which principally focuses on efforts of sellers, but also of buyers to some extent, to move from single transaction consummation to investment in longer term streams of mutually profitable partnership behaviors (Anderson and Weitz, 1989; Dwyer, Schurr and Oh, 1987; Morgan and Hunt, 1994; Weitz and Jap, 1995). By studying role of RM, marketing programs can be suitably designed to attract, develop customer segments. Resource allocations can be made more effective. If a particular market needs more relational marketing, then that market can be appropriately addressed for strategic decision making by studying role of RM. The study is useful to marketing strategists who need to take relationship-marketing efforts into account and is also useful to relationship marketers who need to relate to strategic marketing heads. . The present study is exploratory in nature to provide a clear guidance for empirical research. It is also descriptive where the focus is on

fact finding investigation with adequate interpretation. For this purpose secondary data were collected. The secondary data were collected through newspapers, magazines, books, journals, conference proceedings, Government reports and websites.

EVOLUTION OF RELATIONSHIP MARKETING

The roots of marketing and relationship marketing theory stem from economics. When Wroe Alderson (1958, pp. 27, 28) extended the institutional economics view that exchanges are driven by value maximization and market efficiency, he argued that because people are involved, marketing thought must include the sociological factors of “power structure” and “two-way exchange of commitments,” as well as the social psychological factors of “communication” and “emotional reactions.”

In 1983 Leonard L. Berry, distinguished professor of Marketing at Texas A&M University, coined the word Relationship Marketing when he presented a paper entitled Relationship Marketing at the American Marketing Association’s Services Marketing Conference. The paper was published in the conference proceedings and for the first time the phrase Relationship Marketing appeared in the Marketing literature. The phenomenon Relationship Marketing was first identified by some of the insightful writers like Berry et al. (1983), Gronroos (1990), and McKenna (1991). Although McKenna has often been credited with the term “relationship marketing”, but it was Berry who first defined and analyzed in scientific literature. However there was also a parallel development in industrial marketing which contributed to the development of RM (Gronroos, 1990).

The emergence of RM as a separate academic domain of marketing in the 1980s and 1990s becomes more comprehensible from a historical perspective. Researchers argue that RM represents a “paradigm shift in marketing” from its previous focus on “transactions,” in which firms use the “4P model” to manage marketing-mix variables (Gronroos 1994, p. 4; Sheth and Parvatiyar 2000). During the closing years of the 20th century some of the basic tenets of marketing were increasingly being questioned.

- Consumers and customers became more sophisticated and less responsive to the traditional marketing pressures- particularly advertising.
- Brand loyalty is weaker than it used to be in the 70ies and 80ies because satisfied consumers does not more mean loyal consumers. Brand Satisfaction ≠ Brand Loyalty
- The consumer focus is not more on “the functional characteristics “ of the product but on additional benefits and especially positive experience and feelings;

- Consumers and customers exchange knowledge and information not only among them but they communicate directly with the producers and traders as well;
- The marketing in the 21st century is compressed: the cycle between the product launch and the product death is very short;
- The business environment and the competition became very unpredictable due to the dynamic technological changes;

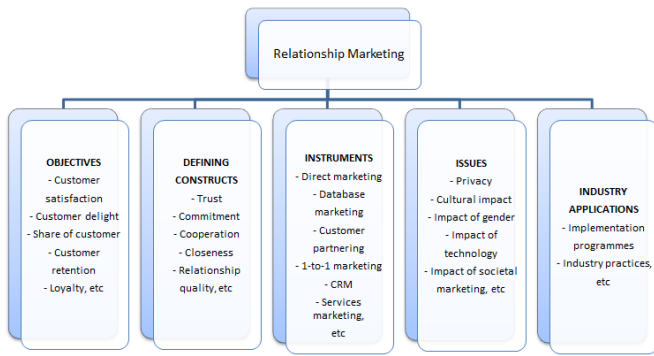
So due to the changed markets and the changed consumer behaviour a need for new marketing paradigm emerged and this marketing philosophy is called RELATIONSHIP MARKETING. The transactional approach has increasingly been replaced by a relationship marketing approach from the focus on a single transaction profit to the focus on long-term relationship with customers. The main Characteristics of Relationship marketing Emphasizes a relationship, rather than a transactional approach to marketing; extends the principles of traditional marketing to a range of diverse market domains, not just customer markets; recognizes that quality, customer service and marketing need to be much more closely integrated.

LITERATURE REVIEW

The American Marketing Association’s definition of marketing, revised in 2004, indicates that “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”

As shown in Figure 1, the entire RM literature can be classified into the following five categories:

- (1) Objectives;
- (2) Defining constructs;
- (3) Instruments;
- (4) Issues; and
- (5) Industry applications.



Source: Adapted from Lindgreen (2001)

With regard to objectives, RM has been defined in terms of customer satisfaction, share of customer, customer retention, loyalty and so forth, all of which represent different objectives for going for relationship development. Regarding defining constructs, RM has been characterized in terms of related underlying constructs like trust, commitment, cooperation, closeness, relationship quality, etc. With regard to instruments, RM has been considered as direct marketing, database marketing, one-to-one marketing, CRM, loyalty marketing, partnering, etc. which represent various tools for building relationships.

In addition, there were a lot of research papers in the online databases pertaining to privacy, cultural impact, impact of gender, impact of technology, impact of societal marketing, etc. These were classified as issues as they represented topics which will be directly impacted by or having an impact on RM. Finally, there was another set of papers, which dwelt upon the various implementation programs in different organizations or industries, practices in different industries/sectors, etc. They were put under the category of industry applications.

The model selected for classification of literature can be justified in light of the fact that RM literature has become a “melting pot” of various theories and schools of thought indicating a clear lack of common understanding (Harker, 1999). This ambiguity about what comes under RM (Lindgreen, 2001) is mainly because “contributors to the development of RM theory are extremely varied, both in terms of socio-political heritage and academic background” (Harker, 1999, p. 13).

Some language used to describe relationship marketing seems altruistic or unrealistically benevolent, or as described by Egan (2004, p. 23), “Altruistic sentiments implemented by [relationship marketing] might seem to contradict the fact that the profit motive [is] still a principal business driver. “Underlying such “win-win” terminology is usually the recognition that firms and managers are driven by profit motives, so unprofitable relationships should be terminated and relationship-building investments

should target optimal returns. Thus, though relationship marketing entails cooperation and co-value creation with a long-term perspective—rather than a short-term, transaction, manipulation, or competitive focus—it is initiated for the ultimate long-term gain of the implementer.

AXIOMS AND PURPOSE OF RELATIONSHIP MARKETING

Relationship marketing attempts to involve and integrate customers, suppliers and other infrastructural partners into a firm's developmental and marketing activities (McKenna, 1991; Shani and Chalasani, 1991). Such involvement results in close interactive relationships with suppliers, customers or other value chain partners of the firm. Interactive relationships between marketing actors are inherent as compared to the arm's length relationships implied under the transactional orientation (Parvatiyar *et al.*, 1992). An integrative relationship assumes overlap in the plans and processes of the interacting parties and suggests close economic, emotional and structural bonds among them. It reflects interdependence rather than independence of choice among the parties; and it emphasizes cooperation rather than competition and consequent conflict among the parties; and it emphasizes cooperation rather than competition and consequent conflict among the marketing actors. Thus, development of relationship marketing points to a significant shift in the axioms of marketing: competition and conflict to mutual cooperation, and choice independence to mutual interdependence.

One axiom of transactional marketing is the belief that competition and self-interest are the drivers of value creation. Through competition, buyers can be offered a choice, and this choice of suppliers motivates marketers to create a higher value offering for their self-interest. This axiom of competition is now challenged by the proponents of relationship marketing who believe that mutual cooperation, as opposed to competition and conflict, leads to higher value creation (Morgan and Hunt, 1994). In fact, some social psychologists have gone so far as to suggest that competition is inherently destructive and mutual cooperation inherently more productive (Kohn, 1986). The second axiom of transactions marketing is the belief that independence of choice among marketing actors creates a more efficient system for creating and distributing marketing value. Maintaining an 'arm's length relationship' is considered vital for marketing efficiency. Industrial organizations and government policy makers believe that independence of marketing actors provide each actor freedom to choose his/her transactional partners on the basis of preserving their own self-interests at each decision point. This results in the efficiency of lowest cost purchases through bargaining and bidding. However, this belief is also challenged recently in economics

(Williamson, 1975). It argues that every transaction involves transaction costs in search, negotiation and other associated activities, which add to, rather than reduce the cost, and thus lead to inefficiencies instead of efficiencies for the firms engaged in exchange transactions. Relationship marketers, therefore, believe that interdependencies reduce transaction costs and generate higher quality while keeping governance costs lower than exchange marketing (Heide and John, 1992; Williamson, 1985). In short, better quality at a lower cost is achieved through interdependence and partnering among the value chain actors. The purpose of relationship marketing is, therefore, to enhance marketing productivity by achieving efficiency and effectiveness (Sheth and Sisodia, 1995). Several relationship marketing practices can help achieve efficiency, such as customer retention, efficient consumer response (ECR), and the sharing of resources between marketing partners. Each of these activities have the potential to reduce operating costs of the marketer. Similarly, greater marketing effectiveness can be achieved because it attempts to involve customers in the early stages of marketing program development, facilitating the future marketing efforts of the company. Also, through individualized marketing and adoption of mass customization processes, relationship marketers can better address the needs of each selected customer, making marketing more effective.

RELATIONSHIP MARKETING (RM) AND CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

The overlap between relationship marketing and customer relationship management often involves simply a semantic issue because the terms are sometimes used interchangeably. A recent definition of customer relationship management from the *Journal of Marketing*, based on a synthesis of the literature, suggests that customer relationship management is a subcomponent of RM with the following additional caveats (Payne and Frow 2005, p. 168):

1. Restricts the relationship target to “key customers and customer segments.”
2. “Unites the potential of relationship marketing and IT [information technology].”
3. Focuses more on the tactical through an “integration of process, people, operations, and marketing capabilities that is enabled through information, technology, and applications.”

Thus, customer relationship management (CRM) is the managerially relevant application of relationship marketing across an organization focused on customers, which leverages IT to achieve performance objectives. If RM is the science or physics of relationships, then CRM represents its application or engineering

Because extant research often fails to differentiate between RM and CRM, this monograph uses the term relationship marketing in its broad form, with the recognition that it often encompasses aspects of customer relationship management as well.

EVERT GUMMESSON's The 30 R's

The urge for marketers to design a list of alliterative parameters can be seen as an effort to make marketing easier to overview. It can also be seen as a trick to memorize the essentials, maybe also as a manifestation of playfulness. His choice of R as a key letter – which in all instances means relationships – is a counter-reaction. The 30Rs will be briefly presented below. In reading the list, it is essential that the vantage points of the approach are kept in mind by posing the question: *If we view marketing as relationships, networks and interaction what do we see?*

- R1. *The classic dyad: the relationship between the supplier and the customer.* This is the parent relationship of marketing, the ultimate exchange of value which constitutes the basis of business.
- R2. *The many-headed customer and the many-headed supplier:* Marketing to other organizations – industrial marketing or business marketing – often means contacts between many individuals from the supplier's and the customer's organization.
- R3. *Mega marketing: the real “customer” is not always found in the marketplace.* In certain instances, relationships must be sought with a “non-market network” above the market proper – governments, legislators, influential individuals – in order to make marketing feasible on an operational level.
- R4. *The classic triad: the customer-supplier-competitor relationship* Competition is a central ingredient of the market economy. In the competition there are relationships between three parties: between the customer and the current supplier, between the customer and the supplier's competitors, and between competitors.
- R5. *Alliances change the market mechanisms* Alliances mean closer relationships and collaboration between companies. Thus competition is partly curbed, but collaboration is necessary to make the market economy work.
- R6. *Market mechanisms are brought inside the company.* By introducing profit centers in an organization, a market inside the company is

created and internal as well as external relationships of a new kind emerge.

- R7. *The service encounter: interaction between the customer and front line personnel.* Production and delivery of services involve the customer in an interactive relationship with the service provider's personnel.
- R8. *Interfunctional and interhierarchical dependency: the relationship between internal and external customers.* The dependency between the different tiers and departments in a company is seen as a process consisting of relationships between internal customers and internal providers.
- R9. *Relationships via full-time marketers (FTMs) and part-time marketers (PTMs):* Those who work in marketing and sales departments – the FTMs – are professional relationship-makers. All others, who perform other main functions but yet influence customer relationships directly or indirectly, are PTMs. There are also contributing FTMs and PTMs outside the organization.
- R10. *Internal marketing: relationships with the "employee market".* Internal marketing can be seen as part of RM as it gives indirect and necessary support to the relationships with external customers.
- R11. *The non-commercial relationship:* This is a relationship between the public sector and citizens/customers, but it also includes voluntary organizations and other activities outside of the profit-based or monetized economy, such as those performed in families.
- R12. *Physical distribution: the classic marketing network.* The physical distribution consists of a network of relationships which is sometimes totally decisive for marketing success.
- R13. *The electronic relationship:* An important volume of marketing today takes place through networks based on IT. This volume is expected to grow in significance.
- R14. *Mega alliances.* EU (the European Union) and NAFTA (the North America Free Trade Agreement) are examples of alliances above the single company and industry. They exist on government and supranational levels.
- R15. *Quality providing a relationship between production and marketing:* The modern quality concept has built a bridge between technology and marketing. It considers the company's internal relationships as well as its relationships to the customers.
- R16. *Personal and social network:* The personal and social networks often determine the business networks. In some cultures even, business is solely conducted between friends and friends-of-friends.
- R17. *The two-dimensional matrix relationship:* Organizational matrices are frequent in large corporations, above all in the relationships between product management and sales.
- R18. *The relationship to external providers of marketing services:* External providers reinforce the marketing function by supplying a series of services, such as those offered by advertising agencies and market research institutes, but also in the area of sales and distribution.
- R19. *The relationship to the customer's custom:* A condition for success is often the understanding of the customer's customer, and what suppliers can do to help their customers become successful.
- R20. *The owner and financier relationship:* Owners and other financiers can sometimes determine the conditions under which marketing works. The relationship to them may influence the marketing strategy.
- R21. *Para social relationships via symbols and objects:* Relationships do not only exist to people and physical phenomena, but also to mental images and symbols such as brand names and corporate identities.
- R22. *The law-based relationship:* A relationship to a customer is sometimes founded primarily on legal contracts and the threat of litigation.
- R23. *The criminal network:* Organized crime is built on tight and often impermeable networks guided by an illegal business mission. They exist around the world and are apparently growing but are not observed in marketing theory. These networks can disturb the functioning of a whole market or industry.
- R24. *The mental and physical proximity to customers vs. the relationship via market research:* In mass marketing the closeness to the customer is often lost and the customer relationship is based on surveys, statistics and written reports.

- R25. *The customer as member:* In order to create a long-term sustaining relationship, it has become increasingly frequent to enlist customers as members of various marketing programs.
- R26. *The relationship to the dissatisfied customer:* The dissatisfied customer perceives a special type of relationship, more intense than the normal situation, and often badly managed by the provider. The way of handling a complaint – the recovery – can determine the quality of the future relationship.
- R27. *The green relationship:* The environmental and health issues have slowly but gradually increased in importance and are creating a new type of customer relationship through legislation, the voice of opinion leading consumers, changing behavior of consumers and an extension of the customer-supplier relationship to encompass a recycling process.
- R28. *The knowledge relationship:* Knowledge can be the most strategic and critical resource and “knowledge acquisition” is often the rationale for alliances.
- R29. *The mass media relationship:* The media can be supportive or damaging to the marketing. The way of handling the media relationships is often crucial for success or failure.
- R30. *The monopoly relationship: the customer or supplier as prisoners.* When competition is inhibited, the customer may be at the mercy of the provider – or the other way around. One of them becomes a prisoner.

MANAGERIAL IMPLICATIONS

Relationships as a focus of marketing strategy aids in the understanding of consumer needs and wants, which is useful to implement profitable exchanges. RM also helps customizing solutions to important customers, more efficiently than otherwise. Knowledge and application of RM helps in achieving customer satisfaction, customer retention, and customer acquisition. In addition RM aids in obtaining increased commitment from the customer; this is important if businesses have to be sustained for extended periods of time. RM leads to partnering and partnering leads to profitable exchanges. RM helps even out volatile demands. It also protects the emotional well-being of the customer. Given the above RM is a tool of furthering the customer understanding and interactive processes. RM outputs can thus be usefully used, as inputs in product design and development, want identification, improving selling systems, pricing strategies. It is one of the supports to systematic action setting in competitive marketing strategy.

CONCLUSION

Relationship marketing is today one of the areas with the most expression in the field of marketing, recognized not only by academics but also by practitioners. Its application in the business world is ever more visible. It is not only the multiple direct marketing configurations that are being increasingly utilized and which enter the field (not being restricted to physical mail) as mobile marketing. It is the individualization of products, it is the increasing use of services, it is loyalty programs – in fact, and it is the multiple channels of interaction with the customer.

However, beyond the practical side, relationship marketing is a field with a high potential for scholarship, given the multi-disciplinary nature of the issues that it encompasses, grouping together studies that span areas such as services and distribution channels and extend to brand management, quality and customer loyalty. It spills over from the specific field of marketing and involves others, such as information systems (given the growing importance of information and communication technology) and strategic organization, with the question of new business models. One thing is true: this is a field of research that, dealing with the developments that have been taking place, cannot be discounted by those who, either from a theoretical or practical point of view, wishes to keep themselves up-to-date in the context of marketing.

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