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**ROLE OF RELATIONSHIP MARKETING IN  
COMPETITIVE MARKETING STRATEGY**

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# Role of Relationship Marketing in Competitive Marketing Strategy

Sangeeta Devi

Asst. Professor in Commerce, Ishar Jyot Degree College, Pehwa (Kurukshetra)

**Abstract – Competitive Marketing Strategy (CMS) has relationship marketing (RM) as one of the key functionality in enhancing business performance. RM is defined as the identification, establishment, maintenance, enhancement, modification and termination of relationships with customers to create value for customers and profit for organization by a series of relational exchanges that have both a history and a future. Relational exchanges can be viewed under transaction cost analysis and social exchange theories depending on the context. The role of RM in CMS includes: guide moments of truth, improve profitability, and build partnering, address**

**‘Customer Better’, buys in of customer attention, protect emotional wellbeing, understand consumer psyche, and build trust with customer. All these roles are observed empirically in the hotel industry, with some hotels placing emphasis on their extraordinary operations and services to engage with the customer.**

**Key Words: Relational Exchanges, Emotional Wellbeing, Trust, Profitability, Partnering**

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## INTRODUCTION

The purpose of competitive strategy is to achieve a sustainable competitive advantage (SCA) and thereby enhance a business performance. One of the major objectives of marketing strategy is to enhance the long-term financial performance of a firm. As such competitive marketing strategy serves to improve financial performance of the firm through the route of sustainable competitive advantages. There are four essential requirements for a source/ skill to be a source of SCA. It must be valuable; it must be rare among competitors; it must be imperfectly imitable; there must not be any strategically equivalent substitutes for this resource skill. Sources of SCA lead to positional competitive advantage (differentiation and low cost). Sustainability of positional advantages leads to superior long-term market and financial performance. Formulating competitive marketing strategies also involves, recognizing relationships between elements of the marketing mix as well as assessing the impact of competitive and market conditions on marketing mix formulation. A model has been outlined of the relationship between product quality levels, promotion expenditures and prices and assesses the impact of industry structure on the formulation of marketing mix. Relationship marketing serves as a moderator for the sustenance of positional advantages and influences the impact of competitive and market conditions on the formulation of the marketing mix. Competitive advantage is realized based on three factors: (1) the firm's marketing strategy, (2) implementation of this strategy and (3) the

industry context (Porter's model). An important component of firm's marketing strategy is relationships. Relationships with customers, channel members and with competitors. He defines each relationship by the identity of the partner public and the contract with it.

### Importance and Objective of the study:

There are two important streams of conceptual and empirical work in strategic marketing that have developed more or less independently during the past 10 years, although the two are inherently interrelated. One stream is market orientation which focuses on the extent to which a customer focus binds suppliers and customers together. The second stream is 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.

In this context, the following objectives are laid for studying the role of relationship marketing in competitive marketing strategy:

(1) Competitive marketing strategies (CMS) is a systematic action setting process as much as it is a dynamic adjustment process. By studying role of relationship marketing (RM), proper accordance can be given to RM in the systematic action setting. This helps improve the effectiveness of CMS formulation.

(2) By studying role of RM, marketing programs can be suitably designed to attract, develop customer segments. Resource allocations can be made more effective.

(3) 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. In the study; first we examine the nature of relationship marketing. Second we lay out the framework of competitive marketing strategy and delineate the position of relationships. Third we conceptualize the role of relationship marketing to competitive marketing strategy. Fourth we empirically test the role of relationship marketing.

## 2.0. NATURE OF RELATIONSHIP MARKETING

At the core of relationship marketing is exchange, that is profitable to parties involved in the exchange. The concept of exchanges as it applies to relationship marketing can be viewed at from either a transaction cost analysis approach or a social exchange theory approach. Transactions are distinguished into discrete transactions and relational transactions. Relational contract law governs relational transactions. In classical contract law that governs discrete transactions identity of parties is not relevant; however this is not true in relationship marketing. In relational contracting the reference point shifts from the agreement (as in classical contract law), to the relation itself as it has developed over time. There might be or might not be an original agreement and if there is, there may not be any great deference to it. In a relational transaction, the contractual gaps between parties are reduced, as the relation becomes stronger and stronger. The frequency with which transactions recur influence the terms of the transaction. The degree to which durable transaction specific investments are incurred determine the rapidity of commitment given and received, the time period of commitment and the intensity of the relation between two parties. Transaction specific investments (asset specificity in physical capital and human capital) leads to relational exchanges where trust is a prime moderator. As such non-specific exchanges lead to transaction marketing and for exchanges that are not non-specific the concept of Relationship marketing will hold. The Williamson Ian approach to understand relational contracting has been augmented (Anderson and Weitz, 1992), by postulating that whenever idiosyncratic investments are made by the exchanging parties in one another then there is a stronger commitment to the relationship. In a relationship the set of understandings that has grown up over time (the implicit contract) is more influential. Exclusivity to the other party is also seen as a signal of commitment.

Further the relationship dyad has been examined from perspective of a strong buyer facing a large number of small suppliers (Heide and John, 1992) . It has been shown that relational norms do play a role in serving as a governance mechanism to safeguard against opportunistic behavior in the presence of transaction specific assets. It has also been shown that in case of a relationship dyad between a strong supplier and a large number of small buyers relational norms do not play a significant role.

## FRAMEWORK OF COMPETITIVE MARKETING STRATEGY

We first outline a format of marketing strategy and then delineate the position of relationships in the framework of competitive marketing strategy.

### Format of Competitive Marketing Strategy

Any marketing strategy has to have a marketing objective. Based on the marketing objective, flows two types of analysis – strategic market analysis and internal analysis. Strategic market analysis involves customer management and analysis, market management and analysis, environmental scanning and future building or scenario planning. Management of relationships with customers and important external bodies in the market such as dealers, suppliers and the government is an important part of marketing strategy formulation and management. Internal analysis includes strengths, weaknesses, core competencies, resource constraint analysis. Based on the marketing objective, strategic market analysis, internal analysis (and past performance records and present strategy), the marketing strategy for a particular decision problem / situation is developed. This includes the decisions on the 4Ps (Product, Price, Promotion, Place). During the process of marketing strategy development, an analysis of competition and other analytical inputs of the market are used. The marketing strategy developed is so implemented and any deviations from the plan are feedback to the marketing objectives and the development of marketing strategies.

### Marketing Objective

Strategic Market Analysis Internal Analysis

Past Performance, Present Strategy

Feedback

Marketing Strategy Development

Competition

Marketing Strategy Implementation

### Control

For firms to have a formulation of marketing strategy, they should have a marketing objective. Objectives include maximization of profit, maximization of market share, and maximization of sales, enhance brand image, improve customer satisfaction, provide customer value, and maintain price stability.

### **Focus**

It is recommended for a marketing strategy to have customer orientation and competitor focus. It is also sometimes called market orientation

### **Domain**

The domain of decision making for marketing strategy includes the following: (1) market selection, (2) positioning / differentiation, (3) market entry / exit / timing, (4) product, price, place, promotion, (5) functional offering of the product.

Market selection involves deciding which customer segments the firm will serve, which functions of those customer segments will be supported, the technologies that will be used to provide or support the functions. Positioning is the central theme of a brand/product around which the marketing mix elements of product, price, place, and promotion are selected. Market entry / exit decisions can be based on market attractiveness, competitive position or advantages and extent of risk involved in the market.

### **Prerequisites**

Three prerequisites are recommended to the formulation of marketing strategy. The first is there should be an organizational opportunity for the product or service under consideration. This entails existence of market size, reasonable strength of buyer need, manageable risk of market and the ability of the firm to meet the key success factors of the market. The second is that the marketing strategy should be dovetailed with the vision and values of the organization. A high quality firm may find it difficult to introduce low quality, low cost products. The third prerequisite is that contingency should be built for the marketing strategy formulated.

### **Functionality**

The different functions that marketing strategy has to perform include (a) strategic decision making (b) dynamic adjustments to competition and market (c) resource allocation in marketing (d) action setting (e) relationships with key publics. It is this last function that stresses the importance of the role of relationship marketing in competitive marketing strategy. It has been postulated that marketing strategy is a product of marketing relationships, marketing offerings, marketing

timing, resources allocation (Sudarshan D, 1995). He states that relationships for a key component of marketing strategy. Each relationship is defined by the identity of partner public (customers, channels) and the contract with it (nature of the relationship).

## **ROLE OF RELATIONSHIP MARKETING TO COMPETITIVE MARKETING STRATEGY**

In service industries, there is always some form of direct (social) contact between the customer and the service firm. This direct (social) contact or 'service encounter' is so important apart of service delivery that it is frequently called 'the moment of truth' (Johns, 1999). Strategic Marketing in service industries is influenced significantly by 'Moments of Truth'. By adapting to a RM approach, the organization can virtually turn the 'Moments of Truth' in its favor, as the customers are continually attended to in a Relationship.

### **RM to improve profitability**

The return on relationship model (Gummesson, 1999) suggests that good relationships leads to good quality and good customer satisfaction. Good quality arises as internal relationships / employee relationships are fostered. Good customer satisfaction arises as specific customer needs and wants are understood better and served better. Good quality and customer satisfaction leads to customer retention and consequent improved profitability. Good Internal Satisfied Employee Good External Customer Quality Employees Retention Quality Satisfaction High Customer Profitability Retention. One of the major objectives of competitive marketing strategy is to improve the long term financial performance. Relationship marketing by working towards improving profitability based on exploiting its relationships serves this financial performance objective of marketing strategy. In fact, RM pays off handsomely when products or services have high switching costs e.g. office automation system. RM is profitable when customers are willing to stay with suppliers for a long period of time. Transaction marketing on other hand pays when there are low switching costs.

### **Build Trust with Customer**

Relationship marketing is built on the foundation of trust, as research demonstrates (Morgan and Hunt, 1994). Trust is a 'willingness to rely on an exchange partner in whom one has confidence' (Moorman, Deshpande and Zaltman, 1993). Trust ensures that the relational exchange is mutually beneficial, as the good intentions of partners are not in doubt. Customers buying black box services (automobile repair), are specially benefited by the existence and development of trust (Berry, 1995). Much of



relationship marketing progresses on the trust the customer places with the firm.

## 5.0. RELATIONSHIP MARKETING IN PRACTICE

The hotel industry was chosen as the industry sector for research as it presents rich information for relationship practices. The city of Bangalore was selected owing to its cosmopolitan culture and its rising international travelers. All 5-Star hotels in the city of Bangalore were interviewed at the level of Head-Marketing by means of a one to one depth interview. The interview sheets (see Appendix A) were then content analyzed and summarized as below (please see acknowledgements at the start of paper). A good product or service should back a good relationship. A relationship is a mutual give and take. A relation occurs when the transaction occurs. However, transaction focus is mechanical and with human relations the managers cannot be mechanical. It is beneficial for both individuals, in good and bad times. One hotel defines the elements of a good relation to be honesty, transparency, be forthright, and not differentiate between Indian and foreign customers. Expenses are not the focus in RM; facility development and provision is basic to RM, the focuses that the 'Customer should not suffer'. The hotels act as solution providers. One hotel for example provided wireless Internet connectivity, corporate loyalty programs, and international AVIS tie-ups. RM is very strong in hotels; it exists from Secretaries to CEOs. RM efforts are directed at CEOs, government, decision making people in organizations, ancillaries, related businesses, dealers, individual travelers, travel agents, upmarket socialites. RM efforts are also targeted at the officials who are in charge of bookings. Even a standard smile builds a relationship. Relation development takes place both through personal relation building and word-of-mouth relationships. In some hotels there are dedicated RM executives, RM managers who take care of account management of customers on an ABC classification. In other hotels, the entire sales team is relationship building. In one hotel, one sales manager acts as the one source answer to around 120 companies.

Trust in RM is very important. In some hotels this is the main focus. It needs to go along with commitment. It needs to develop with the business. If deliverable is good then trust increases. There is no explicit buy in of customer; however the relationships are so well nurtured that the customer automatically buys. There is no need of selling after that. The switching costs are increased so that the customer is retained. The switching costs may be increased by emotional lock-ins, good experiences, excellent conferencing facility, holidaying for executives 'etc. In one hotel the concept is of ultimate service and they have won global awards for ultimate service. Such hotels do not focus on relationship marketing efforts but expect the customer to buy from them in a repeated manner owing to their ultimate service. Employees are empowered to decide

that will reflect a sense of willingness to deliver impeccable service. Such organizations are very strong in operations and relationship marketing is only a small part of the customer pleasing process. Hotels offering ultimate service are part of a larger group of hotels offering value (through products, technology, and security) service quality. The role of RM is to take care of emotional wellbeing of customer. This is an important role of RM in marketing strategy. The emotional quotient level is high in the hotel business. Protecting emotional wellbeing is linked to building trust. In one 5 star hotels for example, they take care of health – one Indian hotel calls Thailand massage experts to relieve stress of its guests who travel across countries and are subjected to stress. In another hotel they strive to provide the best security systems with good floor security, CCTV. There are also periodic reports on food tests on whatever is eaten to say that they care for the customer. Another hotel went all the way with police procedures to retrieve a stolen / misplaced item of a client who held wedding party in a hotel. Relationships with the government are also important. In one hotel, there were 70 licenses allotted to run the hotel. Relationships with the government lead to important information, which can lead to advantages. One example is of a hotel that got advance information through a relationship of the location of an international airport and bought land at a low price. Apart from relationships with government, external partnerships with vendors, food sampling and testing through microbiology sections, employee satisfaction, senior citizen packaged help improve company image in the market. It is not possible to displease the customer and maintain effective ongoing relationships. Customer retention is a very important part of RM and is the link to relationship management. In one hotel for example at one point of time there are 158 Managers from 130 companies to be serviced and every care should be taken that the customers are simultaneously well serviced. Customer acquisition is also important and is normally more expensive. RM also helps understand and track customer psyche and its changes based on which customer value propositions can be built. They also try to customize offerings based on their understanding of the customer psyche. RM programs in hotels include loyalty programs (dedicated loyalty programs are sometimes included), frequency marketing, tie-up with credit card companies, database marketing (local and central databases, segment focus), direct marketing, guest relationship program, preferred partner programs (one hotel had 350 preferred partners in city), direct email, newsletter, food festivals. Relationships are also driven by rate fixing for room rent, which goes on a variable rate depending on the business. Customer management practices in one hotel includes (a) communication starting with RM manager (b) broadband facilities (c) complementary cocktail hour (d) complementary boardroom facility (e) international newspaper (f) Japanese breakfast (g) capture of customer profile and appropriate reactions. One hotel gave helping hand to customers who stayed with them a long time for settling in a new home. Relationship marketing efforts give feedback for strategic decisions

such as (1) opening up of new hotel, (2) start of new advertising campaign, (3) competition action / reactions to be made. RM is normally expected to improve profitability, though it is the long-term profitability and not the short-term profitability that is expected to improve. The improvement in profitability also comes from the elements of trust. RM managers gather market intelligence and give market information advantages to strategic marketers, which enable better adjustments of the firm to the market over time. RM managers work on experience that is the basic thrust. RM helps the seller to guide the moments of truth in his favor. The revolutionary thought in relationship marketing is to give what the customer wants and not what the selling firm wants. To do this the internal clients have to understand that the ultimate customer is important and as such Internal Marketing is very important. For RM to lead to competitive advantage the product has to be good, operations should support the RM efforts and service delivery has to be excellent. RM is bad when the customer backfires; in this sense it is a high risk, high return process. Long-term relationships are beneficial as long as it is professional; there is a thin line between the client and the provider, which has to be maintained. The providers have to continuously demonstrate that these long-term relationships are win-win. This is difficult to maintain as expectations increase with relationships. Some hotels go beyond call of duty to make this expectation fulfillment possible. They anticipate and meet customer needs from a very proactive sense.

## 6.0. SUMMARY

The role of Relationship Marketing in Competitive Marketing Strategy has been studied Both transaction theories and social exchange theories should be used dependent on context to model relational transactions. Relationship Marketing (RM) is one of the streams of conceptual and empirical work in strategic marketing (Steinman, Deshpande and Farley, 2000). RM is defined as the identification, establishment, maintenance, enhancement, modification and termination of relationships with customers / consumers to create value for customers and profit for organization by a series of ongoing exchanges that have both a history and a future. Such exchanges are called relational exchanges. Relational exchanges can be examined under transaction cost analysis or social exchange theory depending on the context. Relationships with intermediate customers, ultimate customers and other key publics (vendors, government) in the business process is important in CMS as outlined in the framework of marketing strategy. Relationships are a cornerstone of Marketing Strategy (Sudarshan D, 1995). The role of RM in CMS includes (a) Guide moments of Truth (b) RM to improve profitability (c) RM builds partnering (d) Address 'Customer Better' (e) Buy in of Customer attention (f) Protect Emotional wellbeing (g) Understand consumer psyche (h) Build trust with

customer. All these roles are observed empirically in the hotel industry. However the role of RM varies from hotel to hotel, with some placing emphasis on RM practices whereas others depend on their extraordinary operations and services to engage the customer on a continuous basis. RM practices in hotels include loyalty programs (dedicated loyalty programs are sometimes included), frequency marketing, tie-up with credit card companies, database marketing (local and central databases, segment focus), direct marketing, guest relationship program, preferred partner programs (one hotel had 350 preferred partners in city), direct email, newsletter, food festivals. RM serves to provide competitive edge only when a good product backs it; excellent operations and a good service delivery set up.

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