

A STUDY ON FUTURE PROSPECTS OF RELATIONSHIP MARKETING

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ABSTRACT

The purpose of this paper is to discover factors that led to the rise of relationship marketing in practice and academics, and what factors are likely to reshape the future direction of relationship marketing. Understanding the motivations of consumers to engage in relationships with marketers is important for both practitioners and marketing scholars. To develop an effective theory of relationship marketing, it is necessary to understand what motivates consumers to reduce their available market choices and engage in a relational market behavior by patronizing the same marketer in subsequent choice situations. This article draws on established consumer behavior literature to suggest that consumers engage in relational market behavior due to personal influences, social influences, and institutional influences. Consumers reduce their available choice and engage in relational market behavior because they want to simplify their buying and consuming tasks, simplify information processing, reduce perceived risks, and maintain cognitive consistency and a state of psychological comfort. They also engage in relational market behavior because of family and social norms, peer group pressures, government mandates, religious tenets, employer influences, and marketer policies. The willingness and ability of both consumers and marketers to engage in relational marketing will lead to greater marketing productivity, unless either consumers or marketers abuse the mutual interdependence and cooperation.

Keywords: marketing relationships, marketer's policies, relationship management.

INTRODUCTION

According to Boone and Kurtz (1998), "Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services, organizations, and events to create and maintain relationships that will satisfy individual and organizational objectives." This definition highlights the difference between the traditional marketing that viewed marketing from a transactional point of view and the proper view of marketing as a process of building relationships between the seller and the buyer. Lasting relationships are built on the basis of mutual benefit and respect which means that any marketer that wishes to thrive in this ever increasing competitive market place must understand the concept of relationship marketing. A marketing philosophy that helps to explain why marketers should pursue relationship marketing is what Kotler called the marketing concept which states that the best way to achieve an organization's objectives is through the satisfaction of its customers. To satisfy customers, it is not only necessary to know who they are, but what they need, and how to meet those needs in ways that are consistent with the organization's objectives.

Over the years, market segmentation has served as a major tool of implementing the Marketing concept in the market place. Market segmentation is the process of dividing customers with heterogeneous needs into groups that have similar needs. The concept of segmentation is derived from the principle of aggregation. The underlying assumption is that if you are able to identify a collection of individuals whose needs for a particular product are similar, then you may attempt to meet these similar needs with a single product and reach those individuals with a single communications strategy, a single distribution strategy and a single pricing strategy. Similarity from the point of view of market segmentation deals with approximation and not with precision of needs. The major disadvantage of this approach is that segmenting on the basis of similarity in many cases leads to group thinking. This means that marketers either consciously or subconsciously tend to fall back to the mode of classifying their customers as part of a group and not necessarily as individuals. This propensity to view customers as part of a group in many cases, encourages marketers to deal with individual customers from a transactional perspective, where each transaction is treated as a unique event. When the emphasis is on the group, those marketers who are able to convince their customers that their products are the closest to what they need tend to be the most successful. As Vavra (1995) put it, “Acquisition of and promotion of customers dominated, and customer service issues simply fell by the wayside.” The emphasis was on creating or attracting as opposed to retaining customers. Fortunately, marketing is now being redefined as an increasing number of marketing professionals are beginning to realize the value of the —long-time client.

Traditional views of marketing are now being challenged and are slowly giving way to a new age of marketing, emphasizing the process of developing and maintaining an effective level of organizational-customer relationship. The —process aspect of marketing is gaining prominence—having both transactional and relational qualities—which strives to establish, maintain, and enhance the relationship with customers in order to mutually satisfy the real objectives of both parties. —The customer is important, these new views say, —we want to retain our customers, not overlook them and have them defect.” Relationship marketing (RM) is the key to success under this new era of marketing.

Relationship marketing is the development of mutually beneficial long-term relationships between a seller and a buyer. From the firm’s point of view, RM is the art of creating special personal ties with its customers. Customers on the other hand, view RM as an opportunity to share information about their needs and to have those needs fulfilled. The significance of relationship marketing is highlighted by the following statistics outlining the reasons why customers switch to competitors (Metupp.com 1999).

- Company contact and individual attention lacking or poor in quality 69 %
- Found a better product 15 %
- Found it cheaper 15 %

A variety of terms have been used to refer to relationship marketing. Some of these terms include: one-to-one marketing, database marketing, micro marketing, relevance marketing, and interactive marketing. The formal acknowledgement of RM, in the authors' opinions represents a paradigm shift from the older, more traditional way of doing business. As adequately put by Buttle (1996), —in the 1950s, mass-marketing was key as market segmentation was in the 1970s. The 1990s however have ushered in an era of personalized marketing which includes highly focused strategies, increased market fragmentation, high levels of product quality, and more demanding customers.

The purpose of this paper therefore, is to discuss some of the major issues that may affect the successful implementation of a relationship marketing strategy. First, the paper will provide a more detailed definition of Relationship Marketing. Then some of the major benefits of and keys to success in implementing an effective Relationship Marketing strategy will be discussed. Finally, examples of current applications of RM in some organizations will be discussed.

Three antecedents were responsible for the popularity of relationship marketing in the late 1980s and early 1990s. First, the energy crisis of the 1970s and the consequent economic stagflation resulted in excess capacity and high raw materials costs. Competition intensified on a global basis. In fact, many US industries became casualties of foreign competition. This included consumer electronics, textiles, steel, chemicals, machine tools and shipbuilding. It became necessary to defensively focus on retaining customers and defocus customer acquisition related marketing expenditures and activities. In other words, customer retention became the corporate focus and this resulted in the emergence of ongoing relational exchange in contrast with the one-time transactional exchange (Sheth et al., 1988). At the same time, service marketing was emerging as a popular new domain of research and understanding. Many articles were written to strongly argue how services were fundamentally different from products: intangible, perishable, and simultaneous and mostly interactive. Furthermore, services such as legal, accounting, medical and personal care were ongoing and over time. Leonard Berry was the first scholar in services marketing to coin the phrase "relationship marketing" as early as 1983 (Berry, 1983). It made eminent sense because services are generally direct offerings to the end users (telephone, utilities, banking, etc.) and we have a direct record of transactions over time with each individual customer, enabling researchers to analyze and theorize about customer loyalty and one-to-one marketing (Peppers and Rogers, 1993). Finally, in business to business marketing, most companies began to institute key account, national account and global account management processes and programs to consolidate and increase share of each account's business to fewer suppliers preferably resulting in a sole source relationship. This was further stimulated by the quality drive in the 1980s (TQM philosophy) and a desire to reduce the number of suppliers in order to improve quality at a lower cost. The Japanese success in developing supplier partnering in the value chain especially in the automobile industry became the role model for the American industry. This collaborative as opposed to combative attitude

toward the suppliers further resulted in treating business exchanges as relational and interactive. The emergence of IMP Group (Hakansson, 1982) in Europe with a focus on interaction as opposed to transactions provided another impetus toward business-to-business relationship marketing. Consequently, relationship marketing exploded as a field of marketing enquiry in the late 1980s (Sheth and Parvatiyar, 2000). However, three new antecedents are likely to change the course and even the definition of relationship marketing in the coming decade.

The first and probably the most significant antecedent is the impact of the Internet and information technology (IT), especially in all situations where there is a direct accounts receivable (customer) relationship. The automation of sales and marketing by Siebel Systems as well as cross-functional integration through enterprise resources planning (ERP) systems have shifted the focus to customer relationship management (CRM). As a consequence, marketing is once again not the driver. It is the IT function headed by chief information officer (CIO) who often reports directly to the CEO of a company. Marketing is once more getting marginalized as happened during the popularity of TQM philosophy, which diffused the focus on customer's away from the marketing department. I believe CRM movement will continue to grow despite its early failures and shift the focus to tactical marketing such as loyalty programs, affinity marketing and campaign management.

A second major factor has to do with the bottom line question: Does relationship marketing pay? The empirical evidence is inconclusive despite all of our beliefs in lifetime value of the customer, and share of customer wallet concepts especially in business-to-business marketing. The largest revenue accounts are often found not to be the most profitable accounts. Consequently, there is emergence of a strong belief that a company must be selective in its use of relationship marketing; indeed it must consider segmenting the market into relational and transactional markets. In other words, relationship marketing is not nor should be a universal philosophy, but just one of several marketing relationships (El-Ansary, 1997). Therefore, unlike the TQM movement, relationship marketing is likely to remain more selective and targeted.

RELATIONSHIP MARKETING

The definition of marketing has changed emphasis from purely transaction driven to being process driven. The process approach combines both transactional (related to fast-moving consumer goods) and relational (related to services) qualities, which strives to establish, maintain, and enhance mutually beneficial relationships with customers so as to satisfy the objectives of all parties. This new definition of marketing realizes the value of the lifetime customer and the importance of preventing customer defections. Customers are demanding more; therefore marketers must work to meet those demands. Marketers—just like the adult butterfly must court their customers, build a relationship with them, and exchange vital information. Maintaining customers—as the new definition mentions—requires the establishment of relationships that are characterized by trust, respect, and commitment. Marketers must be willing

to discover and satisfy the needs of each customer as individuals. As appropriately put by John Naisbitt —A product for everyone is a product for no one in America today (Vavra 1995)

BENEFITS OF RELATIONSHIP MARKETING

From the Firms Point of view, relationship marketing can provide the following benefits:

- 1. Profitability:** The longer the association between the company and its customer, the more profitable the relationship. From marketing experience, it has been established that retaining existing customers is more profitable than acquiring new ones. Relationship marketing provides a firm with an opportunity to participate in cross selling which increases overall sales volume and potential profit. Goodwill, which results in —word of mouth promotion, helps to lower customer acquisition cost, and therefore impacts favorably on profit. According to Frederick Reichheld in his book, the Loyalty Effect, —a 5% improvement in a company's customer attrition rate can push a company's profits up to 75% higher. This increased profit is a result of reduced acquisition costs, increased cross-selling, a high customer referral rate, decreased price sensitivity, and lower operating costs.
- 2. Brand loyalty:** Brand loyalty is a benefit produced by an effective relationship marketing strategy. Relationship marketing encourages the customer to build a long- term relationship with a firm and its product. When this relationship results in consistent preferential treatment for a firm's product, the result is a brand loyal customer.
- 3. Product Differentiation and Competitive Advantage:** Closely related to Brand loyalty is the concept of product differentiation and competitive advantage. In this age of global competition, product differentiation, which leads to competitive advantage, is a must. Relationship marketing can provide an effective means of achieving both an effective product differentiation and competitive advantage. By placing a much greater emphasis on listening, marketers can more effectively determine what the customer wants and tailor the product to appropriately fit the customer's needs. This ability to better serve a customer can help a marketer to better differentiate his products and thus gain competitive advantage over those marketers that are not as responsive. Another source of both product differentiation and competitive advantage is in the area of marketing communications. When a marketer's communications strategy emphasizes providing the customer with information that will enable the customer educate him/her self instead of the traditional advertising and sales promotion, the customer is more likely to remain loyal to the marketer. This is completely opposite to always looking for ways to capture new customers, which of course, is very expensive.

From the customer's Point of view, relationship marketing can provide the following benefits

- 1. Relationship Marketing allows personalized marketing,** which deals with direct one-to-one interactions between a marketer and its customers. One of the great benefits of interactive marketing is that buyers are in better positions to tell sellers what they want, and sellers can match their offerings to the needs of buyers. Nike uses its —Product Recommendation system

to help meet customer's needs. The prospective customer answers about a dozen questions about himself and how he'll use the shoes and the Product Recommendation System reveals which shoes are right for the customer. Armed with this information, the customer goes into his local shoe store to ask for shoes that are exactly right for him

2. Relationship Marketing allows a firm to anticipate customer's wants: marketers see a lot of customers with similar needs, tastes, and interests. They can use this experience, which is not available to individual customers, to anticipate what may appeal to an individual. This is particularly important because, a customer may have a general idea of what he or she wants, but the actual product design that matches his needs may not be immediately known to him. A good example is the Book Matcher system, which Amazon uses to perform what it calls the collaborative filtering function. Collaborative filtering works by collecting the likes and dislikes of many people on a collection of items (in this case, books). It then looks for books the other person has read and ranked highly which you haven't read and recommends them to you. In this case, relationship marketing allows an individual to gain exposure to a product that suits his individual needs that he would otherwise not have known existed.

3. Relationship marketing allows customers to receive relevant Information: An effective Relationship Marketing program provides customers with sufficient information to empower them to make correct purchase decisions. A very good example can be seen on the various on-line airline booking services. When a customer signs on with these on-line services and tries to book a flight, most of them provide the customers with a variety of choices that are in most cases sufficient to allow the traveler to make an appropriate travel plan. The most important thing about this system is that it allows the traveler instant comparative information which enables him to minimize transaction time, and in many cases maximize savings.

Characteristics of a Successful Relationship Marketing Program

There are several paths marketers may take to successfully implement a Relationship Marketing program. However, there are several attributes that must be present in order for a Relationship Marketing program to be successful. These include, trust, commitment, empathy, and responsiveness customers' needs.

Trust is one the key elements for a successful RM program. Trust deals with the ability of the firm to implement a privacy policy that informs customers about what the firm plans to do with the personal data it is requesting from them.

Commitment deals with a firm's desire to maintain a long-term relationship with its customer base. Without trust, commitment —flounders

Empathy from a Relationship Marketing point of view deals with an understanding of customers 'expectations and is essential to success. If you do not understand your customers, you cannot serve them successfully. Customers must be understood, nurtured, and listened to.

Responsiveness in relationship marketing reflects an attitude of giving instead of getting. Firms put customers more at ease when the customer realizes that the marketer is as concerned with what benefits the customer is receiving as to the profit the firm is making. Additionally, open and

free dialogue requires a communication pipeline through which a firm is alerted to issues and problems before they fester, and more timely and relevant messages can be delivered efficiently and effectively. Consistent active and open two-way dialogue, through which customer-centered, caring, and customer-oriented information is expressed, serves to build overall trust and confidence in a firm overall.

TOOLS AVAILABLE FOR IMPLEMENTING RELATIONSHIP MARKETING

The use of one-to-one media is essential to remaining competitive in today's globally competitive environment. According to Don Pepper and Martha Rogers in their book, the One-to-One future, there are three criteria for one-to-one media: —individually addressable, two-way, and inexpensive. The following are various tools available for implementation of Relationship Marketing

1. Surveys
2. Database Technology
3. Reorientation From Economies Of Scale To Economies Of Scope
4. Print-On-Demand Technology
5. Internal Marketing

CONCLUSION

With product quality becoming a standard in many industries, many firms are scrambling to escape the mire of the 'commodity.' Several of these firms are turning to Relationship Marketing as a means of differentiating themselves. This shift to RM is being fueled by fundamental cultural shifts, powerful databases, and new focus of organizational structure and is occurring more rapidly in some sectors and industries than other. Through the relationship they build, marketers turn data into knowledge by using the information, insight, and understanding gained over time and applying this information to mutual benefits with their customers.

As an increasing number of Firms strive to incorporate Relationship Marketing into their operating strategies, marketers must remember that —immediate gratification is not an attribute of a successful one-to-one marketing.

They must understand that knowledge is built over the duration of a customer's relationship with a firm. There is no doubt that those firms that take the time to develop a lasting and mutually beneficial relationship with their customers will over the long run dominate those who continue to do business as usual.

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