Relationship Marketing:
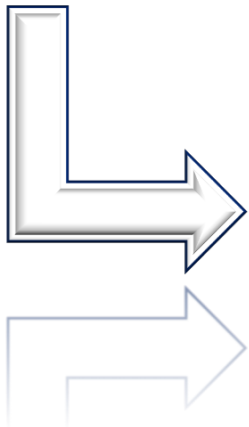# Contents, Meaning, and Strategies

Introduction to Service Marketing

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From old to new vision in management

Transaction-based marketing - Buyer and seller exchanges characterized by limited communications and little or no ongoing relationship between the parties

Relationship Marketing - Development, growth, and maintenance of long-term, cost-effective relationships with individual customers, suppliers, employees, and other partners for mutual benefit

Transaction Marketing Vs Relationship Marketing

Transactional marketing is focusing all of its marketing efforts on attracting customer for one off sale

Relationship marketing uses methods to develop long term relationship with customer in order to retain and develop a healthy relationship with their customer
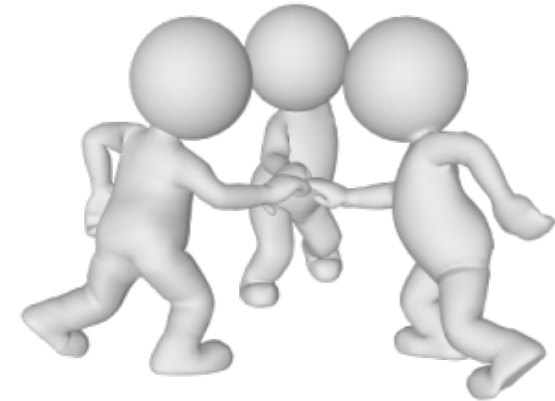
Source: Gummesson, E. (2011). *Total relationship marketing*. Routledge, London.

From old to new vision in management

PAST ● ← → ● **TRANSACTION**

PRESENT ● → ← ● **COLLABORATION**

FUTURE? ● ↔ ● **INTEGRATION**

Core concepts of Relationship Marketing

a. Contrast transaction-based marketing with relationship-based marketing.

b. Identify and explain the four basic elements of relationship marketing, as well as the importance of internal marketing.

c. Identify the three levels of the relationship marketing continuum.

d. Explain how firms can enhance customer satisfaction.

e. Describe how companies build buyer-seller relationships.

f. Explain customer relationship management (CRM) and the role of technology in building customer relationships.

g. Describe the buyer-seller relationship in B2B marketing and identify the four types of business partnerships.

h. Describe how B2B marketing incorporates national account selling, EDI and Web services, VMI, CPFaR, managing the supply chains, and creating alliances.

i. Identify and evaluate the most common measurement and evaluation techniques within a relationship marketing program.

Key drives of Relationship Marketing

- ✓ Focuses on long term rather than short term

- ✓ Emphasizes retaining customers over making a sale

- ✓ Ranks customer service as a high priority

- ✓ Encourages frequent customer contact

- ✓ Fosters customer commitment with the firm

- ✓ Bases customer interactions on cooperation and trust

Key drives of Relationship Marketing

Gather information about their customers

Monitor interactions with customers

Firms build long-term relationships in four ways

Analyze the data and use it to modify the marketing mix

Use customers' preferences and knowledge

Marketing mix and Relationship Marketing

Price

- ✓ The company will set a price based on the relationship with the customer and the bundle of features and services ordered by the customer.
- ✓ In business-to-business marketing, there is more negotiation because products are often designed for each customer.

Place (Distribution)

- ✓ RM favours more direct marketing to the customer, thus reducing the role of middlemen.
- ✓ RM favours offering alternatives to customers to choose the way they want to order, pay for, receive, install, and even repair the product.

Promotion (Communication)

- ✓ RM favours more individual communication and dialogue with customers.
- ✓ RM favours more integrated marketing communications to deliver the same promise and image to the customer.
- ✓ RM sets up extranets with large customers to facilitate information exchange, joint planning, ordering, and payments.

Product

- ✓ More products are customized to the customers' preferences.
- ✓ New products are developed and designed cooperatively with suppliers and distributors.

Levels of Relationship Marketing

First level: *Price*

Second level: *Social interaction*
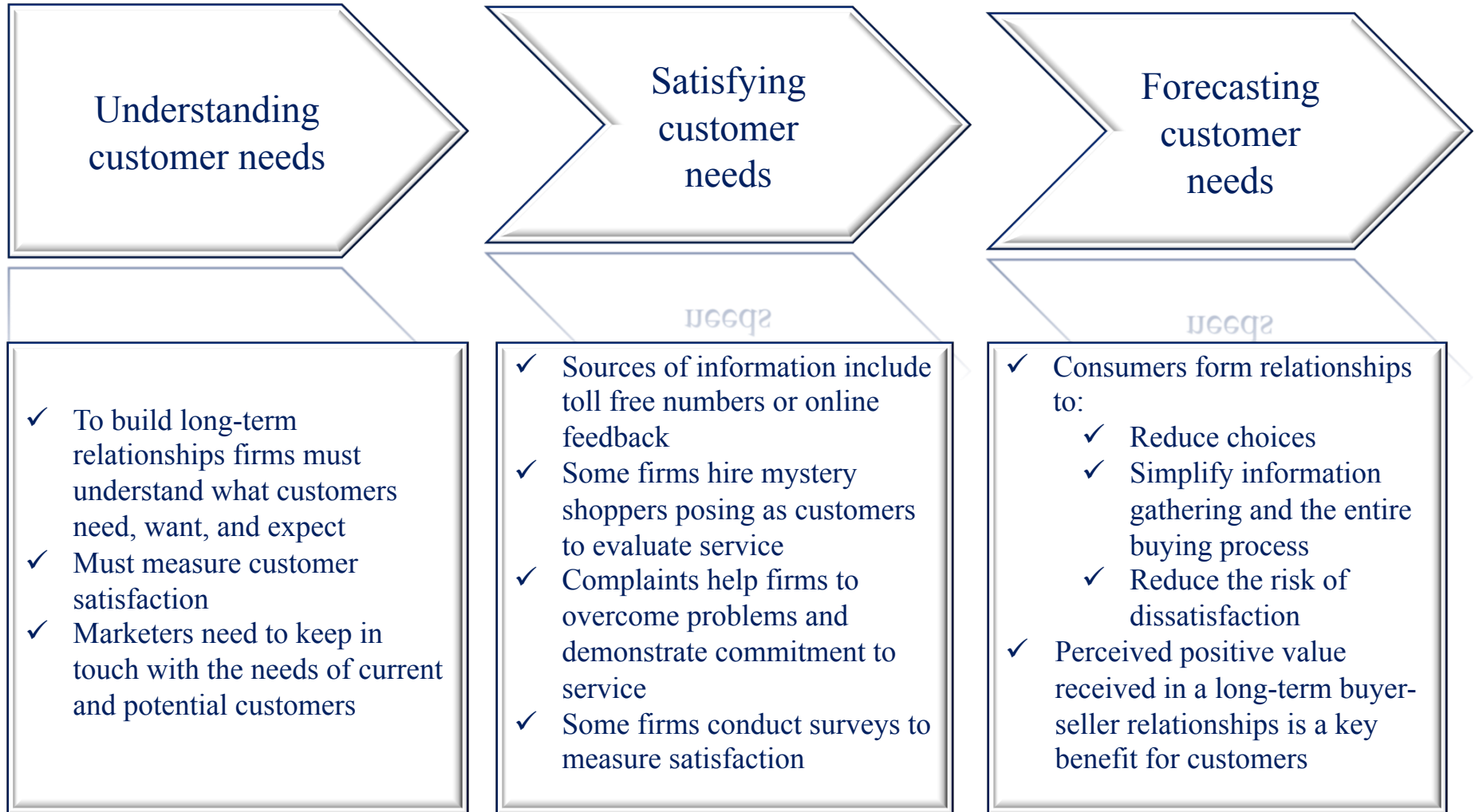
Third level: *Partnership*

Source: Berry, L. L. (1995). Relationship marketing of services—growing interest, emerging perspectives. *Journal of the Academy of marketing science*, 23(4), 236-245.
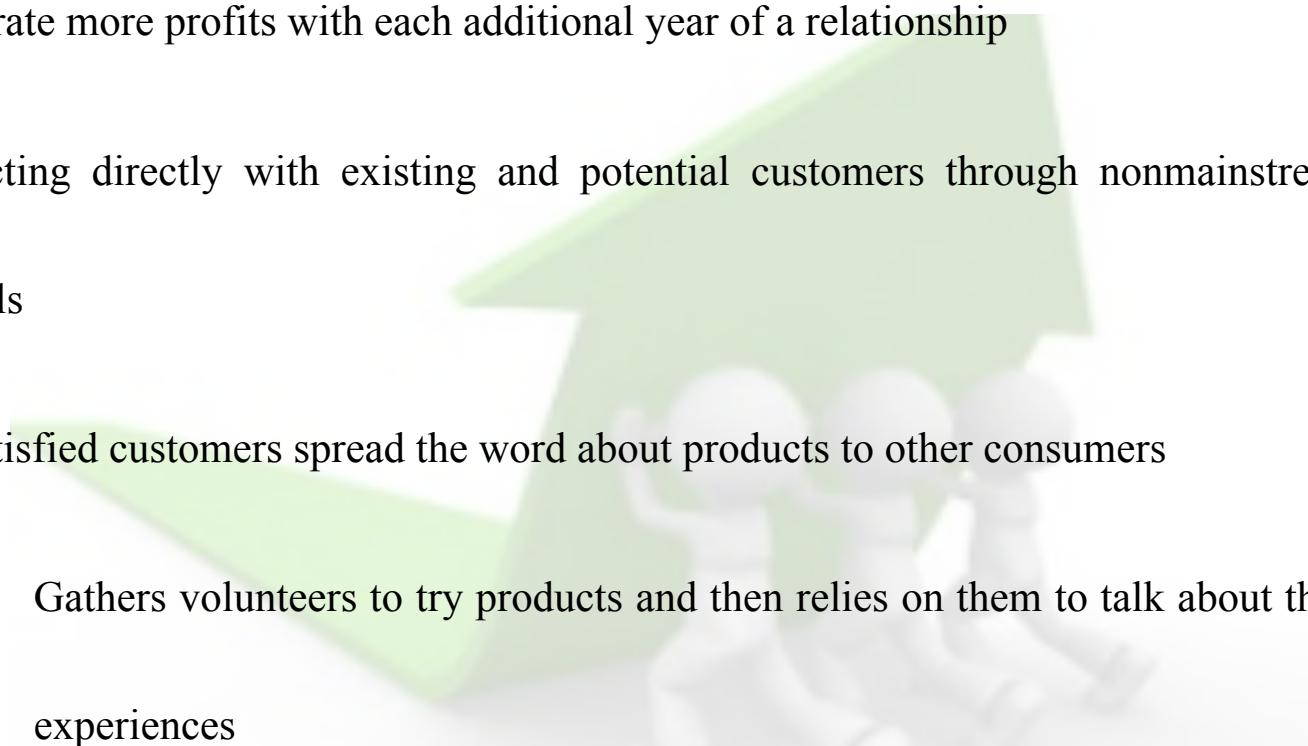
The focus: Customer satisfaction

- ✓ Customers experience of a product or a service is multifaceted so hard to determine

- ✓ It needs to be measured individually to get an accurate total picture of customer satisfaction

- ✓ Customer satisfaction should not be viewed in a vacuum.

- ✓ For example, a customer may be satisfied with a product or service and therefore rate the product or service highly in a survey and yet same customer may buy another product.

SATISFACTION

- WOW!!!
- THRILLED
- HAPPY
- SATISFIED

Steps towards Customer satisfaction

Understanding customer needs → **Satisfying customer needs** → **Forecasting customer needs**

Understanding customer needs	Satisfying customer needs	Forecasting customer needs

✓ To build long-term relationships firms must understand what customers need, want, and expect
✓ Must measure customer satisfaction
✓ Marketers need to keep in touch with the needs of current and potential customers
	✓ Sources of information include toll free numbers or online feedback
	✓ Some firms hire mystery shoppers posing as customers to evaluate service
	✓ Complaints help firms to overcome problems and demonstrate commitment to service
	✓ Some firms conduct surveys to measure satisfaction
		✓ Consumers form relationships to:
		  ✓ Reduce choices
		  ✓ Simplify information gathering and the entire buying process
		  ✓ Reduce the risk of dissatisfaction
		✓ Perceived positive value received in a long-term buyer-seller relationships is a key benefit for customers

Reasons of Relationship Marketing

✓   Retaining customers is more profitable than losing them

   ✓   Customer turnover is expensive for companies

      ✓   Firms generate more profits with each additional year of a relationship

         ✓   Connecting directly with existing and potential customers through nonmainstream

         channels

            ✓   Satisfied customers spread the word about products to other consumers

               ✓   Gathers volunteers to try products and then relies on them to talk about their

               experiences

A possible pathways: Customer Relationship Management (CRM)

"Customer relationship management is an enterprise-wide customer-centric business model that must be built around the customer. It is a continuous effort that requires redesigning core business processes starting from the customer perspective and involving customer feedback".
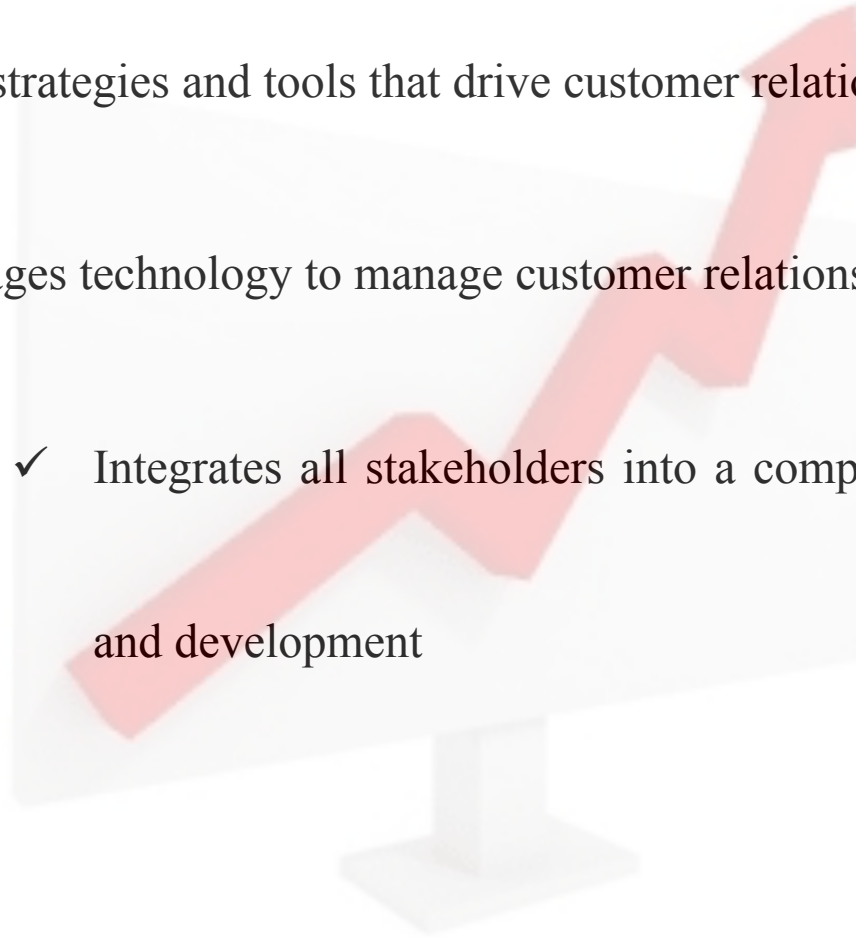
Source: Chen, I. J., & Popovich, K. (2003). Understanding customer relationship management (CRM) People, process and technology. Business process management journal, 9(5), 672-688.

"As we move from the industrial economy to the knowledge-based economy, the focus of production efficiency is shifted to value creation throughout the entire value chain. Customer relationship management is a key ingredient in the value creation strategy".
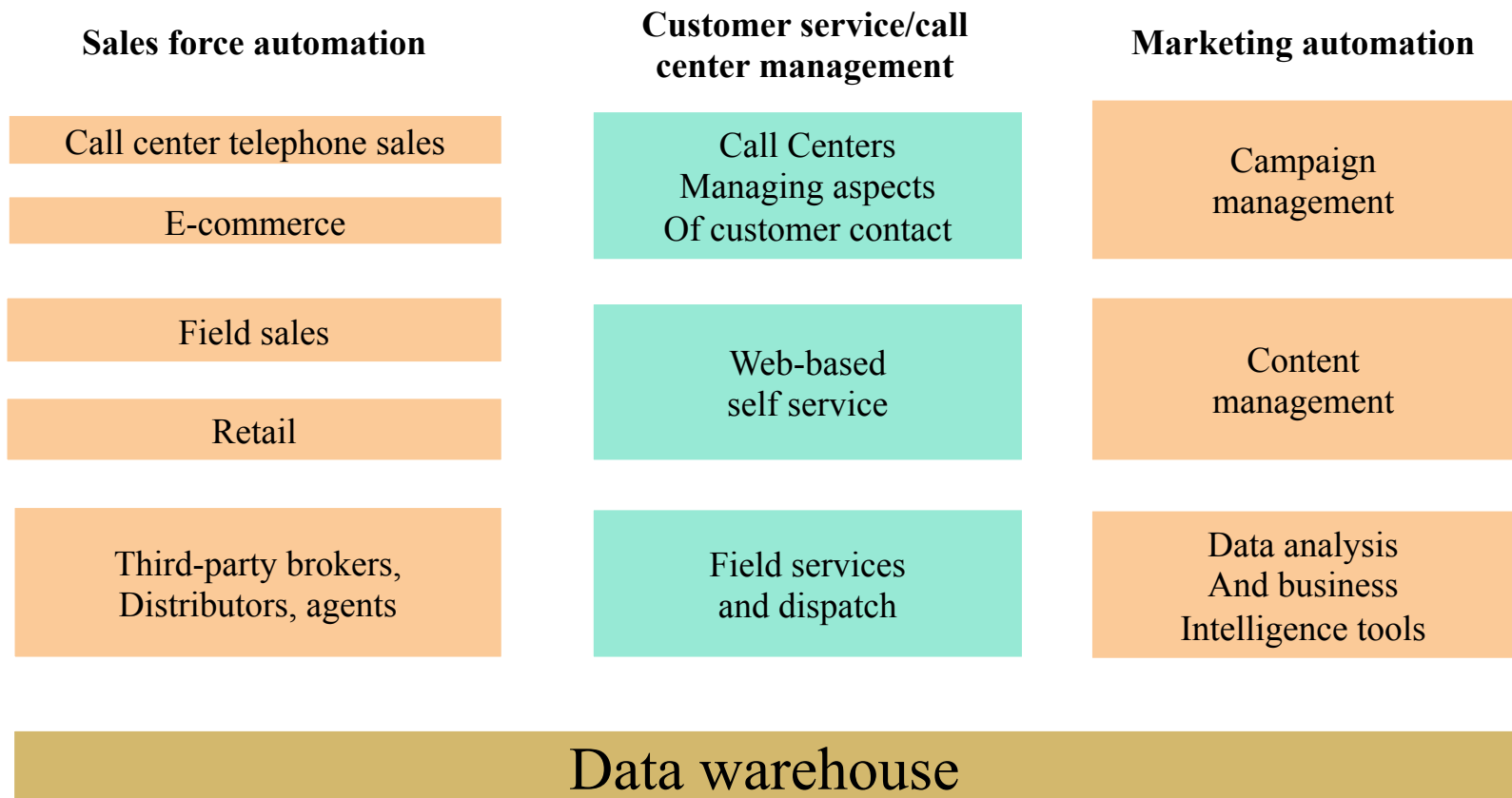
Source: Chan, J. O. (2005). Toward a unified view of customer relationship management. Journal of American Academy of Business, 6(1), 32-38.

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Implementation strategies

- ✓ Combination of strategies and tools that drive customer relationship programs

  - ✓ Leverages technology to manage customer relationships

    - ✓ Integrates all stakeholders into a company's product design and development

Elements of CRM

Sales force automation

Call center telephone sales

E-commerce

Field sales

Retail

Third-party brokers,
Distributors, agents

**Customer service/call
center management**

Call Centers
Managing aspects
Of customer contact

Web-based
self service

Field services
and dispatch

Marketing automation

Campaign
management

Content
management

Data analysis
And business
Intelligence tools

Data warehouse

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Role of ICT in CRM

- ✓ Technological approaches involving the use of databases, data mining and one-to-one marketing can assist organisations to increase customer value and their own profitability

- ✓ This type of technology can be used to keep a record of customers names and contact details in addition to their history of buying products or using services

- ✓ This information can be used to target customers in a personalised way and offer them services to meet their specific needs

- ✓ This personalised communication provides value for the customer and increases customers loyalty to the provider

Benefits of CRM

- ✓ Software systems can make sense of huge amounts of data

- ✓ Simplifies complex business processes

- ✓ While company is quickly growing, customers are more satisfied as well

- ✓ Service provided in a better way, and a quicker way

- ✓ Integrated customer information

- ✓ Certain processes are eliminated

- ✓ Operation cost cut, and time efficient

- ✓ Brand names more quickly established

- ✓ Sales and marketing teams can benefit from having knowledge about customers

Different CRM strategies for different stakeholders

	Strong relationship	**Weak Relationship**
High Willingness	PROMOTERS	CONNECTORS
Low Willingness	PRIVACY SEEKERS	AVOIDERS

Source: Elaboration on research published in "Referrals Revisited," Investment Advisor, December 2007.

Different CRM strategies for different stakeholders

	SHORT-TERM CUSTOMERS	LONG-TERM CUSTOMERS
HIGH PROFIT	Butterflies ✓ Aim to achieve transactional satisfaction, not attitudinal loyalty ✓ Milk the accounts only so long as they are active ✓ Key challenge is to case investing soon enough	True friend ✓ Communicate consistently but not too often ✓ Build both attitudinal and behavioural loyalty ✓ Delight these customers to nurture, defend and retain them
LOW PROFIT	Strangers ✓ Make no investment in these relationships ✓ Make profit on every transaction	Barnacles ✓ Measure both size and share of wallet ✓ If share of the wallet is low, focus on up- and crossing-selling ✓ If size of the wallet is small, impose strict cost control

Source: Reinartz, W., & Kumar, V. (2002). The mismanagement of customer loyalty. *Harvard business review, 80*(7), 86-95.

Problems with CRM

- ✓ Requires companywide commitment and knowledge to use the CRM system

- ✓ Failure to effectively reorganize firm's people and processes

- ✓ Organizational wise change of priority to customers

- ✓ Significant investment of time and money

- ✓ Threatens management's control/power struggle

- ✓ Heightens people's resistance to change

- ✓ Inappropriate integration leads to disaster

How to develop a CRM strategy?

To develop a CRM strategy organizations need to address four issues:

1. What is our core business and how will it evolve in the future?

2. What form of CRM is appropriate for our business now and in the future?

3. What IT infrastructure do we have and what do we need to support the future organization needs?

4. What vendors and partners do we need to choose?
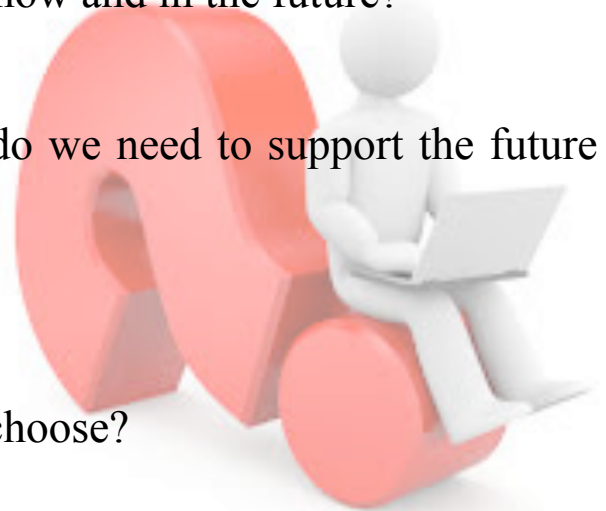
Steps to improve a CRM strategy

✓ **Building customer knowledge -** Develops a thorough knowledge of their customers and the local market. Has close enough relationships with key customers to know what is going on for them and their work area.

✓ **Understanding needs -** Focuses on the needs of customers rather than just on own agenda. Is skilled, attentive and patient when listening to customers. Facilitates customers in identifying their own needs.

✓ **Managing customer information -** Keeps accurate customer information to enable the business to optimize the relationship and actively passes information to others. Maintains regular communication exchanges with customers.

✓ **Adding value -** Provides help and solutions to meet customer needs. Uses a wide range of activities to work alongside customers. Links their understanding of the customer needs to relevant services or products.

✓ **Building trust -** Has integrity and is trusted by their customers. Develops a track record of delivering what they promise and sorting out problems. They readily gain testimonials and referrals from existing customers.

Source: Hennessy, J., & Vincent, R. (2005). The Psychology of Customer Relationship Management. *Business Psychology in Practice*, 256-268.

A short summary
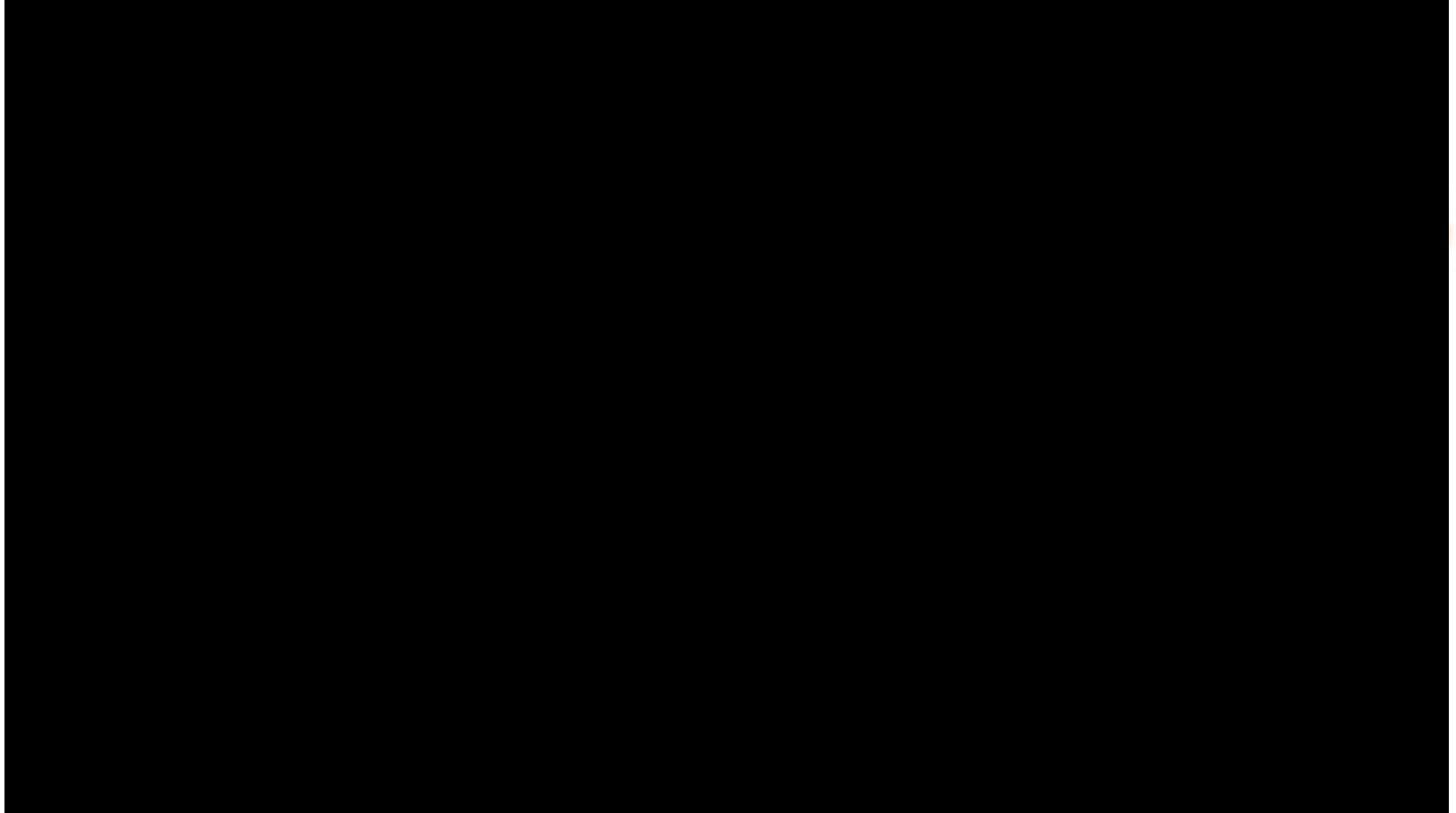
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Relational Marketing:

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Thank you for your attention

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