Your road to success

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LEVEL 6 STRATEGIC MARKETING RELATIONSHIPS

ABE • OFFICIAL STUDY GUIDE

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Author: Sarah Cook MA (Cantab), MBA, FCIPD and Chartered Marketer
Reviewer: Jacqui Bishop BA (Hons), MA, PGCE, Dip M, Dip MRS, MCIM

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Contents

Using your study guide

Welcome to the study guide for the **Level 6 Strategic Marketing Relationships**, designed to support those completing their ABE Level 6 Diploma.

Below is an overview of the elements of learning and related key capabilities (taken from the published syllabus).

Element of learning	Key capabilities
Element 1 – Relationship marketing	• Ability to devise and sustain academic arguments within the field of relationship marketing. *Critical thinking, personal responsibility and accountability, application of theories and models, self-evaluation, stakeholder analysis*
Element 2 – Relationship marketing and its impact on buyer behaviour	• Critical understanding of how relationship marketing impacts buy/consumer behaviour. *Decision-making, critical thinking, consumer insight*
Element 3 – Marketing relationships	• Ability to discuss the difference between marketing relationships and relationship marketing. • Appreciation of the importance of networks. *Critical thinking, different types of relationships, networking*
Element 4 – Strategic relationship marketing	• Ability to justify the place of relationship marketing within the wider marketing strategy. • Ability to identify potential relationship marketing planning and implementation issues. • Critical understanding of strategic frameworks for customer relationships (CRM). *Critical thinking, self-management, communication, present information, ideas and data, problem solving.*

This study guide follows the order of the syllabus, which is the basis for your studies. Each chapter starts by listing the syllabus learning outcomes covered and the assessment criteria.

L6 descriptor

Knowledge descriptor (the holder…)	Skills descriptor (the holder can…)
• Has advanced practical, conceptual or technological knowledge and understanding of a subject or field of work to create ways forward in contexts where there are many interacting factors. • Understands different perspectives, approaches or schools of thought and the theories that underpin them. • Can critically analyse, interpret and evaluate complex information, concepts and ideas.	• Determine, refine, adapt and use appropriate methods and advanced cognitive and practical skills to address problems that have limited definition and involve many interacting factors. • Use and, where appropriate, design relevant research and development to inform actions. • Evaluate actions, methods and results and their implications.

The study guide includes a number of features to enhance your studies:

- **'Over to you':** activities for you to complete, using the space provided.
- **Case studies**: realistic business scenarios to reinforce and test your understanding of what you have read.
- **'Revision on the go':** use your phone camera to capture these key pieces of learning, then save them on your phone to use as revision notes.
- **'Need to know':** key pieces of information that are highlighted in the text.
- **Examples:** illustrating points made in the text to show how it works in practice.
- **Tables, graphs and charts:** to bring data to life.
- **Reading list:** identifying resources for further study, including Emerald articles (which will be available in your online student resources).
- **Source/quotation** information to cast further light on the subject from industry sources.
- **Highlighted words** throughout denoting **glossary terms** located at the end of the study guide.

Note

Website addresses current as at November 2017.

Introduction

The overall aim of this study guide is to encourage you to think about the relationships that companies have with their customers over time, rather than viewing each customer purchase as an individual "transaction". Building long-term, sustainable relationships with customers is key to organisational success and, in light of the increasing use of online business models and consumer savviness about how to move between suppliers, the importance of managing the customer experience has never been greater.

Given the strategic importance of such customer relationships in this module you will develop knowledge and skills in areas such as **customer engagement** communication; **relationship marketing** acquisition, retention and distribution; how customers buy; and how to develop an effective customer relationship marketing system.

As such, this module will help you to develop as a knowledgeable and effective strategic marketer or business professional.

Chapter 1

Relationship Marketing

Introduction

In this chapter we outline the development and scope of relationship marketing. We also discuss the application of relationship marketing orientation and its benefits.

Learning outcome

On completing the chapter, you will be able to:

1 **Critically review relationship marketing as a strategic marketing approach**

Assessment criteria

1 **Critically review relationship marketing as a strategic marketing approach**

1.1 Critically review the development of relationship marketing

1.2 Critically discuss the scope of relationship marketing

1.3 Evaluate the application of relationship marketing orientation

1.4 Compare and contrast the benefits of relationship marketing with transactional marketing

1.1 The development of relationship marketing

How relationship marketing has developed as a discipline

Relationship marketing is the process of building long-term, sustainable relationships with customers. It has been described as:

> *"an integrated effort to identify, maintain and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides through individualised and value added contracts over a longer period of time."*
>
> *Shani and Chalasani (1992)*[1]

OVER TO YOU

Activity 1: What is the purpose of marketing?

Think about why companies market their products and services.

Write what you consider to be the main purpose of marketing.

Search on the internet for Peter Drucker's definition of the purpose of marketing and evaluate how this compares to your thoughts.

1 Shani, D. and Chalasani, S. (1992), "Exploiting Niches Using Relationship Marketing", *Journal of Consumer Marketing*, Volume 9, Issue 3, pp. 33–42

Marketing as a discipline has been practised for many centuries in Western cultures and has grown in importance since the industrial revolution.

Industrial revolution	Mid-19th century: Introduction of machines for manufacture of products
Production era	1850s to 1920s: Organisations focus on mass-production of goods. Few alternative options available to consumers.
Product era	1920s to 1960s: Commoditisation (lack of meaningful differentiation) occurs. Businesses compete for market share. Price becomes important differentiator.
Marketing era	1960s to 1980s: Companies recognise that business exists to address customer needs. Focus of marketing is to acquire new customers.
Relationship marketing era	1980s onwards: Businesses recognise value of long-term mutually beneficial relationships with customers.

Figure 1: The evolution of relationship marketing

Marketing evolved in the 1960s and 1970s. It was thought that a company's success was linked to gaining as many new customers as possible. Mass production meant that goods could be manufactured faster, cheaper and better. The focus of marketing activity at that time was on attracting customers to buy your product or service. Marketing was used as a tool to lead customers to make a purchase and the emphasis was on current rather than future transactions.

Traditional marketing techniques involved the use of the **4Ps** (product, place, price and promotion). This is called the **marketing mix**. The 4Ps are a set of variables that marketers adopt to create offerings that add value for the customer. The use of these four variables influences how customer transactions take place.

Product

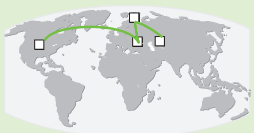
The product or service offered

Price

The cost of the product or service

Place

The distribution channels



Promotion

How the product is communicated to the consumer

Figure 2: The 4Ps of the marketing mix

CASE STUDY: THE 4PS OF MARKETING

Coca-Cola is one of the most well-known brands in the world. The soft drink was first developed in 1886 by pharmacist Dr John S. Pemberton in Atlanta, USA. Dr Pemberton's partner and bookkeeper, Frank M. Robinson, gave the brand its name and designed the distinctive Coca-Cola logo.

Originally the soft drink (the product) was sold in pharmacies (the place) at a premium price (the price). In 1887 Coca-Cola began its first marketing campaign, couponing: distributing coupons promoting free samples of the product. This was followed by the distribution of promotional items printed with the Coca-Cola logo and advertisements were placed in local newspapers (the promotion).

The company has continued to use the variables of the 4Ps to develop into a global brand.

Relationship marketing was developed within the 1980s and 1990s. It is different from other marketing techniques in that rather than being concerned with acquiring the customer and the transactional sales process, it focuses on building and maintaining long-term relationships with customers. These relationships promote customer loyalty and retention, which in the long run increase revenue and market share.

Relationship marketing can be defined as "all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges"[2].

The premise of relationship marketing is that to complete successful transactions (sales), there must be a relationship between the company and the customer. Relationship marketing focuses not only on acquiring new customers but turning them, as well as existing customers, into loyal customers who are "married" to the brand.

So, the difference between traditional marketing and relationship marketing is that relationship marketing seeks to develop long-term rather than one-off relationships between the customer and the brand.

OVER TO YOU

Activity 2: Think of your favourite brand

We all have products or services that we like, and even some which we are passionate about and can call ourselves "advocates" for. It could be a local shop you use, a brand of clothing or a brand of mobile phone if you have one.

Think about brands that you like and are passionate about.

List one product or service that you would recommend to others and/or have repeatedly bought or used and with which you have a long-term relationship.

2 Morgan, R. and Hunt, S. (1994), "The Commitment–Trust Theory of Relationship Marketing", *Journal of Marketing*, Volume 58, Issue 3, pp. 20–38

Describe two reasons why you like the brand. List how often you have purchased the brand in the past year and how often you have recommended it to others.

Evaluate how your advocacy of the brand has impacted your buying behaviour.

When you consider what causes people to have a relationship with a brand, you will see that there are three other elements that can be added to the marketing mix. These are **people, process and physical evidence**.

The three additional elements focus on the relationship that the customer has with the brand rather than on the product or service itself.

OVER TO YOU

Activity 3: The 7Ps of the marketing mix

Read the article "The Marketing Mix 4P's and 7P's Explained" at:

http://marketingmix.co.uk/

Review the importance of people, process and physical evidence in the marketing mix and provide an example of a brand where people, process and physical evidence are the most important elements in the marketing mix.

Relationship marketing recognises the benefits of building long-term relationships. Studies show that this includes:

- repeated purchases of the product or service;
- recommending the brand to others by word-of-mouth (both face-to-face and online);
- trying new products and services;
- providing **feedback** to improve future products and services.

Reichheld and Sasser (1990)[3] suggest that even a 5% improvement in customer retention can increase the profitability of a business by between 25% and 85%.

CASE STUDY: RELATIONSHIP MARKETING AT NOVALI BANK

Surrinder has been a customer of Novali Bank for the past five years. He opened an account when he was promoted to supervisor in his job a few years after moving to the city. At the time, Surrinder was saving to get married. Surrinder looked for a bank that was located near his place of work so that he could visit on his way home. Surrinder wanted a bank that offered a good range of deposit and current accounts, where the fees were not too high.

Surrinder was delighted to find that Novali bank had opened a branch near his place of work. As a new customer Surrinder benefited from a promotional offer of lower fees for the first year of banking. Surrinder liked the bank's bright and clean environment and found that the cashiers were very friendly.

The people in the bank now know Surrinder well. He sends money to his family every month, and the bank staff have the forms ready for him to complete on payday so that the process takes as little time as possible.

Over the years, the bank has improved its products and services and has regularly communicated with Surrinder. He has recently applied and been accepted for a loan to build a family house.

There are now other banks in the area, some of whom Surrinder has been told offer better rates on their current and savings accounts. However, Surrinder likes the service that he receives from Novali Bank and the people he deals with. He is happy to stay with the bank.

OVER TO YOU

Activity 4: The extended marketing mix

Review the case study above.

Identify the factors in the extended marketing mix which help make Surrinder a loyal customer.

3 Reichheld, F. and Sasser, E. (1990), "Zero Defections: Quality comes to Services", *Harvard Business Review*, Sept–Oct Issue, pp. 25–35

Figure 3: Types of marketing and the marketing mix

REVISION on the go

Globalisation trends

Relationship marketing has developed in importance since the late 1990s as **globalisation** has increased. In the last two decades, there has been increasing internationalisation of products and services. Globalisation has been a key factor in the need to build long-term relationships with customers as it has opened up marketplaces and competition has increased as a result.

Globalisation is the growth in the international exchange of goods, services and capital that impacts the economy of countries across the world.

OVER TO YOU

Activity 5: Globalisation in your country

Think about the brands or products that you can purchase which do not originate in your country.

List three products or services that you are aware of which are global brands.

Assess the importance of global brands to your country's economy.

The increasing exchange of products and services across national borders through trade has been brought about because of:

- The accessibility and transparency of information and the spread of technology – the internet has opened communication channels on an international basis allowing rapid access to products and services.
- Population trends – the population is decreasing in developed countries, whilst developing countries have seen an increase in population. This, coupled with increased life expectancy, has had an impact on labour market fluidity and production costs through the loss (emigration) or gain (immigration) of potential workers, especially those with specialist skills.
- Governance – national and international laws that govern economic activity and trade agreements which impact it have meant that many trade barriers have been eliminated.

Therefore, globalisation has led to the opening of new marketplaces for many brands as well as intense competition for customers' loyalty.

Services marketing development

The relationship marketing approach is thought to have originated from the business-to-business and services industries.

In the 1960s and 1970s marketing focused on promoting products to consumers. In the early 1980s **services marketing** emerged as a separate branch within the marketing discipline. The American Marketing Association (AMA) defines services marketing as "an organizational function and a set of processes for identifying or creating, communicating, and delivering value to customers and for managing the customer relationship in a way that benefits the organisation and stakeholders."[4]

Services marketing developed in response to the growing services economy and the shift of labour patterns, particularly in the west, where more people are now employed in the service sector than in manufacturing industries.

4 Lusch, R.F. (2007), "Marketing's Evolving Identity: Defining Our Future", *Journal of Public Policy & Marketing*, Vol. 26, No. 2

OVER TO YOU

Activity 6: The development of services marketing

Critically evaluate how the development of the services economy has impacted marketing practices.

Describe how the growing service economy relates to the extended marketing mix.

CASE STUDY: ENTERPRISE

Enterprise Holdings is the largest car rental company in the world as measured by revenue, fleet and employees. The company operates Enterprise Rent-A-Car, National Car Rental and Alamo Rent a Car brands in more than 85 countries globally.

The company was founded in 1957 by Jack Taylor, an entrepreneur in Missouri, USA, and is still family owned. From its inception, Taylor's motto was, "Take care of your customers and employees, and the profits will follow". Customer service and good employee relations are at the heart of the business.

Enterprise recognises that a key factor that differentiates one car rental company from another is the quality of the service that is provided for customers. Having listened to its customers, Enterprise understands that convenience is important to them. It locates its branches as close as possible to its customers and offers a local pick-up service to take them to collect their car.

Enterprise also recognises the importance of employee engagement in providing an excellent service. It operates globally on a decentralised basis so that employees who work closest to the customer in each country can make decisions. The company has also won many awards over the years for its effective development of employees.

Services have unique characteristics that differentiate them from products or goods.

OVER TO YOU

Activity 7: Unique characteristics of services

Read the article:

http://pravab.blogspot.co.uk/2010/04/service-and-characteristics-of-service.html

Using the four unique characteristics of services described in the article, critically assess how marketing a service is different to marketing a product. Describe three key differences.

OVER TO YOU

Activity 8: Categorise the types of service organisations

Think about services that are provided to consumers.

Brainstorm a list of service organisations that you know, then categorise the brands. For example, financial services, health services, cleaners, etc.

Write down two conclusions that you can draw about the importance of the service sector to your country's economy.

B2B marketing

Business-to-business (B2B) marketing involves the sale of a company's product or service to another company or organisation.

There are four key customer bases in B2B marketing:

- government agencies;
- other businesses that use a company's products, for example car companies that use components in their construction;
- institutions such as schools and hospitals;
- companies such as wholesalers and brokers who resell products to consumers.

A distinguishing feature of business-to-business markets is that unlike in **business to consumer (B2C) marketing**, the buying decision in B2B markets can be complex.

OVER TO YOU

Activity 9: How are customers in the B2B market different?

Read the article:

https://marketing-insider.eu/marketing-explained/part-ii-understanding-the-marketplace-and-consumers/b2b-market-characteristics/

Imagine that you are a customer in a mining company. You need to purchase a fleet of equipment for moving earth and material in one of your mining sites.

Describe how as a buyer you may be different from a customer of consumer goods.

To be successful in the B2B marketplace there must be close buyer–seller relationships. The emphasis on relationships in B2B marketing drove much of the original thinking about relationship marketing.

Digital marketing developments

OVER TO YOU

Activity 10: Your mobile usage

If you have a mobile phone, think about your usage over the past week. Describe the tasks you used your mobile phone to do.

If you do not own a phone, talk to someone who does. Find out and list the main things they use their phone for.

Assess the implications of mobile usage for today's marketer.

The increasing use of digital technology has had an important impact in both consumer and business marketplaces. In the 1990s, Tim Berners-Lee made the World Wide Web available to people. Today more and more people are consuming digital content daily, and this has important implications for relationship marketing. Brands can reach a large audience via the internet in a shorter time period than via traditional marketing methods.

The term "**digital marketing**" was first used in the 1990s.

> *Digital Marketing is the use of digital channels to promote or market products and services to targeted consumers and businesses.*
>
> *Digital Marketing Institute*[5]

5 Read more at: https://digitalmarketinginstitute.com

OVER TO YOU

Activity 11: The evolution of digital marketing

Read the article: www.simplilearn.com/history-and-evolution-of-digital-marketing-article

Critically assess and list the key developments in the evolution of the internet which have had an impact on marketing practices.

Identify the top three social networking sites used globally by marketers.

In response to the evolution of digital, companies have placed more emphasis on digital marketing, so their brands are now always available to customers.

OVER TO YOU

Activity 12: The impact of digital

In January 2017 a report from We Are Social and Hootsuite, called "Digital in 2017 global overview" revealed that more than half of the world's population now uses the internet.

Go to the report: https://wearesocial.com/special-reports/digital-in-2017-global-overview and identify the headline data.

Critically assess the impact of digital on relationship marketing by describing three ways in which marketers can take advantage of the growing use of the internet.

Given that digital allows greater two-way communication with the consumer, identify a brand that exemplifies this via its use of digital media and evaluate the ways in which it has achieved this.

Relational marketing in non-Western cultures

The examples cited above relate to Western cultures. This is because the marketing of brands on a global basis has been led largely by marketers in the West. However, relationship marketing, which is based on personal long-term contacts, is familiar to many non-Western cultures which tend to place a high importance on human relationships.

CASE STUDY: EXAMPLES OF CULTURAL DIVERSITY

In Middle Eastern cultures it is usual for people to engage in small talk on a personal level before discussing the purpose of the customer's visit or meeting. This is part of a desire to understand people on a friendly basis and to build **trust** before discussing business.

However, in Japan, asking a lot of personal questions at the beginning of the relationship – which to Westerners can be a way of building rapport – may be regarded as pushy or rude.

To be successful in terms of relationship marketing, marketers need to consider regional, cultural and ethnic differences and must understand the nature and importance of relationships across cultures. By understanding local norms, businesses can develop targeted marketing campaigns that build long-term customer relationships.

OVER TO YOU

Activity 13: Relationship marketing in emerging economies

Read the article: "Relationship marketing in emerging economies: Some lessons for the future", by S. Flambard-Ruaud (2005), which you can find here:

http://journals.sagepub.com/doi/pdf/10.1177/0256090920050305

List and critically evaluate the conclusions of the author in respect of lessons for the future.

Consider to what extent the popularisation and diffusion of global brands has impacted traditional ideas and values in your own country. Describe one example of this.

CASE STUDY: RELATIONSHIP MARKETING IN AFRICA

A report published in 2016 by Deloitte called "The Deloitte consumer review: Africa – A 21st century review" states that an emerging middle class in Africa is driving demand for consumer goods and services. It cites Ethiopia, Uganda and Mozambique as the countries with the fastest potential expansion in the African continent, with South Africa, Egypt and Nigeria continuing to perform strongly.

These economies can be characterised by increasing population growth, the dominance of youth, rapid urbanisation, the rise of the middle class and rapid adoption of digital technologies.

Deloitte surveyed young African consumers in the six countries mentioned above and found that they attach more importance to the quality of products than price when deciding where to shop. The research showed that for items such as food and drink, local products are preferred over international brands. However, in some areas such as cosmetics and fashion, international brands are considered to be better quality.

OVER TO YOU

Activity 14: Marketing a product in Africa

Imagine you are a marketer of hair products. Your company's brands are well established in Europe, the USA and South America. Now your company has developed a range of shampoos, conditioners and hair gels specifically targeted at the African market. You have been given the task of launching the brand in Ethiopia, Uganda, Mozambique, South Africa, Egypt and Nigeria. You are aware of the importance of developing long-term relationships with customers.

Describe what further research you would need to undertake to establish a relationship marketing strategy for each country.

Figure 4: Development of relationship marketing

REVISION on the go

! NEED TO KNOW

Development of relationship marketing

In this section we have discussed the development of relationship marketing, which aims to create long-term relationships with customers. This contrasts with **transactional marketing**, which focuses on one-off sales.

The growth of relationship marketing has taken place because of growing globalisation, the development of service marketing and B2B marketing and the increase in the use of the internet. Although relationship marketing has been a Western phenomenon, customer relationships are also of importance in non-Western cultures, and marketers can apply the same principles, taking into account the **values** and culture of the target countries.

REVISION on the go

1.2 The scope of relationship marketing

This section looks at the scope of relationship marketing.

Different schools of relationship marketing

There are three main schools of thought that influenced the development of relationship marketing:

- the **Nordic School**, early 1980s;
- the Industrial Marketing and Purchasing Group **(IMP Group) Interaction Approach**, 1982; Ford, 2004;
- the Anglo-Australian approach (The **Cranfield School**), 1991.

The Nordic School

In the early 1980s scholars from northern Europe, predominantly from Finland and Sweden, questioned the perceived shortcomings in the transactional approach to mass marketing which was prevalent in the global recovery period after the Second World War. The Nordic School stressed the relevance and importance of relationships, particularly in services and B2B marketing.

The Nordic school developed the concept of service as a means of improving the quality of the relationship, stimulating customer loyalty and extending the **customer life cycle** (Gummesson, 1987)[6]. The Nordic School maintained that managing services was at the core of relationship building. It stated that offering **customer value** in addition to goods rather than merely goods was key to sustainability.

The Nordic School called for the integration of the marketing function with other organisational functions as well as general management. It also advocated factors such as the building of **networks**, the establishment of **strategic alliances**, the development of customer databases and the management of relationship-orientated marketing communications.

6 Gummesson, E. (1987), "Using Internal Marketing to Develop A New Culture – The Case Of Ericsson Quality", *Journal of Business & Industrial Marketing*, Volume 2, Issue 3, pp. 23–28

The Industrial Marketing and Purchasing Group (IMP Group)

The IMP Group was formed in the mid-1970s by researchers originating from the Universities of Uppsala, Bath, UMIST, ESC Lyon and the Ludwig Maximilian University (Munich). The IMP Group approach to relationship marketing was developed with specific reference to the B2B market context. This school of thought stressed the distinctive characteristics of business-to-business relationships and the factors that caused these relationships to evolve.

The IMP Group developed a dynamic model of buyer–supplier relationships in business markets (the interaction model). This stressed that buying and selling between businesses are not isolated events but part of a continual stream of engagement (Gummesson, 1987)[7]. The buying and selling interaction takes place within the context of often long-standing and complex relationships between buyers and sellers. These, in turn, are part of a network of relationships within which the two companies are positioned (Wensley, 1995)[8].

The IMP Group advocated the adoption of new relationship marketing techniques based on an understanding of business relationships and networks.

The Anglo-Australian approach (the Cranfield School)

The Anglo-Australian approach is based on the work of Christopher, Payne and Ballantyne. It emphasises the integration of quality management, services marketing concepts and customer relationships economics. The Cranfield School further states that relationship marketing should embody the following elements (Payne et al., 2005)[9]:

- emphasis on a relationship rather than a transactional approach to marketing;
- understanding that the traditional marketing mix concept (the 4Ps: product, price, place and promotion) does not adequately capture all of the key elements that must be addressed in building and sustaining relationships with customers;
- understanding of the economic value of customer retention, therefore ensuring that money and other resources are appropriately allocated to both retaining and attracting customers;
- awareness that relationship marketing needs to be applied across a diverse range of stakeholders (see the **Six Markets Model** described below);
- awareness of the need for effective **internal marketing** to enable external marketing success, ensuring that marketing is considered a cross-functional process.

Different stakeholder groups

The three schools of thought described above challenged traditional transactional marketing wisdom. They advocated the development of long-term relationships with customers.

7 Ibid
8 Wensley, R. (1995), "A Critical Review of Research in Marketing", *British Journal of Management*, Volume 6, Issue 1 Dec, pp. 563–582
9 Payne, A. Ballantyne, D. Christopher, M. (2005), "A stakeholder approach to relationship marketing strategy: The development and use of the 'six markets' model", *European Journal of Marketing*, Volume 39, Issue: 7/8, pp. 855–871. (This article will be available in your online student resources.)

OVER TO YOU

Activity 15: Who does an organisation need to build good relationships with?

Imagine that you are the owner of a small chain of barber shops.

Brainstorm a list of the different types of people and companies, both internal and external, with whom you need to develop a good relationship in order to grow and develop your business.

Stakeholder groups are the "suppliers, customers, partners, competitors, employees, regulators, influencers and distributors" of an organisation (Egan, 2008)[10].

In 1991, Christopher, Payne and Ballantyne from the Cranfield School, identified six markets which they said were key to successful relationship marketing. This is sometimes called the Six Markets Model.

OVER TO YOU

Activity 16: The Six Markets Model

Read the article:

https://topbullets.com/2013/09/11/six-markets-model-relationship-marketing-crm

Assess the Six Markets Model in the article above and describe any businesses where this model is not applicable.

10 Egan, J. (2008), *Relationship Marketing*, 4th ed. Harlow: Pearson

CASE STUDY: DEVELOPING SUCCESSFUL RELATIONSHIPS

Imagine that you are an accountant and that you run a small accountancy firm in your local town. You have three staff and you have been in business for two years. You want to build your business further, and knowing that there are lots of small owner-managed businesses in the town, you feel that there is an opportunity to expand into this area.

OVER TO YOU

Activity 17: The accountancy firm

From the six different stakeholder groups in the Six Markets Model, for the accountancy firm case study above, critically assess those groups that it is most important for you have a good relationship with and the reasons why.

Networks

The Six Markets Model looks at discrete stakeholder groups. In contrast, the IMP Group developed the concept of the **network approach** to business markets.

The IMP Group viewed industrial B2B markets as networks of inter-firm relationships. A network is a group or system of interconnected people or things. The IMP Group found that people in business have a web of connections and exchanges with other people. One actor (person) is connected directly and indirectly to other actors through relationships where goods and services are exchanged. The IMP Group advocated therefore that marketers need to look beyond ordinary customer and supplier relationships to understand the intricate web of exchange relationships that influence buyer and seller behaviour.

Networks in business can include those between the seller and other customers, between the customer and the customer's customers and between the customer and a competitor. These networks impact the quality of the buyer and supplier relationship.

David Ford et al.'s studies (2004)[11] showed that business networks which are strong and complex imply that there is a high degree of connectedness of relationships. If any one of these relationships in the network changes it may have widespread repercussions on other relationships as they are all part of a network.

The network approach recognises that there are **social networks** embedded in business relationships. So, for example, it is said in the UK that the heads of large businesses may often know each other from the social interactions they had at the schools and universities they went to in their youth. (See also Chapter 3.)

CASE STUDY: RELATIONSHIPS IN BUSINESS NETWORKS

Marco is a business development manager for a large engineering company that specialises in the sale of air conditioning units. His principal customers are building companies who construct new offices and apartments in the city. His company has a good reputation in the industry and is often referred to new clients by architects and project engineers.

Marco has a degree in engineering and his father and brother are also engineers. His brother works for a building contractor and his father is head of the Institute of Mechanical Engineers in the city where Marco lives. Marco is an active member of his local community and also belongs to a business breakfast club.

Marco has worked in the air conditioning business for 20 years. He started his career at a rival company and also worked for a short period at a component supplier before moving to his current firm. This is the brand leader in the air conditioning sector. There are approximately 10 other brands on the market, three of which have entered the marketplace recently from abroad. The company Marco works for offers an after-sales service and has the biggest number of field engineers compared to its rivals.

Marco looks after four main customer accounts and knows his customers well. He deals with technical specialists as well as the purchasing managers at his customers' businesses. He is also responsible for developing new business.

Marco regularly attends trade shows for the construction industry and is well known to architects, project managers and construction specialists in the sector.

OVER TO YOU

Activity 18: Marco's relationship network

Describe who is in Marco's relationship network in the case study above.

11 Ford, D. Lars-Erik, G. and Hakamsson, H. (2004), *Managing Business Relationships.* London: John Wiley & Sons

Relationship marketing and holistic marketing orientations

Both the Six Markets Model and the network approach draw on the relationship marketing concept that by subdividing the market into clearly definable segments of customers with similar wants and needs, carefully researching each segment's needs and managing key relationships, businesses can add value to their target customers and grow their business. The objective of **segmentation**, therefore, is to design a marketing mix that precisely meets the needs of the market segment.

As the power of technology has increased and digital communication become more widespread, another school of thought has emerged which states that segmentation may not be the ideal form of marketing **strategy** given advances in technology and data analysis.

A further development in the field of marketing is holistic marketing. This is the idea that unifying a market based on shared goals is a better approach than segmenting it. A broad, integrated perspective is necessary to attain the best solution.

OVER TO YOU

Activity 19: The advantages and disadvantages of segmentation

The segmentation of marketplaces has been a useful perspective for marketing managers to consider in the past. However, holistic marketing assumes that segmentation is as much a threat as it is an opportunity.

List the advantages and disadvantages of segmentation from a marketing perspective.

Holistic marketing orientation is:

> *the development, design and implementation of marketing programmes, processes and activities that recognise breadth and interdependencies.*

Kotler and Keller (2016)[12]

An holistic marketing strategy focuses on putting forward a **vision** and brand that is meaningful to consumers across the entire market. The concept of holistic marketing is that markets are made up of people who are often united by certain values and needs and on certain initiatives. An organisation that adopts an holistic marketing strategy aims to ensure that the values and behaviours of its employees are aligned with the brand vision and what is important to customers. In turn, the way that the business operates and communicates helps it to meet and exceed customers' expectations.

12 Kotler, P. and Keller, K. (2016), *Marketing Management*, 15th ed. New York: Pearson

Holistic marketing recognises that the digital revolution has changed the way that customers relate to brands. The linear marketing communication model between businesses and customers of "one-to-many" has been replaced with "many-to-many". For example, every day peer-to-peer discussions take place simultaneously across a myriad of communication outlets. Consumers can share stories about a brand on Facebook and photos and videos on Instagram or tweet about their bad experiences of the brand etc.

The holistic marketing approach also recognises that the structure of companies has changed and that organisations are now far more decentralised. Marketing used to be a function that worked in a silo, disconnected from other parts of the business. It held power within the organisation and dictated a business' approach to customers. Now, the customer has many **touchpoints** with organisations and the employees with whom a customer interacts, (as well as the organisation's virtual presence) which represent the brand.

Thus "everything matters" in holistic marketing: the marketing discipline needs to be understood from the perspective of the entire business and needs to be integrated into every aspect in order for customers to remain engaged with the brand.

To build a unified and shared brand, the holistic marketing approach therefore incorporates:

- relationship marketing – with the emphasis on long-term customer retention;
- **social responsibility marketing** – ensuring that the brand values and ethics are aligned;
- **integrated marketing** – which involves having a consistent brand across the board by focusing on aligning the messaging, communication and brand image across a variety of channels to all stakeholder groups, thus building a sense of trust, reliability and shared expectations;
- internal marketing – which recognises that employees represent the brand in customers' eyes, and internal consistency of the brand vision and values plays a critical part in external perceptions of the brand.

The importance of holistic marketing can be seen in the USA by looking at components of the Standard and Poor's 500 companies' market value, 87% of which today is represented by intangible assets (brands, quality processes, relationships, etc.) compared to 1975, when this figure stood at only 17%.

OVER TO YOU

Activity 20: Examples of brands that adopt an holistic marketing approach

Apple, Nike and Nespresso are three global brands that adopt an holistic approach to marketing.

Select one of these brands that is dominant in your country (or if they are not dominant at all, select a well-known brand in your country).

List examples of how one of these brands builds a consistent sense of its brand vision and values.

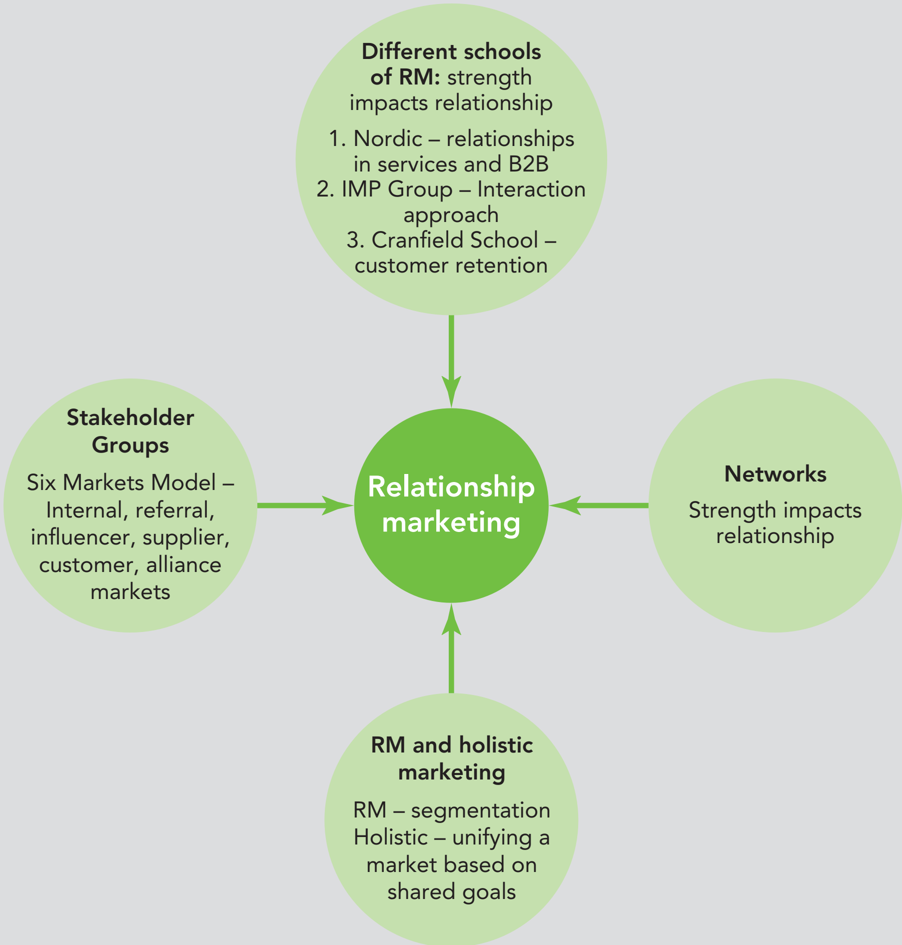


Figure 5: The scope of relationship marketing – a summary

NEED TO KNOW

The scope of relationship marketing

The three different schools of marketing are: Nordic, IMP Group and Cranfield. Different stakeholder groups are involved in creating strong relationships, including the Six Markets Model developed by Christopher, Payne and Ballantyne.

Marketers need to look beyond ordinary customer and supplier relationships to understand the network of exchange relationships that influence buyer and seller behaviour.

Holistic marketing is the idea that unifying a market based on shared goals is a better approach than segmenting it. Relationship marketing is seen as one of the elements of holistic marketing.

1.3 The application of relationship marketing orientation

Relationship marketing involves forming long-term bonds with customers. In this section, we consider the application of **relationship marketing orientation**. This is an approach to marketing which results in:

> *"reciprocal, independent, committed, long-term relationships between buyers and sellers."*
>
> *Sin et al. (2005)*[13]

OVER TO YOU

Activity 21: What makes a great relationship?

Think of a relationship that you have with someone which is exceptionally good. Describe at least four factors that make this relationship exceptional.

Trust and commitment

Studies show that trust and **commitment** are the two fundamental factors that need to exist in order for a relationship to be successful.

In their book *Relationship Marketing and Customer Relationship Management*[14], Annekie Brink and Adele Berndt describe trust as the confidence both parties in the relationship have that the other party won't do something harmful or risky and that they will stand by their promises. Gambetta (1988)[15] describes trust as:

> *"subjective probability that an agent will perform a particular task as expected."*

13 Sin, L.Y.M. Tse, A.C.B. Yau, O.H.M. Chow, R.P.M. Lee, J.S.Y. and Lau, L.B.Y. (2005), "Relationship marketing orientation: Scale development and cross-validation", *Journal* of *Business Research*, Volume 58, Issue 2, pp. 185–194
14 Brink, A. and Berndt, A. (2009), *Relationship Marketing & Customer Relationship Management*. Claremont: Juta Academic
15 Gambetta, D. (1988), *Trust: Making and Breaking Cooperative Relations*, Oxford: Blackwell

Customers need to trust a company both online and offline in order to be committed to the brand. Brink and Berndt state that when there is trust between customers and businesses, they demonstrate commitment to each other via the desire to maintain a long-term relationship.

Businesses can develop commitment by continually investing in developing and maintaining relationships with their customers and demonstrating that they value their custom.

Brand trust is a fundamental requirement to build trust in the digital environment. Although there is no physical presence, effective social interaction online creates "affectiveness". This is an emotional connection that customers have to the brand.

Website attributes such as general design and branding, privacy and security are all contributors to positive social interaction. The involvement of businesses and customers in social media also creates trust in the brand where the organisation is seen to be responsive, helpful and transparent.

Ten factors that affect whether people trust

In a Harvard Business Review article called "The Decision to Trust" (September 2006)[16], Robert F. Hurley of Fordham University in New York identified **ten factors that affect whether people trust**. Hurley divides the ten factors into two categories: decision-maker factors and situational factors.

OVER TO YOU

Activity 22: Ten factors that affect whether people trust

Read the summary article: https://hbr.org/2006/09/the-decision-to-trust

The article is written from a leadership perspective. Critically evaluate how Hurley's research into the ten factors applies when related to how well people trust a brand. Identify the types of marketplace in which the ten factors are particularly relevant.

16 Hurley, R. (2006), "The decision to trust", *Harvard Business Review*, Vol. 84, Issue 9, pp. 55–62

OVER TO YOU

Activity 23: Assess your levels of trust

Earlier you identified a relationship that you have with someone which is exceptionally good. To bring to life the ten factors that affect whether people trust, rate the relationship you have with this person using the assessment below, where 1 is very low and 10 is very high.

There are no right or wrong answers.

Consider what conclusions you can draw from the assessment. List one way in which you can further develop trust in the relationship.

Rate:	1	2	3	4	5	6	7	8	9	10
Your own risk tolerance										
Your own level of adjustment										
Your level of relative power in the relationship										
How secure you feel in the relationship										
The alignment of the interests of you and the other person										
The benevolent concern of the other person										
The degree of similarity between you and the other person										
The capability of the other person										
The predictability and integrity of the other person										
The openness and honesty of the other person										
Conclusions:										

Customer bonding

When a customer trusts a brand, they are more likely to bond with that brand.

OVER TO YOU

Activity 24: Customer bonding

Richard Cross identified five important aspects of customer bonding: awareness, identity, relationship, community, advocacy. These aspects describe the stages of bonding that are needed for a potential customer who knows nothing about a brand to become a brand advocate.

Read the article:

http://thecustomerinstitute.blogspot.co.uk/2007/12/five-stages-of-customer-bonding.html

Assess whether it is important for the customer to experience all five stages of bonding in order to become an advocate of a brand.

CASE STUDY: CELIA'S DRESSES

Celia is a health worker who travels to different dispensaries in rural areas each day. This means getting up early to travel and arriving home to the town where she lives late after work. With a busy lifestyle, Celia has little time for shopping. Celia does like to look smart and so she was delighted to find, when she came home one day, that a mail order catalogue for dresses had been posted to her.

Celia was sceptical at first about the brand as she thought it could be quite expensive. However, as she looked through the catalogue, she found that there were many dresses she liked. The prices seemed reasonable and she was pleased to see that deliveries could be sent to her local post office so she could pick up the packages when she had free time. Celia decided to order a dress on the basis that she would try out the service, and if the dress did not fit she could send it back.

Celia was very happy with her purchase. Although she does not purchase dresses often, she was happy to see that the mail order company sent her regular mailings with offers for dresses that might suit her. Celia bought another dress to wear at her nephew's graduation ceremony. She received several compliments about it.

Having bought three or four dresses from the company, Celia told her friends about the brand. The brand has just brought out a new line of shoes and Celia is saving to buy a pair.

OVER TO YOU

Activity 25: Customer bonding

Read the case study above.

Describe the different aspects of bonding in Celia's relationship with the clothing brand.

Empathy

Empathy is the ability to understand and share the feelings of another person. In their article "Relationship marketing: An important tool for success", Nwakanma et al. (2007)[17] identified four key factors of success in relationships: trust, commitment, empathy and responsiveness to customers' needs. They found that empathy is essential for creating the initial connection and maintaining long-term relationships.

Marketers therefore need to understand both the needs and the feelings of their customers. This means adopting a customer-centric approach and looking at the world through the eyes of the customer in order to better understand the **functional needs** that a customer has in relation to a product or service as well as the **emotional needs**.

- Functional needs: the benefits or solutions the product or service provides to the customer.
- Emotional needs: what the customer wants to feel when they use the product.

Marketers can successfully engage customers by recognising what they want to feel when using the product as well as the functional benefits.

17 Nwakanma, H. Jackson, A. and Burkhalter, J. (2007), "Relationship marketing: An important tool for success in the marketplace", *Journal of Business & Economics Research*, February, Volume 5, Number 2

CASE STUDY: ANDREX TOILET PAPER

Toilet paper is an unglamorous product category and one that may be difficult for customers to engage with. Yet Andrex, a British toilet paper brand, has been the UK's number one non-food brand and the sixth-largest grocery brand in the country since the 1970s.

The "Andrex Puppy", a Labrador Retriever, is synonymous with the brand. It has appeared in over 120 of the company's television adverts.

Andrex has three key attributes: softness, strength and length. The famous puppy advertising ensures the brand is instantly recognisable.

In 2004, Andrex replaced its advertising slogan "Soft, Strong and very very Long", with "Tuggable, Huggable softness", and in 2008 it changed to "Be Kind To Your Behind". By 2015, it was using the slogans "Andrex clean" and "How Andrex do you feel?"

OVER TO YOU

Activity 26: How has Andrex advertising changed?

Thinking about the functional and emotional needs of the brand, evaluate and describe how the Andrex advertising slogan has changed over the years.

Reciprocity

Reciprocity is a social behaviour where people owe one another duties because of their prior actions (Gouldner, 1960)[18]. In the study of the psychology of relationships, reciprocity is the human need and tendency to want to give something back when something is received. In marketing terms reciprocity can be a powerful tool in acquiring new customers and strengthening relationships with existing customers.

18 Gouldner, A. (1960), "The Norm of Reciprocity: A Preliminary Statement", *American Sociological Review*, Volume 25, Number 2, pp. 161–178

OVER TO YOU

Activity 27: How reciprocity affects us

Think of an occasion when you have experienced reciprocity.

For example, someone may have invited you to their home for a meal or to their wedding, and you may have felt obliged to invite them to yours. Or someone bought you a gift and you have bought them one because they bought one for you.

Describe your example of reciprocity.

Assess how reciprocity can be helpful in relationship marketing. Give two examples of reciprocity that businesses can use to develop long-term relationships.

When customers feel that a brand's tendency to want to give back is sincere, they can become more loyal to that brand. This is most likely when the company offers a gesture to thank or serve the customer and does not expect anything in return.

CASE STUDY: THE POWER OF MINTS

In his book *Influence: The Psychology of Persuasion*, Cialdini (2007)[19] shared a case study about a waiter who gave a mint to customers when he left them the bill. If he left one mint, the waiter's tips increased by 3% but if he left two mints there was a 14% increase. When the waiter left one mint with the bill but quickly came back with another, the tips increased by 23%.

19 Cialdini, R. (2007), *The Psychology of Persuasion*. New York: William Morrow and Company

Shared values

According to Freeman et al. (2012)[20] in their article "Three myths about what customers want", most customers do not believe they have a relationship with a brand. Of the consumers in the study who said they had a brand relationship, 64% cited **shared values** as the primary reason.

A shared value is a belief that both the brand and the customer have about a brand's higher purpose or broad philosophy. Having shared values, similar opinions or a common philosophy attracts customer loyalty and retention as customers "buy-in" to the brand on an emotional level.

For example, lifestyle brand Timberland emphasises its G.R.E.E.N. Standard, which aims to provide community service on a global basis. Motorbike brand Harley-Davidson's goal is "to fulfil dreams through the experience of motorcycling."

However, value statements need to be played out in action. The culture of an organisation needs to reflect the values that the brand espouses if the brand wants to engage positively with customers.

CASE STUDY: DEEPWATER HORIZON

Oil giant BP suffered a backlash against the brand following the Deepwater Horizon disaster in 2010.

A deep-water oil rig exploded off the Gulf of Mexico, spilling millions of gallons of oil beneath the ocean surface and causing significant ecological damage.

This was one of the worst environmental disasters in US history, made worse by the company's previous public commitment to safety and the environment and the ill-judged comments of the then CEO who said, amongst other things, "What the hell did we do to deserve this?"

See: http://science.time.com/2010/07/25/oil-spill-goodbye-mr-hayward/

Communication and engagement

Customer engagement is:

> *"building customer relationships that increase customer commitment to a company or a brand."*
>
> *Economic Intelligence Unit (2007)*[21]

To engage customers, communication that encourages them to interact and share experiences of the brand is key. Engagement goes beyond the pre-sales and sales phase of a relationship as customers want to engage with companies in an end-to-end experience. This can encompass, for example, real-time customer support, after-sales information and web content.

20 Freeman, K. Spenner P. and Bird A. (2012), "Three myths about what customers want", *Harvard Business Review* (blog), May 23rd
21 Economic Intelligence Unit (2007), "Beyond loyalty: Meeting the challenge of customer engagement", Economist Intelligence Unit briefing paper sponsored by Adobe Systems, p. 8

The lines between marketing and the customer experience are becoming more blurred as the customer bases their decision to stay with the brand on their total experience. Customer engagement strategies help to prolong the **customer journey** beyond purchase and encourage repeat purchases and recommendation to others.

OVER TO YOU

Activity 28: Evaluate the link between customer engagement and relationship marketing

Assess how relationship marketing has impacted customer engagement. List two ways in which relationship marketing can aid customer engagement.

In a 2016 survey of Twitter users, customers who received responses to tweets from brands were willing to spend 3–20% more in future purchases from the company. In addition, 30% of Twitter users who received a response to a tweet were likely to recommend the brand to others. A Gartner study (2012)[22] found that when brands failed to respond to feedback left on social media customers were 15% more likely to not repurchase the brand.

To engage customers, it is generally agreed that businesses need to first actively listen to them. There are a wide range of methods that brands can use to do this, from formal customer surveys, feedback sent to the company via mail or phone, face-to-face feedback and customer focus groups through to scanning for feedback left on websites and posted on social media.

Many brands develop communications strategies to actively engage customers. As well as traditional marketing tactics such as advertising and promotion, there is a raft of digital communications platforms that they can use to do this.

22 Gartner (2012), "*Gartner predicts that refusing to communicate by social media will be as harmful to companies as ignoring phone calls or emails is today*" [online]. Retrieved from: https://www.gartner.com/newsroom/id/2101515 [Accessed on: 30 October 2017]

OVER TO YOU

Activity 29: Digital communications platforms

Research and list the types of digital communications platforms that businesses can use to engage with customers.

CASE STUDY: ENGAGEMENT STRATEGY AT A PHARMACEUTICAL COMPANY

In the pharmaceutical sector, many companies are using digital technology such as apps as part of an engagement strategy with customers. Targeted at patients in specific disease areas, the portals engage patients in monitoring their health regime and in communication with medical professionals.

For example, the LIVE by EarlySense is a remote monitoring device with a mobile app that monitors vital statistics including heart rate, breathing, movement and sleep patterns in bed-ridden patients and encourages communication between patients, carers and health professionals.

The clinical application of wearable technology is evolving as technology companies partner with health-care companies. In Western marketplaces, consumers keen to improve their levels of health and fitness are adopting wearable devices such as wristbands and watch-like devices which monitor vital signs.

A study in 2016 by PwC[23] undertaken as part of their Consumer Intelligence Series found that customers who wore monitoring devices most were more trusting of health organisations, including doctors, hospitals and health insurance companies, than non-wearers of health devices were.

23 PWC (2016), *The wearable life 2.0: Connected living in a wearable world* [online]. Retrieved from https://www.pwc.com/us/en/industry/entertainment-media/assets/pwc-cis-wearables.pdf [Accessed on: 26 October 2017]

Engagement software

Customer engagement software is software that manages customer communications and interactions through a variety of channels and touchpoints. This automation of customer interactions helps businesses to communicate with customers on multiple platforms on a 24-hour basis.

Customer engagement software can cover **customer relationship management (CRM)** systems, web chat, social media, marketing personalisation and customer self-service. It is a useful tool in the marketer's toolbox as it can automate many of the interactions with customers. We expand on the use of software in a marketing context in Chapter 4 and customer engagement software is covered in more detail.

Measurement of engagement

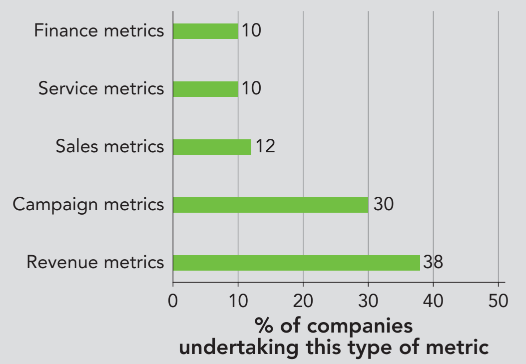
When undertaking an engagement campaign it is important to be able to measure and analyse the results. Only then can campaigns and interactive touchpoints be truly optimised and personalised.

There is no uniform approach to the **measurement of engagement**. While there is debate about how to determine engagement, companies can determine the **return on investment (ROI)** of their customer engagement efforts by taking related metrics into account. Examples include:

- website traffic;
- search and click behaviours on websites;
- likes and shares of content on social media;
- text analytics of customer sentiment;
- response times;
- time to resolution;
- click-through rates in email campaigns;
- Facebook and Twitter analytics;
- A/B testing (sometimes called split testing) – comparing two versions of a web page or advertising campaign to customers to see which one performs better;
- audience growth.

According to 2015 research, many executives are using revenue metrics to quantify the success of customer engagement efforts.

The Chief Marketing Officer (CMO) Council looked at how marketing executives in North America quantify customer engagement success. More than a third of respondents said that revenue metrics (such as customer **lifetime value**, revenues per customer and overall revenue increases) were the primary type of metric they used to measure customer engagement.



Source: adapted from CMO Council (2016)[24]

Figure 6: Quantification of customer engagement

REVISION on the go

24 CMO Council (2016), *Predicting routes to revenue: Identifying real-time decisions for business-driving engagement* [online]. Retrieved from: https://www.cmocouncil.org/thought-leadership/reports/predicting-routes-to-revenue [Accessed on: 4 December 2017]

Additionally, 30% of respondents said that campaign metrics, such as clicks, conversions, shares, traffic and web analytics were the primary type of metrics they used. Fewer marketing executives said they relied on sales enablement metrics, service metrics and finance metrics to measure overall customer engagement success.

Figure 7: The application of relationship marketing orientation

REVISION on the go

! NEED TO KNOW

The application of relationship marketing orientation

Trust, both online and offline, is essential in relationship marketing. Without trust, there is no commitment to a brand. Customers go through six stages of bonding with a brand: awareness, perception, identity, relationship, community and advocacy.

A brand has both emotional and functional aspects and empathy is important in creating long-term relationships. Other factors are reciprocity and shared values.

To engage customers, communication that encourages them to interact and share experiences of the brand is key. Organisations can use software to help them engage in their communication with customers. However, there is no uniform measure of engagement.

REVISION on the go

1.4 Comparison of the benefits of relationship marketing with transactional marketing

This section summarises the differences between transactional and relationship marketing.

Transactional marketing

Transactional marketing is a strategy aimed at generating a high number of individual sales. It targets customers making one-off sales transactions and it aims to acquire new customers. It uses the traditional elements of the marketing mix, the 4Ps (product, price, place and promotion), to attract customers to the brand. The purpose of transactional marketing is to maximise a business' sales efficiency by boosting the volume of individual sales.

The approach works well for creating revenue in the short term, under the right market conditions.

Limits of transactional marketing

Transactional marketing does not contribute to customer retention as it focuses on the short term.

OVER TO YOU

Activity 30: The limitations of transactional marketing

Evaluate and provide examples of when transactional marketing may be appropriate. Then list the limitations of transactional marketing.

Relationship marketing

Relationship marketing emphasises ongoing customer relationships, customer satisfaction, retention and future customer interaction with the company.

The benefits of relationship marketing

As stated earlier in Chapter 1, Reichheld and Sasser[25] claim that a 5% improvement in customer retention can cause an increase of 25–85% in a firm's profitability.

Research by Fleming and Asplund[26] indicates that engaged customers generate 1.7 times more revenue than ordinary customers, and that having both engaged employees and engaged customers generates 3.4 times the norm.

OVER TO YOU

Activity 31: Quantify the benefits of relationship marketing

Undertake additional research with a company you know well to identify and quantify where possible the benefits of relationship marketing.

Churn costs

Churn refers to the proportion of customers who leave a business during a given time span. For example, an average churn rate of 33% implies an average customer life of three years. When customers are dissatisfied and there is increased competition the churn rate of a brand may be high.

Attracting new customers for some businesses is like putting water into a bucket that has holes in it. The business adds water (more customers) but customer churn means that, because of the holes, many customers leave. Since the bucket has holes in it, it will need to be constantly topped up.

A benefit of relationship marketing is therefore reduced churn costs for a business.

25 Reichheld, F. and Sasser, E. (1990), "Zero Defections: Quality comes to Services", *Harvard Business Review*, Sept–Oct, pp. 25–35
26 Brown, R. (2007), "Interview with John Fleming and James Asplund", *Human Resource Management International Digest*, Volume 15, Issue: 7, pp. 39–41

Added value with existing customers

According to Buchanan and Gilles[27] the **added value** gained from existing customers is brought about because long-term customers:

- tend to be less expensive to service because they are familiar with the brand;
- afford less cost to the business as acquiring a new customer can cost up to five times more than keeping an existing one;
- are less likely to switch to a competitor, thus making it difficult for new entrants to gain market share;
- are less price sensitive;
- tend to initiate recommendations and referrals;
- tend to purchase more than one-off customers and buy ancillary products;
- encourage higher levels of employee satisfaction.

Switching costs

Many businesses adopt strategies that incur high **switching costs** on the part of the customer in the hope of preventing them switching to a competitor's product or brand. Switching costs are the costs (both tangible and intangible) that a customer incurs when switching brands. Tangible costs are things such as cancellation fees for cancelling contracts. Intangible costs are the time, effort and inconvenience involved in switching to a different brand.

Businesses whose products or services are easy to replicate typically have low switching costs. For example, clothing brands are readily available in most towns and via the internet and therefore customers are not "locked in" to one brand. In contrast, organisations such as mobile phone companies often lock customers in a contract for a set period, making it costly and difficult to switch during the contract period.

OVER TO YOU

Activity 32: Identify companies with high and low switching costs

List two businesses that you are aware of that have high switching costs.

Then list two businesses that you are aware of that have low switching costs.

Identify a brand/company that you would find difficult to switch from. Why would switching be so difficult for you?

27 Buchanan, R. and Gilles, C. (1990), "Value Managed Relationship: The Key to Customer Retention and Profitability", *European Management Journal*, Volume 8, Number 4, pp. 523–526

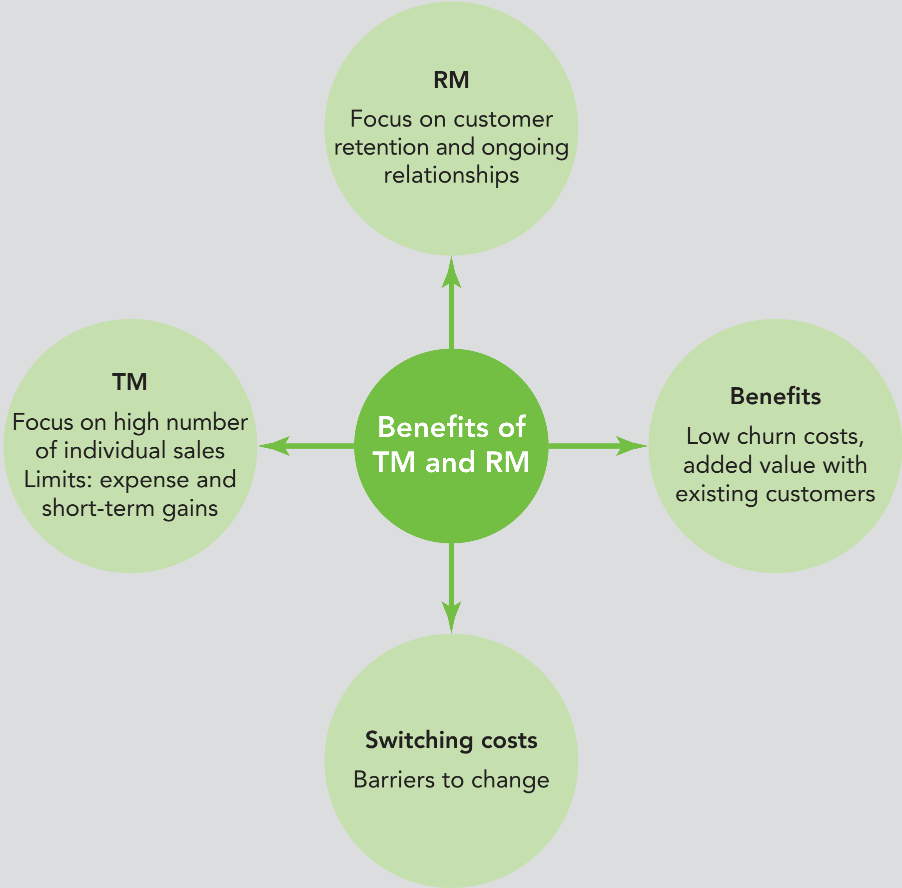


Figure 8: Benefits of TM and RM

REVISION on the go

OVER TO YOU

Activity 33: Revision exercise

To aid your learning, reflect on this chapter and list the key steps in the development of relationship marketing. Critically review which are the most important aspects of its development.

! NEED TO KNOW

Compare and contrast benefits of transactional marketing (TM) and relationship marketing (RM)

Transactional marketing focuses on one-off sales. The limitations of transactional marketing include the cost of continually generating new sales.

Relationship marketing emphasises ongoing customer relationships, customer satisfaction, retention and future interaction with the company. The benefits include repeat purchases and increased profitability.

Churn costs refer to the proportion of customers who leave a business during a given time span.

Switching costs are the costs (both tangible and intangible) that a customer incurs when switching brands.

REVISION on the go

READING LIST

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Summary

In this chapter we have outlined how relationship marketing has developed as a discipline, with the focus of creating long-term relationships with customers. This has been brought about via increasing globalisation, the development of services marketing and B2B marketing and as a result of the impact of digital media. We have also seen that relationship marketing applies to both Western and non-Western cultures.

We have described the different schools of relationship marketing and the focus that these place on recognising different stakeholder groups and the power of social networks. We have also outlined the development of holistic marketing orientation which encompasses relationship marketing.

When a customer trusts and is committed to a brand they are more likely to develop a lasting relationship. We have outlined the ten factors that affect whether people trust and the importance of customer bonding. Other factors that impact whether a customer develops a relationship with a brand are empathy, reciprocity and shared values. We have described how effective two-way customer communication can drive customer engagement with the brand and detailed the emerging trend to use engagement software to enable this as well as to measure levels of customer engagement.

This chapter has allowed you to compare and contrast transactional and relationship marketing and to describe the limits of transactional marketing. The benefits of relationship marketing include higher levels of profitability, repeat business and recommendation, as well as reduced churn costs and switching.

Chapter 2

Relationship Marketing and its Impact on Buyer Behaviour

Introduction

The growing use of digital channels means that today's consumer is more informed, discerning and connected than ever before. Easy online access has led to consumers changing the way that they research and buy products and services.

Companies today recognise that the consumer decision journey is not straightforward but rather a circular process with multiple points of influence. The consumer now has more power and choice about what, when and how they buy as well as how they leave feedback about their purchases.

To be successful in this environment, businesses have had to change the way they communicate and build relationships with consumers.

Learning outcome

On completing the chapter, you will be able to:

2 Critically discuss changes in consumer behaviour due to relationship marketing

Assessment criteria

2 Critically discuss changes in consumer behaviour due to relationship marketing

2.1 Critically review the changes to how consumers buy

2.1 The changes to how consumers buy

Traditional versus new ways of buying

In Chapter 1 we saw that business application of marketing has changed from a more transactional approach to a relationship marketing approach. We have also looked at the influences that brought this about. These influences and the emphasis on long-term relationships have brought about changes in consumer behaviour.

AIDA

For many years, companies have recognised that there are key touchpoints when consumers can be influenced about what they buy.

Imagine it is 20 years ago and one of your family members decides to buy a camera. Think about how they would go about making the purchase and how marketers would try to attract them to buy their brand.

In the past, marketers understood the buying process via the metaphor of a **purchase funnel** often called **AIDA**.

- **A**ttention: if you were a marketer for a camera brand back then, you viewed the first stage of the buying process (in the large neck of the purchase funnel) as "Attention". Here the consumer considered an initial set of potential brands that they could buy based on their experiences and perceptions. Your task as a marketer was to raise awareness of your brand. You could do this typically via such avenues as advertising, direct marketing, sales promotions and PR.
- **I**nterest: the next stage was "Interest", where the consumer gathered information and evaluated brands, adding or subtracting potential brands to their list.
- **D**esire: the third stage was called "Desire", where the consumer decided on their preferred brand.
- **A**ction: via this filtering process, the consumer arrived at the bottom of the funnel, called "Action" and made a purchase – in this case, the camera.

Therefore, the objectives of the camera company's marketing activity were to direct messages at the consumer about their own brand and to reduce the number of choices available to the consumer so that they made a decision to buy their brand and not a competitor's.

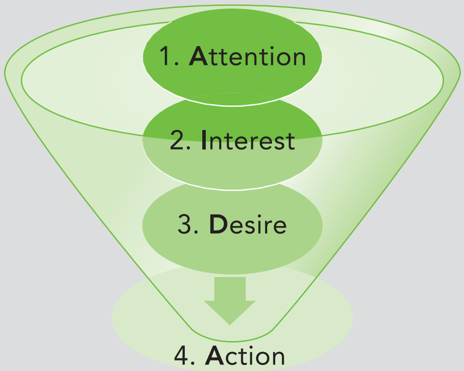


Figure 1: The purchase funnel, also known as AIDA

REVISION on the go

OVER TO YOU

Activity 1: Today's buying patterns

Consider a product or service you have recently purchased as a consumer. It could be anything, for example a birthday present, a flight ticket, a mobile phone, an item of clothing. List the steps that you went through in the buying process and who and/or what influenced your purchase.

Describe two reasons why the concept of the purchase funnel no longer applies in today's environment.

Problems with AIDA and other hierarchy of effect models

The concept of AIDA and the purchase funnel is an example of a **hierarchy of effect model**. It is commonplace to attribute the authorship of the AIDA model to the pioneering American advertiser, E. St Elmo Lewis. His model and those of others, such as Lavidge's DAGMAR model (Defining Advertisement Goals for Measured Advertising Results), work on the premise that a purchase follows a sequential, step-by-step pattern.

The advertiser makes the potential consumer:

- aware of the product (this is called **cognition** or raising awareness);
- **affect** an interest or desire for the product (thereby creating an emotional response);
- take action by purchasing the product (making **behavioural** change).

OVER TO YOU

Activity 2: Critically assess the buying models

Read the article: http://www.diva-portal.org/smash/get/diva2:306359/FULLTEXT01.pdf which outlines the different models.

List three conclusions that you can draw about the applicability of the hierarchy of effect models in today's marketing environment.

As you will have seen when considering a recent purchase that you have made, a major defect of the AIDA and other hierarchy of effect models is that today's consumer behaviour is not "linear", i.e. it does not progress from one stage to another in a single series of steps.

You will probably have identified that when people purchase today, there are far more ways in which they are influenced. For example:

- online peer review and feedback;
- social networks – off- and online;
- celebrity influence;
- customer satisfaction;
- brand loyalty;
- referral.

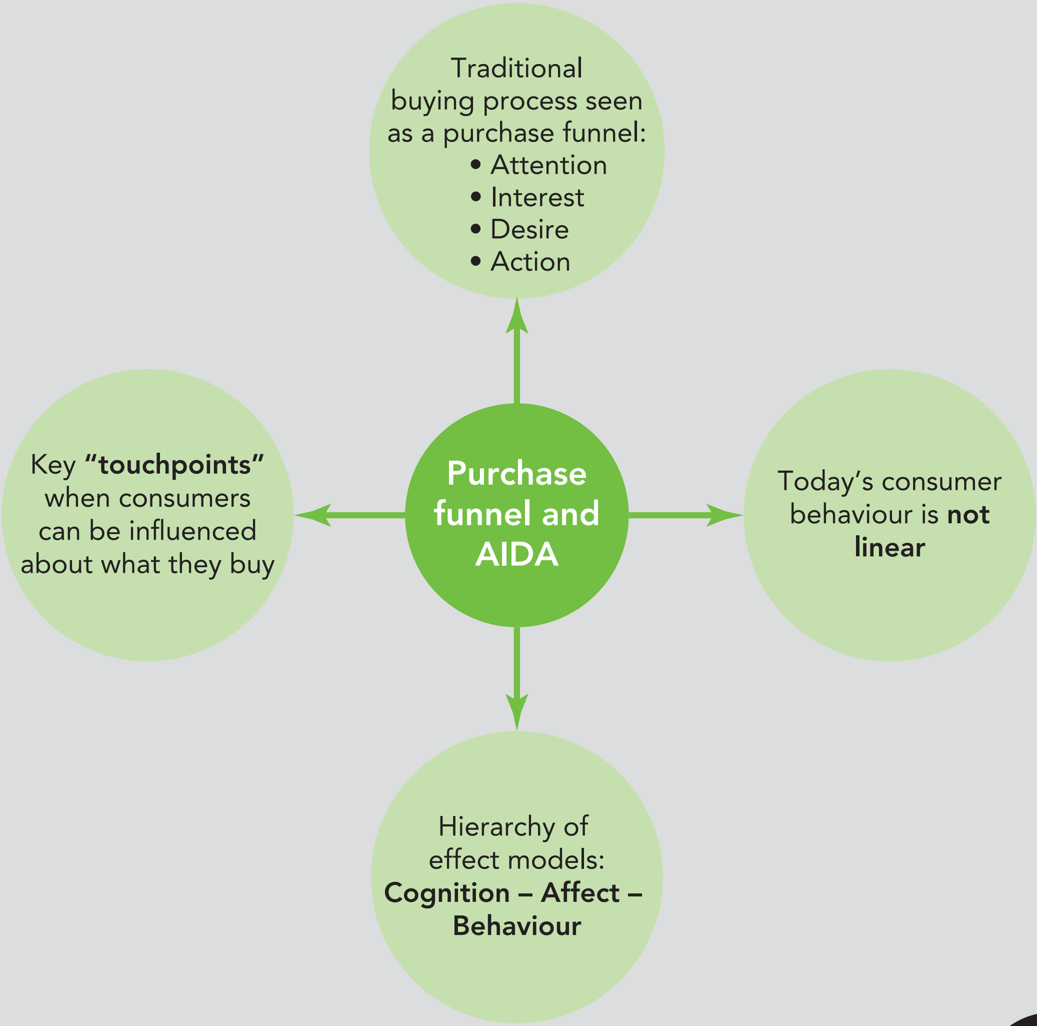


Figure 2: Purchase funnel and AIDA

The influence of digital

Consumer journey: move from linear to circular

In Chapter 1 we discussed the evolution of the digital marketplace and how this has contributed to the development of marketing relationship strategy.

Consumer behaviour has changed as more and more people have been able to access digital media. Not only are people using digital and social media to search for information about products and services, they now purchase online and increasingly communicate with others about their experiences.

The ability of consumers to access large audiences through digital and social media has had an important impact on how consumers buy. It also has consequences for how businesses form relationships with their customers in an online environment.

Consumer behaviour in mobile settings is increasingly important as consumers use mobile phone devices more frequently to access the internet.

OVER TO YOU

Activity 3: Consider the use of mobile phones in your country

Estimate how many people use mobile phones.
Research and identify the number of people in your country who now use mobile phones.
Describe how mobile phone usage has changed in your country over the past five years.

The digital revolution has changed how consumers buy. Marketers now recognise that the patterns that consumers follow in purchasing a product or service is a circular journey rather than a funnel. The **consumer journey** has four phases:

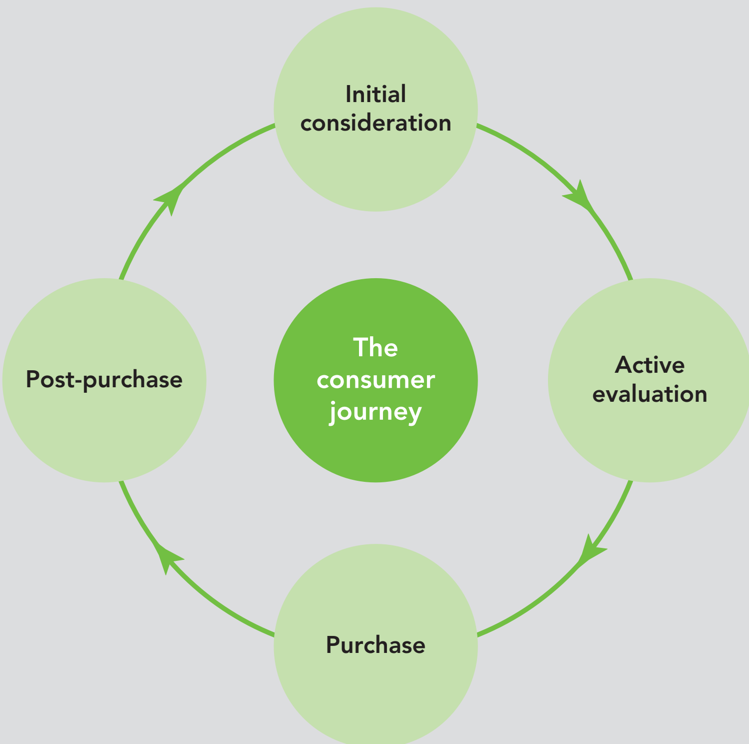


Figure 3: The circular consumer journey

To illustrate the circular buying journey, let us imagine that you have been given a large sum of money and you wish to buy a motorbike.

Initial consideration

You will probably already be aware of some makes or brands that you may consider purchasing.

Research by consultancy McKenzie shows that when first considering making a purchase, consumers start with an initial awareness of several brands. Consumers are up to three times more likely to eventually purchase one of these brands than a brand that they are initially unaware of.

Active evaluation

Consumers then go through an active stage of evaluating different brand choices. However, unlike in the concept of the purchase funnel where the choice of brands is narrowed, in this stage today's consumer actively expands their choice of brand.

Potential customers seek and evaluate a range of options using a variety of methods. Customers can be influenced at this stage by factors such as brand advertising, online presence, PR, recommendations from friends and online reviews, as well as past experiences.

The number of additional brands that consumers actively evaluate will depend on the product or service being sought. However, on average, consumers evaluate at least a further two brands following their initial consideration.

Purchase

Having evaluated a range of options, the consumer then makes a purchase decision.

Post-purchase

The post-purchase phase of the journey is important as it shapes the consumer's opinion of the brand and their likelihood of repeat purchase and recommendation. Customers who buy again or who recommend the product are called advocates of the brand. (We will discuss this further later in this chapter.)

For example, in the case of the motorbike, the quality of the after-sales service can inspire or detract from brand loyalty.

- Does the garage call to check all is well with the motorbike after the initial sale?
- Does it offer online advice and guidance on the upkeep of the motorbike?
- What sort of experience does the consumer have when they subsequently take their motorbike to the garage for service?

Consumers talk to others about their experiences – both on a face-to-face basis and online – and these experiences influence other people's choice of brand. So the buying process is a continual journey with multiple touchpoints.

OVER TO YOU

Activity 4: The implications of the circular consumer journey for relationship marketing

Read the article: www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-consumer-decision-journey

In this article, the authors make recommendations for marketers regarding how they should respond to the customer journey. Given what you know to date about relationship marketing, consider each of the recommendations and critically assess whether you agree with them.

List your thoughts on what else marketers need to do to create long-term relationships with consumers in a digital environment.

CASE STUDY: BUYING A CAR

Ankok has received some money from his uncle which will allow him to buy a car. Ankok is delighted as he works as a visitor tour guide and this will allow him to expand his business by offering visitors guided tours in his new car.

Ankok already owns a motorbike and he is interested in cars. As he will use the car each day for work, he wants a comfortable vehicle that is reliable and within his budget. He has heard that Japanese brands of cars are very reliable.

He also has a friend who owns a Korean car and he has told Ankok that the brand offers a five-year warranty.

In the large town where Ankok lives there are lots of billboard advertisements for different makes of cars. On television Ankok has also seen various adverts for cars, but he feels that these are outside his budget. Ankok's wife believes he should buy a German make of car as this would give a good impression to tourists, and his father advises him to buy a vehicle with the least amount of import tax. Ankok is aware that many people, including his friends and his tourist customers, will ask about the car he finally decides to buy, and he wants to create the right impression for his business.

Ankok looks online at the different brands and types of cars that are within his budget. He talks to a colleague who is also in the tourism business and asks his advice and he visits several car showrooms in his local town. Ankok also uses social media to read reviews and feedback both on the car brands he is considering and the garages that supply these brands.

Finally, after about four weeks' research, Ankok decides that the Korean brand of car will best meet his needs. He feels it is the most reliable and offers value for money.

There are two dealers selling this brand in his local town, but one dealer has received unfavourable reviews online of its customer experience. Ankok buys his new car from the dealer who received the best consumer reviews.

Ankok is delighted with his purchase and tells his friends and colleagues about the experience he has had. He uses social media networks and also joins a discussion forum about the car, and he posts comments and reviews about his experience, both when buying the car and when having the car serviced.

Ankok has developed his own website for his tourist business and he posts pictures of his car on the website showing him with the clients who go on his tours.

OVER TO YOU

Activity 5: Ankok's buying journey

Describe the four different stages in Ankok's consumer buying journey.

List at least one factor that influenced Ankok at each stage of the journey.

Imagine you are a marketer for the Korean brand of car that Ankok has purchased. Given Ankok's buying journey list two ways in which, in the post-purchase phase, you can increase Ankok's advocacy of the brand.

The importance of feedback in influencing purchasing decisions

Shopping and related activities are one of the top uses of digital technology. In Europe and the USA, on average over 50% of consumers state that they have visited a retail website on their mobile phone within the past three months. This behaviour is not limited to young people; it is widespread across all generations. As the use of mobile phones and improvements in mobile networks spreads, this is a phenomenon that experts predict will be replicated in all countries.

In parallel with the growth of shopping-related tasks on mobile phones, the use of social media to post comments and reviews of consumers' experience of a brand is also increasing. The three biggest reasons why consumers seek out online reviews are to:

- ensure product quality;
- gather more information when choosing between similar products; and
- get the best deal.

In a survey in the USA by market research company Influence Central, 85% of female consumers said they consider e-commerce reviews to be extremely/very important when making a purchase. Indeed, this research reveals the impact reviews have on consumers' purchasing journeys, with more than 90% of consumers saying that an online review is more important to them than input from a salesperson. Moreover, after reading an online review and deciding to make a purchase, nearly 80% of consumers buy the product online.

OVER TO YOU

Activity 6: Feedback and trust

In Chapter 1 we discussed the importance of trust in developing long-term relationships. Given the importance to the consumer of peer feedback, critically assess the implications for trust in a brand. List what the consequences of this trend may be in terms of relationship marketing.

OVER TO YOU

Activity 7: Interpret the implications of online feedback on purchasing decisions

What does the research into online consumer behaviour mean for marketers?

In November 2014, Influence Central in the USA interviewed a representative sample of more than 500 women to discover how online reviews impacted their buying purchases. Below are some of the headline findings from the research.

- **88% of those surveyed said that they read online reviews when purchasing a new product from an unfamiliar brand. This was both for online and "bricks and mortar" purchases.**
- **67% said that when purchasing a new product from a brand that they already knew, they considered online reviews.**
- **43% said that even when buying a product that they had purchased before, they still checked reviews to see if there was a better product option and whether others had a similar experience.**
- **87% of those surveyed said that they posted feedback on products and services they had bought either occasionally or often. They reported that 82% of their posts were about positive experiences and 18% negative.**
- **68% of respondents said that the more positive a product review, the more likely they were to buy the product.**
- **64% said that reading a very negative review online stopped them from purchasing the product. This rose to 73% if there were several negative reviews.**
- **If someone read a very negative review and they were still potentially interested in purchasing the product, 79% of respondents reported seeking further reviews to gather more opinions.**
- **If a product received an average online rating of 2.9 out of 5 or below, this stopped people from buying.**
- **Only 18% of respondents said they trusted recommendations from friends more than online reviews.**

Review the statistics and write down two key conclusions about the influence of feedback on buying decisions.

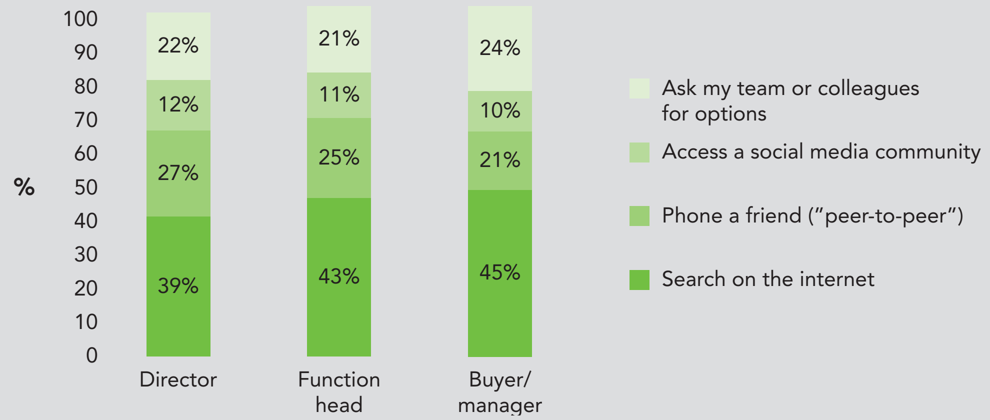
Access to the internet has provided customers with a far greater knowledge of products and services. Consumers can search information and opinions within seconds via social media and customer forums, providing them with enough facts to make informed purchase decisions.

OVER TO YOU

Activity 8: Switching behaviour and the internet

In Chapter 1 we discussed switching costs. Describe two reasons why customer access to the internet reduces the cost of switching for the consumer.

This phenomenon is not limited to consumer purchasing decisions. Business decisions are also impacted by digital media as shown in Figure 4 with research by business consultancy Sirius.



Source: Adapted from https://intelligentgrowth.siriusdecisions.com/

Figure 4: Research on how businesses make buying decisions

OVER TO YOU

Activity 9: B2B buying decisions

Read the article: https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/do-you-really-understand-how-your-business-customers-buy

In this article, the authors set out three priorities for reshaping the B2B sales process. Given what you know to date about relationship marketing, list your thoughts on what else marketers can do to create long-term relationships in the B2B marketplace.

Customers have always been led by the opinions of friends, colleagues and family, but nowadays this is corroborated by feedback, testimonials and social networking sites which are available to all. The social influence of online word-of-mouth is now greater than that of close friends.

Changes to evoked set premise

The change brought about by digital and social media in who influences people's buying decisions and how means that companies have had to rethink their approach to relationship marketing.

As we have seen above, when people buy, they go through a process of searching to gather information and evaluate which product and brand to purchase.

They can be influenced by factors such as:

- personal experiences;
- memory of past searches;
- personal recommendations from friends, family and colleagues;
- peer-to-peer review and feedback;
- independent sources such as consumer groups;
- social media including online videos and blogs;
- information from government and other agencies;
- sales personnel;
- advertising;
- product trial and sampling.

All of these factors help people to make an internal, mental search when they are thinking about a product or service to buy. This internal search happens when someone recalls brands they are already familiar with. There are a five "sets" that a person recalls (Figure 5).

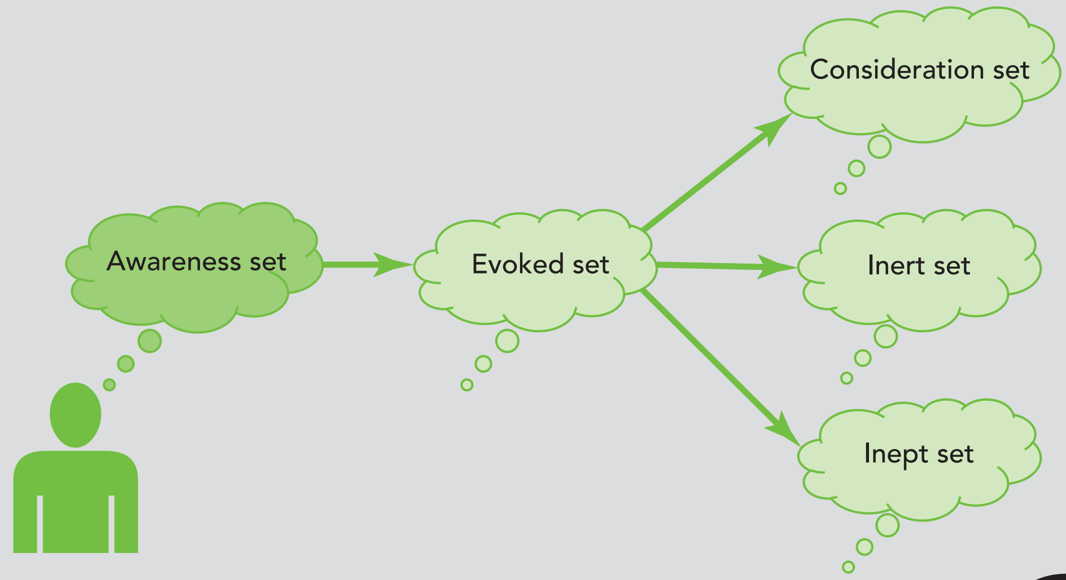


Figure 5: Five sets

REVISION on the go

Awareness set

Everyone has an awareness set. These are brands which the consumer is aware of.

Evoked set

This is a group of relevant brands that a prospective consumer is familiar with and which come to mind when the consumer is thinking of making a purchase. Having an **evoked set** of brands is also referred to as having "top of mind awareness".

Traditionally, the objective of many organisations' marketing campaigns was to ensure that consumers were not only aware of their brand, but that they thought about it favourably. This ensured that the company's brand was in the evoked set.

Consideration set

This refers to the brands from the evoked set which consumers think merit further consideration.

Inert set

This refers to the brands about which the consumer is indifferent.

Inept set

These are the brands that the consumer considers unacceptable.

OVER TO YOU

Activity 10: Brand awareness activity

Imagine that you are have been given some money to buy a pair of trainers/sneakers for yourself or a family member. You have enough money to buy any style and brand of trainer that you like.

Awareness set:

List the brands of trainers/sneakers that you are aware of.

Evoked set:

From your list above, identify those that you perceive favourably.

Consideration set:

Now list the brands from your evoked set which you would consider acceptable for further consideration.

Inert set and inept set:

List the brands you are indifferent to or which you would not be interested in purchasing.

Before the widespread use of digital media, companies could only make consumers aware of their brand, and hopefully have it included in an evoked set, via media such as television and radio advertising, newspaper and magazine advertising, billboards, point of sale, sponsorship, PR and sales promotions.

Now, customers' 24/7 access to the internet means that the consumer can become instantly aware of innumerable brands.

The internet has levelled the playing field and allowed companies to become part of their target market's evoked set without having to use traditional advertising methods.

OVER TO YOU

Activity 11: How digital media influences the evoked set

List the brands that you are aware of that:

- **provide an internet search facility;**
- **provide a social media platform.**

Take one example of an internet search facility and one example of a social media platform and critically review each. List your views on the facility and platform. What works well and what can be improved?

When you were asked to recall an internet search facility you probably listed Google, and for a social media platform you probably listed Facebook (or the equivalent providers in your country).

Google has never undertaken any form of offline advertising, for example on television, in magazines or on billboards, and Facebook rarely advertises. Yet for most people undertaking this exercise, these two brands will be part of their evoked set.

As the internet has changed the way in which people become aware of products and brands and the way that people buy, marketers have had to change their approach to creating brand awareness.

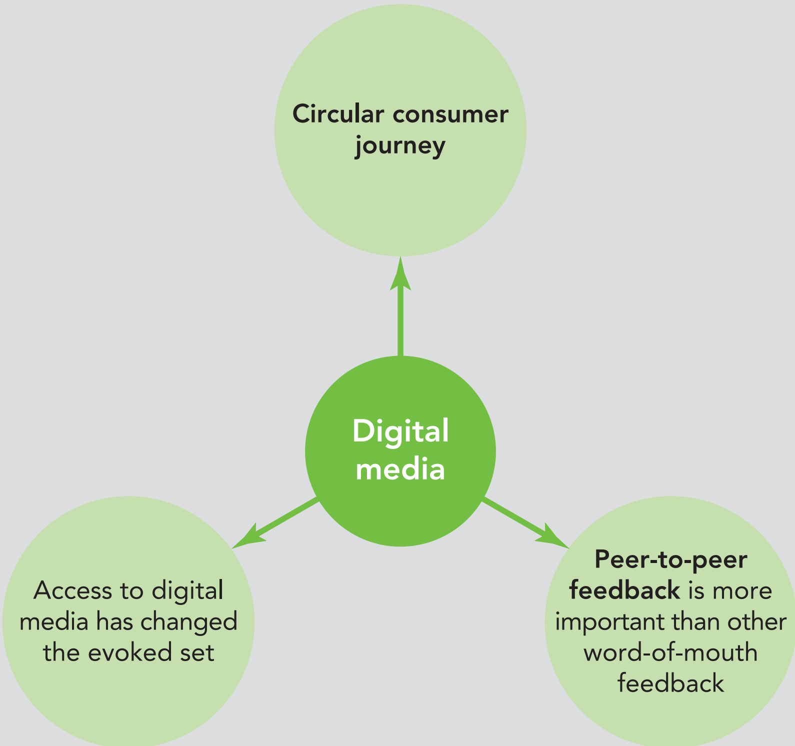


Figure 6: The impact of digital media on how people buy

Moments of truth

In 1982 Jan Carlzon, then president and CEO of SAS Group (Scandinavian Airlines System, the holding company for the national airlines of Denmark, Norway and Sweden), led a turnaround in the ailing company's fortunes. He recognised that the experience that the customer had of the airline had a huge influence on their decision whether to repeat purchase and recommend the airline to others. He was the first to coin the term **moment of truth (MOT)**, saying: "We have

50,000 moments of truth every day"[28], referring to every time an employee of the company had contact with a customer. Carlzon initiated a programme to involve and empower front-line staff to make decisions to best serve the customer, thus dramatically improving the reputation and profitability of the company.

A moment of truth (MOT) is the moment when a customer interacts with a brand, product or service to form or change an impression about that brand, product or service.

OVER TO YOU

Activity 12: The marketing mix

In Chapter 1 we discussed the seven elements of the marketing mix.

Describe which element/s of the marketing mix Carlzon identified as most influential on the 50,000 moments of truths which he claimed we faced every day.

In 2005 A. G. Lafley, chairman, president and CEO of fast-moving consumer goods company Procter & Gamble, defined two moments of truth: the first moment of truth and the second moment of truth.

He said that the first moment of truth is when a customer is confronted with the product in-store or in real life.

The second moment of truth is when a customer purchases a product and experiences its quality and whether the promise of the brand lives up to expectations.

The third moment of truth was gradually introduced later. This refers to the feedback and/or reaction that the customer provides or has about the brand, product or service. The customer can provide either negative or positive word-of-mouth feedback, either face-to-face or via social media. Brands hope that the customer will provide positive feedback and become a brand advocate rather than a detractor.

28 Carlzon, J. (1987), *Moments of Truth*. New York: Ballinger Publishing Company

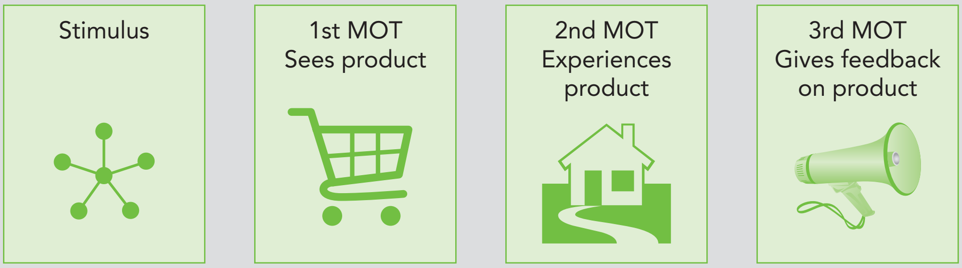


Figure 7: Moments of truth

OVER TO YOU

Activity 13: MOT and relationship marketing

In Chapter 1 we discussed the importance of customer bonding and advocacy in developing long-term relationships.

Critically assess the three moments of truth and identify the links to relationship marketing. Describe which moment of truth you consider to be most important in developing relationships with customers and your reasons why.

CASE STUDY: BLINDI'S BAKERY

Alasa lives and works in a small town that is 50 kilometres from the capital. Her best friend, Nilie, works in the capital. She often tells Alasa about a shop called Blindi's Bakery that she visits in the city and which sells delicious bread and cakes. The bakery has a chain of shops throughout the capital and has plans to expand across the country.

Alasa is delighted to learn that Blindi's Bakery is opening a new store in her small town. On the morning of the opening, Alasa joins a long queue of customers waiting to visit the shop. The store has excellent displays of rolls, cakes and breads and there is a long glass window that allows customers to see the bakers preparing the products in-store. The prices of the goods in-store are 10% higher than in other bakeries, but the range of products seems more innovative and unusual.

When Alasa arrives at the front of the queue, she buys a small cake. She takes the cake home and shares it with her brother and sister. It is the tastiest cake she has ever eaten.

Alasa tells all her friends about her experience and thanks Nilie for having introduced her to the chain. She explains that Blindi's Bakery is well worth a visit and that the experience in the shop justifies the slightly more expensive price of the products.

OVER TO YOU

Activity 14: Moments of truth

Read the case study above.

Describe:

- **the first moment of truth that Alasa experiences;**
- **the second moment of truth; and**
- **the third moment of truth.**

Zero moment of truth

The increasing use of digital media and smartphones means that the concept of moments of truth has been disrupted. There is now a "Z" moment of truth.

In 2011, Google coined the term **zero moment of truth (ZMOT)**. It refers to the research that customers undertake online via digital and social media about a product or service before they decide to buy. Google research in the USA found, for example, that nearly nine out of ten people research online before making a major purchase. The outcome of an internet search therefore is a moment of truth that precedes the first, second and third moment of truth.

Figure 8: Zero moment of truth

With the growing use of mobile phones, consumers multitask and access the internet at any time of day and night. For example, they watch the television and at the same time search for product details on their smartphone. They meet their friends, and whilst they are together they go online to chat sites to tell others what they are doing.

Customers use every possible online source to find details about the brands and products that they are considering buying. This can be for any product and service, from health care to stationery products. They learn and make decisions via online ratings and reviews, feedback and comments from peers on social media, videos (an increasingly popular medium), text ads, image ads, news headlines and official brand websites. As we saw above, this is a growing trend across all countries.

CASE STUDY: ZMOT

David lives with his wife, children and parents in a suburb of the city. They live in a small compound and are reliant on a well for their fresh water. One day when he returned home from work, David discovered that the pump on the well had broken. The family had no access to water and needed to find a solution as quickly as possible.

That morning his father had called a local builder who provided a quote to supply and fit a new part to the pump. He arranged for the builder to meet David early the next morning to discuss the quote before he went to work. David's father wanted him to give the builder the go ahead so that the builder could order the new part and have the problem fixed as soon as possible.

David was not sure if the quote the builder gave was a fair price or the best option. He decided to look for alternative solutions. In the evening, he used his smartphone and began an internet search. He searched:

- the make and price of water pumps;
- peer reviews and ratings of different water pumps;
- a list of local builders together with feedback and ratings.

He also looked at posts on social media from other people who had similar problems and found that as well as recommending the best suppliers for replacement parts for pumps, many were advocating the use of water storage tank to ensure a continual water supply. David then searched for advice on the cost and best type of water storage tanks. He visited several websites, read consumer reviews and comments and watched some videos online about their use.

David also discovered via social media that it might be possible to obtain a grant from local government for upgrading water supplies in his area. He then searched the local government sites, citizen advice sites and peer reviews to see what was on offer and how to go about getting a grant.

By the end of the evening, David felt much more informed about the choices available to him and discussed his purchase decision with his father.

Consumers now know much more about products and services before they interact with them, and what they learn they share with others. This online word-of-mouth information stays digitally archived for others to see. The internet therefore has an important impact on consumer buying behaviour. It has also challenges traditional methods of creating relationships with customers as relationship marketers now need to develop strategies for building loyalty via digital means.

OVER TO YOU

Activity 15: Identify a brand that develops long-term relationships with customers online

Research on the internet and identify a product or service that builds long-term customer loyalty via digital media.

Critically assess and list the ways that it achieves this.

The impact on communication strategies

The move from push to pull

Unlike marketing before the advent of the internet, consumers today find and share their own information about products, in their own way, in their own time. The zero moment of truth influences which brands consumers put on their shopping list as well as where they choose to buy and with whom they share the results of their experiences.

Push marketing

Before the digital revolution, marketers adopted a **push strategy** towards the consumer. This was aimed at influencing trade buyers to stock their product.

A push marketing strategy involves brands negotiating with businesses such as supermarkets and intermediaries (trade buyers) who in turn have direct access to the customer. The relationship that brands who adopt a push strategy have with the trade is key to ensuring that the consumer is aware of the brand at the point of purchase. The term "push" stems from the idea that marketers are attempting to push their products at consumers via an intermediary (trade buyers).

In the past, this "industrialised" approach involved marketers anticipating customers' needs and shaping the way that the consumer interacted with the brand. Essentially marketers at the time treated shoppers as passive consumers. They recognised that the most important people in the purchasing chain were trade buyers. Marketers therefore negotiated with trade partners to ensure that their product was stocked in their outlets.

Companies "pushed" their products to large defined customer segments via media such as above-the-line advertising (TV commercials, billboards, newspaper and magazine advertising, in-store point of sale) and below-the-line advertising such as sponsorship, sales promotion and PR.

OVER TO YOU

Activity 16: Marketing before the internet

Imagine it is 1997 and the internet is not yet available in your country. You are the marketing manager for "Ice-O" an ice-cream brand.

List the marketing media that you can use to communicate with your current and potential customers and to increase consumers' awareness of your brand.

The approach that brands took could be considered as parental: "We know better than you, the consumer, about what you need." Henry Ford, the founder of the Ford car brand, famously said to customers: "You can have any colour of car you want, as long as it's black." Companies "spoke at" the consumer and sent out the messages that they believed the consumer wanted to hear.

CASE STUDY: PUSH MARKETING

Sarah started her career with Unilever, the fast-moving goods company. She was a marketing manager responsible for the marketing of soap powders on a global basis.

Sarah worked closely with her sales colleagues to influence supermarkets to stock the brand and to negotiate the best prices.

She worked with packaging designers to create impactful packaging and in-store point of sale. She also used large advertising agencies to develop advertising campaigns about the brand. Sarah hired a sales promotion agency to generate more sales. She also used a sponsorship agency and a PR agency to generate awareness of the brand.

Sarah's role as marketing manager was to influence trade channels to believe that the brand was sufficiently important to stock their products. Her role was to make current and potential customers aware of the brand so that they chose it in preference to other brands of soap powder. By generating a strong brand awareness, she sought to influence trade partners to buy the brand. Customers would visit a supermarket and expect Unilever soap powder to be on the shelves.

Pull marketing

Today the customer is the one who has the power. As we have seen, the digital revolution means that the consumer can have a "conversation" about a product, service or brand, when and where they like.

This revolution has been brought about via the following:

- Improvements in digital infrastructure: laptops, computers, phones and other digital devices now have increased processing power, greater storage and data facilities. Cloud computing has helped this process. Third- and fourth-generation mobile internet is now available in most countries.
- Government liberalisation across countries and deregulation of markets has led to the opening of new marketplaces and global expansion.
- Economic shift: technology has reduced barriers to entry, making it much easier for customers to find information and switch suppliers.

The rise of informed buyers who now take control of the buying cycle means that businesses need to support the customer with new approaches to purchasing. Businesses are no longer in control of the messages that they send about their brand. Trade buyers are not now as powerful. As described above, peer-to-peer feedback and word-of-mouth has more influence on the consumer than what companies say about themselves.

CASE STUDY: PLASTIC IS FANTASTIC

An example of the power of the consumer is a news item that made the national headlines in the UK in 2017. A large chain of pharmacists was seen by consumers to be promoting toiletry bags that were made of plastic. They used the slogan: "Plastic is Fantastic" to promote their bags.

Consumers viewed this very negatively and reacted strongly to the company on social media as they were perceived as promoting plastic. Word spread quickly online that plastics were a major pollutant and that the pharmacy chain was not ethical in promoting the product.

The furore on social media made the news headlines and the pharmacy chain was forced to change its packaging and drop the slogan.

Companies today recognise that they need to engage in conversation with the customer. Therefore they have to adopt a **pull strategy** to influence the end-user. Pull marketing techniques take the opposite approach to push marketing. The goal of pull marketing is to influence the consumer and attract customers to engage with the brand. Companies need to pull customers in rather than push messages at them. This means that the marketer needs to be clear about who their target customers are and what is important to them.

Examples of pull marketing include having a relevant website that speaks directly to the target consumer, and creating online content about the brand that customers and prospective customers want to engage with. This could be, for example, online articles and blogs, news features, infographics and videos. It is also about brands having an online presence so that they can respond to consumers' feedback. It involves using data analytics and online optimisation techniques to provide the type of information that the end-user wants to hear.

It has been argued that pull marketing attempts to create brand loyalty and keep customers coming back, whereas push marketing is more transactional and concerned with short-term sales.

OVER TO YOU

Activity 17: Examples of pull marketing

Look at the examples of different companies' marketing:

https://blog.hubspot.com/marketing/omni-channel-user-experience-examples

List the types of pull strategies that these companies adopt.

Identify and evaluate a blog or a vlog that you consider to be particularly effective and list the reasons why.

CASE STUDY: PULL MARKETING

Nadri works as a marketing manager for a printer company. He is responsible for the marketing of printer products on a global basis.

Nadri works with research agencies to better understand the different types of customers who buy the products and services that his company offers. The company has segmented the marketplace and has also researched the different types of current and prospective customers who buy the brand as well as their touchpoints.

By better understanding his customers' buying needs and the type of relationship they want with the company, Nadri has been able to develop a targeted marketing communications strategy.

Nadri works with website, social media and search engine optimisation agencies to ensure that the online content that the business provides is relevant and engaging to the different target audiences. He is also responsible for the quality of the customer experience. He works with his colleagues in the social media team to ensure they are proactive in their messaging about the products and in responding to online consumer comments. Nadri also works with the customer service teams to look at ways of continually improving the customer experience.

Nadri's role as marketing manager is to create brand loyalty for each segment of the marketplace.

So, if you compare Sarah's role as a marketing manager with that of Nadri, you will see that Sarah's role in the 1980s and 1990s was to influence trade channel partners. With the advent of digital and social media and the rising power of the consumer, Nadri's role today is aimed at influencing the end-user. Sarah adopted a push marketing strategy, whereas Nadri is adopting a pull strategy.

The difference in push and pull approaches is summed up in a quote from Bob Thacker of Gravitytank, a strategy and innovation consultancy.

> *Engagement with the customer today isn't just pouring a message down on their head and hoping they get wet. It really is understanding that you must be present in a conversation when they want to have it, not when you want to. Pre-shopping before buying has become a huge, huge part of customer behaviour. In the past, it was pretty much confined to big-ticket items like cars, or expensive electronics or homes. Now people engage in discovery before shopping on very small things. It's crossed all categories of shopping behaviour. It's just the way people buy today.*
>
> *Bob Thacker*[29]

29 Lecinski, J. (2011), *Winning the Zero Moment of Truth*. New York City: Vook Inc.

OVER TO YOU

Activity 18: Customer engagement

Critically review the tips on customer engagement strategies in this blog:

https://www.outbrain.com/blog/3-golden-customer-engagement-strategies-that-marketers-cant-ignore/

Compile a list of the tips with which you agree.

OVER TO YOU

Activity 19: Engaging your target audience

This activity is intended to make you think how you can adopt a pull engagement strategy.

Imagine that you are the marketing manager for a brand of baby powder. Your target audience consists primarily of new mothers with babies aged under one year.

List three pull techniques and explain why they could be used to engage with this target audience effectively.

Ladder of loyalty

In this chapter and Chapter 1 we have described the aim of marketers to develop ongoing and meaningful relationships with customers so that they become advocates of the brand. Those marketers who adopt a pull strategy are more likely to engender loyalty in today's environment than those who adopt purely a push strategy.

The **loyalty ladder** is one way of looking at relationships with customers. It is a concept that sees customers moving up a ladder representing relationship levels.

- At the bottom of the ladder are people who may potentially buy your product but have not done so yet. These people are called prospects.
- A first-time buyer is called a customer. Their experience of the product and the quality of service that they receive can influence them when deciding whether they repeat purchase.
- A repeat purchaser becomes a client.
- If a client's expectations continue to be exceeded, they are more likely to try new products and are known as supporters.
- At the top of the ladder are advocates. They repeat purchase more often than other customers, try new products, and recommend and refer others to your brand.

Research shows that advocates will provide a feedback score of 9 or 10 out of 10 about the company's products or services.

Whereas most consumers have indifferent loyalty and will shop around (scoring on average 5, 6, 7 or 8 out of 10 for a company's products and services), brand champions are apostles for the brand. Importantly they spread positive word-of-mouth, whereas detractors of the brand (those who score 1, 2, 3, 4 or 5 out of 10 in customer feedback about the product or service) spread negative feedback and are not likely to repeat purchase.

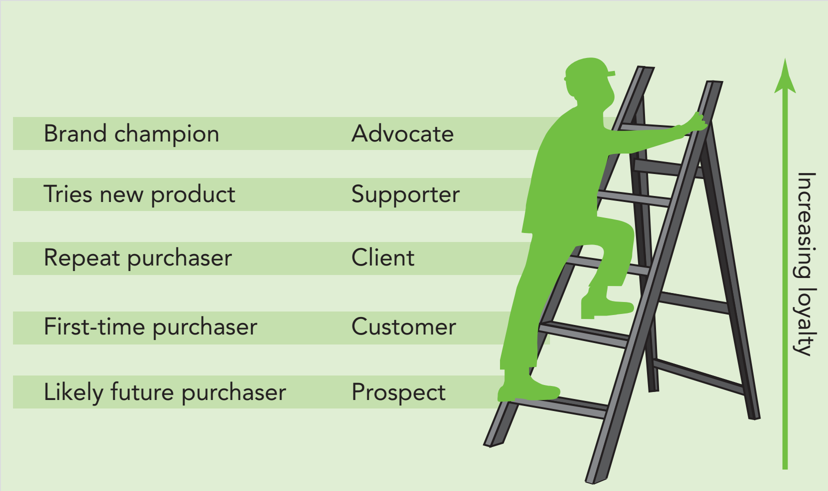


Figure 9: The ladder of loyalty

REVISION on the go

The marketer's objective is to engage the customer so that they get as high up the ladder as possible. Companies can do this by adopting relationship marketing strategies such as:

- Segmenting their target market and being very clear about their customers' needs.
- Offering a personalised service.
- Providing excellent service quality that exceeds customers' expectations.
- Dealing with issues and complaints well. Research shows that when businesses do this, they gain higher levels of loyalty as there is an emotional engagement with the customer.

Companies who develop long-term relationships with customers benefit from reduced cost of sales as it costs up to five times more to gain a new customer than it does to keep an existing one. They also benefit from increased lifetime value as, for example, an advocate customer may only spend $10 each purchase, but they are doing so every month and will continue to do so throughout their lifetime, totalling $120 each year. In addition, a key benefit is the word-of-mouth feedback that advocates provide about the company.

OVER TO YOU

Activity 20: The loyalty ladder in action

Think of a product or service that you use on a regular basis and have recommended to other people. It could be any product or service, for example a shop or restaurant, a bank or service provider.

Calculate how much you spend with this brand each year.

Give an estimate of both the number of years you have used this brand as well as how many years you will continue to do so.

Now multiply your annual spend per year by the total number of years you have used and will continue to use the brand to calculate your lifetime value.

In addition, calculate how many people you have recommended the product or service to in the past year.

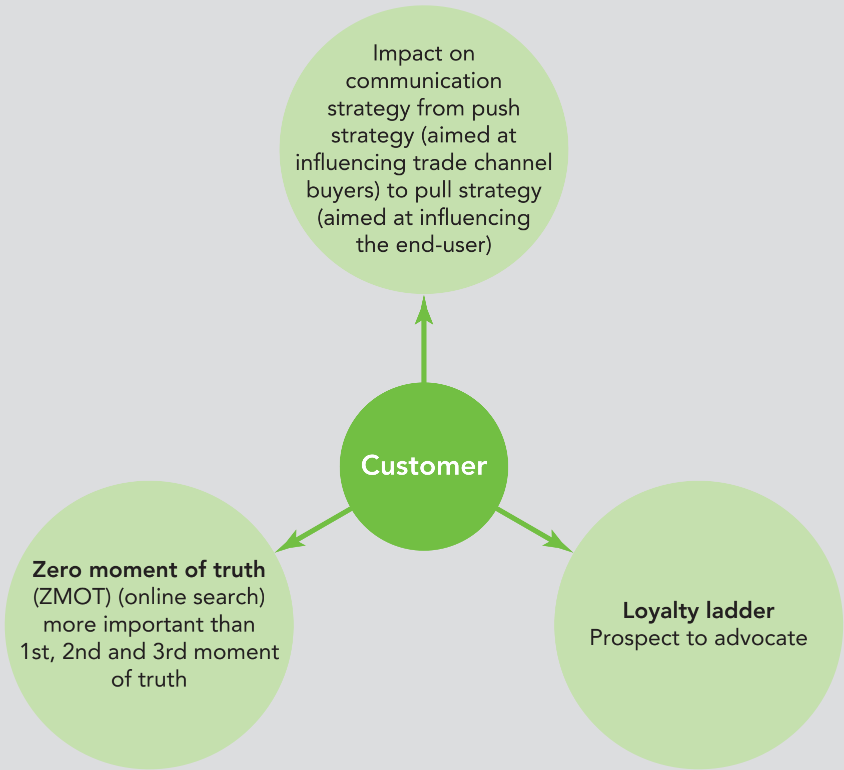


Figure 10: The power of the customer

! NEED TO KNOW

The power of the customer

The purchase funnel concept such as AIDA, and other hierarchy of effect models, no longer applies.

The consumer journey has moved from linear to circular. Today's consumer pays attention to peer-to peer-feedback and this influences their purchasing decisions.

The power of the consumer and the use of the internet has provoked changes to the evoked set premise.

Moments of truth influence the customer's purchase decisions and the Zero moment of truth (ZMOT; online search) has an important influence on consumers.

The digital revolution and the consequential power of the consumer has had an effect on businesses' communication strategies (influencing the move from a push to a pull strategy).

The aim of relationship marketing is to help consumers climb a ladder of loyalty from prospect to advocate.

REVISION on the go

READING LIST

- Brocato, D. (2010), *Push and Pull Marketing Strategies*. New Jersey: John Wiley & Sons
- Raphel, N. (1995), *Up the Loyalty Ladder: Turning Sometime Customers into Full-Time Advocates of Your Business*. London: HarperCollins
- Ryan, D. and Jones, C. (2009), *Understanding Digital Marketing*. London: Kogan Page

Online resources

- Frost, P. (2015), *The Marketing Funnel Is Dead; New Consumer Path to Purchase* [online]. Retrieved from: http://www.practicalecommerce.com/articles/117365-the-marketing-funnel-is-dead-the-new-consumer-path-to-purchase [Accessed on: 23 October 2017]
- Struyk, K. (2012), *Policy #1: Assign each touchpoint a different objective and task to carry out* [online]. Retrieved from: http://www.imediaconnection.com/articles/ported-articles/blogs/2012/feb/policy-1-assign-each-touchpoint-a-specific-objective-task-to-carry-out/ [Accessed on: 23 October 2017]

Summary

In this chapter we have seen that with technological advances consumer behaviour has changed and the concept of the purchase funnel, such as AIDA and other hierarchy of effect models, no longer applies. The consumer journey has moved from a linear to a circular process. This has implications for relationship marketing as there are now more touchpoints that can influence whether the customer decides to engage in a long-term relationship with the brand.

We have described how relationship marketers need to be aware of the importance of peer-to-peer feedback in influencing customer purchasing decisions, and that the internet and the increasing power of the consumer has provoked changes to the evoked set premise.

We have outlined the concept of "moments of truth" for the customer which influence the customer's initial and repeat purchase decisions. The ZMOT (online search) has disrupted the traditional model of "moments of truth" as the consumer now has instant access to brand information.

The digital revolution and the access and consequential power that this gives the consumer has impacted business communication strategies, influencing the move from a push to a pull strategy where two-way communication is important.

Given that the aim of relationship marketing is to help consumers climb a ladder of loyalty from prospect to advocate, the changes in customers' buying behaviour mean that marketers must develop both on- and offline strategies to engage customers and develop long-term relationships.

Chapter 3

Marketing Relationships

Introduction

In this chapter, we look at the relationships that impact marketing interactions and different relationship types, their nature and properties. It is important for marketers to understand the nature of marketing relationships in order to develop long-term, sustainable, valuable relationships with customers.

Learning outcome

On completing the chapter, you will be able to:

3 Critically review the differences between relationship marketing and marketing relationships

Assessment criteria

3 Critically review the differences between relationship marketing and marketing relationships

3.1 Appraise different relationship types and their nature and properties, how relationships add value; contrast relationship marketing with marketing relationships

3.2 Critically review the importance of networks relevant to an organisation

3.1 Differences between relationship marketing and marketing relationships

As we saw in Chapter 1, the schools of thought that place importance on personal interaction and networks view marketing as an interactive process set in a social context. Thus, relationship building and management are vital to long-term customer engagement. To be able to apply relationship marketing (RM) techniques, we need to understand marketing relationships.

In his book *Total Relationship Marketing: Rethinking Marketing Management: From 4Ps to 30Rs*[30] Evert Gummesson says: "Relationship marketing is marketing seen as relationships, networks and interactions." Gummesson identifies 30 relationships that are key to effective buyer and seller interactions. He states that everyone has relationships in their day-to-day lives (with loved ones, friends, neighbours, colleagues, etc.).

In the marketing environment, the most basic relationship is between the customer and the supplier. There are also more complex networks which are the webs of relationships that companies have. When people have active contact with each other this is called interaction.

Gummesson's view is that by studying the types and nature of relationships in a market, marketers can develop better relationship marketing strategy and tactics.

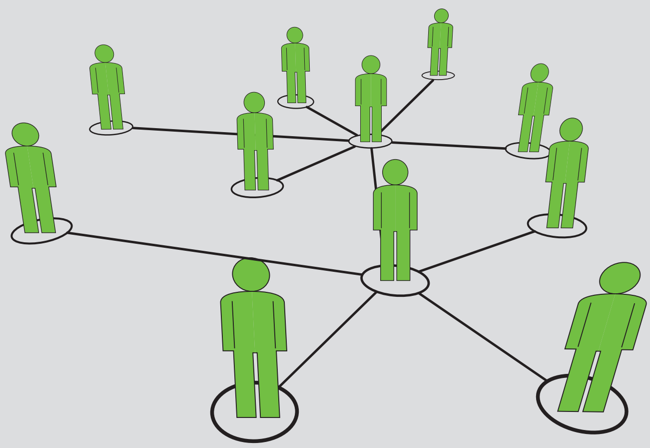


Figure 1: A relationship network

30 Gummesson, E. (1999), *Total Relationship Marketing: Rethinking Marketing Management: From 4Ps to 30Rs*. Oxford: Butterworth & Heinemann

To summarise, a marketing relationship is any type of relationship interaction that the supplier of products or services has with a customer or potential customer. Relationship marketing is the process of engaging customers in a long-term relationship with the brand.

OVER TO YOU

Activity 1: The importance of relationships

Read the following two articles:

http://sabilfeb.lecture.ub.ac.id/files/2014/04/Strategic-Relationship.pdf

http://www.impgroup.org/uploads/papers/4686.pdf

Critically assess the conclusions of the articles. Describe why you agree or disagree with the conclusions.

Classification of exchange relationships

An **exchange process** is when an individual or an organisation decides to satisfy a need or want by offering some money or goods or services in exchange for what is needed or wanted. Exchange is: "the act of obtaining a desired object from someone by offering something in return" (Armstrong et al., 2009)[31].

OVER TO YOU

Activity 2: What exchange relationships have you had recently?

Think about any exchange that you have made in the past month.

List the types of exchange that you made.

Assess the types of exchanges that these are, e.g. transactional (one-off) interactions or part of a long-term relationship with a company.

31 Armstrong, G. Kotler, P. Harker, M. and Brennan, R. (2009), *Marketing An Introduction*. New Jersey: Pearson

The exchange process is at the heart of relationship marketing. With relationship marketing, marketers purposefully look at developing sustainable, long-term relationships with their target audience for mutual benefit and with the aim of growing the business.

For an exchange to happen, both parties need to have something of value to the other. For instance, a man visiting a food stall at the side of the road might have enough money to buy a cup of tea, while the food stall needs to have the tea. Both parties must want to exchange something and be able to do so in order for the exchange to happen.

Exchange occurs when:

- there are two or more parties;
- each party has something to offer that is perceived to be of value by the other party;
- both parties can communicate and they can deliver an exchange;
- both parties are free to accept or decline an exchange;
- it is appropriate/desirable for an exchange to take place.

A marketing exchange is what happens when two or more people trade goods or services. There are three types of exchange that can take place in marketing terms:

Market-based exchange

Market-based exchange is where suppliers make their goods and services available to a mass market or market segment and buyers choose whether or not to make an exchange. For example, a supplier may offer stationery products such as pens and paper to the marketplace, targeted at both parents with schoolchildren and the business market. Parents, schoolchildren and companies in the business market may consider they have a need for stationery products, look at what is available on the market (including competitive suppliers) and then choose whether or not to make the exchange with this supplier.

Committed market exchange

A **committed market exchange** is when the customer is committed to a specific brand and believes that it offers superior value. For example, as a buyer of stationery, I may believe that one brand of pens and paper offers more value than others and therefore buy all of these products from one supplier.

Domesticated market exchange

A **domesticated market exchange** is when the buyer decides that it is preferable to have a special relationship with a limited number of brands, to increase the buyer's efficiency in dealing with the marketplace. For example, I may decide to buy paper from one supplier, pens from another and printer cartridges from a third supplier.

OVER TO YOU

Activity 3: Categories of exchange relationships

Think about exchanges that you have made as a consumer in the past year.

Describe one instance of market-based exchange, one of committed market exchange and one of domesticated market exchange that you have made, if appropriate.

Imagine you are a supplier of pens to the three types of market exchanges described above. Critically assess in which of the three market exchange types it would be most important to have a long-term relationship with buyers.

Categories of exchange relationships

Morgan and Hunt (1994)[32] describe four categories of exchange relationship markets. These are **supplier**, **buyer**, **lateral partnerships** and **internal partnerships**. Figure 2 illustrates each category and the actors (people) involved.

32 Morgan, M. and Hunt, S. (1994), "The Commitment-Trust Theory of Relationship Marketing", *Journal of Marketing*, Volume 58, Number 3, pp. 20–38

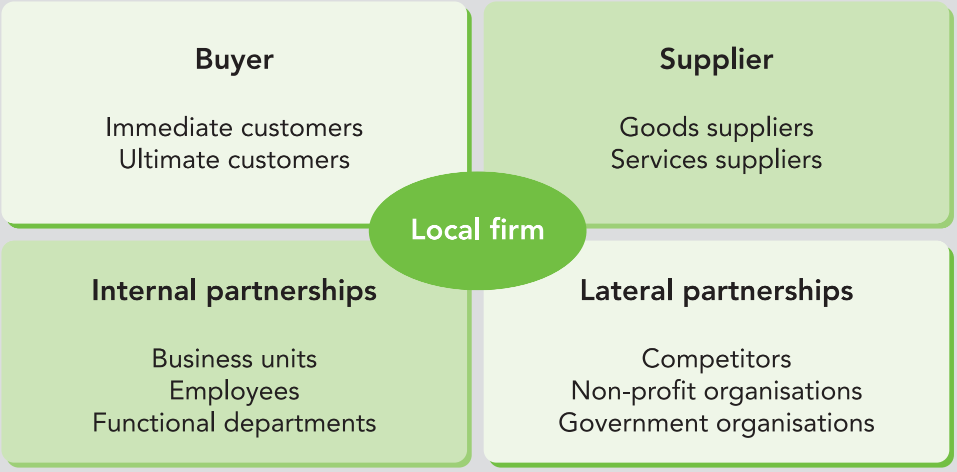


Figure 2: Exchange relationship markets

REVISION on the go

CASE STUDY: CHILLI MARKET

Chilli Market is a small co-operative that produces and markets chillies peppers to customers in South America. The business is made up mainly of women who grow chillies peppers on their smallholdings and then bring the product to a central location for packaging, storage, marketing and dispatch. Prior to the co-operative being established, the women took their product to local markets. The co-operative was established to offer the product to a wider audience including overseas buyers.

The company operates out of a small unit and has two full-time employees: one deals with suppliers and wholesalers who buy the product, the other is responsible for sales and marketing.

The business benefits from a grant from a non-government organisation (NGO), and has recently received help from representatives from an overseas advertising agency who visited to help Chilli Market set up its own website.

OVER TO YOU

Activity 4: Exchange relationships

Review the case study above.

List the exchange relationship markets that are important in order for Chilli Market to be successful.

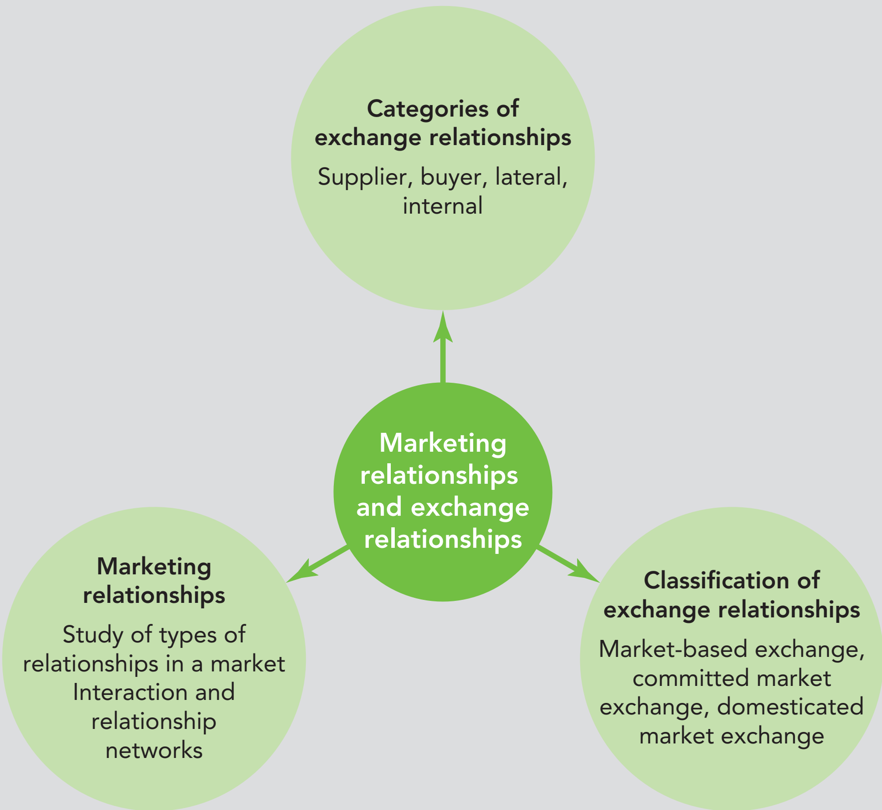


Figure 3: Marketing relationships and exchange relationships

Nature of relationships

One way of characterising exchange relationships is the distance between the buyer and the seller. This can be depicted along a continuum as shown in Figure 4.

Intimate	The buyer and seller know each other well and have a close relationship
Face-to-face	The buyer and seller interact on a face-to-face basis
Distant	The buyer and seller have little contact
No contact	The buyer and seller have no contact or relationship

Figure 4: Distance in a relationship

The smaller the distance between the parties in the exchange relationship, the more aligned the buyer is to the seller.

Relationship matrix

As the science of marketing has moved from a transactional, production-orientated approach to a more humanistic, relationship approach, various tools have been developed to help marketers map the network of relationships that can occur in a marketplace. In Chapter 1 we saw that developing long-term relationships brings greater organisational benefits than one-off transactional marketing.

The **relationship matrix** is a convenient method of visualising relationships. There are several ways in which this can be visualised. For example, different customers' relationships with a brand can be plotted on two axes:

- the *Y* axis: desired degree of proximity between customers and suppliers – close or distant;
- the *X* axis: types of relationships that customers expect – short term and long term.

This produces a four-box matrix that can be used to plot relationships (Figure 5).

	Short-term relationship	Long-term relationship
Distant relationship	One-time customer	Relationship seekers
Close relationship	Customers who exploit relationships	Loyal customer

Figure 5: Example of a relationship matrix

- One-time customers have short-term, distant relationships with suppliers.
- Relationship seekers are customers who are close to suppliers and looking for long-term relationships with them but who have not yet achieved this.
- Customers who exploit relationships have close relationships with suppliers but they only want short-term relationships.
- Loyal customers have close and long-term relationships with suppliers.

OVER TO YOU

Activity 5: The use of the relationship matrix

Critically assess how and when you would use a relationship matrix as a marketer. In what circumstances would this be most appropriate?

Identify marketing strategies to convert relationship seekers into loyal customers.

Give an example of a customer who may exploit a relationship.

Relationship properties

The concept of the **relationscape** (Gummesson, 1995)[33] is to represent the relational landscape in a business environment. It is a way of identifying all active, visible and **invisible relationships** of a firm.

Relationscapes differ from networks. Networks can be generally defined as "a set of interconnected exchange relationships" (Cook and Emerson, 1978)[34]. Relationscapes have a broader definition, going beyond the study of only **active relationships** in business networks, taking both visible and invisible relationships into consideration. A relationscape, therefore, plots all of the relationships in a landscape.

33 Gummesson, E. (1995), Relationship Marketing: Its Role in the Service Economy, in Glynn, W. and Barnes, J. (eds.), *Understanding Services Management*. New York: John Wiley & Sons, pp. 244–268
34 Cook, K. and Emerson, M. (1978), "Power, Equity and Commitment in Exchange Networks", *American Sociological Review*, Volume 43, Number 5, pp. 721–739

- Active relationships are the current relationships that the business has. For example, a firm of lawyers may have active relationships with many clients in the engineering sector.
- **Visible relationships** are defined as businesses that firms may perceive and identify as partners. For example, in the case of the lawyers' practice, this could be potential clients in the automotive sector as their engineering clients provide components in this sector.
- Invisible relationships are defined as businesses that could be possible partners but are not perceived as such by the firm. For example, the lawyers' practice may have never considered that they could have business relationships with other professional services companies such as doctors and accountants.

Gummesson stated that both active and visible relationships can be made up of both positive and negative elements for a business. He recommended various strategies on completion of a relationscape (Table 1).

	Invisible relationships	Visible relationships	Active relationships
Relationships that have a positive impact and add value	Identify who these are	Develop into active relationships	Maintain and add value to relationships
Relationships that have a negative impact and reduce value	Identify who these are	Do not pursue active relationships	Change aspects of the relationship or discontinue the relationship

Table 1: Strategies on completion of a relationscape

REVISION on the go

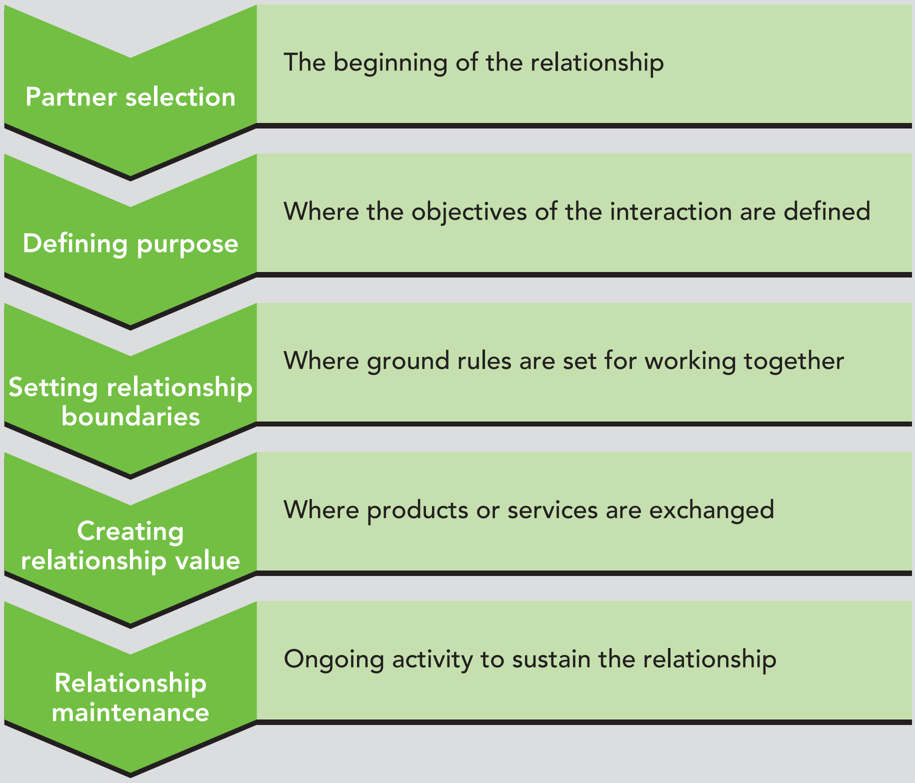
OVER TO YOU

Activity 6: Complete a relationscape

Imagine that you are in charge of marketing in the college or place of learning where you are studying. Complete a relationscape for the college and identify relationship marketing strategies for each type of relationship.

Strategic marketing relationships

Wilson (1995)[35] identified that relationships in B2B markets are increasingly important in many companies' operating strategies. He identified five stages of relationship development (Figure 6).



Source: Adapted from Wilson (1995)

Figure 6: Five stages of relationship development

Wilson took the constructs most often seen to make up effective relationships. He then identified via research which variables are more active than others at each of the five stages of the buyer–seller relationship. He also found that some variables are not important in some of the five relationship stages.

OVER TO YOU

Activity 7: Variables that are active in different relationship stages

Wilson identified 13 constructs that are important in effective relationships. These are:

1. **reputation**
2. **performance satisfaction**
3. **trust**
4. **social bonds**
5. **comparison levels of alternatives**

35 Wilson, T.D. (1995), "An Integrated Model of Buyer-Seller Relationships", *Journal of the Academy of Marketing Science*, Volume 23, Number 4, pp. 335–345

6 mutual goals
7 power/dependence
8 technology
9 non-retrievable investments
10 adaptations
11 structural bonds
12 co-operation
13 commitment

Look at the list of variables. Write down the seven attributes that you think are important at the "partner selection" phase. Justify your selection of each.

NEED TO KNOW

Wilson's 13 constructs

The correct answers for Activity 7 are variables 1–7; in the partner selection phase of relationship development (i.e. the first stage in building a relationship), the most important variables are reputation, performance satisfaction, trust, social bonds, comparison levels of alternatives, mutual goals and power/dependence.

REVISION on the go

Strategic alliances

A further form of relationship is a strategic alliance. This is an agreement between two or more parties to pursue a set of agreed objectives for mutual benefit while remaining independent organisations. Hsu and Tang[36] describe a strategic alliance as "two or more companies who develop long-term relationships to capture synergies for integrating the marketing resources and capabilities of each partner."

Typically, two companies form a strategic alliance when each possesses one or more business resources or assets or has expertise that will help the other's business.

A strategic alliance is not a legal partnership entity, agency or corporate affiliate relationship. Partners may provide the strategic alliance with resources such as products, knowledge, expertise, distribution channels, manufacturing capability, project funding, capital equipment or intellectual property.

OVER TO YOU

Activity 8: Identify successful strategic alliances

Here are links to examples of strategic alliances:

http://www.indiainfoline.com/article/news/icici-bank-and-vodafone-india-announces-strategic-alliance-to-launch-m-pesa-5539284905_1.html

https://www.allbound.com/blog/successful-strategic-alliances-5-examples-of-companies-doing-it-right

Read the articles.

Research and identify a further example of a successful strategic alliance in your country or region.

36 Hsu, H.H. and Tang, J.W. (2010), "A Model of Marketing Strategic Alliances To Develop Long-Term Relationships for Retailing", *International Journal of Business Information 151*, Volume 5, Number 2, pp. 151–172

The need for a strategic alliance arises when a business does not have the internal assets, capabilities or activities to address the needs of customers, or when these needs could be better met via a partnership from outside players such as suppliers, customers, competitors, companies in different industries, institutes or the government.

In a strategic alliance, each company maintains its autonomy while gaining a new opportunity. A strategic alliance could help a company to expand into a new market or develop an advantage over a competitor. The value of a strategic alliance comes in many forms including new entries to market, speed to market and innovation.

Some types of strategic alliances include:

- Horizontal strategic alliances, when organisations in the same business area (often competitors) form a partnership.
- Vertical strategic alliances, which describe the collaboration between a company and its upstream and downstream partners (suppliers and distributors) in the supply chain.
- Intersectional alliances are partnerships which involve organisations in completely different areas of business so they normally have totally different markets and know-how.
- Joint ventures, in which two or more companies decide to form a new company. This new company is then a separate legal entity. A joint venture may be established for the lifetime of a project or for a lasting long-term business relationship. Risks and revenue are shared according to capital contribution.
- Equity alliances, which are formed when one company acquires an equity stake of another company and vice versa.
- Non-equity strategic alliances, which cover a wide field of possible co-operation between companies. This can range from close relations between customer and supplier, to outsourcing of certain corporate tasks or licensing, to vast networks in research and development (R&D). This co-operation can be either an informal alliance that is not contractually designated, which appears mostly among smaller enterprises, or the alliance can be defined by a contract.

Further kinds of strategic alliances include franchising, licensing, affiliate marketing and outsourcing. The benefits of strategic alliances include flexibility and shared risk.

OVER TO YOU

Activity 9: Identify successful strategic alliances

For the strategic alliance example in your country or region that you researched for Activity 8, identify what type of alliance this is based on the list above.

Strategic alliances are proven to add strengths to the parties involved as well as encouraging innovation. This can be brought about via access to new technology, improved agility, R&D, material flow, speed to market, sharing learning from each business and intellectual property.

CASE STUDY: RENAULT AND NISSAN

Nissan is a Japanese car manufacturer and third largest in its domestic market after Toyota and Honda. After a decade of making huge losses, in 1990 Renault, the French car manufacturer, acquired 36.8% of the Japanese company. It entered into an alliance that involved sharing systems, plants and best practices. Both companies maintained separate identities while developing synergies. The two companies benefited from the alliance by cutting costs and becoming more efficient, nimble and innovative.

Nature and scope of supplier interaction

A further consideration for marketers is the nature and scope of supplier interaction. Bensaou (1999)[37] identifies four types of buyer and supplier relationships:

- **captive buyer** – determined by the absence of substitutes, non-retrievable investments, legal property rights and difference in company size;
- **captive supplier** – determined by the availability of substitutes, non-retrievable investments, legal property rights and difference in company size;
- **market exchange relationships** – the combination of the availability of substitutes and the presence of mutual goals;
- **strategic partnerships** – determined by the presence of legal property rights on both sides, which results in limited or no substitutes for both parties, and high non-retrievable investments on both sides, which results in interdependence.

OVER TO YOU

Activity 10: Critically assess Bensaou's model

Read and critically assess the article: http://dspace.ou.nl/bitstream/1820/3545/1/MWBHMJFleurenmei2011.pdf which looks at the application of Bensaou's model in more depth.

Draw conclusions about how the model works in practice in a marketing environment.

37 Bensaou, M. (1999), "Portfolios of buyer-supplier relationships", *Sloan Management Review*, Volume 40, Issue 4, pp. 35–44

In his research, Bensaou discovered the concept of specific investments in relationships that determine the quality of the buyer and supplier relationship. Specific investments are investments that are difficult or expensive to transfer to another relationship or investments that may lose their value when redeployed to another supplier or customer.

Investments take two forms:

- tangible investments such as buildings, technology, tools, etc.;
- intangible investments such as investments in people or in time and effort spent learning the supplier's business practices. This can be illustrated via a four-box model (Figure 7).

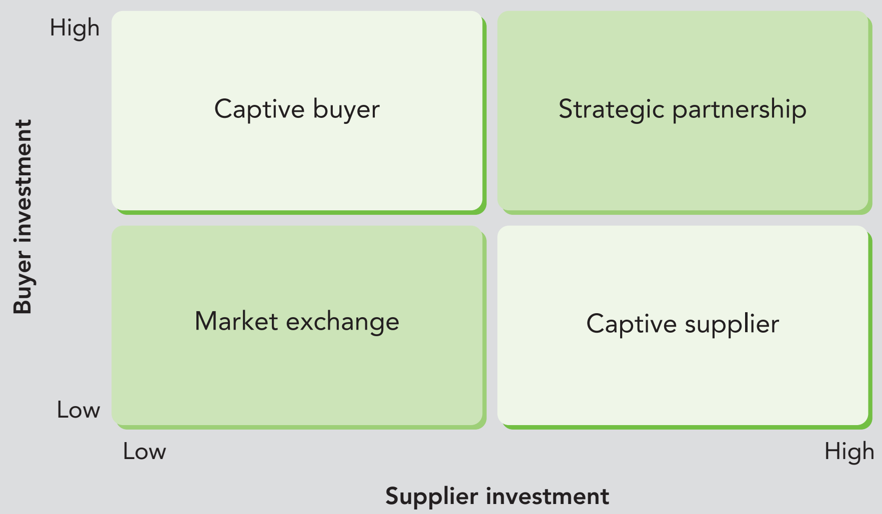


Figure 7: Buyer and supplier investment model

Here is the key to the model:

- captive supplier: the supplier does not necessarily have a good reputation;
- captive buyer: the buyer does not necessarily have a good reputation;
- strategic partnership: the supplier and buyer each have an excellent reputation;
- market exchange: the supplier and buyer each have a good reputation and a good track record.

OVER TO YOU

Activity 11: Strengthening the supplier and buyer relationship

Imagine that you are a "captive supplier": a medium-sized supplier in a marketplace that is price sensitive, where you do not necessarily have a good reputation and where there are many competitors and substitutes.

Describe relationship approaches that you can apply to enhance your reputation and develop mutually beneficial long-term relationships.

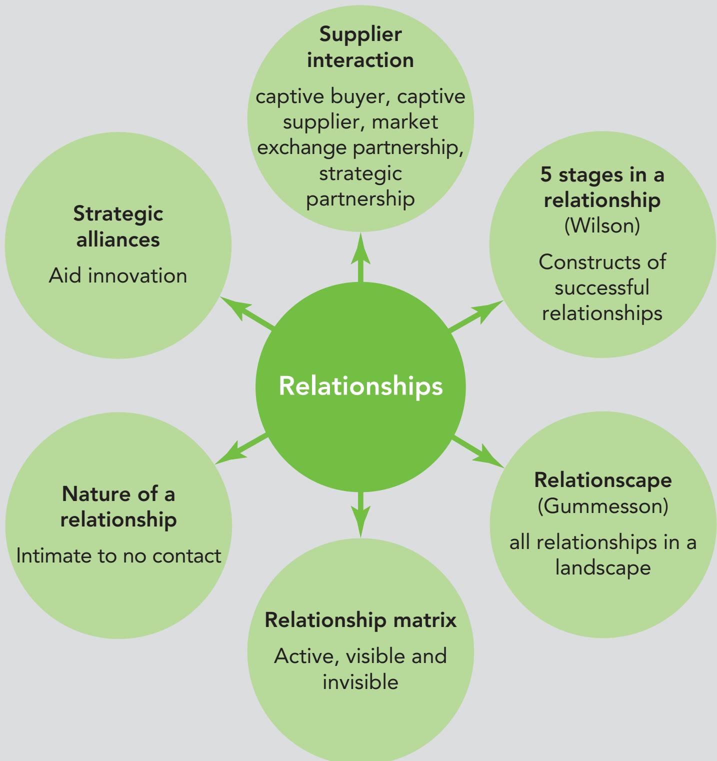


Figure 8: Relationships – a summary

REVISION on the go

In this section we have discussed how relationship building and management are vital to long-term customer engagement. To be able to apply relationship marketing (RM) techniques, we need to understand relationships, networks and interactions.

The exchange process is at the heart of relationship marketing. A marketing exchange is what happens when two or more people trade goods or services. There are three types of exchange that can take place in marketing terms: market-based exchange, committed market exchange and domesticated market exchange.

The nature of relationships can be classified by distance: from intimate to no contact. A relationship matrix is a method of understanding relationships. These are classified as active, visible and invisible.

A relationscape represents the relational landscape in a business environment. It is a way of identifying all active, visible and invisible relationships of a firm.

Wilson's model of buyer-seller relationships identified that relationships in B2B markets are increasingly important to many companies' marketing strategies. Wilson identified five stages of relationship development: partner selection, defining purpose, setting relationship boundaries, creating **relationship value** and relationship maintenance. He also identified the constructs that make a good relationship.

3.2 The importance of networks relevant to an organisation

Relationship networks

As we have seen, marketing helps to facilitate exchange relationships among consumers and suppliers. It is a social process involving the activities necessary to enable individuals and organisations to obtain what they need and want through exchanges with others, and to develop ongoing exchange relationships.

We all belong to social groups – be it a work group, a sports team, an ethnic group, your college group, etc. We have something in common with others in the same group, we identify with the group, and the group can create a sense of belonging for us.

OVER TO YOU

Activity 12: Your social groups

List up to three social groups to which you belong.

Personal networks

Groups can be divided into **primary groups** and **secondary groups**. Primary groups consist of those people who influenced the first part of your life and who shape your values in life such as family and friends. Primary groups give you a strong sense of who you are and a sense of belonging. Primary groups tend to build long-lasting bonds and be small and intimate in nature.

Secondary groups are often based on shared interests, hobbies and activities that we undertake as we get older. These groups tend to be larger and less personal compared to primary groups. For example, you may be part of a sports group, a choir or a local community group. Secondary group contacts tend to be more short-term than primary groups. Studies show that from secondary groups we may find friends and form relationships with a small number of people who then become part of our primary group.

No matter what groups we belong to, research has shown that we all show **in-group favouritism**. No matter what group we are in, we compare our group with other groups and think we are better. For example, people working in a marketing department team may consider themselves better than the sales team. This is favouritism for the group they are in as opposed to those groups they are not in – the out-group.

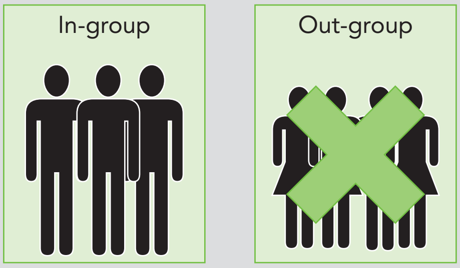


Figure 9: In-groups and out-groups

REVISION on the go

OVER TO YOU

Activity 13: Identify an in-group

List one in-group that you belong to and how you perceive an out-group.

Social networks

As well as belonging to primary and secondary groups, we all have social networks. These are the social ties that link us to other people. These ties include family, friends, acquaintances, neighbours, classmates and colleagues. These social ties can be represented as a spider's web emanating from you in the centre. Each node on the web represents a person with whom you have a social connection. The closer the person is to the centre of the web, the closer they are to you. The thicker the web strand itself, the stronger your relationship is with that person.

Group influences on behaviour

The groups that you belong to influence your behaviour. **Homophily** is present in many social networks. Homophily is the tendency of individuals to associate and bond with similar others, as in the proverb "birds of a feather flock together". This means that individuals with similar traits are more likely to form relationships with one another, share common values and beliefs and in turn exhibit similar behaviours.

The concept of social networks has grown popular as a result of the increased use of social media. As we have seen, people use social media on a daily basis to connect with others. Many studies have found that homophily is present online as well as face-to-face as people tend to join social media groups whose interests they share.

CASE STUDY: EATING PATTERNS

Research has found evidence of homophily in eating patterns. In a family situation where there are two main partners/parents/carers present, it is most probable that if one of the pair makes unhealthy food choices, the other person in the pair also makes unhealthy food choices.

Informal networks

As well as having personal and social networks, we also have **informal networks**. Often formed haphazardly, they are the random links and connections we have with a wide variety of other people. People can use informal networks when they need help, based on the principle of reciprocity.

For example, in a work environment, you may be a team leader in your department and work within a formal structure. However, you will also have an informal network within the organisation. These are the networks of relationships that employees form across functions and divisions to accomplish tasks fast. Informal network relationships can cut through formal reporting procedures to jump-start stalled initiatives and meet tight deadlines. But informal networks can just as easily sabotage companies' best-laid plans by blocking communication and stirring up opposition to change.

Learning to recognise and map informal networks can help marketers to identify powerful communication links.

CASE STUDY: CHANGING SCHOOLS

Violet has a son who is about to change schools. She is worried that he will not know anyone at the new school when he starts.

She contacts people in her informal network and finds that an acquaintance, Lily, whom she has met in a needlework group has a grandson of the same age who is already at the new school.

Violet asks around for Lily's telephone number. She calls and explains the situation. Lily promises to tell her grandson about the new boy who will be attending the school. She offers to arrange for the two boys to meet before the school term starts to get to know each other.

Types of relationship networks

In addition to social and personal networks, there are other forms of cultural relationship networks that have an impact on how people act and do business. The following are examples of deep cultural bonds and psychological contacts that dictate duties, rights and obligations in certain countries.

Guanxi

Guanxi is a central idea in Chinese society. It describes the relationships that individuals cultivate with other individuals, or a network of contacts, which an individual can call upon when something needs to be done, and through which they can exert influence on behalf of another. Guanxi places emphasis on implicit mutual obligations, reciprocity and trust. It is based on the philosophy of Confucianism, which stresses the importance of associating oneself with others in a hierarchical manner. In doing so, it believes that social and economic order will be maintained.

It is usual for Chinese people to cultivate an intricate and extensive web of guanxi relationships through extended family, friends, colleagues and other social groups. Guanxi is based on reciprocal favours, and staying in contact with members of your network is not necessary in order to bind obligations as failure to reciprocate is considered an unforgivable offence.

In China, business relationships are highly social and guanxi has a major influence on how business is conducted in any Chinese company. In Asian societies, the differences between business and social lives can sometimes be ambiguous as people tend to rely heavily on their closer relations and friends.

OVER TO YOU

Activity 14: Ethical implications

Consider the implications of the guanxi system.

List two advantages of the system from a buyer and seller perspective and two disadvantages.

Blat

In Russian society, **blat** is the system of informal agreements, exchanges of services, connections with officials and black-market deals. In the Soviet Republic, blat was widespread because of the lack of consumer goods and services. Blat was used to gain a prestigious position or entry to university or to purchase hard-to-come-by goods.

Boon koon and et-moone

In Thailand, there is a tradition of **boon koon.** This is based on the concept of returning a favour and is the showing of your gratitude for someone's generosity. A similar form of special reciprocal relationships exists in the Middle East under a system called **et-moone**.

Old boy network

In both the UK and USA, a social network exists called "the **old boy network**" which is dominated by the ex-pupils of private schools and the elite universities that people attended. It is said that many of the ruling elite in the UK belong to this network.

Keiretsu

In Japan, **keiretsu** denotes a set of companies with interlocking business relationships and shareholdings. It is a key element of the manufacturing industry in Japan.

Keiretsu is a type of informal business group that has dominated the Japanese economy for the second half of the 20th century. The members' companies own small portions of the shares in each other's companies, centred on a core bank. In this way, a group of companies benefits from preferential trading practices, is insulated from stock market fluctuations and puts up barriers to competition including foreign trade.

CASE STUDY: US CARS IN JAPAN

The automotive industry is the pillar of the Japanese economy.

Japanese cars are very popular in the USA and account for a large part of the US market. However, American brands are rare in Japan. Of the nearly five million cars and light trucks sold in Japan in 2016, just 15,000 (0.3%) were American

This is a situation that has long frustrated American auto executives and trade negotiators, but Japanese officials say that American cars are not popular in Japan and are not adapted to the Japanese marketplace.

OVER TO YOU

Activity 15: Keiretsu

Read the following article:

https://www.smithsonianmag.com/innovation/how-eight-conglomerates-dominate-japanese-industry-180960356/

Evaluate the Keiretsu system from a marketing perspective.

SME networking

Small and medium enterprises (**SME**s) play a major role in most economies, particularly in developing countries. An SME is a micro, small or medium-sized enterprise that employs fewer than 250 persons, has an annual turnover not exceeding US$50 million, and/or an annual balance sheet total not exceeding US$43 million.

- SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies.
- Most formal jobs are generated by SMEs, which create four out of five new positions.

Most SMEs are run by owner-managers, and the growth of SMEs is often hampered by limited resources and access to finance.

A study by Schoonjans et al. (2013)[38] concluded that when SMEs undertake formal business networking they gain greater business benefits compared to SMEs that do not undertake networking. They concluded that networking on a formal basis helps SMEs to overcome the resource limitations and constraints of their business and to manage growth.

How SMEs network can be measured on three dimensions:

- the structural dimension of networking;
- usage dimensions;
- relational dimensions.

In terms of structural dimensions, SMEs are more likely to use formal networking opportunities linked to their specific trade sector and channel to strengthen their knowledge base.

In terms of how SMEs use networks, in a paper called "SME marketing networking: a strategic approach" Carson et al. found that SMEs use networking for a wide range of purposes from distribution policy to marketing innovation.[39]

Key to effective networking amongst SMEs are trust, commitment and a co-operative approach.

Relationship value: exchange partners, costs and benefits

In this chapter, we have investigated the relationships that impact marketing interactions and different relationship types, their nature and properties. Let us turn now to the value of relationships.

Value has been defined as the trade-off between the "price given and components received … and is at the core of buyer-seller exchange" (Zeithaml, 1988)[40].

Both parties in an exchange relationship make judgements about desired and **perceived value**. Therefore, a relationship has value implications for both buyers and sellers. In every exchange partnership there are a series of costs and benefits.

OVER TO YOU

Activity 16: Costs and benefits

Read and critically assess the article: http://www.aabri.com/OC2010Manuscripts/OC10003.pdf

List examples of the costs a business may incur in developing a long-term relationship with a customer.

Undertake a literature review and identify examples of where organisations have been able to quantify the benefits of long-term relationship development.

38 Schoonjans, B. Van Cauwenberge, P. and Vander Bauwhede, H. (2013), "Formal business networking and SME growth", *Small Business Economics*, Volume 41, Number 1, pp. 169–181
39 Carson, D. Gilmore, A. and Rocks, S. (2004), "SME marketing networking: a strategic approach", *Strategic Change*, Volume 13, Issue 7, pp. 343–404
40 Zeithaml, V. (1988), "Consumer perception of price, quality, and value: A means-end model and synthesis of evidence", *Journal of Marketing*, Volume 52, Issue 3, pp. 2–22

In terms of costs, developing long-term relationships takes time and skill as well as economic resources to adjust to the needs of both exchange partners.

Value received from participating in a relationship can be tangible and intangible. Tangible value refers to direct outcomes of the relationship. These can include:

- reduction in costs;
- greater efficiency.

In contrast, intangible value outcomes are represented as values that signify ongoing relationship benefits that enhance future trading ability. Examples are:

- higher levels of trust and commitment;
- reduction of uncertainty.

Both tangible and intangible values contribute to relationship value in different degrees according to the level of relationship that is present between the buyer and the seller.

The level of the relationship value is dependent upon the regularity, input and focus of the relations. In long-term customer relationships, value flows back and forth between the exchange partners.

Transaction costs high Uncertainty is high Lack of trust and commitment	**Transaction costs low** Uncertainty is low High trust and commitment
Short-term relationship Less relationship value	**Long-term relationship** Greater relationship value

Figure 10: Relationship value in respect of transaction costs and length of relationship value

Importance of relationships

In conclusion, marketing takes place in a societal context. Therefore, relationship marketing cannot be successful without understanding the nature of relationships and their properties, how relationships add value, and the networks that impact an organisation.

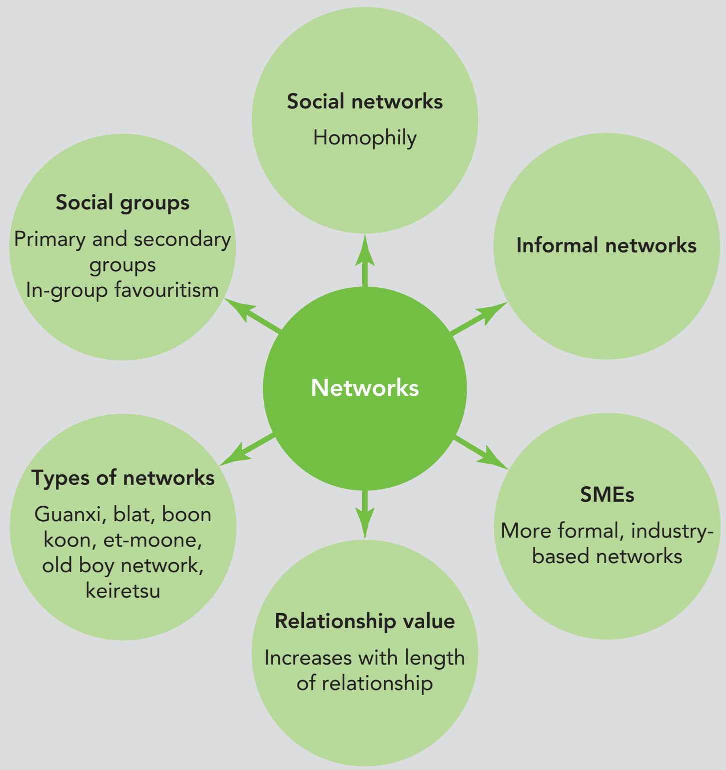


Figure 11: Networks – a summary

Differences between marketing relationships and RM

Marketers need to be aware of the growing importance of strategic alliances and the different types of alliances that exist. Bensaou's model sets out the nature and scope of supplier interaction.

All businesses, be they buyers or suppliers, have relationship networks. The networks to which buyers and suppliers belong influence behaviour. Everyone has social and personal networks as well as informal networks. Marketers need to also be aware of the different types of relationship networks that are distinctive in different countries, including guanxi, boon koon, blat, et-moone, the old boy network and keiretsu.

In the SME marketplace, when SMEs undertake formal business networking they gain greater business benefits compared to SMEs that do not undertake networking.

We have looked at the concept of relationship value and that both parties in an exchange relationship make judgements about desired and perceived value.

Marketing takes place in a societal context. Therefore, relationship marketing cannot be successful without understanding the nature of relationships and their properties, how relationships add value, and the networks that impact an organisation.

READING LIST

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Online resources

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Summary

In this chapter, we have established that to create an effective relationship marketing strategy, marketers need to understand marketing relationships.

We have looked at different classifications of exchange relationships: market-based, committed market exchange and domesticated market exchange, and categories of exchange relationships: supplier, lateral, buyer and internal.

To best understand marketing relationships and identify marketing strategies, businesses can use tools such as the relationship matrix and the relationscape, as well as recognising the nature of relationships from those that are distant to those which are intimate.

We have looked at the work undertaken by Wilson, who studied buyer-seller relationships and the stages and requirements of effective relationships, as well as the scope and nature of supplier interaction. In addition, we have outlined the nature and scope of supplier interaction.

Relationship networks exist within all organisations. On a personal level, the groups we belong to can influence our behaviour. We all have a range of personal, social and informal networks and these can impact our buying behaviour and ability to develop long-term relationships.

In organisations, there can be a range of relationship networks. We have provided examples of different types of relationship networks across various cultures including guanxi, boon koon, blat, et-moone, the old boy network and keiretsu. We have also discussed the nature of SME networking.

In the last part of this chapter we outlined relationship value and the importance of understanding relationships to develop effective relationship marketing practices.

Chapter 4

Strategic Relationship Marketing

Introduction

In this chapter, we consider the place of relationship marketing in strategy. We outline the use of customer relationship management technology solutions and the planning and implementation issues involved in strategic relationship marketing.

Learning outcome

On completing the chapter, you will be able to:

4 Critically discuss the place of relationship marketing in strategy

Assessment criteria

4 Critically discuss the place of relationship marketing in strategy

4.1 Evaluate and explain why relationship marketing is a strategic approach to marketing

4.2 Evaluate relationship marketing planning and implementation issues in strategic relationship marketing

4.1 Why relationship marketing is a strategic approach to marketing

Creating value

As we have seen in the previous chapters, relationship marketing aims to create long-term relationships with customers. To do this, customers need to trust and commit to the organisation and believe that they receive value from its products and services.

Creating customer value is increasingly seen as a key source of competitive advantage. The value of a product or service must be seen from a customer's perspective. A **value proposition** is the product or service offer defined in terms of the target customers and the benefits offered to these customers.

Creating an appropriate value proposition involves:

- understanding customer needs and the forces driving demand, as well as how well the competition serves these needs;
- developing a product and service package that provides clear and superior value, for example product quality and performance, service cost and responsiveness, manufacturing cost and flexibility, channel structure and performance, and price structure;
- communicating the value to existing and potential customers.

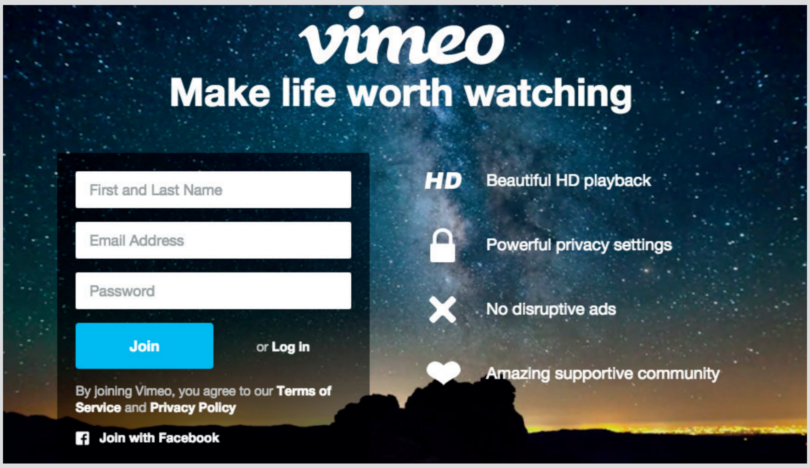

Figure 1: Screenshot of the Vimeo website and value proposition

REVISION on the go

Businesses can use this value proposition to attract and retain target customers. For example, the brand Vimeo positions itself as a higher-quality, more sophisticated YouTube, and its value proposition makes this clear. It is "make life worth watching". When customers choose its platform over YouTube, they are making a commitment to posting something "worth watching".

OVER TO YOU

Activity 1: Effective value propositions

Read the article on how to create effective value propositions:

http://www.petersandeen.com/what-is-your-value-proposition/

Then go to the blog:

https://conversionxl.com/blog/value-proposition-examples-how-to-create/

Critically evaluate the actions needed to create an effective value proposition.

Value propositions explain the relationship between the performance of the product or service, the fulfilment of the customer's needs, and the total cost to the customer over the customer life cycle. This is the term used to describe the progression of steps a customer goes through when considering, purchasing, using and maintaining loyalty to a product or service.

In Chapter 2 we introduced the circular consumer journey (Figure 2).

Figure 2: Circular consumer journey

REVISION on the go

Marketing analysts Jim Sterne and Matt Cutler[41] have developed a matrix that breaks the customer life cycle into five distinct steps:

1 reach;
2 acquisition;
3 conversion;
4 retention;
5 loyalty.

As we have seen in earlier chapters, this involves a brand gaining a potential customer's attention, making them aware of what it has to offer, turning them into a customer, and then keeping them as a loyal customer whose satisfaction with the product or service turns them into an advocate.

The customer life cycle is often depicted by an ellipse, representing the fact that customer retention truly is a cycle. Relationship marketers can use effective customer relationship management to encourage the customer to move through the cycle again and again.

OVER TO YOU

Activity 2: Customer life cycle

Map the five steps in Sterne and Cutler's customer life cycle model to the circular consumer journey depicted above.

Assess where customer churn features in the customer life cycle.

Definition of CRM

Customer relationship management (CRM) is a term that refers to practices, strategies and technologies that companies use to manage and analyse customer interactions and data throughout the customer life cycle, with the goal of improving business relationships with customers, assisting in customer retention and driving sales growth. The consultancy firm Bain defines CRM as:

41 Sterne, J. and Cutler, M. (2000), *E-Metrics, Business Metrics for the New Economy*. Cambridge CA: Netgenesis

> *an approach to managing a company's interaction with current and potential customers. It uses data analysis about customers' history with a company to improve business relationships with customers, specifically focusing on customer retention and ultimately driving sales growth.*

Bain & Company[42]

Unlike traditional marketing practices which have tended to be undertaken by an organisation's marketing department, CRM involves the whole organisation working collaboratively. The philosophy of CRM is that business success ultimately derives from the creation of customer value, which is achieved through the skilful management and development of customer relationships involving all key stakeholders.

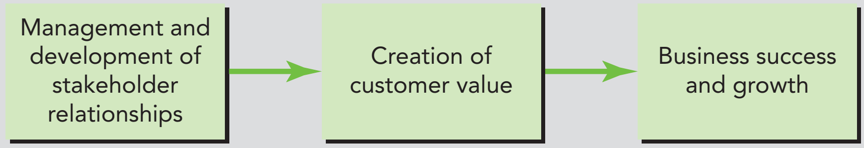

Figure 3: CRM philosophy

OVER TO YOU

Activity 3: CRM and holistic marketing orientation

In Chapter 1 we discussed the trend towards holistic marketing orientation.

Critically discuss whether, and in what way, CRM is aligned with holistic marketing orientation.

42 Bain & Company (2015), *Customer Relationship Management* [online]. Retrieved from: http://www.bain.com/publications/articles/management-tools-customer-relationship-management.aspx [Accessed on: 26 October 2017]

Relationship marketing and CRM strategy

OVER TO YOU

Activity 4: Definition of strategy

Write down your definition of the word "strategy".

As we have seen, relationship marketing is a marketing strategy that focuses on achieving customer loyalty and repeat business by developing strong, positive relationships with stakeholders.

CRM is a key factor in a successful customer relationship and focuses on increasing customer loyalty and interaction to establish long-term customer engagement.

Figure 4: Relationship marketing and CRM – a summary

REVISION on the go

CRM and technology

There is much confusion about the term "CRM" in business circles. CRM is often confused with technology because since the 1980s there has been a growth of software designed to manage customer relationships. Although later in this chapter we do touch on CRM technology solutions as an enabler for better customer interaction, it is important to stress that CRM is a strategy via which a company's goals can be best achieved through identifying and satisfying customers' stated and unstated needs and wants, by which the company's long-term relationships can be managed.

OVER TO YOU

Activity 5: CRM and technology

List three ways in which the use of analytical software and technology may aid the development of long-term relationships with customers.

CRM software has its origins in the data mining industry. Database marketing collected and analysed customer information. Using statistical modelling, that data was then used to help customise communications with customers and potential customers.

In the 1990s contact management software and sales force automation took many of the features of database marketing, automated them, and combined them with contact management. This provided businesses with much more useful customer information. It also automated business tasks like inventory control and sales tasks like customer interaction tracking. By the end of the 1990s software had been developed to combine most marketing, sales and service applications as part of CRM.

Through the first decade of the millennium and up to the present day, cloud-based CRM solutions continue to integrate more features like customer service and **social CRM**. This is the use of social media such as blogs, Facebook, Twitter and Instagram to enable organisations to engage with their customers.

CRM software is an enabler of customer relationship management; it should not be the driver. CRM software is a management tool that helps to enable long-term relationships with customers.

A Forrester study from 2008[43] reported a 47% failure rate among CRM strategies. This was accompanied by a warning that an over-emphasis on technology at the expense of strategic direction was responsible for many of the shortcomings.

43 Band, W. Leaver, S. and Magarie, A. (2008), "*Answers to five frequently asked questions about CRM projects* [online]. Retrieved from: https://www.forrester.com/report/Answers+To+Five+Frequently+Asked+Questions+About+CRM+Projects/-/E-RES46432 [Accessed on: 27 October 2017]

OVER TO YOU

Activity 6: CRM failures

Read the blog post: http://www.crmsearch.com/crm-failures.php and list the key reasons why CRM strategies fail.

CASE STUDY: CRM STRATEGY AT A CREDIT CARD COMPANY

PYF is a credit card company that operates in Indonesia. Indonesia is the third-biggest country in terms of unbanked adults (adults who do not have bank accounts) in Asia. It is home to 6% of the overall population globally who do not have a bank account.

Only just over a third of the population have a bank account and only approximately 10% of the population use credit cards.

PYF has developed a clear strategy for relationship management with its potential and existing customers. It has carefully targeted its customer base, putting emphasis on the growing middle-class sector, people with professional qualifications and people who make transactions online. It rejects 80% of the applications it receives for credit cards as they do not fit its target profile and it knows they will not be profitable or add value to the company.

The business has analysed its customer base. Customers of PYF regularly receive individual communications from the company with tailored offers and information. Customers can contact the firm 24 hours a day via phone, email, web chat or on social media. They can also visit advisers based in local banks with whom PYF has an alliance. The company aims to provide an exceptional level of service.

PYF uses customer analytical software and predictive software to track and anticipate its customers' needs. The credit card market is price sensitive and the company recognises that creating customer engagement and growing long-term relationships with customers is key to its success.

CRM processes

CRM processes involve the activities and strategies that companies use to manage their interaction with current and potential customers. They use approaches, systems and technologies to compile information on customers across different channels or points of contact between a company and the customers.

In *The Handbook of CRM: Achieving excellence in customer management* (Payne, 2005)[44] identifies five interrelated and cross-functional processes involved in the development and implementation of a CRM strategy and which are common to all commercial organisations. These processes centre on how the organisation delivers value to the customer while enhancing the value received by the company in terms of shareholder results.

The five processes are:

- strategy development;
- value creation;
- **multichannel integration**;
- information management;
- performance assessment.

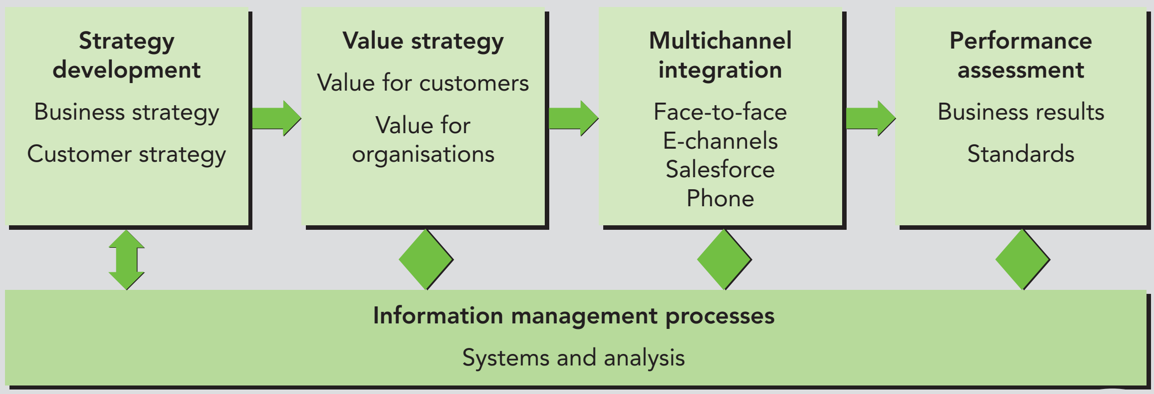

Figure 5: CRM processes

High-level overview of the five processes

Strategy development process

This stage involves the development of both a business strategy and a customer strategy. Strategy is a high-level plan chosen to bring about a desired future.

Value creation process

Here a strategy is created which defines the value proposition for customers as well as the value the business can obtain from customer interaction.

44 Payne, A. (2005), *The Handbook of CRM: Achieving excellence in customer management*. London: Routledge

Multichannel integration process

As the customer can interact with the organisation in many ways, a multichannel integration process enables the business to have one integrated view of the customer.

Information management processes

These are the IT systems and processes that allow the organisation to measure and analyse customer interactions.

Performance assessment process

An organisation needs to agree standards and measures that can be used to measure the business outcomes of CRM.

CRM capabilities

In a paper called "Customer relationship management capabilities: Measurement, antecedents and consequences", Wang and Feng (2012)[45] identify three key **CRM capabilities**.

Customer interaction management capability

This is the ability to record and retrieve all applicable customer data and to manage contacts and customer interactions from first contact to purchase and beyond. For example, providing relevant information to customers and sharing customer insights between departments.

OVER TO YOU

Activity 7: Enhancing the transport customer

Imagine you are a customer of a transport company. It could be a bus, a train or an airline. Choose a type of transport with which you are familiar.

List three types of interactions that the transport operator may find it helpful to record and retrieve about you as a customer, for example the date and time of your last journey.

45 Wang, Y. and Feng, H. (2012), "Customer relationship management capabilities: Measurement, antecedents and consequences", *Management Decision*, Volume 50, Issue:1, pp. 115–129. (This article will be available in your online student resources.)

Customer relationship upgrading capability

This is the ability to identify opportunities to enhance the customer relationship and add further value.

OVER TO YOU

Activity 8: Enhancing the transport customer's experience

Imagine that you are now the marketing manager of a transport company. In this instance, a train company.

You have been piloting a mobile app where customers can book and pay for tickets on their phones, download a barcoded ticket on their mobile and then use this on their phone to enter the railway station and board a train.

As a marketing manager, part of your role is to enhance the customer's experience of your service. The feedback from the pilot has been very positive particularly on busy commuter train lines. Now you want to extend the mobile app to all customers on commuter train line services.

Discuss one way in which you as marketing manager can use CRM in this situation to enhance the customer relationship.

Customer win-back capability

This is the ability to re-engage customers who are not happy with a product or service aspect and who are likely to switch to a competitor.

OVER TO YOU

Activity 9: Winning back customers

Imagine you are the marketing manager of a transport company. It could be a bus or train company or an airline. Choose a type of transport with which you are familiar.

Analysis of the customer usage patterns shows that there is a decline of 10% in customers using a well-established route in the past year.

Write down two further pieces of analysis that you could undertake to understand why this is happening.

CASE STUDY: SAM'S GUEST HOUSES

Sam is a young entrepreneur who has established a small chain of guest houses in his local region. The area has benefitted from an increase in tourist trade for the past five years, with both foreign tourists and affluent people from the cities taking more holidays and short breaks in the region.

Sam's vision is to deliver an exceptional service to his customers in whichever venue they stay. He has invested heavily in staff training to help create a customer-focused service and he has also purchased a CRM software system to help him better understand customer needs and wants.

The guesthouses receive bookings via booking sites as well as directly via email and phone. Sam has a website that offers a web-chat option. He also monitors social media and sites such as TripAdvisor for comments and reviews.

Sam's team is also able to record issues and complaints on the system and they analyse these on a regular basis to identify improvement areas.

Around 20% of Sam's customers return each year, and Sam has analysed their profiles and feedback to identify what makes a great experience in their eyes so that he can replicate this with similar guests. Each guest house also records individual guest preferences so that they can personalise the service to each guest's needs.

Sam has segmented his offer, for example offering weekend breaks more targeted at couples outside school holiday times.

Sam sends individualised marketing material to his current and prospective customers. His chain of guest houses is receiving five-star reviews and his business is growing rapidly.

Customer value

In the case study, Sam is attempting to add value to the customer experience. The value the customer receives from the organisation is defined by the perceived benefits of the offer made to the customer. There are two aspects to customer value: **desired value** and perceived value.

- Desired value refers to what customers desire in a product or service.
- Perceived value is the benefit that a customer believes they received from a product after it was purchased.

Customer value is an inherent part of the product or service offer that the company can actively manage in order to benefit the customer. Customers do not buy goods or services, but rather a bundle of benefits in the form of product features and added value. The nature of "the offer" that a company makes to its customer, as it is commonly called, represents the value that customers get when they buy goods or services.

Added value

When a customer feels they have had a good experience it is because they have experienced higher-level benefits, or added value.

Added value does not come from basic product features but from intangible factors, such as the provision of better customer service or association with a quality brand image. Building better relationships with customers through offering superior customer service is one way of securing competitive advantage.

OVER TO YOU

Activity 10: Adding value to weekend guests

Imagine you work for Sam. You have been tasked with adding value to the experience of weekend guests out of season. These are mainly couples without children who live in the city and who come to enjoy a relaxing break and good food in the guest houses.

Describe how you would go about adding value to this customer segment.

Ways to increase value

There are many ways in which a business can increase value to a customer. It could:

- develop a market offer based on points of value that matter to customers;

- listen to customer feedback and identify opportunities for new value propositions;
- observe the customer environment to better understand changes in customer requirements.

The value of customers to the company

As we have seen, the longer the customer relationship is, the greater the profit to the business. To calculate a customer's real worth, a business must calculate the lifetime value of the relationship. This is the expected profit flow from the customer over the customer's lifetime, rather than the profit to date. There is an example of how to calculate this in Chapter 2.

Many measures can be used to monitor this aspect of customer value including customer retention, customer acquisition costs, customer satisfaction and customer profitability.

Touchpoint

A customer touchpoint is any influential action initiated by a communication, a human contact, or a physical or sensory interaction. Each touchpoint is a message that literally "touches" a customer in some way. Collectively, touchpoints create the customer's experience.

To enhance customer relationships, marketers need to understand the key interactions that customers and potential customers have with the business and how these impact the strength of relationships.

To better understand and improve the customer experience, businesses often map out the customer journey – the steps that a customer takes from start to finish in interacting with a company.

OVER TO YOU

Activity 11: Customer journey mapping

Read the article: https://www.mycustomer.com/experience/engagement/nine-sample-customer-journey-maps-and-what-we-can-learn-from-them

List two reasons why customer journey mapping is an effective CRM tool.

OVER TO YOU

Activity 12: Your touchpoints as a student

Assuming that you are a student at a place of education, be it a college, school or university of some kind, think of the first contact that you had with that place of education. List the touchpoints that influenced what you felt about the customer experience in the first month of your studies. For example, was the person on the phone when you called the admissions office friendly? How good was the signage to the college?

Categories of channels

Customers can have multiple touchpoints with organisations via many channels. **Marketing channels** are the delivery mechanisms that businesses and customers can use when communicating with each other.

OVER TO YOU

Activity 13: Customer communication channels

Brainstorm several methods that customers can use to communicate with a brand.

Thinking about the past month, highlight the communication channels you have personally used to communicate with a product or service organisation.

Traditional and digital channels

Table 1 shows some of the traditional and digital channels that can be used.

Traditional marketing channels	Digital technology channels
Publications – newspapers, magazines and journals	Websites/blogs and web chats
Radio and television	Video conferencing
Billboards	Search engines
Post	Text
Face-to-face contact	Mobile
Telephone	Social media – for example Facebook, Twitter, YouTube, Instagram, LinkedIn

Table 1: Traditional and digital channels

REVISION on the go

Multichannel integration

Multichannel integration refers to the ability of customers to interact with an organisation via various platforms. With the advent of digital and social media a customer can now communicate with an organisation via many connected channels.

CASE STUDY: THE CUSTOMER'S BILL

Mandy uses her smartphone to check a bill online. She discovers that an item she had queried a month earlier is still on her bill. The company had agreed previously that this was a mistake and that they would delete the item from the bill.

Mandy follows up minutes later with an email to the company to voice her concern. Not satisfied with the automated response, she calls the company's call centre, and while on hold for 10 minutes, she tweets about the company and updates Facebook friends about the ordeal.

So, the customer can choose how and when to interact with a brand. For example, this can be via retail stores, online stores, mobile stores, mobile app stores, telephone sales or social media. The consumer is often able to use several channels simultaneously.

This means that companies need to adopt a multichannel strategy to ensure that two-way communication can take place with the customer and the business via the customer's preferred media.

It also means that businesses need **one view of the customer** and to see how and when they have interacted across multiple channels. Businesses using a multichannel integrated approach track customer behaviour across all channels, not just one or two.

Customer communication and omni-channel marketing

Omni-channel refers to the multichannel sales approach that provides the customer with an integrated experience. The omni-channel approach interrelates every channel to engage with customers holistically, to ensure the customer experience is consistent across every channel.

Instead of perceiving a variety of touchpoints as part of the same brand, omni-channel businesses let consumers experience the brand, not a channel within a brand. Communication channels are ways that the customer can communicate with the brand. For instance, via Facebook, email or calling a help desk.

CASE STUDY: CUSTOMER COMMUNICATION AT DISNEY

Disney theme parks operate globally, from Florida in the USA to Shanghai in China. Renowned for their high levels of customer service, Disney have created an omni-channel communications strategy which means that their branding and messaging are consistent no matter what channel and communications the customer chooses.

For example, the Disney Parks website allows customers to plan their trip and stay at the park. The park's mobile app provides helpful tips for accessing its theme parks.

When a customer visits a park, they have the option of having a MagicBand or card. The MagicBand is a wearable device that allows customers to open their hotel room door, charge food and merchandise to their account, upload photos to smartphones and enter rides via the fast track.

The aim is that the customer will have the same experience online from desktop or mobile devices, via phone or in a theme park itself, and the experience will be seamless.

OVER TO YOU

Activity 14: Customer communication channels

Research the adoption of omni-channel approaches in your country. Identify a product or service that has been successful in applying these.

List two challenges that businesses may find when adopting an omni-channel approach to marketing communications.

Operational, collaborative and analytical CRM

Omni-channel customer communication is an example of the trend to make the interaction that the customer has with the company as effortless as possible. To help achieve this, businesses need to decide what type of CRM to adopt.

There are three types of CRM: operational, collaborative and analytical.

- **Operational CRM** generally refers to products and services that allow an organisation to take care of its customers. It provides support for various business processes, which can include sales, marketing and service. Examples of this are websites, contact centres and data aggregation systems.

- **Collaborative CRM** is communication with customers. It covers direct interaction with customers including feedback and issue reporting. For example, interaction can take place via phone contact, web pages and email.
- **Analytical CRM** addresses the analysis of customer data. It is used to design and execute targeted marketing campaigns that optimise marketing effectiveness. Analytical CRM evaluates customers' decision-making and purchasing behaviour and helps to predict future behaviour.

Performance assessment

There is no standard approach to evaluating the success of CRM and each business has its own measure of success. This is partly because every CRM programme is unique.

In his book *Information Masters: Secrets of the Customer Race*,[46] John McKean made a critical observation that typically 92% of the historical investment in CRM expenditure goes into data and technology, but these aspects only represent 25% of the competencies that are needed to make CRM a success.

The main measures of success for CRM are:

- building customer value;
- reducing cost;
- building employee value;
- building shareholder value.

Each business needs to set standards and key performance indicators to assess the success of CRM.

OVER TO YOU

Activity 15: Performance assessment

Read Chapters 10, 11 and 12 of this article:

http://www.targeting.com/wp-content/uploads/2010/12/emetrics-business-metrics-new-economy.pdf

These chapters provide details of the types of performance measurement used.

Imagine you are a marketing manager for a mobile telephone company. You have both a retail and an online presence. You adopt a relationship marketing approach and you have a CRM system.

Critically assess and list which measures you consider would be appropriate for assessing the success of your relationship marketing.

46 McKean, J. (1999), *Information Masters: Secrets of the Customer Race*. Hoboken: John Wiley & Sons

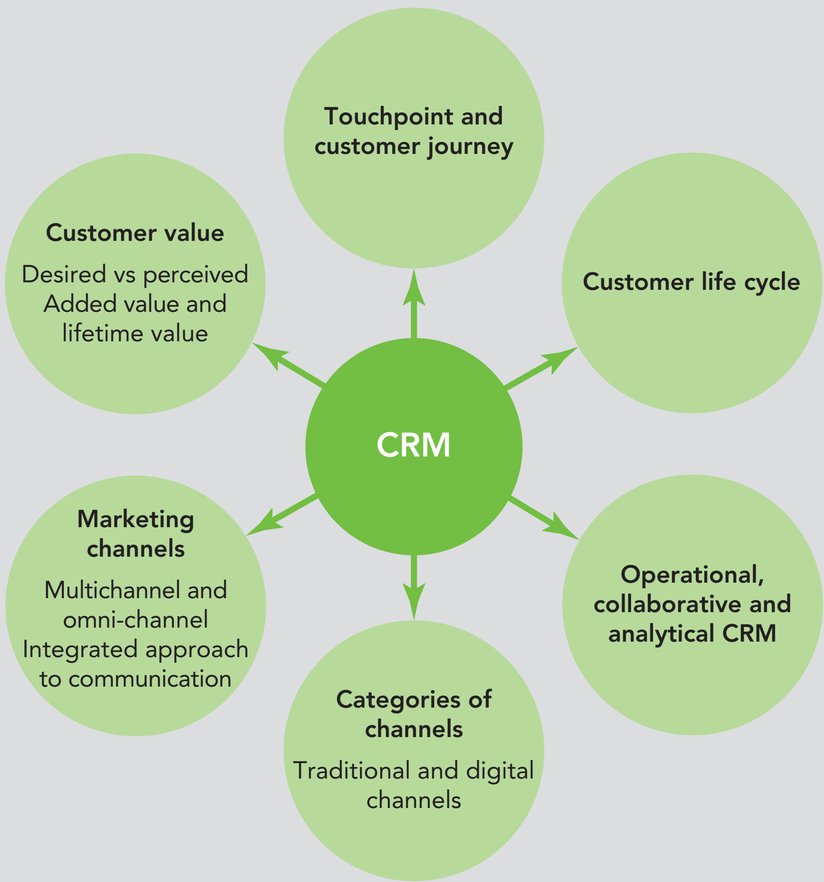

Figure 6: CRM – summary

! NEED TO KNOW

CRM

Creating customer value is a source of competitive advantage. A value proposition is the product or service offer defined in terms of the target customers and the benefits offered to these customers.

CRM is a term that refers to practices, strategies and technologies that companies use to manage and analyse customer interactions and data throughout the customer life cycle, with the goal of improving business relationships with customers, assisting in customer retention and driving sales growth.

Relationship marketing is the strategic management of all relationships with stakeholders. CRM is the strategic management of all relationships with customers, including the appropriate use of technology.

There are five processes associated with the development of a CRM strategy: strategy development, value creation, multichannel integration, information management and performance assessment.

The value of a customer to a business should not be seen as a one-off transaction, but rather should be calculated via estimating the net profit to the business of the customer over the lifetime of the customer's relationship with the business.

CRM offers an organisation the ability to interact with customers, upgrade the customer experience and win back customers.

There are different types of traditional offline marketing communication channels such as advertising and PR, as well as newer digital channels such as the internet and social media. Marketers need to be able to communicate across many channels simultaneously and now, with the increased use of the internet, customer communication is now integrated and omni-channel.

The three types of CRM are: operational, collaborative and analytical. There is no standard way of evaluating the performance of CRM, and performance measures are tailored to each business.

REVISION on the go

4.2 Relationship marketing planning and implementation issues in strategic relationship marketing

In this section, we discuss the planning and implementation issues encountered when bringing a relationship marketing strategy to life.

The need for relationship marketing planning

Implementing a relationship marketing strategy is not easy. This is because relationship marketing is an holistic approach that encompasses all aspects of how a business interacts with its customers.

Once it has been decided at senior level to embrace relationship marketing, it is important to have a clear and detailed plan outlining each element of the implementation.

The strategic relationship marketing process consists of three phases (Figure 7).

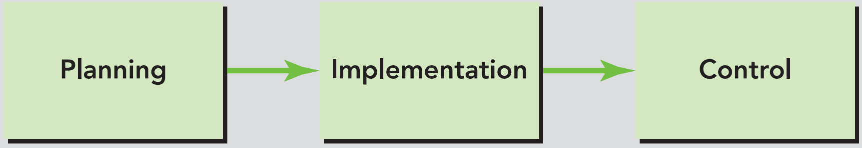

Figure 7: The strategic relationship marketing process

Planning

Planning is the first phase. Planning should not be undertaken by the marketing team alone. As relationship marketing and CRM are cross-functional, it is necessary to engage as many relevant stakeholders in the implementation as possible. Having a shared relationship marketing plan can help encourage ownership and accountability.

Implementation

The implementation phase of strategic relationship marketing translates into customer-focused processes, policies, procedures and behaviours that impact all areas of the organisation such as marketing, sales, customer services, research and development, procurement, human resources, information systems and production.

In most cases, a successful implementation has at its helm a visible leader such as a senior executive sponsor who acts as a figurehead for the transformation. The implementation phase involves activities addressing the who, where, when and how of reaching the goals and objectives of the plan.

Control

In this final phase, the marketer measures and evaluates the effective implementation of the plan.

OVER TO YOU

Activity 16: Benefits of a planning framework

List two benefits of having a robust planning framework for relationship marketing.

OVER TO YOU

Activity 17: From strategy to implementation

Imagine that you work for an organisation and have just been appointed as the project manager of the implementation of the relationship management strategy that has been agreed by the board.

There is a senior-level sponsor in place and you have been told that you will work full time on the project.

What are the first steps that you would take in the implementation process?

Relationship marketing planning frameworks

There are several planning frameworks that can be used to develop relationship marketing plans.

Payne and Frow

The most commonly used planning framework is that developed by Adrian Payne and Pennie Frow, called "A strategic framework for customer relationship management"[47].

This framework sets out four key steps in the planning process (Figure 8).

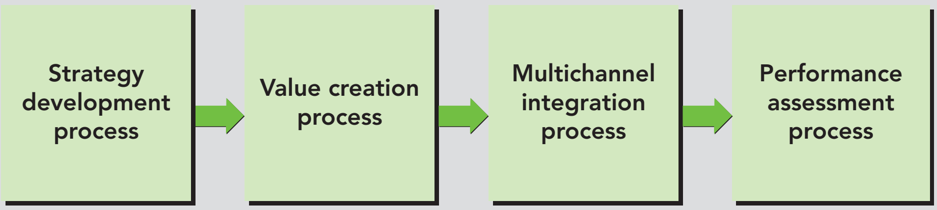

Figure 8: Overview of the Payne and Frow framework

47 Payne, A. and Frow, P. (2005), "A strategic framework for customer relationship management", *Journal of Marketing*, Volume 69, Number 4, pp. 167–176

OVER TO YOU

Activity 18: Payne and Frow framework

Read the Payne and Frow article:
https://www.academia.edu/5398630/A_Strategic_Framework_for_Customer_Relationship_Management_Author_s_Adrian

Refer to the framework outlined on page 171 of the article. Critically assess and describe the dependencies between the strategy development process and the value creation process.

SOSTAC

In his book *Great Answers to Tough Marketing Questions*, Smith (2003)[48] outlines the **SOSTAC** model for marketing planning which can be applied to relationship marketing.

48 Smith, P. (2003), *Great Answers to Tough Marketing Questions.* London: Kogan Page

Simpler than the Payne and Frow model, it stands for:

- **S**ituation analysis: this is an analysis to answer the question: where are we now? Relationship marketers can answer this question by conducting a 5C analysis of the environment and the organisation (company, customer, context, competition, collaborators). This can identify the strengths and weaknesses of current relationships and use tangible evidence such as customer feedback data and metrics as well as competitor analysis to identify opportunities and threats. It is useful to summarise thoughts in the SWOT format (strengths, weaknesses, opportunities and threats) and then to draw conclusions from the situation analysis.
- **O**bjectives: this answers the question: where do we want to be? Relationship marketers need to set clear objectives for the relationship marketing programme. Objectives, for example, can be linked to the phases of the customer journey and the customer life cycle.
- **S**trategy: this is an overview of how to achieve the objectives. It answers the question: how will we get there? This involves having a clear strategy to create and sustain a competitive advantage via relationship marketing. This could involve, for example, developing a clearer value proposition and/or multichannel integration.
- **T**actics: these are the detailed approach to how to achieve the business goals. They answer the question: what actions do you need to take to successfully implement your relationship marketing strategy? For example, relationship marketers may need to consider tactics such as how they will deal with social CRM.
- **A**ctions: these are used to determine who does what, and when. They describe who will be involved and how the plan will be put into action. As relationship marketing necessitates a pan-organisation approach, it is helpful to engage people across the business in the implementation of the relationship marketing strategy.
- **C**ontrol: this establishes how the process is to be monitored. This involves creating measurable KPIs (key performance indicators) to align against objectives to ensure the process stays on track. As we have seen, there is no one way of measuring the impact of relationship marketing, so careful thought must be given to which control measures to use.

Implementation issues in strategic relationship marketing

According to Verhoef et al. (2009)[49] the success rate of CRM implementation varies between 30% and 70%.

OVER TO YOU

Activity 19: Identify implementation issues

List three key reasons why strategic relationship marketing implementation may fail.

49 Verhoef, P. Lemon, K. Parasuraman, A. Roggeveen, A. Tsiros T. and Schlesinger, L. (2009), "Customer experience creation: Determinants, dynamics and management strategies", *Journal of Retailing*, Volume 85, Number 1, pp. 31–41

CASE STUDY: CULTIVATE

CultiVate is a major manufacturer of agricultural machinery for the farming community in the region. Two years ago, the CEO decided that the organisation should become more customer-centric and adopt a relationship marketing strategy.

The business hired consultants to help them choose a software vendor who could head the implementation of a CRM system. Various members of different departments formed a project team to work with the consultant and the software partner to tailor the system to CultiVate's needs.

However, the project was slow and costly. One year into the programme, only the customer contact centre had begun to use the CRM software. People in the department complained that the system was difficult to use and that there had been inadequate training. They preferred the way they worked before.

The CEO became occupied with a hostile takeover threat and lost his initial enthusiasm for the project. At the same time, the main external consultant stepped away from the business to work with another client.

Two years on, the customer contact centre is gradually accepting the CRM system, but no other function is involved. CultiVate's hopes of a cultural transformation of the business and the resulting benefits have not been realised. The idea is beginning to feel like an expensive mistake.

The major issues encountered in the implementation of relationship marketing are as follows.

Degree of organisational change

The degree of organisational change required to implement a relationship marketing strategy successfully is commonly underestimated. Relationship marketing can involve learning new customer management skills, making changes to culture, organisation and processes, as well as facing the technology challenges of multichannel alignment, systems integration and data quality. There can be inertia and resistance to change.

Lack of leadership

Relationship marketing implementation normally involves business process change and the introduction of new information technology. Consequently, effective leadership is important throughout the project, not just at the beginning of the implementation phase. Highly visible and ongoing board sponsorship is required.

Lengthy time to implement

Often organisations underestimate the time that implementation takes and they look for quick wins. Cultural change issues can slow the process as can longer technology integration times and pressure to complete other IT projects.

Lack of resources

Another implementation issue is that of resources. Many organisations have few alternatives but to outsource a significant proportion of their CRM solution.

Lack of strategic framework

A further issue relates to the failure to define and gain buy-in to the relationship marketing strategy and to develop robust indicators to align against objectives and stay on track.

Implementation and strategy development

To overcome many of the issues listed above, it is essential to have the following.

- A clear strategy for relationship marketing that is well communicated to all employees and linked to the organisational vision and values. The implementation plan (tactics) will only work if they are aligned to the bigger picture.
- A clear plan for implementation, with visible senior-level sponsorship, setting out the phases of implementation with milestones and responsibilities. For each activity, it is helpful to consider **RACI**. This stands for responsibility, accountability, consultation and information (Figure 9).

Who is responsible?	Who is accountable?	Who do I need to consult?	Who do I need to inform?
R	A	C	I

Figure 9: RACI

REVISION on the go

Building foundations for successful implementation

Steps in the implementation process

As described above, the relationship marketing plan needs to be an inclusive document that engages people across the organisation to take responsibility for enhancing customer relationships.

The Payne and Frow planning framework shows that the multichannel integration process follows on from strategy development and value creation. If an organisation decides to implement a CRM system as an enabler to improve customer relationships, most CRM implementation processes will involve the following steps and considerations:

- defining implementation needs and partners;
- supplier selection and evaluation;
- CRM implementation;
- training and support.

Defining implementation needs and partners

The project team involved in the implementation of the relationship marketing strategy needs to invest time in establishing the exact requirements of the implementation. The team can build on the situation analysis in the planning phase to establish specific needs. It has been shown that budgeting enough time to make sensible, thoughtful decisions, informed by complete information saves time and effort later.

Implementing CRM can be a time-consuming and costly process, and many elements often occur simultaneously. Ensuring strong project management and following a detailed communications strategy can help to keep all participants informed of their responsibilities and any upcoming steps in the process.

Supplier selection and evaluation

The CRM marketplace is very crowded and there are dozens of CRM solutions to choose from. Businesses need to review a variety of systems and their features and assess how well they meet the business' needs. Selecting appropriate CRM systems is critical to maintaining a timely and cost-effective project.

OVER TO YOU

Activity 20: Contracting and licensing

An important part of supplier evaluation and selection is contracting and licensing.

Imagine you are a marketing manager and have selected a software vendor to partner with in your CRM implementation.

Write down two questions you would need to ask the supplier about the contract you are about to enter into and the licensing agreement itself.

CRM implementation

Once businesses have selected a CRM system that meets their requirements, they need to ensure they have an experienced project manager in place to oversee the implementation process.

Suppliers should have a good understanding of the organisation in order to understand their needs. For example, they should know where customer data is currently stored and the desired future storage and retrieval requirements.

Most businesses have legacy IT systems where customer information is stored. This information may need to be moved (migrated) to the new CRM system so that the information can be stored differently. Focusing on migration strategies early in the implementation phase can help to ensure a smooth transfer of information.

OVER TO YOU

Activity 21: Case study CRM implementation

Read the case study on the CRM implementation at the Housing and Development Board, Singapore:

https://pdfs.semanticscholar.org/6803/22850a732abbc722a1cc8a547b6c472c662e.pdf

Given what you have learned about relationship marketing in this and the last three chapters, critically assess the success of the CRM implementation in the case study.

Training and support

Employees need in-depth training, development and support in order to effectively implement a CRM programme. As change takes time to embed, many users need multiple exposures to the new system once it is implemented, with ongoing learning opportunities to help embed new practices. The training and support required should be planned as part of the design phase of the programme.

Figure 10: Strategic CRM (part 1)

REVISION on the go

CRM systems and functions

Fundamentally, a CRM system allows businesses to manage the customer relationship, to maximise the value of their existing customers and to acquire new customers.

CRM systems have many different functions that can all be beneficial to businesses. Typically, CRM systems store all customer data in a single database, thus allowing one view of the customer. This can help businesses to avoid customer data errors. It can also improve services for customers, by allowing the company to personalise their contact with the customer.

OVER TO YOU

Activity 22: Benefits of customer data storage

List three benefits to the business of holding customer data in a single database.

Some of the most used functions of a CRM system are as follows.

- Integration of all of the primary business activities, making business processes more efficient. The system enables employees in every department to see and know the customer's complete history.
- Prioritisation of customers using their purchase history. This allows a company to delineate which customers the company views as most important and to target most of their efforts towards them, thus maximising the value of a company's existing customer base.
- Review of each customer's history, allowing the business to analyse customer activity.
- Recording customer complaints and feedback so that actions for improvement can be identified.

OVER TO YOU

Activity 23: Tracking possibilities

CRM allows businesses to track and review a customer's history.

Imagine that you are a customer of a sports equipment company.

List the types of information a company could track about you and how they could use it to add value to the relationship they have with you.

In addition, CRM systems can be used for functions such as:

- file and content sharing;
- sales forecasting;
- instant messaging between employees;
- email integration with Outlook and Gmail;
- dashboard-based analytics;
- customer service systems;
- marketing communications automation.

Operational, collaborative and analytical CRM

The three types of CRM are: operational, collaborative and analytical. Figure 11 describes the three functions.

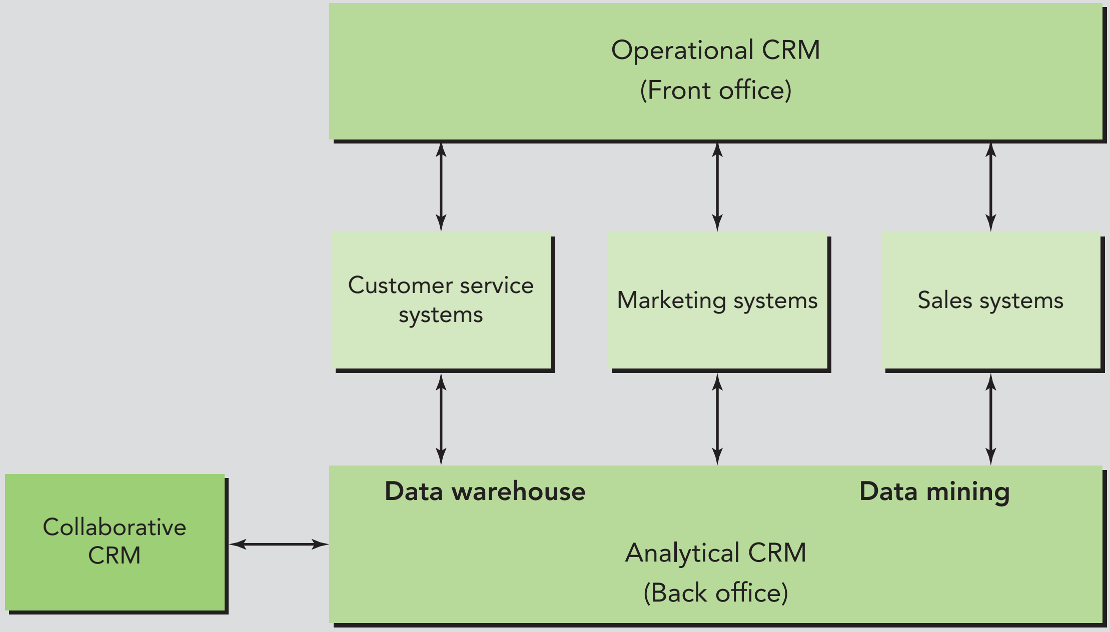

Figure 11: Operational, analytical and collaborative CRM

REVISION on the go

OVER TO YOU

Activity 24: The opportunities that CRM affords

Consider each of the three types of CRM system.

Discuss two benefits to the organisation of an operational CRM system in terms of relationship marketing.

Customer information and customer behaviour

CASE STUDY: KNOWING THE CUSTOMER AT TASTY DELIVERIES

Dabbawalas is the name given to the lunchbox delivery and return system that delivers hot lunches to people at work in India.

Tasty Deliveries is a dabbawalas delivery company that was set up a year ago in Mumbai to offer lunchboxes tailored to individual customers' tastes.

To offer a personal service, the company has invested in a CRM system to capture customer details. This includes name information, address and contact details, as well as family, work and lifestyle details, personal preferences and transaction history.

The company is growing rapidly due to its reputation for personal service.

Capturing individual data is at the heart of CRM so that the organisation can have a single view of the customer. By better understanding the customer, a company can develop stronger relationships with them. This means not only being aware of current customer needs, desires and expectations, but also anticipating and innovating to meet the needs of the future.

There are four types of data that a company can capture (Figure 12).

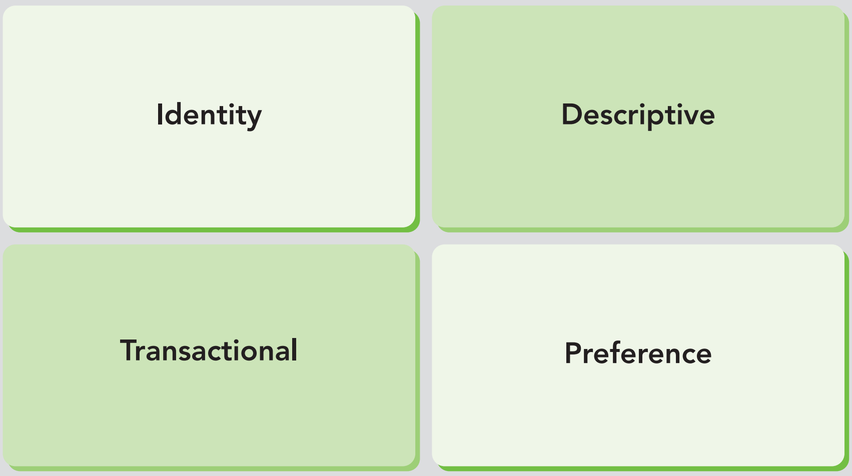

Figure 12: Four types of customer data

- **Identity data** includes information about the customer that allows them to be uniquely identified. For example, this could be their name and address or date of birth.
- **Transactional data** relates to the transaction history of the customer. For example, what they have purchased and when.
- **Preference data** relates to customers' attitudes, motivations and opinions.
- **Descriptive data** describes the customer, their lifestyle, work and family.

OVER TO YOU

Activity 25: Examples of each type of customer data

Imagine that you can purchase your food by ordering from an online supermarket. It delivers the food that you order to your home on the day of your choice. List one example of each of the following pieces of data that the online supermarket may capture about you as an online customer in this example:

- **an aspect of your identity data**
- **an aspect of your transactional data with the food provider**
- **an aspect of your preference data**
- **descriptive data about you.**

Importance of business outcomes

There are many outcomes that businesses can expect from the implementation of a relationship marketing strategy. The desired outcomes will vary from company to company and need to be linked to business priorities. Importantly, each desired outcome needs to have an accompanying measure of success.

Generally, organisations can expect business outcomes in one or more of these categories:

- revenue growth;
- improved quality of service;
- reduced operational costs;
- improved decision-making.

Revenue growth

By adding value to customers and increasing retention, a business' revenue should increase and shareholder value should grow.

OVER TO YOU

Activity 26: Revenue growth

Examples of business outcomes in this category include increased market share and increased customer retention rate.

List one other possible business outcome in this category.

Improved quality of service

By providing one view of the customer and working collaboratively across the organisation, businesses should increase the quality of service that their customers receive.

OVER TO YOU

Activity 27: Improved quality of service

Examples of business outcomes in this category include higher customer satisfaction levels and lower levels of customer effort (as it is easier for them to deal with the company).

List one other possible business outcome in this category.

Reduced operational costs

Effective implementation of a CRM strategy should bring about a reduction in costs as organisations who better understand and anticipate customer needs become more efficient and effective.

OVER TO YOU

Activity 28: Reduced operational costs

Examples of business outcomes in this category include increased efficiency and improved margins.

List one other possible business outcome in this category.

Improved decision-making

By integrating systems and being more focused on the customer, organisations should improve their decision-making.

OVER TO YOU

Activity 29: Improved decision-making

Examples of business outcomes in this category include increased understanding of customer preferences and the targeting of profitable customers.

List one other possible business outcome in this category.

OVER TO YOU

Activity 30: Examples of successful relationship marketing

Undertake research to identify at least one example of a product or service that has developed and implemented a successful relationship marketing strategy.

Critically appraise the example brand in terms of its strategy, value proposition, personalisation of interactions and the results it has achieved.

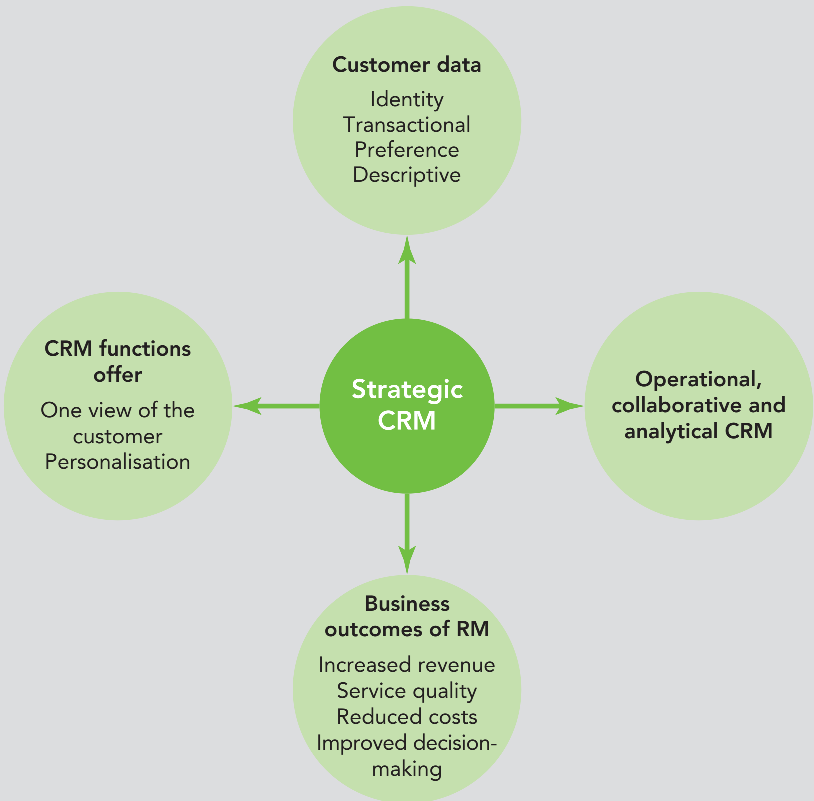

Figure 13: Strategic CRM (part 2)

CRM

In this section we have outlined the need for relationship marketing planning. Two different marketing planning frameworks are: Payne and Frow and SOSTAC.

Many CRM programmes fail at implementation owing to issues such as lack of leadership and management of change.

Successful organisations have a clear strategy for CRM that is well communicated to all employees and linked to the organisational vision and values.

There are four phases in the implementation and strategy development: defining implementation needs and partners, supplier selection and evaluation, CRM implementation, and training and support.

A CRM system allows businesses to manage the customer relationship, to maximise the value of their existing customers and to acquire new customers.

CRM systems have many different functions that can be beneficial to businesses. Typically, CRM systems store all customer data in a single database, thus allowing one view of the customer.

The three types of CRM are: operational, analytical and collaborative. CRM allows businesses to capture customer data in relation to customer identity, transactional history, preferences and descriptive data.

Generally, organisations can expect business outcomes from implementing a CRM strategy in terms of revenue growth, improved quality of service, reduced operational costs and improved decision-making.

READING LIST

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Summary

In this chapter, we have discussed the need for a strong customer value proposition to help strengthen customer relationships. We have identified that relationship marketing is an overall business strategy and that CRM can be part of this strategy. CRM describes the practices, strategies and technologies that companies use to manage and analyse customer interactions and data throughout the customer life cycle, with the goals of improving business relationships with customers, assisting in customer retention and driving sales growth.

We have looked at the CRM processes that a company needs to adopt and the capabilities it needs in order to create customer value. We have discussed the categories of channels and communications that customers now use and the need for companies to adopt an omni-channel approach so that they can interact with customers via whatever channel customers choose.

We have looked at the three types of CRM: operational, collaborative and analytical, and how performance can be assessed, although it is agreed that there is no one universal measure of CRM success.

We have discussed the need for relationship marketing planning and have introduced two planning frameworks: Payne and Frow and SOSTAC. We have highlighted the implementation issues in strategic relationship marketing, which are often linked to a lack of visible leadership and poor change management. We have outlined the foundation stones for CRM implementation including the steps that a business can adopt in supplier selection and evaluation. We have described the systems and functionalities of CRM and the different types of customer information and behaviour that can provide insights for a business to help build long-term relationships. Finally, we have discussed the importance of business outcomes and the different ways in which these can be measured.

Glossary

4Ps Product, price, place and promotion, which makes up the marketing mix.

Active relationships The current relationships that the business has.

Added value Something that a company gives to its customers that is of high value to them.

AIDA Acronym for Attention, Interest, Desire, Action.

Analytical CRM The analysis of customer data.

Blat Refers to a system of informal agreements, exchanges of services, connections with officials and black-market deals in Russian society.

Boon koon In Thailand, this is the concept of returning a favour and is the showing of your gratitude for someone's generosity.

Business to consumer (B2C) marketing Marketing of products and services to individuals for personal use.

Business-to-business (B2B) marketing Marketing of products and services to businesses or other organisations for use in production of goods, for use in general business operations (such as office supplies), or for resale to other consumers, such as a wholesaler selling to a retailer.

Captive buyer Type of buyer and supplier relationship determined by the absence of substitutes, non-retrievable investments, legal property rights and difference in company size.

Captive supplier Type of buyer and supplier relationship determined by the availability of substitutes, non-retrievable investments, legal property rights and difference in company size.

Churn The proportion of customers who leave a business during a given time span.

Collaborative CRM Direct interaction with customers including feedback and issue reporting.

Commitment The intention of a customer to maintain a long-term relationship with a supplier.

Committed market exchange When the customer is committed to a specific brand and believes that it is offers superior value.

Consumer journey The patterns that consumers follow in purchasing a product or service.

Cranfield School School of thought that influenced the development of relationship marketing. It advocated the development of long-term relationships to ensure business sustainability.

CRM capabilities The ability of CRM to perform or achieve certain actions or outcomes.

CRM processes The activities and strategies that companies use to manage their interaction with current and potential customers.

Customer bonding The bond that a customer feels with a product or service which means they are less likely to switch brands.

Customer engagement The actions a business takes to engender loyalty in its customers. In other words: "building customer relationships that increase customer commitment to a company or brand" (Economic Intelligence Unit, 2007).

Customer engagement software Software that manages customer communications and interactions through a variety of channels and touchpoints.

Customer journey The steps that a customer takes from start to finish when interacting with a company.

Customer life cycle The progression of steps that a customer goes through when considering, purchasing, using and maintaining loyalty to a product or service.

Customer relationship management (CRM) Practices, strategies and technologies that companies use to manage and analyse customer interactions and data throughout the customer life cycle, with the goal of improving business relationships with customers, assisting in customer retention and driving sales growth.

Customer value The desired value and perceived value that a customer receives from a product or service.

Descriptive data Data captured about the customer, their lifestyle and behaviour.

Desired value What customers desire in a product or service.

Digital marketing The use of digital channels to promote or market products and services to targeted consumers and businesses.

Domesticated market exchange When the buyer decides that it is preferable to have a special relationship with a limited number of brands in order to increase the buyer's efficiency in dealing with the marketplace.

Emotional needs What the customer wants to feel when they use a product or service.

Empathy The ability to understand and share the feelings of another person.

Et-moone In the Middle East, this is the concept of returning a favour and is the showing of your gratitude for someone's generosity.

Evoked set A group of relevant brands that a prospective consumer is familiar with and which come to mind when they are thinking about making a purchase.

Exchange process When an individual or an organisation decides to satisfy a need or want by offering some money or goods or services in exchange.

Feedback Information about customer reactions to a product or a service experience.

Functional needs The needs that the customer has that they expect the product or service to fulfil.

Globalisation The growth in the international exchange of goods, services and capital that impacts the economy of countries across the world.

Guanxi In Chinese society, this means the relationships that individuals cultivate with other individuals, or a network of contacts, which an individual can call upon when something needs to be done, and through which they can exert influence on behalf of another.

Hierarchy of effect model A model that describes the stages the customer goes through from initial awareness of a product or service to making a purchase.

Holistic marketing orientation
Interconnected marketing activities that come together to project a positive and united business image to the customer. It is: "the development, design and implementation of marketing programmes, processes and activities that recognise breadth and interdependencies" (Kotler and Keller, 2016).

Homophily The tendency of individuals to associate and bond with others who are similar.

Identity data Information about a customer that allows them to be uniquely identified.

IMP Group, Interaction Approach
The school of thought that influenced the development of relationship marketing. It established the importance of relationship networks and interactions in B2B markets.

Informal networks Random links and connections that we have with a wide variety of people.

In-group favouritism The tendency for people to prefer the social group that they are in to other groups.

Integrated marketing An approach to marketing which focuses on aligning brand messaging, communication and image across a variety of channels.

Internal marketing An approach to marketing that recognises the importance of communication with employees and the alignment with brand values.

Invisible relationships Businesses that could be possible partners with a firm but which are not currently perceived as such.

Keiretsu In Japan, this is a set of companies with interlocking business relationships and shareholdings.

Lifetime value A prediction of the net profit that a customer brings an organisation over the entire lifetime of the relationship they have with the organisation.

Loyalty ladder A way of looking at a brand's relationships with customers. Customers are categorised as if on different levels of a ladder.

Market exchange relationships Type of buyer and supplier relationship determined by the combination of the availability of substitutes and the presence of mutual goals.

Market-based exchange Where suppliers make their goods and services available to a mass market or market segment and buyers choose whether or not to make an exchange.

Marketing channels The methods that businesses and customers can use when communicating with each other.

Marketing mix A set of variables that marketers adopt to create offerings that add value to customers.

Measurement of engagement The measurement and analysis of the impact of a brand's engagement with customers.

Moment of truth (MOT) Contact or interaction between a customer and a company which gives the customer an opportunity to form an impression about a product or service.

Multichannel integration An approach a company takes to integrate its communication channels, thereby providing the customer with a range of different methods via which they can contact the company.

Network approach A method of looking at business marketing as a network: a group or system of interconnected people or things.

Networks A set of interconnected exchange relationships.

Nordic School School of thought led by Northern European scholars who questioned the effectiveness of transactional marketing.

Old boy network In both the UK and USA, this is a social network made up of ex-pupils of private schools and elite universities.

Omni-channel An approach to marketing which provides the customer with an integrated and consistent experience of the brand no matter what communications channel the customer chooses to use.

One view of the customer Aggregated representation of the data known by an organisation about its customers that can be viewed in one place.

Operational CRM CRM software that helps streamline and automate how a business interfaces and operates with its customers.

People, process and physical evidence The final three elements that make up the seven elements of the marketing mix.

Perceived value Benefit that a customer believes they received from a product after it was purchased.

Preference data Data relating to a customer's attitudes, motivations and opinions.

Primary groups Those people who influenced the first part of our life and shape our values in life, such as family and friends.

Pull strategy A strategy aimed at influencing trade buyers to purchase their product.

Purchase funnel A metaphor for the stages of a customer's buying behaviour from awareness to purchase.

Push strategy A strategy aimed at the consumer rather than trade buyers. Its intention is to attract customers to engage with the brand.

RACI An acronym for responsibility, accountability, consultation and information.

Reciprocity A social behaviour where people owe one another duties because of their prior actions (Gouldner, 1960).

Relationscape A method of plotting all of the relationships in a landscape.

Relationship marketing "An integrated effort to identify, maintain and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides through individualised and value added contracts over a longer period of time" (Shani and Chalasani, 1992).

Relationship marketing orientation An approach to marketing which places value on creating long-term relationships between a business and its customers. It is the: "reciprocal, independent, committed, long-term relationships between buyers and sellers" (Sin et al., 2005).

Relationship matrix A convenient method of visualising relationships.

Relationship value The trade-off between the price given and components received.

Return on investment (ROI) The ratio of profit made in a financial year as a percentage of an investment.

Secondary groups Groups we belong to based on shared interests, hobbies and activities that we undertake as we get older.

Segmentation The process of defining and subdividing a large homogeneous market into clearly identifiable segments having similar needs, wants or demand characteristics.

Services marketing The processes involved in the marketing a service to a customer. It is: "an organisational function and a set of processes for identifying or creating, communicating, and delivering value to customers and for managing the customer relationship in a way that benefits the organisation and stake-holders" (American Marketing Association).

Shared values Beliefs that are shared by both the brand and the customer.

Six Markets Model A model that identifies six key markets that businesses have. These are: customer, referral, supplier, employee, internal and influencer markets.

SME A small or medium-sized enterprise which employs fewer than 250 persons.

Social CRM The use of social media services, techniques and technology to enable organisations to engage with their customers.

Social networks The social ties that link us together with other people.

Social responsibility marketing An approach to marketing that emphasises social responsibility.

SOSTAC A marketing planning framework: situation, objectives, strategy, tactics, action, control.

Stakeholder groups Any person or group that has a stake in the business. These are: "suppliers, customers, partners, competitors, employees, regulators, influencers and distributors" (Egan, 2008).

Strategic alliances Two or more companies that develop long-term relationships to capture synergies for integrating the marketing resources and capabilities of each partner.

Strategic partnerships Type of buyer and supplier relationship determined by the presence of legal property rights on both sides, which result in limited or no substitutes for both parties, and high non-retrievable investments on both sides, which results in interdependence.

Strategy A high-level plan chosen to bring about a desired future.

Switching costs The costs (both tangible and intangible) that a customer incurs when switching brands.

Ten factors that affect whether people trust A model that can be used to predict whether an individual will choose to trust or distrust another in a given situation.

Touchpoints Any influential action initiated with a customer by a communication, a human contact or a physical or sensory interaction.

Transactional data Data relating to the transaction history of the customer.

Transactional marketing (TM) An approach to marketing which places emphasis on short-term sales.

Trust The belief a person holds in the reliability, ability and truth of something or someone.

Value proposition The product or service offer defined in terms of the target customers and the benefits offered to those customers.

Values Important and lasting beliefs or ideals shared by the members of a culture about what is good or bad and desirable or undesirable.

Visible relationships Companies that are perceived and identified by a firm as their business partners.

Vision An aspirational description of what an organisation would like to achieve or accomplish in the mid-term or long-term future.

Zero moment of truth (ZMOT) The research that consumers undertake online about a product or service before they decide to buy.