

Relationship Marketing: A competitive Marketing Strategy- It's Importance, Nature and Need: A Review

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ABSTRACT: *In today's intense competition, it is very important for any business organization to keep their customers otherwise the competitors will attract them as business is all about creating customer, satisfying a customer and retaining a customer. Increasing inflation rate, increasing rate of interests, hike in fuel prices, global slowdown in economic growth are a few reasons of worry for the companies to think differently to maintain their sales and profit. The business organizations are struggling for their survival and sustainable growth. On the other hand, the new economic policy of India has also opened its trade for the multinational companies. Therefore companies are trying to do something by which they can keep their customers and it is the Relationship Marketing which helps the companies to do so. It is an important tool for strategic competition management. As it is well known fact that a satisfied and loyal customer brings three new customers, therefore companies try all their efforts to maintain good relations with its customers. They are providing value for their money & efforts, they are providing information about their actions, they are inviting them for feedback etc.*

Key words: *Customer Retention, Channel Partnership, Emotional Bonding, Customer Loyalty, Customer Expectation.*

1. INTRODUCTION

Relationship marketing was first defined as a form of marketing developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a dominant focus on sales transactions. As a practice, relationship marketing differs from other forms of marketing in that it recognizes the long term value of customer relationships and extends communication beyond intrusive advertising and sales promotional messages. Relationship marketing has been positioned variously between being a set of marketing tactics, in which any interaction between buyers and sellers is described as a relationship, regardless of the parties' affective commitment to each other, and a fundamental marketing philosophy which goes to the core of the marketing concept through its customer lifetime focus (Gummesson, 1999).

Relationship marketing is often defined as —a synthesis of marketing, customer service and quality management (Christopher, Payne and Ballantyne 1991). It involves cultivating the right kind of relationships with the right constituent groups. The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A marketing network consists of the company and its supporting stakeholders (customers, suppliers, employees, distributors, retailers, ad agencies, and others) with whom it has built mutually profitable business relationships (Kotler, 2006). The move from transactional to relational exchange and relationship marketing has resulted in a shift in emphasis in both marketing theory and practice.

Relationship marketing is emerging as the core marketing activity for businesses operating in fiercely competitive environments. On average, businesses spend six times more to

acquire customers than they do to keep them. Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer's purchases. Worldwide service organizations have been pioneers in developing customer retention strategies. Banks have relationship managers for select customers, airlines have frequent flyer programs to reward loyal customers, credit cards offer redeemable bonus points for increased card usage, telecom service operators provide customised services to their heavy users, and hotels have personalized services for their regular guests.

Relationship Marketing involves building relationships at many levels –economic, social, technical and legal resulting in high customer loyalty. It involves database marketing, interaction marketing and network marketing. Smart companies capture information at every possible touch point. Data base marketing integrates everything that a company's sales, service and marketing teams know about individual customers to provide a 360-degree view of customer relationship. With the use of CRM (customer relationship management) it pulls together, analyses and provides easy access to customer information from all of various touch points (Kotler, P., Wong, V., Saunders, J., and Armstrong, G.,2005). Interactive marketing focuses on the organizations interactions with consumers on various touch points like service and support calls, website visits, satisfaction surveys, market research studies, introduction of loyalty cards like Sainsbury collaborating with Nectar.

2. HISTORICAL PERSPECTIVE

Researchers argue that RM represents a —paradigm shift in marketing‖ from its previous focus on —transactions,‖ in which firms use the —4P model‖ to manage marketing-mix variables (Gronroos 1994, p. 4; Sheth and Parvatiyar 2000). But is RM really a new phenomenon? What underlying trends or factors drive such a change? To answer these questions, this text offers a historical perspective of marketing thought and practice. Researchers have made the compelling case that relational-based exchange was the norm for most of recorded history; the anomaly of transaction-based marketing emerged only in the early 1900s. Thus, relationship marketing —is really a rebirth of marketing practices of the pre-industrial age‖ (Sheth and 2006). Thus, not surprisingly, research and practice in services, business-to business, and channels contexts often include relational constructs. Early research in the service context also provides the roots for many key RM concepts (Berry 1983; Berry 1995). In reality, relationship marketing and branding strategies that focus on building brand equity also overlap.

Researchers suggest that relationships and brands represent two critical sources of intangible, market-based assets that can be leveraged into superior financial performance (Srivastava, Shervani, and Fahey 1998). But brand equity represents the differential effect of brand knowledge on customer action, such that customers behave more favorably toward a product when they can identify the brand (Keller 1993). Others argue that brand equity may be —a fundamentally product-centered concept‖ that does not capture drivers of customer behavior fully (Rust, Lemon, and Zeithaml 2004, p.110). Although RM and branding activities similarly focus on building intangible customer assets that positively influence customer loyalty, purchase behaviours, or financial performance while reducing marketing costs, they differ fundamentally in that branding focuses on —product(s)‖ with extensions to the firm, whereas RM primarily focuses on —relationship(s)‖ and their extensions to the firm. The distinction between branding and RM remains clear at the core level of products versus relationships, but as customers develop attitudes toward and beliefs about the overall firm, the individual impact of brands and relationships becomes difficult to separate. Thus, overall customer equity is generated from both

brand equity and relational equity. The relative importance of brands compared with relationships often depends on the context and/or the researcher's perspective. For example, when a survey asks a customer to report on his or her —trust in a firm, the question comprises both product and relationship-based trust. Differentiating brands and relationships pragmatically requires identifying the constructs measured and the focal referent of the construct; that is, relationship marketing focuses on the relationship (versus product) and measures relational characteristics such as trust, commitment, reciprocity norms, cooperation, and conflict.

3. IMPORTANCE OF RELATIONSHIP MARKETING

Relationship marketing has the aim of building mutually satisfying long-term relationships with key-parties-customers, suppliers, distributors, and other marketing partners- in order to earn and retain business. Relationship marketing builds strong economic, social, technical ties among parties (Kotler, 2006). The simplest reason why firms seek to develop ongoing relationships with their customers is that it is generally much more profitable to retain existing customers than continually seeking to recruit new customers to replace lapsed ones (Palmer, 2001). Relationship marketing can be beneficial to the organization as well as to the consumers. From the firms perspective it helps to earn customer loyalty and customer retention. This can be done by primarily adding financial benefits to customer relationship. For example airlines offer frequent-flyer programmes, hotels give room upgrades to their frequent guests and supermarkets give patronage refunds. All these help in gaining customer loyalty, which in turn brings financial benefits to the firm. From the customers perspective it brings them psychological as well as rational benefits. A brand like Nike gives its customers more than just a athletic gear, beyond shoes, apparel and equipment Nike markets a way of life, a sports culture, a „Just do it!“ attitude. Brands like Mc Donald's, Starbucks provide a sense of genuine customer involvement. At a store like Apple customers can just try out and see which electronic products they are interested in and accordingly make a purchase. At Subway customers can create their own sandwich with whatever they like! All these interactions with the customers just bring them emotional pleasures.

4. The Nature of Relationship Marketing

Understanding relationship marketing requires distinguishing between the discrete transaction, which has a "distinct beginning, short duration, and sharp ending by performance," and relational exchange, which "traces to previous agreements and is longer in duration, reflecting an ongoing process. Categorized with reference to a local firm and its relational exchanges in supplier, lateral, buyer and internal partnerships.

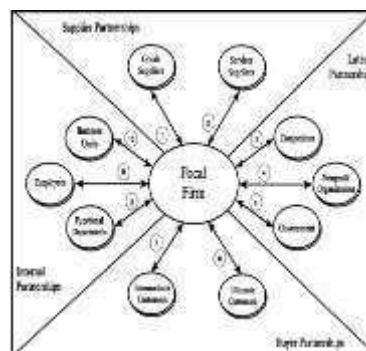


Fig.1 The Relational Exchanges in Relationship Marketing

Figure 1 shows ten discrete forms of relationship marketing: (1) the partnering involved in relational exchanges between manufacturers and their goods' suppliers, as in "just-in-time" procurement and "total quality management" (Frazier, Spekman, and O'Neal 1988; O'Neal 1989); (2) relational exchanges involving service providers, as between advertising or marketing research agencies and their respective clients (Beltramini and Pitta 1991; Moorman, Zaltman, and Deshpande 1992); (3) strategic alliances between firms and their competitors, as in technology alliances (Nuevo and Oosterveld 1988); co-marketing alliances (Bucklin and Sengupta 1993); and global strategic alliances (Ohmae 1989); (4) alliances between a firm and non profit organizations, as in public purpose partnerships (Steckel and Simons 1992); (5) partnerships for joint research and development, as between firms and local, state, or national governments (Comer, O'Keefe, and Chilenskas 1980); (6) long-term exchanges between firms and ultimate customers, as particularly recommended in the services marketing area (Berry 1983); (7) relational exchanges of working partner-ships, as in channels of distribution (Anderson and Narus 1990); (8) exchanges involving functional departments (Ruekert and Walker 1987); (9) exchanges between a firm and its employees, as in internal marketing (Arndt 1983; Berry and Parasuraman 1991); and (10) within-firm relational exchanges involving such business units as subsidiaries, divisions, or strategic business units (Porter 1987).

Though adequately conceptualizing relationship marketing requires a definition that accommodates all forms of relational exchanges, extant definitions cover some kinds but not others. For example, in the services marketing area, Berry(1983, p. 25) states, "Relationship marketing is attracting, maintaining and-in multi-service organizations-enhancing customer relationships" and Berry and Parasuraman (1991, p. 133) propose that "relationship marketing concerns attracting, developing, and retaining customer relationships.

5. RELATIONSHIP MARKETING IN PRACTICE

A good product or service should back a good relationship. A relationship is a mutual give and take. A relation occurs when the transaction occurs. However, transaction focus is mechanical and with human relations the managers cannot be mechanical. It is beneficial for both individuals, in good and bad times. If we take the example hotels, one hotel defines the elements of a good relation to be honesty, transparency, be forthright, and not differentiate between Indian and foreign customers. Expenses are not the focus in RM; facility development and provision is basic to RM, the focus is that the Customer should not suffer'. The hotels act as solution providers.

One hotel for example provided wireless Internet connectivity, corporate loyalty programs, and international AVIS tie-ups. RM is very strong in hotels; it exists from Secretaries to CEOs. RM efforts are directed at CEOs, government, decision making people in organizations, ancillaries, related businesses, dealers, individual travellers, travel agents, upmarket socialites. RM efforts are also targeted at the officials who are in charge of bookings. Even a standard smile builds a relationship. Relation development takes place both through personal relation building and word-of-mouth relationships. In some hotels there are dedicated RM executives, RM managers who take care of account management of customers on an ABC classification.

In other hotels, the entire sales team is relationship building. In one hotel, one sales manager acts as the one source answer to around 120 companies. Trust in RM is very important. In some hotels this is the main focus. It needs to go along with commitment. It needs to develop

with the business. If deliverable is good then trust increases. There is no explicit buy in of customer; however the relationships are so well nurtured that the customer automatically buys. There is no need of selling after that. The switching costs are increased so that the customer is retained. The switching costs may be increased by emotional lock-ins, good experiences, excellent conferencing facility, holidaying for executives' etc. In one hotel the concept is of ultimate service and they have won global awards for ultimate service. Such hotels do not focus on relationship marketing efforts but expect the customer to buy from them in a repeated manner owing to their ultimate service. Employees are empowered to decide that will reflect a sense of willingness to deliver impeccable service. Such organizations are very strong in operations and relationship marketing is only a small part of the customer pleasing process. Hotels offering ultimate service are part of a larger group of hotels offering value (through products, technology, and security) service quality.

The role of RM is to take care of emotional well being of customer. This is an important role of RM in marketing strategy. The emotional quotient level is high in the hotel business. Protecting emotional well being is linked to building trust. In one 5 star hotels for example, they take care of health – one Indian hotel calls Thailand massage experts to relieve stress of its guests who travel across countries and are subjected to stress. In another hotel they strive to provide the best security systems with good floor security, CCTV. There are also periodic reports on food tests on whatever is eaten to say that they care for the customer. Another hotel went all the way with police procedures to retrieve a stolen / misplaced item of a client who held a wedding party in a hotel. Relationships with the government are also important. In one hotel, there were 70 licenses allotted to run the hotel. Relationships with the government lead to important information, which can lead to advantages.

One example is of a hotel that got advance information through a relationship of the location of an international airport and bought land at a low price. Apart from relationships with government, external partnerships with vendors, food sampling and testing through microbiology sections, employee satisfaction, senior citizen package etc help improve company image in the market. It is not possible to displease the customer and maintain effective ongoing relationships. Customer retention is a very important part of RM and is the link to relationship management. In one hotel for example at one point of time there are 158 Managers from 130 companies to be serviced and every care should be taken that the customers are simultaneously well serviced. Customer acquisition is also important and is normally more expensive. RM also helps understand and track customer psyche and its changes based on which customer value propositions can be built. They also try to customize offerings based on their understanding of the customer psyche. RM programs in hotels include loyalty programs (dedicated loyalty programs are sometimes included), frequency marketing, tie-up with credit card companies, database marketing (local and central databases, segment focus), direct marketing, guest relationship program, preferred partner programs (one hotel had 350 preferred partners in city), direct email, newsletter, food festivals. Relationships are also driven by rate fixing for room rent, which goes on a variable rate depending on the business.

Customer management practices in one hotel includes (a) communication starting with RM manager (b) broadband facilities (c) complementary cocktail hour (d) complementary boardroom facility (e) international newspaper (f) Japanese breakfast (g) capture of customer profile and appropriate reactions. One hotel gave a helping hand to customers who stayed with them a long time for settling in a new home. Relationship marketing efforts give feedback for strategic decisions such as (1) opening up of new hotel, (2) start of new advertising campaign,

(3) competition action / reactions to be made. RM is normally expected to improve profitability, though it is the long-term profitability and not the short-term profitability that is expected to improve. The improvement in profitability also comes from the elements of trust. RM managers gather market intelligence and give market information advantages to strategic marketers, which enable better adjustments of the firm to the market over time. RM managers work on experience, that is the basic thrust. RM helps the seller to guide the moments of truth in his favour. The revolutionary thought in relationship marketing is to give what the customer wants and not what the selling firm wants.

6. WHY DO COMPANIES NEED RELATIONSHIP MARKETING?

The global economy is again on a roller coaster. Global crisis which started in 2008 is still affecting the whole world. In G20 summit at France, the main issues were related to global slowdown especially latest crisis in Greece and Europe. India cannot remain in isolation. It is also affected by European crisis. This is one of the reasons why the export is declining in last quarters. Data released by the commerce and industry ministry on Nov 8th 2011 showed India's exports fell to a 12 months low of \$ 19.9 billion in October 2011 pushing trade deficit to a four year high of \$ 19.6 billion. Apart from this global slowdown we can summarise a few other reasons why do a company need relationship marketing:

- Increasing inflation rate
- Increasing rate of interests
- Hike in fuel prices
- Customers are becoming smarter and choosy
- Customers are well informed due to social networking and media awareness
- Cut throat competition
- Globalization and entry of MNCs
- Availability of substitute brands
- Low margin of profit
- Emerging rural market
- Emerging organized retailing
- New legal threats like competition bill and other proposed company bill
- Environment threats etc.

The following figure shows the fundamentals of Relationship Marketing.



These are a few reasons of worry for the companies to think differently to maintain their sales and profit. On the other hand, the new economic policy of India which is based on LPG has also opened its trade for the multinational companies. MNCs are coming. Government is planning for FDI in multi brand retailing while single brand retailing already had a provision of 100% FDI. Companies are facing tuff competition. There is a clutter of brands available to customers as a substitute. Therefore customers are free to bargain and negotiate to choose the best option which ultimately reduces the profit of margin too. According to the provisional data available of the 15th Census 2011, India now has a population of 1.21 billion, comprising 624 million males and 587 million females. The preliminary figures of the census 2011 show that India's literacy rate has gone up from 63.83% in 2001 to 74.04% in 2011. Male literacy and female literacy stand at 82.14% and 65.46% respectively. Literates constitute 74% of population aged seven and above. This change in demographic environment shows that customers are becoming more literate and educated which makes them smarter & informative and companies are having big potential market to tap too even rural population has grown up. Social networking and media coverage has connected the whole world. Anything happens in the one corner of the world affects the other corner too. We have seen the recent developments in gulf countries which started one by one. Even Michel Dell in his visit to Bangalore recently in Jan 2012 said, social media has enhanced relations with customers. His company has two billion interactions with customers through social media. Emerging organized retailing format is also a cause for adopting relationship marketing by the traditional marketers. New laws and legal developments for saving interests of customers, environment threats which compel companies to produce eco friendly products is also one of the concerns. Inflation is out of control. Inflation rate is almost equal to or above 9 % for last 11 months. Fuel prices are increasing day by day. RBI has increased 13 times Repo rate as well as reverse Repo rate but it is unable to manage the increasing rate of inflation. This is also keeping customers away from their shopping habit. Impulse buying is gone, customers are very choosy. Shopping is not done as a fashion or time pass but only when it is needed. The business organizations are struggling for their survival and sustainable growth. Therefore companies are trying to do something by which they can keep their customers and it is the Relationship Marketing which helps the companies to do so.

7. IMPORTANCE OF SERVICE QUALITY FOR MAINTAINING RELATIONSHIPS WITH CUSTOMERS

Service quality is often posited in the literature as an antecedent of customer/service Satisfaction. According to Coulter and Coulter (2002), a —service is defined as, —any act or performance that one party can offer to another that is essentially intangible, and does not result in the ownership of anything. Unlike physical products, services (as products) cannot be seen, tasted, felt, heard, or smelled before they are bought (Parasuraman et al., 1985). Because of a service's intangibility, clients are often faced with not knowing what to expect of a service until they have tried that service. And since there are costs associated with trying services, clients perceive services as risky. In the financial services industry, the provision and delivery of services involves a variety of dimensions a variety of interactions between providers and customers. In particular, personnel are instrumental in the creation and provision of service quality and, in doing so, they need to 'care' for the customer. Fig. 2 shows Effect of service quality on building relationship quality.

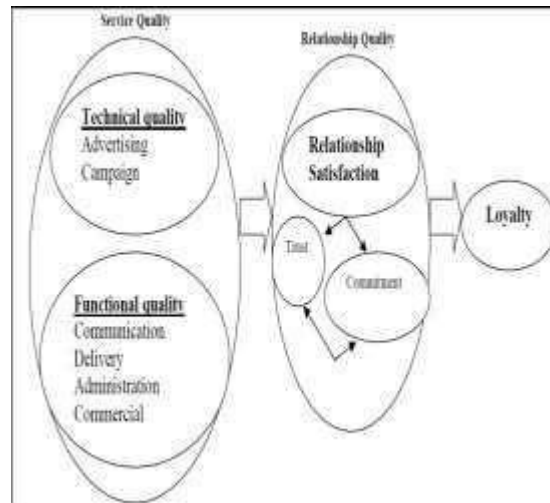


Figure.2 Effect of service quality on building relationship quality

The concept of service quality is concerned with customer satisfaction: putting the customer first, anticipating needs and problems, tailoring products and services to meet needs and problems, and being ‘_nice’ to the customer. It also includes: service to the customer, delivery operations, employee relationships with customers, and internal relationships between employees and management.

Service quality for the customer requires an organization to pay attention to its products/services, delivery systems, delivery environment, technology and employees, which are highly interdependent.

Product/service range: This will include both basic products and augmented service offerings.

Delivery systems: Delivery systems and procedures need to operate efficiently they should be responsive and reliable.

Technology: It may be integral to a service product, its environment and delivery, and in financial services recent technological advances have made major contributions to facilitating customer-company exchanges and to increasing levels of service.

For example, mechanization and computerization can increase speed, efficiency and accuracy of service. Technology will not replace people in the provision of financial services, and ‘_high tech’ and ‘_high touch’ go hand in hand, with enhanced use of technology acting as a basis for the provision of better personal service.

Employees: The role of employees in customer care cannot be overstated and includes their personal qualities, ability to understand and satisfy customer needs, and their skills and knowledge- including flexibility. Key characteristics for employees to perform effectively may relate to: process and technical skills, interpersonal and communication skills; team work skills, flexibility and adaptability, and empathy with the external customer. In general, employees must be able and willing to deliver desired levels of service in order to minimize gaps between service specifications and delivered service.

Typically, training programmes cover product, company and systems knowledge, awareness of employees’ role in assessing and meeting customer needs, and the economic impact of everyone working together to support company goals. Critical to this is to focus on service encounters or relationships within organizations, at all levels and between levels (Lewis and

Entwistle, 1990), which contribute to the service delivered to external customers. In addition product/technical knowledge and relationship management, personal skills and interpersonal communication skill development is vital. This allows organizations to empower employees to exercise judgment and creativity in responding to customer needs and problems (Schlesinger and Heskett, 1991b). Knowing that management has confidence in employees helps create positive attitudes in the workplace and good relationships between employees, and between employees and customers.

8. CONCLUSION

Today companies are facing cut throat competition. Customers are becoming harder to retain. They are smarter, more demanding, informative and price sensitive. They always try to compare the offers given by different companies. Therefore relationship marketing is the strategic tool to retain the customers by way of emotional bonding and managing the competition. Simplified interpretations of relationship effects should be abandoned in favour of better models of relationship development and value determination. Relationship marketing is still in its ‘infancy stage’ among service companies in India due to several reasons. First and foremost there is a lack of understanding of the concept of relationship marketing among financial services firms and some firms have not properly understood the terms RM and hence assess the implications of this paradigm shift in the marketing practices of their companies.

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