## CHAPTER TWO - RELATIONSHIP MARKETING STRATEGY IN PERSPECTIVE

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2.1 INTRODUCTION

Before proceeding further it is imperative to have a brief perspective about Relationship Marketing Strategy-its definition, nature and benefits. A comparative analysis between the traditional form of marketing viz. transactional marketing and relationship marketing is also presented to mark the paradigm shift in the field of marketing. But a discussion about the marketing strategy cannot be initiated without a brief discourse about the evolution of marketing. In the following section an effort has been made to present the theoretical and practical evolution of marketing.

2.2 RELATIONSHIP MARKETING STRATEGY-A PERSPECTIVE

2.2.1 Evolution of Marketing:

The word marketing is inspired from the Latin word “mercatus”, which means marketplace which is derived from the word “mercari” which means “to trade”. Marketing like trade, has been in existence since the dawn of this human civilization but as a discipline is just over a century old.

As is widely known, the discipline of marketing grew out of economics, and the growth was motivated by the interest among the economists in the details of market behavior, especially those related to the functions of the middlemen (Bartels 1976; Houston, Gassenheimer and Maskulka 1992; Hunt and Goolsby 1988). It coincided with the growth in the number of middlemen and the importance of distribution during the industrial era. The initial courses offered on the subject area of marketing at University of Michigan in 1902 and at The Ohio State University in 1906 were focused on the inter-relationships among marketing institutions and among various divisions of the firm in performing the distributive task which was the basic tenet of marketing in those days (Bartels 1976).

But since then and over the years, the approach and underlying assumptions of marketing has evolved not only in theory but also in practice.

Theoretical evolution of Marketing

Theoretically the evolution of marketing is synonymous with the growth and evolution of its definition as well as perception.

Wilkie and Moore (2006) of University of Notre Dame, United States of America, have traced the change in the definition from 1935 to 2006. The three definitions from American Marketing Association, worlds’ oldest and one of the premier marketing institution, tracked the evolution. In the first definition, marketing was interpreted as “the performance of business
activities that direct the flow of goods and services from producers to consumers”. In 1985 marketing was described as “the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives”. The latest definition depicts marketing as “an organizational function and set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and stakeholders”. American Marketing Association (2013) (https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx, accessed on 22nd May 2014 at 9:15 p.m) of-late has defined marketing as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”

The shift in the definition from a societal function to organizational one was a noticeable transformation. What is more noticeable is the switch in the perspective of marketing from an exchanged based activity to a relationship based one.

The early years of discipline of marketing was dominated by the view of ‘Managerial School of Marketing’ (Howard, 1957; McCarthy, 1960) which considered exchange functions as its fundamental activity. The focus was on marketing activities like analyse, plan and implement functions that would achieve the ultimate goal of selling organizational products. Philip Kotlar, one of the prominent and legendary proponents of managerial school wrote in Marketing Management Millennium Edition (2000), “the marketing process consists of analyzing market opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes, and organizing, implementing and controlling the marketing effort…(and to) transform marketing strategy into marketing programmes and marketing managers must make basic decisions on marketing expenditure, marketing mix, and marketing allocation” (p33). Introduced by McCarthy in the 1960s, the ‘marketing mix’ (product, price, place, promotion) referred to was the “holy quadruple…..of marketing faith….written in tablets of stone” (Kent, 1986, p 146) and has been regarded as ‘infallible’ guide for managers involved in effective planning and implementation of marketing strategy.

The popularity of the tool of ‘marketing mix’ was blunted by factors like the advent of service sector, introduction of technological revolution and emergence of cut throat competition among others. The businesses started realising the fact that short term focus on single transaction, which was the focal point of traditional marketing, need to be replaced by long term and sustainable relation building as that will not only concretize the buyer-seller bond and
increase business’s share of customers’ wallet but would certainly increase/improve customer lifetime value and enhance the chance of word-of-mouth referrals. The direct benefit of developing long term relations is retention of customers as empirical studies by Reichheld & Sasser, 1990 showed that profits can be boosted by almost 100% on maintaining just 5% more of their existing customers. It has also been empirically found, that on an average businesses spend six times more to acquire customers than they do to retain them (Gruen 1997). Moreover Gummesson (1999) opined that good relationships ultimately lead to increased customer profitability. The flowchart depicting the process of achievement of customer profitability as suggested by Gummesson is given below.

**Figure No 3: Flowchart depicting the process of achievement of customer profitability**

![Flowchart](image)

*Source: (Gummesson)(1999)*

Thus the latest definition of marketing emphasizing the importance of relationship is commensurate with the development in the theory of the subject.

**Empirical evolution of Marketing**

The practical evolution of marketing can be traced, as it evolved through the Pre-Industrial, Industrial and Post-Industrial era.

The pre-industrial phase was comprised predominantly of agriculturists and traders of art and artifacts. Both the categories used the form of direct marketing to sell their products in the local markets. The face to face interactions led to development of strong bond and trust among themselves so much so that the traders of Africa traded only with selected clans on a regular basis and even refused the entry of outsiders in the group. Similarly the economic history of old ‘Silk route’ between China, India and Afghanistan narrates the partnership developed between the Chinese silk producers and Indian weavers and craftsman to produce garments and artifacts for the local kings and nobles. This period saw the development of open air markets and bazaars which not only strengthened the co-operative attitude of the producers and consumers but also acted as a deterrent to fraudsters and hit and run sellers.

This direct form of marketing gave way to transactional marketing with the advent of mass production of the Industrial age. The large scale production helped the manufacturers
achieve economies of scale which reduced the cost of production as a consequence of which the price of products were lowered. The aforementioned situation led to the following:

(i) the need to find new and additional market for the enormous inventory increased
(ii) the producers and manufacturers resorted to aggressive selling of the massive produce
(iii) marketing institutions in the form of middlemen willing to bear the risk of huge inventory came into existence. The birth of middlemen in the form of wholesalers, distributors and retailers helped the manufacturers in two ways. They not only provided the necessary storage space for the excess production but also helped the producers find buyers and consumers. Early marketing thinkers like E D James, S Lifman and J Hagerty gave importance to this distributive element of marketing.
(iv) this is the period which gave rise to new marketing activities like advertisements and promotions to create demand for goods. The transaction orientation of marketing further intensified during the Great Depression of 1929 when oversupply of goods and shortage of demand forced the manufacturers to use even deceptive advertisements and false claims to sell their products. This orientation reduced the importance of partnership developed in the earlier era while increasing the significance of successful sales and market share.

In addition to above, two noteworthy developments during this phase were development of Brand loyalty and growth of administered vertical marketing systems. While the first made the manufacturers realize the importance of repeat purchase by customers the second development helped the marketers gain control over the channels of distribution and even block the competitors from entering into the channels. This also marks a reemergence of direct marketing rechristened as relationship marketing as the manufacturers started extending their reach beyond corporate limit to reach the final consumers.

Finally the post industrial years characterised by five macro-economic factors, were the principal force behind the firm footing of direct marketing:
(i) Rapid technological advancements, especially in information technology-
The dynamic technological strides of the last few decades have allowed the consumers easy access to and wider choice of products and suppliers. On the other hand the suppliers now can reach customers effortlessly and extensively due to the technological innovations. All these have led to the reduction and at times elimination of the role of middle-men and resulted in direct contact between sellers and buyers.
(ii) The adoption of total quality programme by companies-
The adoption of Total Quality programme which makes it necessary to involve the customers, suppliers and other members of marketing infrastructure in the process of product design, product development and product sale, not only acted as boost to the relationship orientation but also revolutionized the industry’s perspective regarding quality and cost.

(iii) The growth of service economy-
The growth of service economy especially in the advanced countries is another reason for the increase in importance of relationship marketing. The service sector where the manufacturer and provider of service being the same organization eliminates the role of middle-men and establishes direct contact with the consumers.

(iv) Organizational development processes leading to empowerment of individuals and teams-
The role of members of the companies was undergoing a serious change. The direct involvement of the users of products and services in the purchase and acquisition decision of the companies were leading to cooperative relationship between producers and users.

(v) Increase in competitive intensity leading to concern for customer retention-
The increase in the level and intensity of competition has forced the companies to shift their attention, from only reaching out to customers to take steps for ‘reaching-to-retaining’ of customers as research shows it costs less to retain a customer than to acquire a new one. Similarly on the supply side it pays more to develop closed relationships with few suppliers than to develop new vendors.

2.2.2 Definitions of Relationship Marketing

In the process of going through the established source of literature the researcher found the following excerpts about Relationship Marketing useful and effective to understand the definition and nature of Relationship Marketing.

The term and concept of ‘Relationship Marketing’ (RM) was introduced in service marketing by L Berry (1983) as “attracting, maintaining, and – in multi-service organizations – enhancing customer relationships” (p. 25).

According to Berry and Gresham, (1986) the common superior objectives of all strategies are enduring unique relationships with customers, which cannot be imitated by competitors and therefore provide sustainable competitive advantages, and the overall objective of relationship marketing is to facilitate long term customer relationships, which further leads to changed focal points and modifications of the marketing management process.
Reichheld and Sasser, (1990) stressed on the fact that Relationship marketing reflects a philosophy expressed often in terms such as “retention marketing” and “zero defection” where the focus is on keeping every customer the company can profitably serve.

Furthermore Gronroos (1991) described RM “…is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by mutual exchange and fulfillment of promises.”

Berry and Parasuraman (1991) defined Relationship Marketing as a marketing approach that concerns attracting, developing, and retaining customer relationships.

Shani and Chalasani (1992) viewed relationship marketing 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 interactive, individualized and value added contacts over a long period of time”.

According to Payne & Richard (1993), “relationship marketing focuses on clients’ retention and building long term relations that, in exchange contributes to loyalty. The higher the satisfaction perceived by the client, the higher the probability for long term relations and increased profitability”.

Bateson (1995) in his definition of relationship marketing states that relationship marketing is the union of customer service, quality and marketing. It emphasises the importance of customer retention, product benefits, establishing long-term relationships with customers, customer service, increased commitment to the customer, increased levels of customer contact, and a concern for quality that transcends departmental boundaries and is the responsibility of everyone throughout the organisation.

Andaleeb, (1996) foresaw that relationship marketing is becoming an integral part of marketing strategy and thus contributing towards acquiring strong competitive advantage. Hence, repeat purchase is increasing, thus benefiting both parties.

Wulf et al. (2001) suggested that different levels of relationship duration would result in different levels of consumption experience, producing different results, satisfaction and loyalty with different relationship marketing tactics.

Hougaard and Bjerre (2002) defined relationship marketing as “company behavior with the purpose of establishing, maintaining and developing competitive and profitable customer relationship to the benefit of both parties”. They argued that marketing management must pay attention to three different objectives in terms of:
- “The management of the initiation of customer relationships”;
- “The maintenance and enhancement of existing relationships”;
- “The handling of relationship termination”.

Bowen and Shoemaker (2003) opined that, compared with traditional marketing, relationship marketing is more concerned about building customer relationships in order to achieve long-term mutual benefits, for all parties involved in the exchanges. It essentially means developing customers as partners, as against traditional transaction where the focus is on the present transaction.

Within a retail banking setting, Walsh et al. (2004) define relationship marketing as “the activities carried out by banks in order to attract, interact with, and retain more profitable or high net-worth customers.”

According to Peng and Wang, (2006) the primary goal of relationship marketing is to increase customer loyalty and to build a strong relationship between company and customer.

The concept of relationship marketing goes beyond exchange as it is based on the intention of firms to deliver superior value by emphasizing customers’ perspectives as the focal point of relationship building activities. Relationship marketing theory implies that consumers enter into relational exchanges with firms only when they think that the benefits derived from such relational exchanges exceed the costs (Hunt & Arnett, 2006).

Tseng, (2007) was of the opinion that relationship tactics were successful to prevent an unsatisfied customer from switching to another company. An effective and customer oriented relationship strategy may help companies to retain customers for a long time.

The two main features of relationship marketing viz. it uses tailored and interactive tools and aims to trigger a lasting change in clients and suppliers’ attitude in a way as if it is more than just an immediate act of purchase on their behalf. The aim is to switch from extensive to intensive growth, by means of increasing current clients’ retention, followed by their loyalty, given the fact that maintaining existing clients involve significantly lower costs than attracting new clients.

This trend is also mentioned in the definition of relationship marketing proposed by Gledhill (2008), according to whom “..it is a form of marketing that emphasizes more clients’ retention and their satisfaction, rather than individual transactions” (Gledhill, 2008, p.41).
2.2.3 *Benefits of Relationship Marketing Strategy to Service Firms:*

A successful relationship between two parties involve mutual fulfillment. A firm will enter into a relationship with a customer/client if it finds the benefits achieved from the relationship exceed the cost of creating and maintaining such relationship.

The increased competition due to globalization of world markets, market fragmentation and deregulation of many service markets (telecom, banking, airlines etc) has forced the business firms to turn their attention from merely creating and increasing customer base towards creating, increasing and most importantly protection of customer base.

According to Francis Buttle (1996), an honorary Professor in Marketing, the shift in approach of the business firms is not devoid of economic logic and most importantly advantageous for both the firm/business/producer/manufacturer and client/customer/consumer.

The specific advantages to the firm are as follows:

(i) **Higher customer retention and loyalty**

The firms today are busy in crafting strategies to develop long-lasting relationships with the most profitable customers. According to Ball (2004) majority Chief Executive Officers across the world feel that customer retention and customer loyalty are the most vital challenges. Bhardwaj (2007) points out that the key challenge facing all marketers today is in identifying modalities of enhancing customer loyalty and retention. Bolton et al., 2000, in a study showed that the effect of relationship marketing on behavior loyalty leads to customer retention. In their study on Jordanian banks, Alrubaiee and Al Nazar (2010) assumed that relationship marketing orientation could help banks to achieve customer retention.

(ii) **Increased customer profitability due to customer retention**

According to a research by Reichheld and Sasser (1990) published in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business or companies can boost profits by almost 100% provided they are successful in retaining just 5% more of their customers.

Gummesson (1999) opined that good relationships ultimately lead to increased customer profitability. The flowchart depicting the process of achievement of customer profitability as suggested by Gummesson is given before (ibid p 35).

(iii) **Evaluation of customer value/profitability**

Relationship Marketing Strategy helps assess the value that the customer provides to the company which is referred to as Customer Lifetime Value (CLV). As per Berger and Naser, 1998, the value of the customer asset is the sum of the customer’s discounted net contribution
margins over time—that is, the revenue provided to the company less the company’s cost associated with maintaining a relationship with the customer. In other words the net profit or loss to the firm from a customer over the entire life of transactions of that customer with the firm is measured as CLV.

(iv) Competitive advantage through added value

A firm enters into relational exchange with other firms and consumers as such relationships enable the firms to gain a competitive advantage over their rivals. Further as Gummesson (2002) and Hunt & Derozier (2004) puts it that firms should identify develop and nurture a relationship portfolio as a strategic choice to achieve superior financial performance.

Resource–Advantage (R-A) theory of competition referred to by Hunt (2002) and Hunt & Derozier (2004) will help us understand how competitive advantage can be achieved through relationship marketing. According to R-A theory the process of competition among firms is a constant struggle for comparative advantage in resources, that will result in competitive advantage in marketplace for the firms and they will achieve superior performance. The competitors will try to neutralize the advantaged position of the aforesaid firms through acquisition, imitation, substitution or major innovation. Again according to R-A theory the resources are tangible and intangible entities that enable a firm to produce efficiently and/or effectively. The resources can be categorized as financial (e.g., cash resources and access to financial markets) physical (e.g., plant and equipment), legal (e.g., trademarks and licenses), human (e.g., skills and knowledge of individual employees) organizational (e.g., competences, controls, policies and culture), informational (e.g., knowledge from consumer and competitive intelligence), and relational (e.g., relationships with suppliers and customers). As per R-A theory, firms enter into relational exchanges when such relationships contribute to the competitiveness of the firms and this can only happen when they are relational resources. A relationship can become relational resource only when they contribute to the firm’s ability to effectively/efficiently produce market offerings that have value for some market segments.

(v) Creation of firm/product advocates through positive Word of Mouth referrals

Word of Mouth (WOM) has been characterized by Ardnt (1967) as oral, person-to-person communication regarding a brand, product or service, between a receiver and a communicator whom the receiver perceives as non-commercial. Sheth (1971) concluded that WOM is more important than advertising in raising awareness of an innovation and in securing the decision to try the product. Day (1971) inferred that this was due to source reliability and the flexibility of interpersonal communication. He computed that WOM was nine times as effective as advertising
at converting unfavourable or neutral predispositions into positive attitudes. Mangold’s (1987) review of the impact of WOM in the professional services context concluded that WOM has a more empathic influence on the purchasing decision than other source of influence. This is perhaps because personal sources are viewed as more trustworthy (Murray, 1991).

(vi) **Relationship Development (RD) as a by-product of RMS helps address “Customer Better”**

(a) **RD through relationship technology is a way of addressing the customers**

It has become customary for the business firms in the modern times to store/capture information relating to customer and use them to gain customer insight and formulate customer specific effective marketing strategy and is termed as Customer Relationship Management or CRM. According to S Kelly (2000) the key analytical CRM applications include

(a) Sales analysis  
(b) Customer Profile analysis  
(c) Campaign Analysis  
(d) Loyalty analysis  
(e) Customer contact analysis  
(f) Profitability analysis

This kind of database marketing uses data mining to uncover relationships about customers from the customer data.

(b) **RD helps to buy in Customer Attention**

The business is in a better position to implement competitive marketing strategy (whether in respect of pricing or in respect of positioning change) when it has an ongoing relationship strategies with its stakeholders (customers, suppliers, employees, government etc). The reason being the stakeholders can better appreciate the objectives and strategies of a firm by being in a relationship.

A business firm reduces expenses on advertising and increases expenses on customer care in order to develop a relationship and hence buy customer attention.

(c) **RD helps in protecting Emotional Well being of customers**

RD plays a pivotal role in preserving the emotional well being of customer. Adequate customer care makes the customer feel important and helps them avoid deep dissatisfaction. This results in stronger bond between the firm and the customer.
(d) **RD helps the firm understand consumer psyche, tastes, and preferences better**

The long association of a business with its customers helps a business obtain adequate information relating to the customer and understand and deal better not only with a customer psyche but also shifts in their psyche if any. In addition the information also helps the business understand the state of tastes and preferences. The information advantage a business gains by acquiring these information gives it a competitive edge over its competitors.

(e) **Build trust with customer**

Relationship marketing is built on the premise of trust (Morgan and Hunt, 1994). Trust is a “willingness to rely on an exchange partner in whom one has confidence” (Moorman, Deshpande and Zaltman, 1993). The business and the customer need to enjoy a mutually beneficial relation as one should not doubt the good intention of the other.

### 2.2.4 Benefits of relationship marketing strategy to customers:

The benefit available to a customer on continuing a relationship has been documented by the German Economist W Plinke in 1989 in a German research paper titled “The business relationship as an investment”.

**Figure 4: Customer’s transaction cost vs. Duration of the business relationship**

![Graph showing the relationship between transaction cost and duration of business relationship](image)

The graph shows the transaction cost of a customer against the duration of business relationship with the respective supplier. The figure shows how the customer can take the advantage of the decreasing transaction-cost after several transactions with supplier “A”. Moreover the supplier “A” will also experience a decrease in the cost of maintaining the customer. The transmission of the advantage of the decreasing cost to the customer by the supplier can further act as an exit barrier. Further at any point of time (5 in the graph) the customer decides to shift to supplier “B”,
the switching cost (in terms of identification of competitors, evaluation of their offers, verifying their claims etc.) associated with such shift will increase the transaction cost (provided the customer can make such comparisons) and will also act as a deterrent to such shift.

Further the following extracts from established literature will establish beyond doubt the benefits available to a customer as a result of establishing a long term relation with the seller.

Howard and Sheth (1969) in their theory of buyer behavior proposed that relational exchanges reduce the cost involved in consumer search, as in “routinised response behavior”. They were also of the view that consumers look for trustworthy partners with whom to engage in relational exchange.

Morgan and Hunt in their “commitment-trust” theory of Relationship Marketing (1994) identified “relationship benefits” as a key reason for engaging in relational exchange. It is a common belief that trust is a premise on which (customer-vendor) relationship is built. It is believed that trust reduces the risk associated with relational exchange as trust is the other name of reliability, integrity and competence of relational partners. They also proposed that the consumers will enter into relational exchange only with firms they consider as socially responsible.

Sheth and Parvatiyar (1995, p256) also proposed that consumers engage in relational market behavior to achieve greater efficiency in their decision making, to reduce the task of information processing, to achieve more cognitive consistency in their decisions, and to reduce the perceived risks associated with future choices. It may be noted that the focus is on obtaining “greater efficiency”.

Bagozzi (1995, p 273) maintains that the most common and determinative motive for entering a marketing relationship is that consumers see the relationship as a means for fulfillment of a goal to which one had earlier and perhaps tentatively committed. That is, people have goals to acquire a product or use a service, and a relationship then becomes instrumental in goal achievement. He stressed that, for many consumers, “moral obligation” and “moral virtues” play an important part in motivating relational exchange.

Vargo and Lasch (2004, p,15) evaluated marketing’s evolving “dominant logic” where the “focus is shifting away from tangibles and toward intangibles, such as skills, information, and knowledge, and toward interactivity and connectivity and ongoing relationships.” As far as to why the consumers engage in relational exchanges with firms, the dominant logic “implies that the goal is to customize offerings, to recognize that the consumer is always a co-producer, and to strive to maximize consumer involvement in the customization to better fit his or her
needs” (Vargo and Lasch, 2004, p. 12). Hence engaging in relational exchange is for the mutual benefit of both the consumer and the business. While the business’s consumer search becomes easier, the consumer gets goods and services which are customized to his needs, wants, tastes, and preferences.

As a corollary of the discussion, one point necessarily arises, that relationships have a greater role to play in the competitive business world of today and more so in services marketing.

In summary it can be said the specific benefits included in a relational exchange between a consumer and a business are:

(i) The belief that a particular partner can be trusted reliably, competently, and to non-opportunistically provide quality market offerings.
(ii) The partnering firm shares values with the customer.
(iii) The customer experiences decreases in search costs.
(iv) The customer perceives that the risk associated with the market offering is lessoned.
(v) The exchange is consistent with moral obligation.
(vi) The exchange allows for customization that results in better satisfying the customer’s needs, wants, tastes, and preferences.

2.2.5 Relationship marketing vs. Traditional marketing

C. Gronroos (1991) introduced the idea of ‘marketing strategy continuum’ which is illustrated in the figure 5 below. The continuum proposed the marketers of consumer packaged goods at one end of the spectrum while the marketers of service firms at the other end. The reason for the two being placed at the two ends is the fact that the manufacturers of consumer goods inspite of having large markets have limited or no direct contacts with the customers but the service firms always have direct and immediate contacts with the customers on a regular basis.

Gronroos contended that the Services sector, placed at one end of the continuum uses Relationship marketing strategy which focuses on building relationships with customers (and other parties as well although the present study concentrates on buyer-seller relationship) to achieve their goal. While the firm selling consumer goods, who are at the other end of the continuum, uses transaction marketing strategy, where the focus of marketing is purely on one transaction at a time. Hence the time perspective is shorter for the transactional marketing, the unit of analysis being a single market transaction from which profit is expected to follow. While
in Relationship Marketing the time perspective is much longer, the belief being, longer the bond more the profit/benefit.

The firms pursuing transaction type strategy have a short-term focus and concentrates on the traditional marketing mix approach or the four P model (Product, Place, Price, Promotion) as the theory was designed at a time when selling of consumer goods was the dominant feature of the markets. But the aforementioned theory has limited applicability for service firms who have a long-term approach and for whom the interactive marketing function plays a more vital role.

Gronroos opined that price is a vital issue for firms pursuing traditional marketing, as the customers respond negatively to even a small increase in price. Whereas customers of the firms practicing relationship marketing strategy are less price sensitive. The buyers in this case get relationship benefits in addition to the product by virtue of the relationship ties with the sellers, and such benefits are certainly an additional takeaway apart from the service.

The Nordic School of services recommends two dimensions of customer perceived quality. The technical dimension is dealing with what the customers receive in form of products while the functional dimension is about the customers’ perception of their interaction with the sellers. The technical dimension is predominant in the transactional marketing approach where the manufacturers have no or minimal contact with the customers but in relationship marketing the functional dimension grows in importance, as the customer interface is broader and the firms provide added value of various types like technical, information, knowledge, social etc.

Customer satisfaction is a vital issue in both the transactional and relationship marketing spectrum. In the latter situation the firms can build up an on-line real-time information system to monitor customer satisfaction, which is difficult, expensive and at times impossible to gather for traditional marketing practitioners.

The success of firms implementing interactive or relationship marketing strategy depends on the collaboration of all sections of the firm taking care of customers in order to provide them with total satisfaction. This type of concerted effort is not available in case of organizations choosing transaction type strategy where it is the job of the marketing and sales personnel to perform the marketing function.

As compared to transaction approach which is totally dependent on external marketing, relationship oriented approach believes in total market function. Gronroos believed that if internal marketing is neglected external marketing suffers and may even fail to bring desired result. The concept of internal marketing states that “the internal market of employees is best motivated for service mindedness and customer-oriented performance by an active, marketing-
like approach, where a variety of activities are used internally in an active, marketing like and coordinated way” (Gronroos, 1990).

A comparative study of the Relationship Marketing with the Transactional Marketing is also presented in the diagram below adapted from the article by C Gronroos.

**Figure 5: Comparative study of Relationship Marketing and Transactional Marketing**

<table>
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<th>The strategy continuum</th>
<th>Transaction marketing</th>
<th>Relationship marketing</th>
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<td>-Time perspective</td>
<td>-Short term focus</td>
<td>-Long term focus</td>
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<tr>
<td>-Dominating marketing</td>
<td>-Marketing mix</td>
<td>(supported by marketing mix activities)</td>
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<tr>
<td>function</td>
<td></td>
<td></td>
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<tr>
<td>-Price elasticity</td>
<td>-Customers tend to be more sensitive to price</td>
<td>-Customers tend to be less sensitive to price</td>
</tr>
<tr>
<td>-Dominating quality dimension</td>
<td>-Quality of output (technical quality dimension) is dominating</td>
<td>-Quality of interactions (functional quality dimension) grows in importance and may become dominating</td>
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<tr>
<td>-Measurement of customer satisfaction</td>
<td>-Monitoring market share (indirect approach)</td>
<td>-Managing the customer base (direct approach)</td>
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<tr>
<td>-Customer information system</td>
<td>-Ad hoc customer satisfaction surveys</td>
<td>-Real-time customer feedback system</td>
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<tr>
<td>-Interdependency between marketing, operations and personnel</td>
<td>-Interface of no or limited strategic importance</td>
<td>-Interface of substantial strategic importance</td>
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<tr>
<td>-The role of internal marketing</td>
<td>-Internal marketing of no or limited importance to success</td>
<td>-Internal marketing of substantial strategic importance to success</td>
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<tr>
<th>The product continuum</th>
<th>Consumer packaged goods</th>
<th>Consumer durables</th>
<th>Industrial goods</th>
<th>Services</th>
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Another comparative study between the traditional marketing and relationship marketing adapted from J Egan’s “Relationship Marketing” (2008) is reproduced below. The comparison is
based on the belief that each customer is at different stages of relational development as developed by Dwyer et al (1987), Payne et al (1995) and Philip Kotlar (1997).

Dwyer et al. (1987) suggested five-stage model where each phase represents the different stages that a customer is in.

“Awareness” is the first stage where one party feels that the other party can be a “feasible exchange partner”. Although interaction is yet to take place but there may be “positioning” by the parties.

“Exploration” is the “research and trial” stage. Partners at this stage start considering obligations, benefits and burdens of the exchange.

“Expansion” is the stage of beginning of interdependence of the partners on each other. The phase is witness to continual increase in benefits offered and accepted by each other.

“Commitment” is the period when the parties vow to continue their relation in future.

“Dissolution” is the final stage of disengagement between the buyers and sellers that marks the termination of relationship.

**Figure 6: Comparative study 2 of Relationship Marketing and Transactional Marketing**

According to Payne et al (1995) the relationship starts as ‘Prospects’ who are yet to tie a bond with the firm but are most likely to, whom Kotlar called ‘Suspects’. Again Payne proposed that ‘Prospects’ will become ‘Customers’, while Kotlar foresaw ‘Prospects’ to become ‘First-time customers’ and finally to ‘Repeat customers’. However the final four stages of both the legendary marketing theorist are same viz. ‘Clients’ whose association with the organization are stronger than ‘Repeat Customers, ‘Advocates’ whose word-of-mouth recommendation is vital tool for a firm to prosper, ‘Members’ who are not only customers but designer, developers and marketers of the product, and finally ‘Partners’ who make themselves part of the product and value creating process of the organisation.

One thing is clear from the three models that while the traditional marketing strategy end with the sale, role of relationship marketing strategy extend beyond that and promote long term bond/association between the buyer and the sellers.

Philip Kotlar in an article titled “It’s time for total marketing” published in Business Week Advance, Executive Brief, vol. 2, 1992 wrote “companies must move from a short-term transaction-oriented goal to a long-term relationship-building goal” and that move has been made by most of the organizations today.

2.3 SUMMARY

The chapter has placed the concept of Relationship marketing in proper perspective. The growth of marketing both in terms of theory and practice have been deftly dealt with. The journey from the time of direct marketing of pre industrial revolution days to present days when development of relation among the buyers and suppliers is the dominant feature of marketing, have been graphically presented. The researcher has also surveyed various established literature to adequately highlight definition and nature of relationship marketing. Further the advantages of Relationship Marketing from the perspective of the firm and customer are presented for in-depth clarification of the topic. Finally a comparison between the two extreme forms of marketing viz. Transactional Marketing and Relationship Marketing is presented for better understanding of the evolution of marketing.


