Evolution of Relationship Marketing

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Changing customer needs, increased competition, and a service-oriented economy are making companies rethink their marketing strategies. Businesses are increasingly adopting relationship marketing as a strategy to acquire and retain customers. This paper looks at the emergence of relationship marketing as a major field in the 1980s, important contributions made to relationship marketing, and identifies directions for future research.

This paper is divided into five major sections. The introductory section presents details of the economical and technical changes that have transformed selling from transaction-based activities to relationship development. Second, the notion of relationship marketing in the marketing continuum is discussed. Third, the significant contributions to the development of relationship marketing will be presented. The fourth section discusses the future of relationship marketing. Finally, some potential areas for research are presented.

Growing service orientation of the economy, technological developments, and changing buying processes have influenced the nature of selling from a hard sell to a soft sell approach (Jolson 1997). Firms have changed the emphasis from transaction based selling to relationship-based marketing (Jolson 1997). The forces that are shaping international business and marketing strategies include technology advances, greater adoption of information technologies in business operations, and globalization of the economy with increasing borderless trade and regional integration (Sheth 1992). The Western economy is distinctly becoming information and service oriented (Gronroos 1988) and products are becoming more complex, requiring increased technical support and after-sales service. Services have become the primary sector of the world’s economy, accounting for approximately 64% of the world’s 1999 gross domestic product (GDP) (Central Intelligence Agency). The 30 members of the Organization for Economic Cooperation and Development (OECD), which represent the World’s larger economies, experienced an average increase in service sector participation of 8.3% between the years 1990 and 2000 (OECD 2002). Marketing activities are becoming multi-exchange functions with multiple customer transactions.

Internet has taken over most of the functions of simple exchange-based transactional selling (Graham 1999), such as communication of information and product offerings. This has compelled companies to rethink their strategy regarding effective selling methods, composition of sales force and sales functions. Traditional transaction-oriented sales forces were not expected to be cost competitive with the Internet. Interestingly, with the advent of the Internet, contacting the customer has never been easier but making the right customer connection has remained difficult. Getting the message to the customer does not necessarily mean that a customer connection has been made or effective communication has taken place (Sengupta et al. 2000). In the current environment, when all markets are becoming niche markets, customers increasingly want individual attention and demand products and services customized to their individual needs (Graham 1999).

The 1970s and 1980s saw relationship marketing receiving increased attention (Graham 1999). As the industrial world moved into the information age of the 1980s, the information technology and service sectors began to dominate industrial economies. During the 1980s, service firms and manufacturers began realizing that competitive position cannot be maintained just by providing a superior technical solution in the form of a product or service (Gronroos 1990a). The service industry and industrial sector, where multiple customer interactions, customization of products and services, and on-going relationship with customers are essential components of the sales process, started using relationship marketing and service quality for differentiation (Ajo 1996). Relationship marketing became a primary business strategy for competitive advantage, customer acquisition, and customer retention purposes. Reflecting these changes and the economy’s growing service orientation, relationship selling, consultative selling, and strategic selling became topics for study in the sales and marketing literature of recent years.

Relationship marketing is part of the marketing process spectrum, which emphasizes relationship maintenance and ranges from strategic partnering and alliances, to network organizations (Webster 1992). There are various definitions of relationship marketing depending on the situation. The most distinctive aspect of relationship marketing is its emphasis on the long-term perspective (Hunt 1997). Relationship marketing is defined as “the understanding, explanation, and management of on-going collaborative
relationships between suppliers and customers” (Sheth 1996, p.2). Morgan and Hunt (1994) define it as all marketing activities dealing with establishing, developing and maintaining successful relational exchanges. Yet another definition of relationship marketing states: “relationships are contacts between two or more people but they also exist between people and objects, symbols, and organizations “ (Gummesson 1996, p.33). Personalization, empathy, and development of trust are some of the key ingredients of successful relationship selling strategy. Identifying prospects, developing them as customers, and keeping them satisfied, are all part of relationship selling (Jolson 1997). Trust evolves from a buyer’s satisfaction with the supplier and depends on the development of a bond that is based upon quality of interactions, dependability, performance reliability, ability to deliver on promises made, and supplier commitment (Geyskens et al. 1998; Gronroos 1997; Parassaran et al. 1991; Selnes 1998).

Relationship marketing is used in both business-to-business and business-to-consumer product transactions, as well as, services marketing. The relationship type and intent is different in each of these situations (Fontenot 2001). Business-to-business relations are characterized by a sharing of goals and mutual benefits, wherein customers and marketers are actively involved in attracting, building, and managing mutual relationships (Fontenot 2001). Business-to-consumer marketing does not have the same relationship mutuality balance (Fontenot 2001). In a successful buyer-seller relationship that is dependent on seller’s ability to meet the unique needs of customers, communication, coordination, planning, degree of sharing, and accommodation are considered the key factors (Spekman 1988).

Relationship selling to meet customized requirements has become an accepted norm in the service and the industrial goods sectors. This customization feature of industrial product sales sets it apart from consumer products where such special needs and the need for on-going service contacts are not routine (Aijo 1996). Transaction oriented selling could still be applicable for packaged consumer goods with standard features and low margins. Even here, salesperson’s role is changing from that of product information communicator to that of service provider and coordinator of transactions between buyer and seller. Sellers who survived the supplier reduction and still bank on transaction oriented selling have experienced decreased margins due to increased demand by buyers for free services and price discounts (Rackham 2000).

**RELATIONSHIP MARKETING IN THE MARKETING CONTINUUM**

The definition of marketing and the emphasis on different aspects of marketing has evolved since the beginning of the 20th century. The transformation over a period of time reflects changes in the economy, technology, and the changing customer needs and preferences. Marketing image and approach changed from a social and economic process to managerial approach in 1950s and 1960s with emphasis on marketing mix (Webster 1992). Under this approach, centralized marketing functions and strategic business units developed strategies that used alliances to effectively compete in the global market (Webster 1992). Even though aspects of relationship marketing were used in sale of complex products, services marketing concepts that started attracting growing interest in the mid 1970s provided a neat forte for relationship marketing because of its emphasis on long term relationships and repeated multiple transactions (Gummesson 2000).

**Marketing Mix for Profit Maximization**

In the early 1900s, marketing was seen as a social and economic process to move farm products to consuming points. The emphasis was on commodities and institutions that brought buyers and sellers together. Market transactions were viewed as the central subject of marketing by the commodity school of marketing thought. The regional school of thought saw marketing as a set of economic activities designed to bridge the spatial gap between buyer and seller (Webster 1992).

Since the late 1950s and 1960s, the managerial marketing school of thought with concepts such as marketing mix, product life cycle and emphasis on profit maximization, dominated the market literature and practice (Gronroos 1996). The emphasis became product planning, pricing, promotion, and distribution to create satisfied customers who in turn were expected to help generate revenue and profits. Marketing was defined as “performance of business activities that direct the flow of goods and services from producer to consumer or user in order to best satisfy consumers and accomplish firms’ objectives” (McCarthy 1960, p. 33). Marketing activities centered on identifying customer product needs, forecasting demand for these products, and ensuring deployment of optimal marketing mix. Advertising and promotion were used to generate demand for these standard products (Webster 1992). It can be derived that the adversarial approach and the transactional orientation inherent in the marketing mix approach did not allow for development of a trustworthy relationship with the customer (Gronroos 1997). Neither did this approach allow the firm to customize its offerings to meet the growing demand for services and to build enhanced value around core products. Marketing mix became an unquestionable paradigm in academic research and overshadowed competing thoughts for a long time (Gronroos 1997).

In the marketing continuum described by Webster (1992), transactional sales are defined as discrete market based transactions with product price reflecting all information about the product. “Price, established in the competitive market place contains all of the information necessary for both parties to conclude the exchange.”
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(Webster 1992, p. 6). This selling activity is independent of all other activity and is guided solely by the price set in the marketplace. In view of this, there is no brand name, no customer recognition by the seller, no loyalty on the customer's part and thus no preference for a particular product or seller (Webster 1992). In repeated transactions for branded consumer packaged goods or industrial products, advertising and sales promotion were seen as key activities to create product differentiation and brand loyalty. Relationship was present and valued in industrial transactions as a way of making transactions more efficient. There were some basic element of trust and credibility present in the transaction. However, no meaningful ongoing relationship existed between buyer and seller in the case of branded products, even in the industrial sector (Webster 1992). Market conditions alone determined prices.

From an organizational perspective, large hierarchical organizations, dominant in 1950s, started looking at forming strategic business units in the 1960s and 1970s with a special focus on strategic planning. With globalization of business activity and increased competition, companies increasingly realized the need for partnership between themselves and suppliers (Webster 1992). Formation of buyer/supplier long-term relationships started gaining strategic importance. Buyers and sellers both had to deal with technically complex products in multiple markets across different geographic locations. This resulted in relationship development through partnering, networks, and alliances (Webster 1992) between firms, particularly in the industrial sector, for the development and manufacturing of sophisticated weapon systems, computers, heavy construction equipment and systems.

Emergence of Relationship Marketing

Leonard Berry introduced the term "relationship marketing" in 1983, but it was not commonly used in the United States until the late 1980s. Christian Gronroos and Evert Gunnesson are two academicians from Europe who challenged the prevailing marketing mix paradigm and proposed that practitioners should feel free to consider other strategies based upon context and situation. They felt that relationship marketing was more suited to the new economy dominated by information technology and a growing service emphasis. Gronroos (1997) agreed that relationship marketing as an alternate approach to mass marketing, which is based on management of marketing mix, emerged in Europe in the 1970s and spread to other parts of the Western World.

Global competition and quest for market share moved sellers, vendors, and customers to form long-term relationships and resulted in greater interdependence. The automobile industry first started developing relationships with vendors for auto parts to ensure quality and to minimize inventory costs. Other industrial giants such as GE, IBM, and Du Pont also used this practice. Strategic alliances and joint ventures represent increased inter-firm cooperation, shared objectives, commitment-based reciprocity, and ownership positions in each other (Webster 1992).

Thus, marketing that focused on bringing buyers and sellers together at the dawn of the 20th century transformed itself with the changing environment to suit the new market realities. Trends such as globalization of trade, a service economy, and a competitive marketplace are all reflected in the increased long-term relationship emphasis, development of partnering, and a reduction of buyer-seller adversarial relations. In relationship marketing, negotiations centered on mutual dependence determine prices and is not solely dependent upon market forces. Product quality, technical support and reliable delivery play significant roles in buying decisions and the continuation of buyer-seller relationships.

SIGNIFICANT CONTRIBUTIONS TO THE EVOLUTION OF RELATIONSHIP MARKETING

Relationship marketing, based on the trust and collaborative non-adversarial approach, began to be noticeable in market research and practices during the late 1970s (Gronroos 1999). With the service economy growth, transaction oriented marketing based on marketing mix and hard sell began to make way for the soft sell approach and its focus on long-term relationships and relational transactions (Jolson 1997). Among the numerous factors that contributed to the emergence of relationship marketing as a major strategy, the role played by cost considerations, product complexity, services marketing, and marketing process considerations in shaping relationship marketing strategies is now discussed.

Cost Perspective

In a competitive market, both buyers and sellers look for cost effective methods in business transactions. In the 1960s, the managerial marketing function focused on marketing mix, acquiring new customers, and market share and had minimal regard for customer opinion of the products sold (Berry 1995). In the industrial sector, because of product complexity and relatively higher sale value, personal selling was the preferred method. However, with increased competition, sellers began to notice the high cost of personal selling and the need for more effective selling methods and a better return on their efforts (Reinartz and Kumar 2000). Studies underlined the need for organizations to manage costs in the face of increased personal selling costs (Wotruba 1980).

Firms realized that it cost less to serve long-term customers; profits increase over time with lifetime customers, and long-life customers are willing to pay higher price (Reinartz and Kumar 2000). Cost benefit analysis of the customers pointed out the significant savings and
benefits of relationship marketing in retaining customers (Fisk et al. 1993). To succeed in the new environment of sophisticated buyers, salespeople had to both develop a new awareness of customer needs for products and services and adopt new selling styles (Wotruba 1980). Firms were starting to become selective in their hiring; the selling function in industrial applications was becoming increasingly professional and managerial due to the function's strategic importance. Sales of expensive industrial goods required development and nurturing of account relationships (Shapiro and Posner 1976). Sellers also realized that buyers placed high value on the strength of existing relationships in evaluating the impact of switching (Jackson 1985; Sharma and Patterson 2000). Buyers and sellers realized relationship development served both parties. Relationship marketing understands the value of current customers and the need to continue to provide excellent services to keep them loyal (Fisk et al. 1993).

Complexity of Products and Services

Practitioners noticed the growing importance of relationship marketing in complex product and service transactions and started using relationships in their resource allocation decisions (Levitt 1981). The level of complexity associated with high technology products and the inherent perceived risk demands buyer-seller relationship based on long term commitment and mutual trust (Ruyter et al. 2001). In decisions involving high buying decision complexity, customers tend to rely on external sources, which could be the supplier, based on the credibility and trust developed over a period of time (Patterson et al. 1997). Relationships become critical when a product or service is complex, specific to customer need, and requires a continuous transaction stream over time (Levitt 1981). Salespeople in critical service situations have to adopt conflict management skills and effectively manage for every service encounter (Bittner 1999; Bittner 2003). They become market analysts, planners and advisers to customers and are able to readily shift from hard selling to soft selling (Sujan et al. 1994). Service marketing and complex products also require ongoing effort in reselling. For technologically complex products, communication and ongoing relationship with the buyer at both individual and group levels was considered essential (Levitt 1983). Given the criticality of the ongoing service and consulting needs of complex products, sellers had to focus not just on making a sale but also on ensuring that appropriate service is rendered after the sale to keep the customer satisfied, happy and loyal in a competitive market (Wilson et al. 1999).

Growing Emphasis of Services Marketing

The importance of the service sector contributes to the increased interest in services marketing (Caruana et al. 1999). Service marketing has high human content and has reliability, responsiveness, intangibility, assurance and empathy as primary dimensions of quality (Parasuraman et al. 1985; Parasuraman et al. 1991). Increased frequency of customer contact with periodic reassurances of service reliability, was a key factor in retaining the customer, as well as, developing new business in services marketing (Levitt 1981). Effective relationship selling is most critical for services because of the greater involvement of people and the simultaneous production and delivery of services with active customer participation in the processes (Parasuraman et al. 1991). Because of the active role played by both buyers and sellers and the critical importance of human interaction in service delivery, the traditional sales approach was not effective in service situations (Solomon et al. 1985). Quality of interaction determines customer satisfaction (Solomon et al. 1985). Levitt (1981) highlighted the importance of developing and managing relationships in service marketing to address the perceived uncertainty faced by the buyer of an intangible entity such as service.

Service marketing is an area where relationship marketing finds its strongest followers given the intangibility of the service, customer involvement, nature of repeated transactions and customer’s desire for an on going relationships (Parasuraman et al. 1991). The relationship marketing area grew quickly in response to ongoing service encounters and continuous transactions with people. As the service industry started maturing, service quality was relied upon as a differentiator, which provided new momentum to the relationship marketing strategy (Berry 1995; Homburg et al. 2002a). Technological advances and increased recognition of the benefits of relationship marketing by marketing practitioners are also credited for the growing interest in relationship selling (Berry 1995).

Marketing Process

Firms are realizing the importance of multiple transactions and frequent communications even with the loyal customers as part of customer retention and as well as for developing new business. Relationship marketing can be explained as an interactive process where relationship building is the key, unlike the transacational approach as implied by the 4 Ps in the marketing mix, where sellers actively push products on to passive buyers (Gronroos 1994). To ensure customer loyalty and encourage repeat purchases, firms have to keep the promises made, improve two way information flow, provide high degree of customization, and maintain a strong involvement with different levels of buying organizations (Gronroos 1991). These characteristics distinguish relationship marketing from single exchange based transaction selling. Gronroos (1997) defines relationship marketing as the process “to establish, maintain and enhance relationships with customers and other partners, at a profit, so that the objectives of all parties involved are met. This is achieved by a ‘mutual exchange and fulfillment of promises’
(Gronroos 1997, p. 327). The importance of trust in relationship development is emphasized (Morgan and Hunt 1994) because a salesperson in relationship selling is prepared to accept short term losses. While exchange was a predominant part of the definition of marketing, promise fulfillment as part of the marketing process, was not considered directly by earlier researchers.

Team selling has become critical strategy in business-to-business marketing where salespeople are required to demonstrate better knowledge of customer business to provide a consistent and superior service to customers (Homburg et al. 2002b). With rising customer expectations, salespeople will increasingly assume the role of consultants to solve customer problems, gather information on customer needs and preferences, and cross sell additional services (Fisk et al. 1993). Team selling requires internal marketing and relationship development within different parts of the company (Perry et al. 1999).

The change of focus from making a sale to developing a loyal repeat buyer, the emergence and growth of services marketing, and the increased use of high technology products in the knowledge based economy have all contributed to the establishment of relationship marketing as the key strategy for firms. The increased emphasis on quality and cost control in globally competitive economy has resulted in both buyers and sellers positioning relationship marketing as a strategy for today and tomorrow.

FUTURE OF RELATIONSHIP MARKETING

By the early 1990s, business-to-business marketers looked at relationship marketing as an important strategy for business success (Evans and Laskin 1994; Perrien et al. 1995) and survival in the new global economy. Globalization of trade, maturing markets, increased customer knowledge, growing buyer sophistication, demand for individualized treatment, increased domestic and global competition, and technological development are some of the reasons relationship marketing has become a new paradigm for the 1990s (Gronroos 1999).

While the marketing mix concept introduced in the 1960s and transactional approaches have been helpful, changing markets and market conditions have made relationship selling inevitable for future global marketing efforts. Applicability of marketing mix could still be very appropriate for consumer packaged goods in markets with huge demand, highly commercialized mass media and well developed and highly competitive distribution systems (Gronroos 1997). This is generally true in the North American and possibly some European markets, but not so in other markets around the world. Blind application of marketing mix for developing a marketing strategy based on the North American experience in other markets could be questionable (Gronroos 1990b). Marketing has become a function built around relationships; some narrow and others broader in scope, with a growing need to develop a service culture within companies (Gronroos 1990a). This approach, which depends upon the establishment of long-term customer relations and customer wants, as opposed to what the company can conveniently provide, is critical for service applications and for markets both inside and outside US (Gronroos 1990b).

Buyers who rate salespeople high on performance also rate companies or suppliers high on performance ratings (Lambert et al. 1997). Higher customer satisfaction also increases the probability of repurchase and lowers selling cost. Positive evaluation of business salespeople by their customer is becoming an important component of an employee’s evaluation and compensation program. For example, IBM’s sales force compensation system bases 40% of incentives on customer ratings (Lambert et al. 1997). The importance of customer relationship is becoming clearer as more firms are including customer evaluation of their salespeople in the performance evaluation process (Lambert et al. 1997).

Given its importance in service management, relationship-marketing efforts should be considered as an investment in customers (Gronroos 1994). Services marketing has long understood the merits of developing long-term relationships for sustained profitability compared to short-term deals and campaigns. With growing international operations, industries are forming global partnerships and alliances (Gronroos 1995). Nature of the service business does not allow firms to apply pure transaction strategy even in highly standardized service operations and mandates investment in interactive information systems for efficient operations (Gronroos 1995).

Boundaries between internal and external marketing are becoming less clear with a relationship marketing focus. The concept of imaginary organizations presented by European researchers believes that participants (customers, employees and stakeholders) cannot be separated from their environment (Gummesson 1996). The boundaries between internal and external customers have dissolved as these two groups interact in a network of relationships. For Gummesson (1998) a relationship is not only an interaction between customer and supplier but also the relationship of the buyers with their suppliers, competitors and middlemen. Every one of these relationships (internal and external) becomes market relationships. In service encounters, successful performance is based on the entire organization’s ability to gear towards developing a long-term customer relationship (Gummesson 1998).

Relationship marketing has become an integral part of industrial selling and business-to-business marketing (Evans and Laskin 1994). Firms are looking at innovative ways to build relationships, add value, and develop long-term mutually beneficial relationships. Providers of relationship selling believe that they work along with customers, and competitors if required, in resolving customer problems. Large companies are reducing their supplier base, asking vendors to help them in this reduction
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This paper looked at contributions to relationship marketing development of only a few of the key areas such as cost, services marketing and processes given their importance in the competitive global market place. Future research could identify the impact of information technology and Internet on relationship marketing. Different firms with the intent of meeting corporate objectives are adopting relationship management. Given the breadth and variations in relationship selling, a meta-analysis of successful relationship marketing practices could be useful for the empirical development (Farley et al. 1995). There are concerns that the relationship-selling concept is exaggerated and portrayed as a panacea for all problems facing organizations. An empirical study of corporate experiences over the last fifteen years could describe the benefits, as well as limitations, of the relationship marketing approach. Furthermore, this research could address some of the gaps in the current literature.

With the US economy’s globalization, US firms are moving into markets that are collectivistic, such as China, India and countries in Latin America and are increasingly using relationship marketing in their international operations. A study of the impact of cultural (Deshpande et al. 1993) differences on strategies for relationship management, values, and subsequent impact on corporate culture would add to the knowledge base in relationship marketing. Relationship-selling practices that are culturally consistent in some cultures or countries may cross ethical boundaries set by US standards.

Human resources policy and procedure to hire, train and promote employees involved in relationship sales could vary depending on the size of a firm, type of business, culture of an organization and country of operation. While there may not be gender bias in selection of employees in the US, this might be different in cultures with pronounced gender bias and could influence employee-hiring practices for relationship marketing efforts. A mapping of optimal skill sets for different types of relationship selling could be interesting.

There is a widespread use of consultative selling in most service industry sectors. In financial segments, a financial advisor’s advice becomes the primary basis for differentiation (Mackillop 2000). Many in the banking industry believe that consultative selling is about building relationships, trust, and demonstrating expertise as the basis before moving on to selling of products and services (Dalton 2001). Consultative selling is considered a new wave in selling and had different names such as need-oriented selling, client-oriented selling and service management. “Instead of being mere purveyor of products salespeople become listeners, strategists, and problem-solvers who possess as much knowledge of their clients business, as they do their own” (Bragg 1986, p. 82). Consultative selling is all about creating selling partnerships and does not happen overnight (Smith 1991). But closing a sale in consultative selling could be smooth and mutually rewarding experience for both buyer and seller (Smith 1991). By the time to close a sale arrives, the salesperson has a good understanding of the buyer and business, has discussed the business problems and goals, and through discussion and mutual consultation has developed a game plan to achieve these objectives. Future research could identify the distinct features of relationship selling techniques versus consultative selling techniques in actual practice.

Relationship marketing practices are becoming industry norms for success in this global market. Globalization of trade, competitive market place, technological advances, and changing customer needs are making companies seek long-term relationships and alliances with customers, suppliers, and firms to ensure growth and profitability.

REFERENCES


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