CHAPTER 1
Introduction

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- describe how marketing management is placed in the overall company strategy
- compare and discuss the differences and similarities between the traditional (transactional) marketing approach and the relationship marketing approach
- explain what implications the relationship marketing approach has on the traditional (transactional) marketing mix (the four Ps)

1.1 INTRODUCTION

This chapter introduces marketing management in a relationship approach. The chapter contrasts the traditional **(transactional) marketing (TM)** concept with the **relationship marketing (RM)** approach. The marketing management process is introduced in the form of a hierarchical planning model.

Transactional marketing (TM)
The major focus of the marketing programme (the 4 Ps) is to make customers buy. Independence among marketing actors ('arm's length') is considered vital for marketing efficiency.

This book will bridge the gap between the traditional **marketing planning** approach and the 'new' relational marketing (RM) approach.

This chapter will start by discussing where the marketing management strategy is placed in the overall company strategy. The book is structured (Figure 1.1) according to the hierarchical marketing management process.

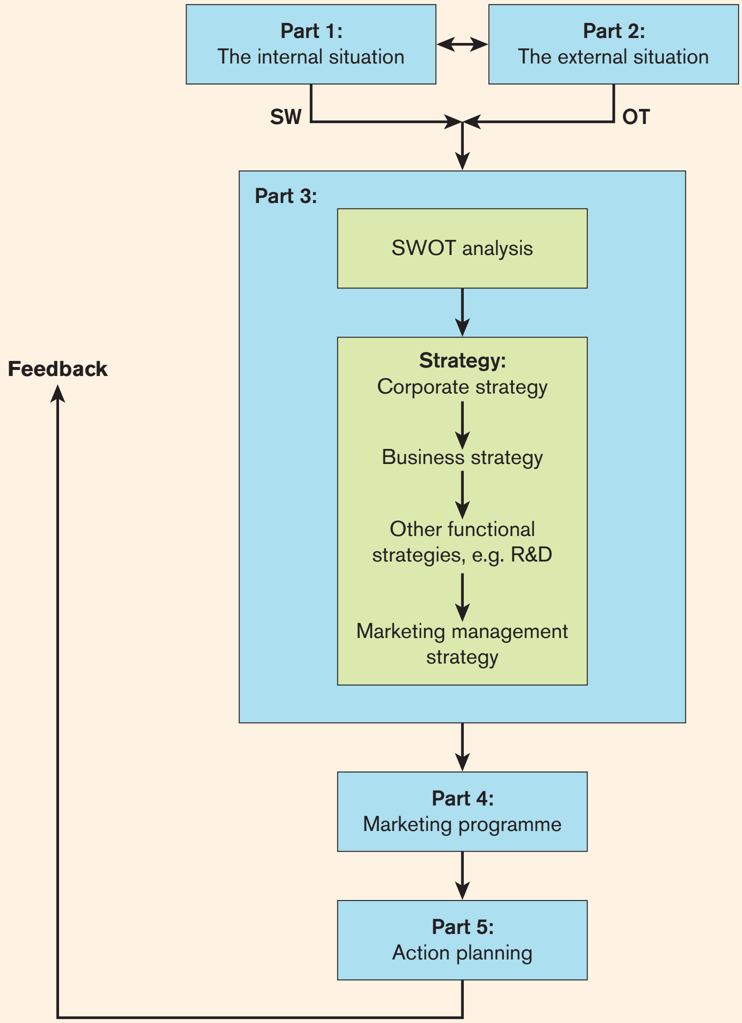

Figure 1.1 Structure of the book in relation to the hierarchical marketing management process

1.2 THE MARKETING MANAGEMENT PROCESS

Marketing plan
A marketing plan is a written document that details the necessary actions to achieve the company's marketing objectives. It can be for a product or service, a brand or a product line. Basically a marketing plan describes the marketing activities of a company in order to produce sales at the customer level. Marketing plans cover between one and five years. A marketing plan may be part of an overall business plan.

Though it is not always the case, the starting point for the marketing management process and the **marketing plan** should be the corporate strategy.

Marketing strategy

Although marketing strategy first became a popular business buzzword during the 1960s, it continues to be the subject of widely differing definitions and interpretations. The following definition, however, captures the essence of the term:

> A marketing strategy is a fundamental pattern of present and planned objectives, resource deployments, and interactions of an organization with markets, competitors and other environmental factors.

This definition suggests that a strategy should specify what (objectives to be accomplished), where (on which industries and product markets to focus) and how (which resources and activities to allocate to each product/market to meet environmental opportunities and threats) in order to gain a competitive advantage.

Rather than a single comprehensive strategy, many organisations have a hierarchy of interrelated strategies, each formulated at a different level of the firm. The three major levels of strategy in most large, multi-product organisations are:

1. corporate strategy
2. business-level strategy
3. functional strategies, e.g. marketing strategy.

In small, single-product companies, corporate and business-level strategic issues merge.

Our primary focus is on the development of marketing strategies and programmes for individual product-market entries, but other functional departments – such as R&D and production – also have strategies and plans for each of the firm's product markets. Table 1.1 summarises the specific focus and issues dealt with at each strategy level.

The traditional strategy literature operates with a *hierarchical* definition of strategic marketing management. The terms mission and objectives all have specific meanings in this hierarchical definition of strategy and strategic management.

Mission and vision

The corporate mission can be considered as a brief statement of the purpose of the company: what the organisation is and what it does ('Who are we?').

The mission of Coca-Cola is:

> Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions.
>
> - To refresh the world . . .
> - To inspire moments of optimism and happiness . . .
> - To create value and make a difference.
>
> *Source*: www.thecoca-colacompany.com.

The mission statement may change if the company outlives the industry it started in, but it should still tie back to the core values. Example: 'Google's mission is to organize the world's information and make it universally accessible and useful.'

Ideally, the definition could cover Abell's three dimensions for defining the business: customer groups to be served, customer needs to be served, and technologies to be utilised (Abell, 1980).

A vision statement is what the enterprise wants to become ('Where do we wish to go?'). The vision is a description of the company's 'desired future state'. Thus the company may create a vision statement describing the organisation as it would be like in, say, ten or more years. Note the emphasis on the future; the vision statement is not true today. Rather, it describes the organisation as it could become – in the future.

A vision statement should build enthusiasm. It should provoke inspiration. It should stimulate people to care. It should 'rally the troops to action'. That is what President Kennedy accomplished with the vision statement he offered in early 1961. Kennedy said:

> I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon, and returning him safely to earth.

The vision of Coca-Cola is:

> Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.
>
> - *People*: Be a great place to work where people are inspired to be the best they can be.
> - *Portfolio*: Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.

Table 1.1 Different planning levels in the company

Strategy components	Corporate strategy	Business strategy	Marketing strategy
Scope/mission	Corporate domain – which businesses should we be in?	Business domain – which product markets should we be in within this business or industry?	• Target market definition • Product-line depth and breadth • Branding policies
Strategy	Corporate development strategy • Conglomerate **diversification** (expansion into unrelated businesses) • Vertical integration • Acquisition and divestiture policies	Business development strategy Concentric (new products for existing customers or new customers for existing products)	• Product-market development plan • **Line extension** and product elimination plans
Goals and objectives	Overall corporate objectives aggregated across businesses • Revenue growth • Profitability • **Return on investment (ROI)** • Earnings per share • Contributions to other stakeholders	Constrained by corporate goals Objectives aggregated across product-market entries in the business unit • Sales growth • New product or market growth • Profitability • ROI • Cash flow • Strengthening bases of competitive advantage	Constrained by corporate and business goals Objectives for a specific product-market entry • Sales • Market share • Contribution margin • Customer satisfaction
Allocation of resources	• Allocation among businesses in the corporate portfolio • Allocation across functions shared by multiple businesses (corporate R&D, MIS)	• Allocation among product-market entries in the business unit • Allocation across functional departments within the business unit	Allocation across components of the marketing plan (elements of the marketing mix) for a specific product-market entry
Sources of competitive advantage	Primarily through superior corporate financial or human resources; more corporate R&D; better organisational processes or synergies relative to competitors across all industries in which the firm operates	Primarily through competitive strategy; business unit's competences relative to competitors in its industry	Primarily through effective product positioning; superiority on one or more components of the marketing mix relative to competitors within a specific product market
Sources of synergy	Shared resources, technologies, or functional competences across businesses within the firm	Shared resources (including favourable customer image) or functional competences across product markets within an industry	Shared marketing resources, competences, or activities across product-market entries

Diversification
The market and product development strategy that involves expansion to a relatively large number of markets and products.

Line extension
Using a successful brand name to introduce additional items in a given product category under the same brand name, such as new flavours, forms, colours, added ingredients or package sizes.

Return on investment (ROI)
A common measure of managerial effectiveness – the ratio of net profit to investment.

- *Partners*: Nurture a winning network of customers and suppliers, together we create mutual, enduring value.
- *Planet*: Be a responsible citizen that makes a difference by helping build and support sustainable communities.
- *Profit*: Maximize long-term return to shareowners while being mindful of our overall responsibilities.
- *Productivity*: Be a highly effective, lean and fast-moving organization.

Source: www.thecoca-colacompany.com.

McDonald's combine their mission with a vision statement:

> Our vision is to be the world's best 'quick service restaurant'. This means opening and running great restaurants and providing exceptional quality, service, cleanliness and value.
> *Source*: www.mcdonalds.com.

Objectives

Objectives in the hierarchical definition of strategy are the specific performance targets that firms aspire to in each of the areas included in a firm's mission statement. It is usually not enough for a firm just to assert that it wants to be a leader in its industry or that it wants to become a major diversified company. In addition, a firm needs to specify what it means to be a leader in its industry, what being a major diversified company means. Often, objectives are stated in financial or economic terms. Thus for one firm being a 'leader' in an industry may mean having the largest market share, but for other firms leadership might mean being the most profitable firm in the industry, having the highest-quality products, or being the most innovative. In the same way, being a major diversified company may mean unrelated diversification across a wide variety of industries for one firm and a relatively narrow product and industry focus for another. In this hierarchical definition of strategy, comparing actual behaviour with objectives is the way that managers can know whether they have fulfilled a firm's mission.

With a mission and objectives in place, a firm, according to the hierarchical definition of strategy, can then turn its attention to strategies. Strategies, here illustrated by the marketing strategy, thus become the means through which firms accomplish their objectives and mission.

Marketing plan

In most organisations strategic planning is an annual process, typically covering just the year ahead. Occasionally, a few organisations may look at a practical plan that stretches three or more years ahead. To be most effective, the plan must be formalised, usually in written form, as an identifiable marketing plan. The process of marketing management and the development of a marketing plan is no different from any other functional area of management in that it essentially comprises four key tasks.

Analysis

The starting point of marketing management decisions is analysis. Customers, competitors, trends and changes in the environment, and internal strengths and weaknesses must each be fully understood by the marketer before effective marketing plans can be established. Analysis in turn, requires information using systematic market research and **marketing information systems (MIS)**.

Marketing information system (MIS)
A system in which marketing information is formally gathered, stored, analysed and distributed to managers in accord with their informational needs on a regular, planned basis.

Planning

The second task of the manager is the planning process. The marketing manager must plan both long-term marketing direction for the organisation (strategic planning), including, for example, the selection of target markets, and the marketing programmes and tactics that will be used to support these strategic plans.

Implementation

Both strategic and tactical plans must, of course, be acted upon if they are to have any effect. The implementation tasks of marketing management involve such activities as staffing, allocating tasks and responsibilities, budgeting, and securing any financial and other resources needed to carry out the plans. Actions include activities such as placing an advert in the right media, delivering products, doing customer surveys, etc.

Control

Control
The process by which managers ensure that planned activities are completely and properly executed.

Effectiveness
Doing the right thing, making the correct strategic choice.

Marketing audit
An analysis and evaluation of the internal and external marketing environment of the company.

The fourth, and sometimes neglected, task of the manager is measuring and evaluating progress against objectives and targets established in plans. **Control** of marketing plans can be problematical, with difficulties associated with both measuring marketing performance and pinpointing cause and effect. For example, market share – a frequently used measure of marketing performance and hence a basis for marketing control – needs very careful analysis and interpretation if it is to provide a useful basis for controlling the **effectiveness** of marketing strategies and plans. Both qualitative and quantitative techniques of control should be used by the marketing manager and include budgetary control, control of marketing mix effectiveness and, from time to time, a full **marketing audit**.

In the following the strengths and weaknesses of the hierarchical approach to marketing planning will be highlighted.

Strengths of the hierarchical approach to marketing planning

The hierarchical approach has three important strengths. First, it emphasises the link between strategy and performance. Virtually all strategic management researchers, and most practising managers, are interested in the relationship between the actions taken by a firm and a firm's performance. The hierarchical definition provides explicit criteria for judging the performance quality of a firm's strategies – good strategies enable an organisation to reach its objectives and fulfil its mission; bad strategies make it more difficult for a firm to reach its objectives and fulfil its mission.

Second, this hierarchical definition focuses on the multiple levels of analysis that are important in formulating and implementing strategies. These levels of analysis vary in their degree of abstraction. Company missions are very abstract concepts. They specify what a firm wants to become but say little about how a firm will get to where it wants to go. Objectives translate missions into specific goals and targets and thus are less abstract. Strategies specify which actions firms will take to meet their objectives. Plans, the least abstract concept, focus on specific actions that need to be taken to implement strategies.

By emphasising the multiple levels of analysis in the strategic management process, hierarchical definitions appropriately emphasise the need in organisations to gather information, ideas and suggestions from all parts of the firm in order to formulate effective strategies. In this conception of strategy, each part of a firm plays an important role. Senior managers specialise in establishing missions and objectives, divisional managers specialise in strategy formulation, and functional managers focus their efforts on tactics. No one of these tasks is more important than any other. Missions and objectives will never be achieved without strategies and tactics. Strategies without missions and objectives will be unfocused. Strategies without tactics are usually not implemented. And plans without strategies or missions are not likely to improve a firm's performance.

A third strength of the hierarchical definition is that it emphasises that strategy, in order to have an impact on performance, cannot remain simply an idea in an organisation. Rather, it must be translated, through resource allocation, into action. An organisation's mission is often a statement of an idea, or a manifestation of the values, of top management. However, by itself, a mission statement is likely to have little impact on a firm's performance. Rather, this mission statement must be linked with objectives, strategies and tactics. In choosing objectives, strategies and tactics, managers must make tough decisions, set priorities and allocate resources. Firms that translate their mission into actions increase the probability that they will improve their performance.

Weaknesses of the hierarchical approach to marketing planning

The most important weaknesses of the hierarchical approach are as follows. First, it has a very underdeveloped notion of the external competitive environment's impact on strategy formulation and implementation. Mission statements summarise where the senior management want an organisation to be in the long run, but the development of these statements is encouraged to focus inward. In choosing a mission, senior managers are encouraged to look inward, evaluating their own personal priorities and values. Certainly, this kind of analysis is an important step in developing a firm's mission.

Indeed, part of this book is devoted to this kind of internal analysis. Such an analysis, however, must be linked with the external analysis (Part II) in order for firms to choose missions, objectives, strategies and thus marketing plans, that will add value to the firm.

A second weakness of the hierarchical definition is that it tends to focus, almost exclusively, on formal, routine, bureaucratic strategy-making processes. In this definition, strategic choices are made through systematic study and analysis. These analyses result in coherent, self-reinforcing sets of strategies that, taken together, lead a firm to reach its objectives and mission. There is little doubt that many organisations choose at least some of their strategies in this logical and systematic way. An enormous amount of research on formal strategic planning suggests that more and more firms are adopting explicit and formal planning systems to choose their strategies. The hierarchical definitions presented in Figure 1.1 tend to emphasise this formal, systematic aspect of choosing and implementing strategies.

SMEs
Small and medium-sized enterprises. In the EU, SMEs are characterised as having 250 employees or less. They comprise approximately 99 per cent of all firms.

Yet not all strategies are chosen in this way. Small and medium-sized enterprises (**SMEs**) choose strategies by discovering an unanticipated opportunity and exploiting that opportunity to improve performance resulting in 'emerging strategies' (Mintzberg, 1987; Mintzberg and Waters, 1985). Firms also choose strategies 'retroactively' – that is, they engage in certain kinds of behaviour over time, and then, only after that pattern of behaviour is in existence, senior managers label these actions as a coherent or consistent strategy. Some firms stumble into their strategy by chance. All these are ways that firms can choose strategies, yet none of them is consistent with the formal, systematic strategic management process presented in Figure 1.1.

A third weakness of hierarchical approaches to defining strategy and strategic management is that, despite their apparent rigour and clarity, they often fail to give significant guidance to managers when they are applied in real organisations. There are literally thousands of objectives that an organisation could choose to support any given mission statement. Which objectives a firm should choose, which should be given priority, and which should be ignored are questions that must be answered logically and with ideas that are not provided in the hierarchical definition. Moreover, there may be thousands of different strategies that firms could choose to support any given set of objectives. Which particular strategies a firm should choose goes beyond the hierarchical model.

1.3 THE TRADITIONAL (TRANSACTIONAL) MARKETING (TM) CONCEPT VERSUS THE RELATIONSHIP MARKETING (RM) CONCEPT

The American Marketing Association (AMA), an international organisation of practitioners and academicians, defines marketing as follows:

> Marketing is 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.

This definition describes what the traditional (transactional) marketing concept is: the conception, pricing, promotion and distribution of ideas, goods and services. Moreover, the definition implies a list of activities for the marketer to undertake: the planning and execution of these four elements of competition so that individual and organisational objectives are satisfied.

Another characteristic of transactional marketing is the belief that independence of choice among marketing players creates a more efficient system for creating and distributing marketing value. Maintaining an arm's length relationship is considered vital for marketing efficiency. Industrial organisations and government policy makers believe that independence of marketing players provides each player freedom to choose his/her transactional partners on the basis of preserving their own self-interests at each decision point. This results in the **efficiency** of lowest cost purchases through bargaining and bidding.

Efficiency
A way of managing business processes to a high standard, usually concerned with cost reduction.

The so-called **4Ps** are the epitome of what should be done and are also known as the marketing mix. This transactional micro-economic and teacher-friendly marketing framework is straightforward to understand and use. Indeed, in the 1950s and 1960s the 4Ps approach proved very successful. In the USA this was the era of mass manufacturing and **mass marketing** of packaged consumer goods and, because of that, marketing was often more about attracting than retaining customers.

4Ps
The basic elements of the marketing mix: product, place (distribution), price and promotion; also called the controllable variables of marketing, because they can be controlled and manipulated by the marketer.

Mass marketing
One-to-many communications between a company and potential customers with limited tailoring of the message.

The model of transaction marketing (as in the 4Ps) rests on three assumptions:

1. there is a large number of potential customers;
2. the customers and their needs are fairly homogeneous;
3. it is rather easy to replace lost customers with new customers.

Looking at today's markets, and certainly when moving from consumer markets to industrial and service markets, this approach may not be appropriate.

The relationship marketing (RM) concept

According to the traditional (transactional) marketing concept the major focus of marketing programmes has been to make customers buy, regardless of whether they are existing or new customers. Often only a small part of the marketing budget has explicitly been allocated directly towards existing customers.

Since the 1980s academics have been questioning this approach to marketing (e.g. Grönroos, 1996 and 2006; Gummesson, 1999). They argue that this approach to marketing is no longer broad enough because of the importance of customer retention, the changes in the competitive environment and the limitations of transaction marketing.

In Europe, this new direction of marketing thought was mainly initiated by IMP (Industrial Marketing and Purchasing Group).

According to Gordon (1998), p. 9:

> Relationship marketing is the ongoing process of identifying and creating new value with individual customers and then sharing the benefits from this over a lifetime of association. It involves the understanding, focusing and management of ongoing collaboration between *suppliers* and *selected customers* for mutual value creation and sharing through interdependence and organizational alignment.

RM not only attempts to involve and integrate suppliers and customers. Besides a need for focusing on customer retention, Payne (1995) emphasises that RM indicates a shift towards the organisation of marketing activities around cross-functional activities. Payne (1995) presents a model (Figure 1.2) where six markets need to be considered if the customer is to be served satisfactorily.

Customers remain the prime focus in the centre of the model but, as shown in Figure 1.2, there are five other markets where a detailed marketing strategy may be needed.

Figure 1.2 Relationship marketing's six-markets model

Source: After Payne, A. (ed) (1995) *Advances in Relationship Marketing*, Kogan Page, London, p. 31. Reproduced with permission from Kogan Page and A. Payne.

RM attempts to involve and integrate customers, suppliers, and other infrastructural partners into a firm's developmental and marketing activities. Such involvement results in close interactive relationships with suppliers, customers or other value chain partners of the firm.

Relationships are the fundamental asset of the company. More than anything else – even the physical plant, patents, products or markets – relationships determine the future of the firm. Relationships predict whether new value will continue to be created and shared with the company. If customers are amenable to a deepening bond, they will do more business with the company. If employees like to work there, they will continue along their **learning curve** and produce more and better. If investors and bankers are happy with their returns, they will continue to keep their funds in the company.

Learning curves
Track the decreasing cost of production and distribution of products or services over time as a result of learning by doing, innovation and imitation.

Thus, the development of relationship marketing points to a significant **paradigm** shift in marketing: competition and conflict to mutual cooperation, and independence and choice to mutual interdependence, as illustrated in Figure 1.3.

Paradigm
A shared way of thinking, or meta-theory that provides a framework for theory.

Today many companies realise the importance of the RM approach but most companies still operate with a mixture of the TM and RM approaches. Some firms are attaching more weight to RM than others, and vice versa.

RM emphasises cooperation rather than competition and consequent conflict among the parties. It also emphasises cooperation rather than competition and consequent conflict among the marketing players. The exchange-based transactional marketing approach is based on a notion of mass markets where individual customers are anonymous. The goal is to make customers choose one particular **brand** over competing brands. This easily creates a situation of competition between the marketer and the customer.

Brand
An identifying feature that distinguishes one product from another; more specifically, any name, term, symbol, sign or design, or a unifying combination of these.

In transaction marketing situations, customers, as unidentified members of a segment, are exposed to a number of competing products, and they are supposed to make independent

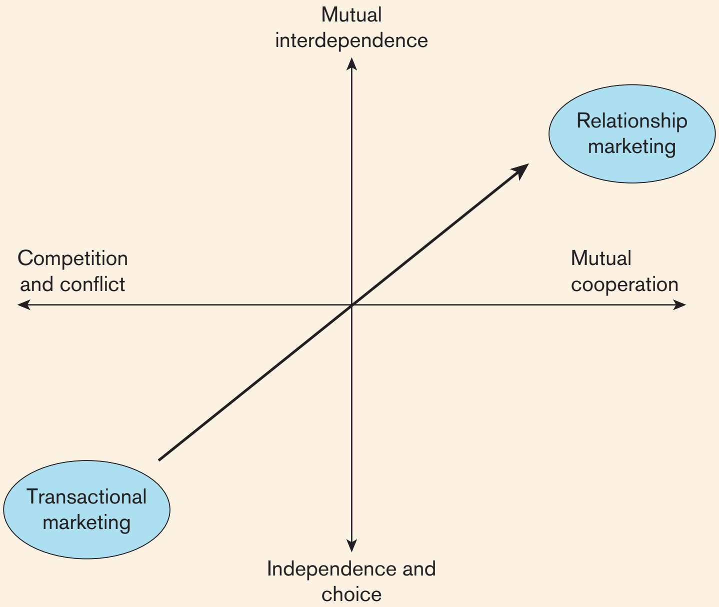

Figure 1.3 Transactional and relationship marketing

Source: Adapted from Sheth, J. N. and Parvatiyar, A. (1995) The evolution of relationship marketing, *International Business Review*, 4(4): 400. Copyright © 1995 Elsevier. Reproduced with permission.

choices from among the available options. The two parties have conflicting interests. The starting point is that the customer does not want to buy; he or she has to be persuaded to do so.

In RM, where interactions and cooperation exist at some level, the customer and the supplier or service provider are not totally isolated from each other. The relationship is based on value creation in interactions between the supplier or service provider and the customer. Cooperation is required to create the value that the customer is looking for. Of course, this does not mean that conflicts could not exist; however, cooperation is the driving force, not conflict.

Business-to-business (B2B)
Marketing that involves exchange relationships between two or more business customers and suppliers.

In situations where there are a limited number of customers and/or where continuous interaction with customers occurs, a relationship approach is relatively easy to adopt, if this is considered profitable and appreciated by the customers. This is the case in many **business-to-business (B2B)** markets and in service markets. When a firm has mass markets with limited direct contact with its customers, a relationship approach is less obvious.

Importance of customer retention

Recently, evidence has been provided about the value of long-term customer relationships and on how to improve performance by focusing on customer retention instead of single sales. It suggests that it can be up to ten times more expensive to win a customer than to retain a customer – and the cost of bringing a new customer to the same level of profitability as the lost one is up to 16 times more (Peppers and Rogers, 1993). Further evidence is provided by Lindgreen and Crawford (1999) who show that increasing customer retention from 80 per cent to 94 per cent in a food catering business quadrupled the value of its average customer. Moreover, existing satisfied customers can make up about two-thirds of the volume for an average business (Vavra, 1995).

Some important differences between the two marketing orientations are highlighted in Table 1.2.

It has been said that transaction marketing is too simplified a framework for today's businesses as they are confronted with many competitive challenges. Since the 1990s, markets have generally become mature and there is only little possibility for product differentiation. Therefore, customer retention is becoming more important.

Table 1.2 Transactional and relationship marketing

Category	Transactional marketing	Relationship marketing
Focus	Economic transaction. Decision focus on product/ brand and 4Ps.	Decision focus on relationships between firms in a network and individuals.
The marketing environment	Marketing rules are very clear, defined and constant. Market is bound by countries and regions.	Marketing rules are relatively clear, defined and constant. Market is relatively bound by network and alliances. The boundaries between firms are blurred, if not completely eroded.
Parties involved	A firm and buyers are involved in a general market. Distant and impersonal contact.	Dyadic relationships: sellers, buyers, and other firms. Face-to-face, close interpersonal contacts based on commitment and trust.
Goals	Each party's goals and objectives, while similar, are geared to what is best for them.	Shared goals and objectives ensure common direction.
Managerial intent	Transaction/sales volume and creating new customers are considered a success. Customer attraction (to satisfy the customer at a profit).	Keeping the existing customers, retention, is considered to be a success. Satisfy the customer, increase profit, and attain other objectives such as increased loyalty, decreased customer risk, etc.
Production focus	Mass production.	**Mass customisation.**
Communication	Communications structured and guarded.	Open communication avoids misdirection and bolsters effective working relationships.
Customers	Low customer interactivity. Customers are less knowledgeable and informed.	High customer interactivity. Customers are aware and informed. Their feedback can be immediate.
Competitive advantage/differentiation	The quality of the product is important for differentiation. The marketing mix can be used for the differentiation.	Creativity is important for differentiation. Long-term and close relationships, adaptation, putting the customer at the centre of the organisation is a source of differentiation.
Balance of power/sharing	Active seller – less passive buyers. Suspicion and distrust. Each party wary of the motives and action by the other. Sharing limited by lack of trust and different objectives. Often opportunistic behaviour.	Seller and buyer mutually active and adaptive (interdependent and reciprocal). Mutual trust forms the basis for strong working relationships. Sharing of business plans and strategies.

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Table 1.2 Transactional and relationship marketing cont.

Category	Transactional marketing	Relationship marketing
Organisation/ managerial level	Functional marketers (e.g. sales manager, product development manager). Marketing is a concern of the marketing department.	Managers from across functions and levels in the firm. Everyone in the organisation is a part-time marketer. Specialist marketers (e.g. **key account managers**).
Formality	Formal (yet personalised via technology).	Formal and informal (i.e. at both a business and social level).
Duration	Discrete (yet perhaps over time). Short-term.	Continuous (ongoing and mutually adaptive, may be short or long-term).
General advantages/ disadvantages	Advantage: independence of buyer and seller. Disadvantage: the firm is in a vulnerable situation if a competitor makes a better offer to the customer.	Advantage: intimate knowledge of needs and markets (developed over time), which has been likened to reading the minds of customers. Disadvantage: the firm is in a vulnerable situation if its business supplier (customer) disappears.

Sources: Adapted from Payne (1995); Lindgreen *et al.* (2000); Zineldin (2000); Håkansson and Waluszewski (2005); Grönroos (2006).

RM suggests that the company should focus on the ultimate market segment and serve customers as individuals. Companies can give individual customers, or logical groups of customers (where serving the individual uniquely makes no sense to either customer or supplier), the value each wants by using technology appropriately throughout the **value chain**. Often this means taking apart existing business processes and inserting technology into them. For example, when the Internet is used for online ordering, the process for purchasing has been redesigned.

Value chain
Chain of activities by which a company brings in materials, creates a good or service, markets it and provides service after a sale is made. Each step creates more value for the consumer.

However, all this does not exclude transaction marketing. In a way transaction marketing and RM become part of the same fundamental paradigm: *focus on customer satisfaction*.

Although RM is a strong strategic concept, its implementation requires the use of powerful instruments. This instrumental dimension was largely neglected in the early academic discussion of the RM concept. Nevertheless, most companies and scholars do use the transactional paradigmatic framework when identifying adequate marketing instruments for building and maintaining relationships with customers.

1.4 BALANCING THE TRANSACTIONAL AND RELATIONSHIP CONCEPTS THROUGHOUT THE BOOK

This book links between the traditional marketing approach and the relationship marketing (RM) approach. Some chapters (Chapters 2–5) concentrate more on the traditional marketing approach, whereas Chapter 6 attempts to draw all the factors together into a true relationship approach (between-the-boxes approach)

in Figure 1.4 indicates that the actors (firm, customer and competitor) are treated more independently of the relationship approach. In other words, these four chapters do not focus so much on the relationships to other important players in the value chain.

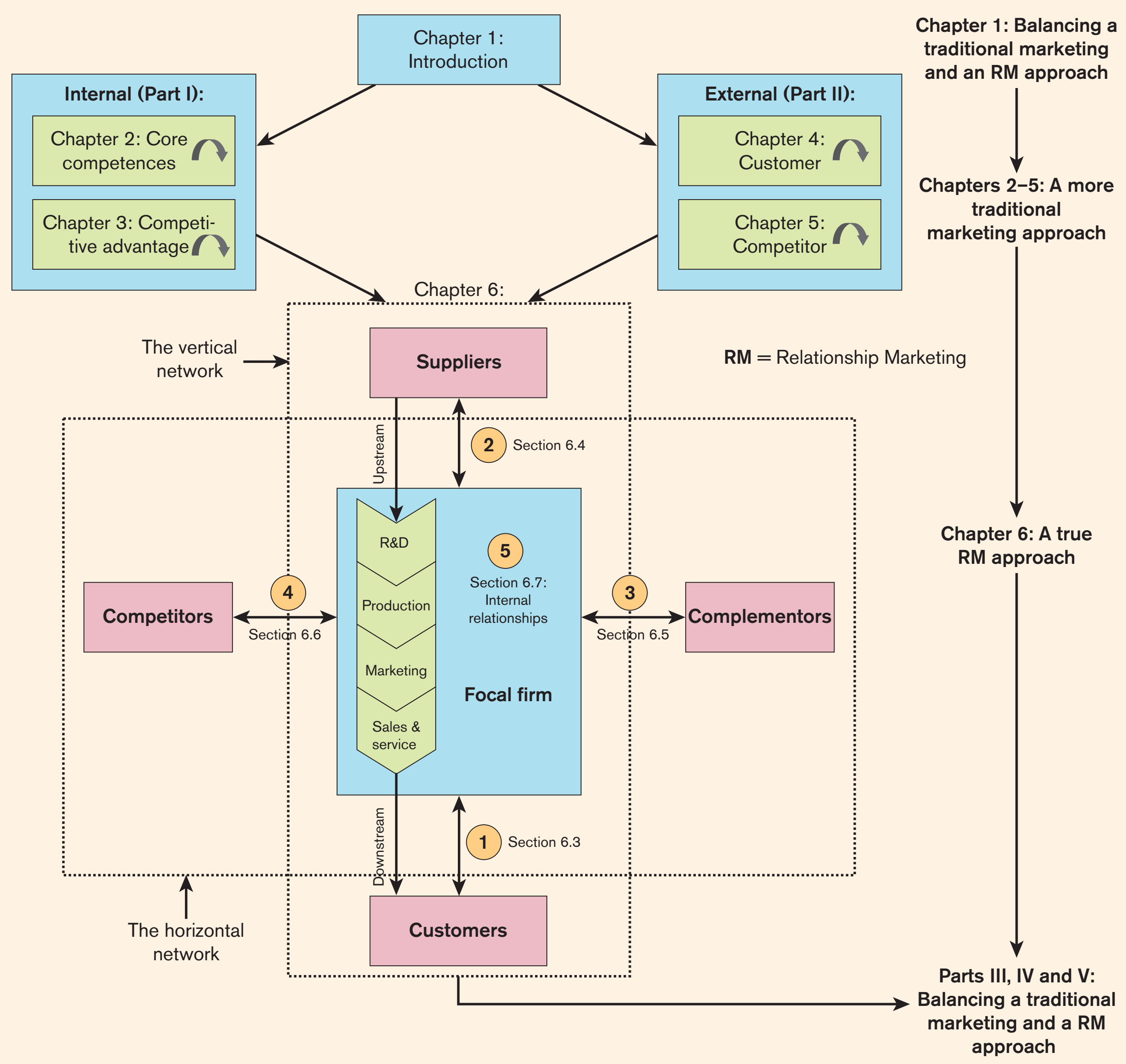

Figure 1.4 Balancing the concepts of transactional and relationship marketing

These relationships (double arrows between firm and the other actors) are then covered in Chapter 6, which also includes the firm's relations to suppliers and complementors. Hence, though there seems to be a paradigm shift going on from the transactional to the relationship marketing approach, most companies still are practising a mixture of both.

1.5 HOW THE RM CONCEPT INFLUENCES THE TRADITIONAL MARKETING CONCEPT

In the following, some of the consequences of a relationship orientation for the traditional four marketing parameters (4Ps) are given (Håkansson and Waluszewski, 2005).

Product

A key impact of RM on product policy is the integration of customised elements in what were previously standardised products for mass markets. Modern information technology allows firms to individualise their products and services according to the varying needs of their customers.

RM, when appropriately implemented, results in products being cooperatively designed, developed, tested, piloted, provided, installed and refined. Products are not developed in the historical way, with the company producing **product concepts**, researching these with customers, and then engaging in various research and development initiatives, leading to product introduction some time later. Rather, RM involves real-time interaction between the company and its priority customers as the company seeks to move more rapidly to meet customer requirements. The product is therefore the output of a process of collaboration that creates the value customers want for each component of the product and associated services. Products are not bundles of tangible and intangible benefits that the company assembles because it thinks this is what customers want to buy. Rather, products comprise an aggregation of individual benefits that customers have participated in selecting or designing. The customer thus participates in the assembly of an unbundled series of components or modules that together constitute the product or service. The product resulting from this collaboration may be unique or highly tailored to the requirements of the customer, with much more of the customer's knowledge content incorporated into the product than was previously the case.

Product concept
The end result of the marketing strategist's selection and blending of a product's primary and auxiliary components into a basic idea emphasising a particular set of consumer benefits; also called the product positioning concept.

Price

Traditional marketing sets a price for a product, perhaps discounting the price in accordance with competitive and other marketplace considerations. The price seeks to secure a fair return on the investment the company has made in its more or less static product.

Relationship-oriented pricing is centred on the application of price differentiation strategies. The pricing should correspond to **customer lifetime values (CLTV)**. This proposal represents an attempt to estimate the net present value of the current and future potential of various customers or customer segments.

In relationship marketing, the product varies according to the preference and dictates of the customer, with the value varying commensurately. So when customers specify that a product should have a specific feature and that certain services should be delivered before, during and after the sale, they naturally want to pay for each component of the package separately. Just as the product and services are secured in a process of collaboration, so too will the price need to reflect the choices made and the value created from these choices.

Business-to-business marketers, especially for larger capital goods and installations, have typically engineered the products and services to customer requirements and negotiated the prices of their services. But customers have not often been involved in all aspects of the value chain and the price/performance **trade-offs** that sellers have thought were necessary. RM invites customers into the pricing process, and all other value-related processes, giving customers an opportunity to make any trade-offs and to further develop trust in the relationship.

Customer lifetime value (CLTV)
It is the present value of the future cash flows attributed to the customer relationship or the amount by which revenue from a given customer over time will exceed the company's costs of attracting, selling and servicing that customer. Use of customer lifetime value as a marketing metric tends to place greater emphasis on customer service and long-term customer satisfaction, rather than on maximising short-term sales.

Trade-off
Balancing of two different options. If you have chosen a certain option, with certain advantages you also have to live with some disadvantages.

Distribution

The general message of RM for distribution is that it should get closer to the customer. Conventional marketing thinking sees distribution as the channel that takes the product from producer to consumer. In the case of the computer industry, Dell sees distribution as a direct sales approach, primarily using the Internet, telephone sales and order placement, whereas IBM uses many approaches to distribution, including its own stores, a direct sales force, and retailers that resell the firm's personal computers. RM instead considers distribution from the perspective of the customer, who decides where, how and when to buy the combination of products and services that constitute the vendor's total offering. Seen this way, distribution is not a channel but a process. The process allows customers to choose where and from whom they will obtain the value they want. Continuing the computer example just mentioned, the customer can choose whether to buy an off-the-shelf model from a reseller and take it home immediately, order one to be built to individual preferences at the factory and shipped within a week or so, or have one configured in-store that will be available within a few days. It thus may be more accurate to think of distribution as placement, giving customers choices with regard to the locations at which they will specify, purchase, receive, install, repair and return individual components of the products and services. That is, whereas traditional marketing considers a product as a bundled package of benefits, RM unbundles the product and service and allows the customer to initiate a placement decision for each element.

Communication (promotion)

Traditional marketing sends smoke signals for all within a specific market segment to see. 'Buy me', the signals say to all who can see them. RM instead gives individual customers an opportunity to decide how they wish to communicate with the enterprise, how often and with whom. Mass promotion becomes support to build equity in the firm or brand, rather than a means to influence purchase directly.

The RM approach indicates the need for integrated communication and the demand for interactive communication.

Technology can make promotion become communication because technology can help individuals and international-oriented companies to interact more frequently and more effectively across borders (Czinkota and Samli, 2007). For the producer in the B2B market this communication may involve opportunities for supplier and customer to interact at the strategic level – considering each other's plans, customers, strategies and initiatives – so that both can consider how best to be interdependent over the planning horizon. It may also tie into the customer's and supplier's information and communications systems, letting staff in each firm feel as though they work with the other in an integrated way. In this way, the lines between supplier and customer can be further blurred.

Producers in the B2C market could relate and communicate in much the same way with their channel intermediaries, such as the retailers. And now, with technology, customers can be interactively and uniquely engaged. Using technologies such as the Internet, computer–telephony integration at call centres, intelligence at point of sale, kiosks, smart cards and interactive voice response, companies can give consumers a host of options for communicating with the company and have information on hand to engage, inform and direct each customer with complete knowledge as to the customer's preferences and behaviours.

The introduction to Part IV discusses the extended version of the 4P mix – the so called 7P mix. Then Part IV of this book further develops the implications of the RM approach on the traditional 4P marketing mix (product, price, place, promotion).

1.6 DIFFERENT ORGANISATIONAL FORMS OF RM

It is important to understand the nature of relationship. The boundaries of RM have been discussed since RM was first investigated in the 1970s (Healy *et al.*, 2001).

It is possible to study relationships in different contexts. Figure 1.5 presents a context where it is possible to study relationships in three ways.

The dyadic relationship is the basic irreducible building block of inter-firm relationships. It can be used as the basis for studying a number of marketing phenomena ranging from

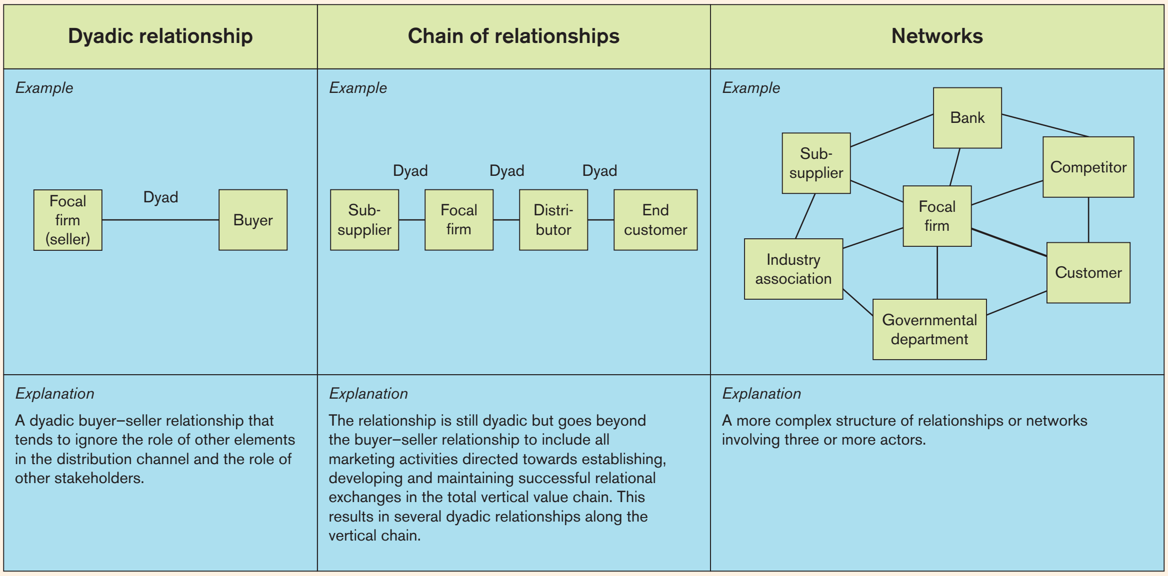

Figure 1.5 Forms of relationships

buyer–seller relationships, salesperson–purchasing agent interactions to inter-firm relationships and **strategic alliances**.

Strategic alliances
Informal or formal arrangements between two or more companies with a common business objective.

Thus a chain of relationships' key distinction from RM is that although the unit of analysis is still dyadic, the dyad can be other than one buyer–seller relationship. Furthermore, more than one dyad can be involved in any given exchange.

From the relationship background, network theory evolved when researchers started looking beyond simple dyadic relationships and began to concentrate their research effort on the more complex structures of networks.

Network theory has been based on the players–activities–resources model which suggests that networks are dynamic entities exhibiting interdependence and connectedness between actor bonds, activity links and resource ties (Håkansson and Johanson, 1992; Håkansson and Snehota, 1995). Networks that involve three or more players place great emphasis on the role of marketing in building and managing relationships with a company's many **stakeholders**, which could include suppliers, competitors, governments and employees, as well as customers.

Stakeholders
Individuals or groups having a stake in the organisation's well-being, e.g. shareholders, employees.

A related RM concept in the Chinese culture is the so-called **guanxi**. It is composed of two Chinese characters, 'guan' (gate) and 'xi' (connection). It is a special type of relationship that bonds the exchange partners through a continual cooperation and exchange of favours.

Guanxi
Describes a personal connection between two people in which one is able to prevail upon another to perform a favour or service, or be prevailed upon. It is based on a complex nature of personalised networks of influence and social relationships, and is a central concept in Chinese society.

Western RM and Chinese guanxi share some basic characteristics such as mutual understanding, cooperative behaviour and long-term orientation. In the Western RM society, written contracts are necessary to bind the exchanging partners to follow the rules, even among long-term relationship partners. In contrast, Chinese network systems emerge from personal agreement, not written contracts. Chinese B2B relations are often based on contracts or bonds between specific individuals, not between organisations. While China (among other Asian countries) is often portrayed as a 'relational society', it is also a low-trust society in which relationship orientation is only applied to insiders of the guanxi networks, but not to outsiders of networks such as a foreign firm. Guanxi members are tied together through an invisible and unwritten code of reciprocity, and the underlying motive for reciprocal behaviours is face-saving (Wang, 2007).

1.7 SUMMARY

Over the past twenty years, considerable emphasis has been placed on the importance of relationship marketing (RM). The reorientation of marketing has been at the expense of the traditional approach to marketing, that is, transaction marketing (the 4Ps). However, the premises of this book are that transactional marketing is still relevant and should be practised concurrently with various types of RM.

In RM, customers take a much more active role than they normally are given. The success of RM also, to a large extent, depends on the attitudes, commitment and performance of the employees. If they are not committed to their role as part-time marketers and are not motivated to perform in a customer-oriented fashion, the strategy fails. Besides customers and internal employees, the stakeholder view also includes other players in the RM process: suppliers, competitors and other external players.

The chapter ends with a categorisation of RM into three forms of organisation: dyadic relationships, chain of relationships and networks. The classic dyadic buyer–seller relationship tends to ignore the role of other stakeholders whereas networks are a more complex structure of relationships involving several stakeholders.

CASE STUDY 1.1

Duchy Originals

Prince Charles's organic food company is searching for further growth in the recession

In summer 2009, the new chief executive of the Prince of Wales's agricultural business, Andrew Baker, is in upbeat mood. He has recently announced plans to launch Duchy Originals in America and India as part of a five-year plan to quadruple annual retail turnover from approximately £50 million to £200 million. Baker, 49, took the top job at Duchy in September 2007, having worked at Cadbury's as managing director for Africa, the Middle East and Turkey. Although the world economy is still in an economic recession, he is convinced that, as consumers eat less at restaurants, they will still be interested in spending some extra money on affordable luxuries, including a decent meal at home.


Prince Charles chats with staff packing Duchy Originals biscuits
Source: Rex Features

Background of Duchy Originals

Duchy Originals Ltd was set up by Charles, Prince of Wales, in 1990 and named after the Duchy of Cornwall estates that are held in trust by the Prince of Wales.

Prince Charles is very passionate about this business. The values behind it are in line with his vision of 20 years ago. Prince Charles bought Home Farm in 1980, which encompasses 1,100 acres around Tetbury. Manager David Wilson masterminded the farm's conversion to organic from 1985 over an eight-year period. The first

Duchy Originals orange marmalade
Source: Courtesy of Duchy Originals Ltd

Duchy product was Oaten Biscuits, baked with organic oats and wheat harvested at the farm.

Prince Charles launched the company in 1990 to provide natural, high-quality organic farm products in a way that emphasises sustainable production, natural ingredients and traditional farming skills. Among its products are free-range meat and poultry, real ale, biscuits, marmalade and preserves.

Duchy Originals is the name given to a brand of premium organic food and drink products. The company Duchy Originals owns the Duchy Originals brand, but does not produce or sell food that carries the Duchy Originals brand name. Instead products with the Duchy Originals name are sold and manufactured by a number of different retail companies, all of whom pay royalties to the Duchy Originals company. The total annual value of these retail sales is over £53 million.

In December 2008, it was announced that the Duchy Originals brand was partnering with Nelsons to produce a line of herbal remedies.

The 'turnover' of the Duchy Originals Ltd company, which is the royalty income notified to the company, and which is also the gross profit, came to £4.8 million in 2007. Administrative expenses came to £3.31 million giving an operating profit of £1.53 million. The company Duchy Originals Ltd is a wholly owned subsidiary company of the Prince's Charities Foundation, and from the profit of £1.53 million a charitable donation of £743,000 was given to the Foundation in 2007 (the difference is due to consolidation with subsidiaries). The Prince established the Foundation in 1979 to enable him to help support a variety of charitable causes and projects. In principle Dutchy Originals Ltd donates all of its net profits to the Prince's Charities Foundation.

In 2008 pretax profits decreased by 80 per cent as sales of the Duchy luxury products tumbled 15 per cent. According to the company, the decrease in profits is due to the cost of expanding and restructuring the business.

The Prince's Charities Foundation

In addition to receiving funds from Duchy Originals, the Prince's Charities Foundation also derives further income through royalties from the sale of lithographs of the Prince of Wales's watercolours, from charitable donations, from retail sales at the Highgrove Shop in Tetbury and from books written by His Royal Highness, such as *The Garden at Highgrove*.

The Prince's Charities Foundation receives an ever-increasing number of requests for assistance, which are considered on a regular basis by the Prince of Wales and the Foundation's trustees. Over 100 charitable programmes benefited from the £4 million donated to the Foundation in the year 2007–08.

Donations are made to a wide range of charities including organisations working with environmental issues, health and hospices, community and welfare, education and training, heritage and the built environment, charities supporting servicemen and women and towards people affected by natural disasters.

The target market – LOHAS

The primary target group for Duchy Originals is the so-called LOHAS (lifestyles of health and sustainability) which is a particular market segment related to sustainable living, 'green' ecological initiatives, and generally composed of a relatively upscale and well-educated people, who are also willing to pay a relatively high price for quality products such as Duchy Originals. Researchers have reported a range of sizes of the LOHAS market segment. For example, Worldwatch Institute reported that the LOHAS market segment in the year 2006 was approximately 30 per cent of the US consumer market. The LOHAS concept is inspired by the authors Paul H. Ray and Sherry R. Anderson, who coined the term 'cultural creatives' in their book by the same name (Ray and Anderson, 2000).

The organic food market remains a high-growth market. The UK market is worth £2 billion per annum and is growing at 20 per cent a year. However, with recession, growth is expected to be more modest in 2009.

The current strategy

CEO Andrew Baker has a clear strategy to multiply sales, and market research revealed that Duchy consumers buy infrequently and rarely shop across the range. Andrew Baker was positively surprised that some 26 per cent of the respondents in the UK research said that their first criterion in any purchase was animal husbandry, meaning that the animals are treated well.

There are seven elements in the new Duchy Originals strategic plan:

1. Expand the business internationally to the United States and India.
2. Cut the existing range of 300 products by as much as a third. This will eliminate weaker lines and reverse the proliferation that has diluted earnings.
3. Promote the product range to consumers through new packaging. Baker wants the company to lead the way in a whole range of sustainability issues, including packaging. It has projects with Wrap (Waste Reduction Action Programme) and plans to cut the weight of packaging and use new materials.
4. The products should be affordable. As Andrew Baker explains: 'The problem was not that biscuit for biscuit we were more expensive, is was that we were the only ones in 250g packets.' Both Duchy's biscuits for cheese and its sweet biscuits will be reduced to 150g and its chocolate biscuits to 100g or 125g boxes. Other lines, including preserves, will be similarly reduced in weight and a very thin ham will be launched (Ford, 2009).
5. In order for Duchy organic products to be more available in the stores, the company has to make a communication plan together with the retailer. Better communication in the store would help shoppers to understand the true benefits of organic certified food products.
6. Relaunch of the website and offer online sales.
7. Move into new areas such as food service (tea shops and hotels) and travel retail.

United States

Duchy USA Inc. was formed in 2008 and the company's present finance director, Michael Bailey, moved to Washington in August 2008 to manage the project. Duchy Originals is undeterred by the failure of other British companies to break into the American market. It will have secured sufficient local financing in America to ensure it can develop a sound business. The market for organic food in United States is four times bigger than in the UK. As in Britain, the company's key aim is to protect local farming communities, encouraging them to grow food in a sustainable manner and then helping them sell their products under the Duchy brand.

It is much more than selling a quality English brand into America. Duchy Originals wants the Prince's original concept of a virtuous circle to be brought to life through its American products. In the United States, the Prince of Wales is also well respected as a spokesman on the environment and his views are well known and understood there, at least by the LOHAS segment.

The Prince hopes that Duchy Originals can capitalise on growing environmental and sustainability awareness in America, together with the cachet of the royal association. The success of the Oscar-winning film *The Queen* and the monarch's state visit have raised the royal family's profile there. The Prince also visited the USA in 2004, and in 2007 he received the Global Environmental Citizen Award, presented to him by last year's winner Al Gore.

India

Duchy Originals plans to set up a company in India by year-end 2009/10 and will help market organic produce of farms based in Punjab supported by the Prince's Bhumi Vardaan Foundation. Duchy's intention is to establish Duchy India as a commercial vehicle for the organic produce of farms supported by the Foundation.

In Andrew Baker's mind there is no doubt that the credit crunch has raised the stakes for the organic market. However, equally, Andrew has no doubt that Duchy Originals is ready to take on this challenge.

QUESTIONS

1. Who are the customers of Duchy Originals and how can the company develop its relationships with these?
2. The CEO, Andrew Baker, claims: 'Given the credit squeeze there is also an argument that consumers will eat less at restaurants and spend extra on a decent meal at home. This will help our business.' Discuss this statement
3. What do you think of Duchy Originals' expansion plans to the United States and India?

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QUESTIONS FOR DISCUSSION

1. What are the similarities between relationship marketing (RM) and transactional marketing (TM)?
2. How does an RM strategy differ from a TM strategy?
3. Which kind of industries could benefit from the use of RM versus TM and vice versa?
4. In which situations would customers not be expected to be interested in RM?

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