



Chapter 7

Marketing: relationships and communications

The importance of relationship marketing is now recognised as a central aspect of both consumer and business marketing. There are a number of dimensions associated with organisational and consumer relationships, many of which encompass established concepts such as trust, commitment and loyalty. The role that marketing communications can play in establishing and nurturing key relationships is pivotal, yet the ways in which marketing communications might best be deployed depend to a large extent on the context in which both the relationship and the communications are configured.

Aims and learning objectives

The aim of this chapter is to explore concepts and ideas concerning marketing relationships and the role marketing communications can play in developing and sustaining such relationships.

The learning objectives of this chapter are to:

1. explore the concept of value and its role in developing marketing relationships;
2. consider the characteristics of relationship marketing;
3. appraise the theoretical concepts underpinning relationship marketing;
4. consider the importance of customer retention and the use of loyalty programmes to reduce customer defection;
5. examine ways in which marketing relationships can be developed;
6. explore issues concerning the development of trust in online environments;
7. explore ways in which marketing communications can help organisations develop relationships.

For an applied interpretation see Angela Carroll's MiniCase entitled *Reggae Reggae Sauce* at the end of this chapter.

Introduction

Value has become an increasingly significant concept to marketing practitioners as well as academics. Indeed, many believe that the only viable marketing strategy should be to deliver improved shareholder value (Doyle, 2000). However, the importance of providing value for customers is not a new idea. Concepts of differentiation, unique and emotional selling propositions (USPs and ESPs) and positioning are founded on the idea that superior perceived value is of primary significance to customers.

It has been long understood that customers buy benefits not features, that they buy products and services as solutions that enable them to achieve their goals. The majority of women buy lipstick because of a mixture of both tangible and intangible attributes or even features and benefits. They buy particular brands because they feel different as a result of using them. What they do buy will vary from person to person, but in terms of tangible attributes they prefer to buy colour and smudge-free lips (no bleed), that they stay on lips, prevent dryness, are long-lasting and smooth (Puth *et al.*, 1999). However, among the intangible attributes are self-confidence, a coordinated fashion accessory, trust, perhaps an alter-ego or, as Revlon once claimed, hope.

The same principle applies to organisational marketing. Business customers buy solutions to business problems, not just stand-alone products. These benefits and solutions constitute added value for the customer, and represent the reason for one offering being selected in preference to another. For both consumers and business customers, value is determined by the net satisfaction derived from a transaction, not the costs incurred to obtain it.

So, if customers seek to satisfy their needs through their purchase of specific products and services then it can be said that the satisfaction of needs is a way of delivering value. Kothandaraman and Wilson (2001) argue that the creation of value is dependent upon an organisation's ability to deliver high performance on the benefits that are important to the customer and this in turn is rooted in their competency in technology and business processes, or core competences. Doyle (2000) regards the creation of customer value as being based on three principles:

- Customers will choose between alternative offerings and select the one that (they perceive) will offer them the best value.
- Customers do not want product or service features, they want their needs met.
- It is more profitable to have a long-term relationship between a customer and a company than a one-off transaction.

Value is the customer's estimate of the extent to which a product or service can satisfy their needs. However, there are normally costs associated with the derivation of benefits such that a general model of value would identify the worth of the benefits received for the price paid (Anderson and Narus, 1998). Therefore, value is relative to customer expectations and experience of competitive offerings within a category and can be derived from sources other than products, such as the relationships between buyers and sellers (Simpson *et al.*, 2001).

It can be said that the satisfaction of needs is a way of delivering value.

Value is the customer's estimate of the extent to which a product or service can satisfy their needs.

The value concept

The value chain concept developed by Porter (1985), is based on the premise that organisations compete for business by trying to offer enhanced value, which is developed, internally, through a coordinated chain of activities. The value chain was devised as a tool to appraise an

organisation's ability to create what Porter terms differential advantage. It consists of nine activities, five primary and four support, all of which incur costs but together can (and should) lead to the creation of value. The primary activities are those direct actions necessary to bring materials into an organisation, to convert them into final products or services, to ship them out to customers and to provide marketing and servicing facilities. Support activities facilitate the primary activities. Customers perceive they are getting superior value when these activities are linked together. These linkages can be achieved through systems and processes such as those offered by new technology. Doyle refers to three processes:

- Innovation processes to generate a constant stream of new products and hence ability to maintain margins.
- Operations processes to deliver first-class performance and costs.
- Customer creation and support processes to provide a consistent and positive cash flow.

ViewPoint 9.1

Added value OnAir

As part of its customer development Airbus has developed facilities for airlines to offer a range of consumer communications while in flight. The system enables passengers to use email and text messages, send and receive voice messages and browse the web all through the use of their own phones, laptops and PDAs.

Airbus has identified a major opportunity in the market and believes the system, branded as OnAir, represents significant added value for major premium travel airlines to offer their passengers. It is expected that Boeing will offer a similar system with both manufacturers recognising the need for their customers to offer passengers additional value in what is a highly competitive market.

Question

Consider the view that the speed at which Boeing nullified Airbus' OnAir system suggests that added value has to be protected and long term to be of significance.

Task

Make a note of two ways in which a rail operator might provide added value to attract and retain travellers?

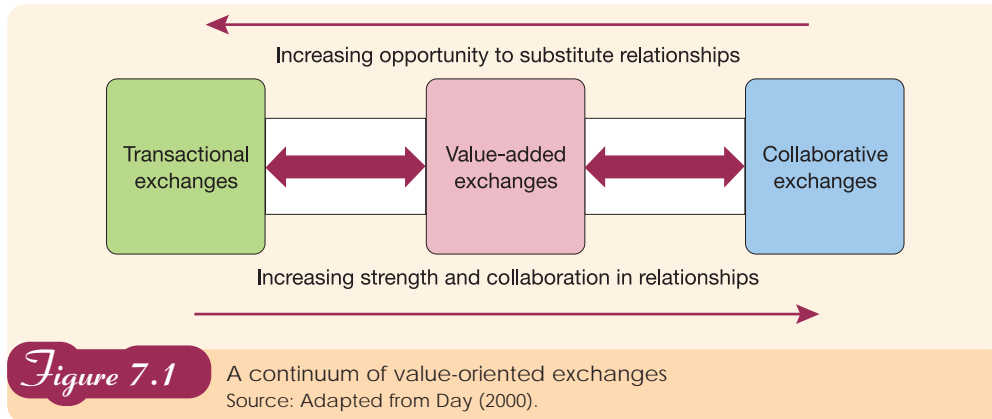
The processes used by an organisation become a critical part of the way in which they can add value. Customers, however, lie at the heart of the value chain. Only by understanding particular customer needs and by focusing value chain activities on satisfying them, can superior value be generated. Value might be perceived in terms of price, low cost and accessibility. For others, price may be relatively inconsequential and the other benefits associated with a brand

The relationships organisations form are themselves a generator of value and hence an important aspect of contemporary marketing.

or organisation such as continuity of supply, innovation and prestige are signals that a longer-term association is of greater value to them. However, according to Ryssel *et al.* (2004) there is an increasing amount of evidence that the relationships organisations form are themselves a generator of value and hence an important aspect of contemporary marketing.

Development of relationship marketing

Interaction between customers and sellers is based around the provision and consumption of perceived value. However, the quality, duration and level of interdependence between customers and sellers can vary considerably. The reasons for this variance are many and



wide-ranging but at the core are perceptions of shared values and the strength and permanence of any relationship that might exist. Relationship value can be visualised as a continuum (see Figure 7.1).

At one end of the continuum are transactional exchanges, characterised by short-term, commodity or price-oriented exchanges, between buyers and sellers coming together for one-off exchanges independent of any other or subsequent exchanges. Both parties are motivated mainly by self-interest. Movement along the continuum represents increasingly valued relationships. Interactions between parties are closer and stronger. The focus moves from initial attraction to retention and mutual understanding of each other's needs.

At the other end of the continuum are relational exchanges, or what Day (2000) refers to as collaborative exchanges. These are characterised by a long-term orientation, where there is complete integration of systems and processes and the relationship is motivated by partnership and mutual support. Trust and commitment underpin these relationships and these variables become increasingly important as relational exchanges become established.

Perceived value may take many forms and be rooted in a variety of attributes, combined in different ways to meet segment needs. However, the context in which an exchange occurs between a buyer and a seller provides a strong reflection of the nature of their relationship. If the exchange is focused on the product (and the price) then the exchange is considered to be essentially transactional. If the exchange is focused around the needs of both the customer and the seller then the exchange is considered to be relational. The differences between transactional and collaborative exchanges are set out in Table 7.1 and provide an important starting point in understanding the nature of relationship marketing.

The product marketing approach is rooted in the traditional 4Ps model of marketing and to a large extent reflects the transactional approach. For a long time consumer marketing has been regarded as something that generally takes place between anonymous individuals. Relationship marketing considers the value inherent in a longer-term series of exchanges that occur between individuals who are, in general, known to each other. Relationship marketing acknowledges the changing lifetime needs of customers and emphasises the importance of both the product and customer lifecycles. This in turn leads to a focus on customer retention.

Relationship marketing is also characterised by the frequency and intensity of the exchanges between customers and sellers. As these exchanges become more frequent and more intense so the strength of the relationships between buyers and sellers improves. It is this that provided the infrastructure for a new perspective of marketing, one based on relationships (Spekman, 1988; Rowe and Barnes, 1998), rather than the objects of a transaction, namely products and services.

Relationship value can be visualised as a continuum.

The focus moves from initial attraction to retention and mutual understanding.

Relationship marketing is characterised by the frequency and intensity of the exchanges between customers and sellers.

Table 7.1 Key differences between transactional and relationship marketing

Attribute	Discrete exchange	Collaborative exchange
Chronological aspects of exchange	<ul style="list-style-type: none"> • Defined beginning • Short-term • Sudden end 	<ul style="list-style-type: none"> • Beginning can be traced back to earlier agreements • Long-term • Reflects a continuous process
Expectations of the relationship	<ul style="list-style-type: none"> • Conflicts of interest/goals are expected • Immediate settlement ('cash payment') • No problems expected in future 	<ul style="list-style-type: none"> • Conflicts of interest expected • Future problems are overcome by trust and joint commitment
Communication	<ul style="list-style-type: none"> • Minimal personal relations • Ritual-like communication predominates 	<ul style="list-style-type: none"> • Both formal and informal communication used
Transferability	<ul style="list-style-type: none"> • Totally transferable • It makes no difference who performs contractual obligations 	<ul style="list-style-type: none"> • Limited transferability • Exchanges are highly dependent on the identity of the parties
Cooperation	<ul style="list-style-type: none"> • No joint efforts 	<ul style="list-style-type: none"> • Joint efforts at both planning and implementation stages • Modifications endemic over time
Division of burden and benefit	<ul style="list-style-type: none"> • Sharp distinction between parties • Each party has its own, strictly defined obligations 	<ul style="list-style-type: none"> • Burden and benefits likely to be shared • Division of benefits and burdens likely to vary over time

Source: Wagner and Boutellier (2002).

However, a word of caution is necessary as not everyone believes relationship marketing is an outright success. For example, Rapacz and Reilly (2008: 22) suggest that the current view of relationship marketing has become 'stuck in a rut'. They argue that audits of the relationship marketing practices used to support many leading brands indicate that relationship marketing is not working. The goal, Rapacz and Reilly suggest, should be commitment to the brand rather than the relationship itself. They refer to the over promise of one-to-one marketing, the difficulties and inefficiencies associated with databases and CRM technology and issues concerning loyalty programmes. The result of their critique is that they advocate the greater use of a variety of marketing communications techniques to generate increased brand commitment. They use the Jack Daniels brand to make their point about good practice, highlighting communications that, if disciplined, entertaining, benefit-oriented and multifaceted, serve to bring greater commitment to a brand.

It is better to consider the prevailing contextual conditions as the key dynamics that shape relationships.

The notion that relationships will improve as they evolve across a continuum is not accepted by all. The expectation that relationships can be enhanced through the application of marketing programmes is not one that is always experienced in practice. For example, Palmer (2007) believes that the continuum perspective is too simplistic and unrealistic. Better to consider the prevailing contextual conditions as the key dynamics that shape relationships, which inevitably wax and wane over time.

Rao and Perry (2002) cited by Palmer, suggest that relationship development can be considered in terms of stages theory or states theory. Stages theory reflects the notion of incremental development (along the continuum) while stages theory suggests that relationship

development does not conform to the processional interpretation because of the complexity and sheer unpredictability of relationship dynamics.

Palmer offers a compromise, namely a 'stages-within-a-state' interpretation. He draws on the work of Anderson and Narus (1999) and Canning and Hammer-Lloyd (2002) to make his point. There may be some validity in this view but the notion that all exchanges reflect a degree of relational commitment (Macneil, 1983) should not be ignored.

ViewPoint 7.2

Collaborative sausages

The small market town of Ludlow in Shropshire has five independent butchers, and when Tesco were granted permission to build a supermarket in the town, these butchers and other retailers felt their businesses to be under threat. As part of a method to protect these established businesses, the mayor encouraged them to collaborate, and in doing so expand their businesses.

The first step was to create the Ludlow Marches Food and Drink Festival. Of the many events the pub and sausage trails proved to be popular with customers. It is quite usual for customers to shop at a single butchers, so the trail aimed to stimulate local customers to frequent all the butchers. The trick of the trail was that different butchers had different products and this was a way for customers to sample the range of products on offer. Although initially reluctant, the butchers became allies and they now produce and cook over 3,000 sausages just for the festival.

The festival is now a well-established gastronomic event and the collaborative venture has been taken a step further. By creating a trading identity for them, the Ludlow Sausage Company, the butchers now serve customers through Internet trading. At first the products offered were small hampers of sausages but now the range has become more extensive and there is further collaboration with the local brewery, Hobson's. This enhanced the product range with a Hobson's sausage (beer-flavoured), but the reach and distribution for both parties was important.

Source: Cox (2004); www.theludlowsausage.co.uk/.

Question

How did the independent butchers of Ludlow add value?

Task

How do you judge the value offered by one of your local retailers?



Exhibit 7.1

Sausages at an exhibition
Paul Gapper/Alamy.

Principles of retention

Marketing has been characterised by its potential to influence and attract customers. Indeed, early ideas considered marketing to be a social anathema due to the perception that it persuaded and manipulated people into purchasing goods and services they did not want. While these fears and misgivings have generally been overcome, a further fallacy concerned the notion that all customers are good customers. As most commercial organisations will now agree, some customers are far more attractive than other customers on the grounds that some are very profitable, others are marginally profitable but offer great potential while others offer little and/or incur losses.

Some customers avoid costly switching costs that are associated with finding new suppliers.

Through the use of relationship cost theory it was possible to identify the benefits associated with stable and mutually rewarding relationships. Some customers avoid costly switching costs that are associated with finding new suppliers, while suppliers experience reduced quality costs incurred when adapting to the needs of new customers. Reichheld and Sasser (1990) identified an important association between a small (e.g. 5 per cent) increase in customer retention and a large (e.g. 60 per cent) improvement in profitability. Therefore, a long-term relationship leads to lower relationship costs and higher profits. Since this early work there has been general acceptance that customers who are loyal not only improve an organisation's profits but also strengthen its competitive position (Day, 2000) because competitors have to work harder to dislodge or destabilise their loyalty. It should be noted that some authors suggest the link between loyalty and profitability is not that simple (Dowling and Uncles, 1997), while others argue that much more information and understanding is required about the association between profitability and loyalty, especially when there may be high costs associated with customer acquisition (Reinartz and Kumar, 2002).

By undertaking a customer profitability analysis it is possible to identify those segments that are worth developing, and hence build a portfolio of relationships, each of varying dimensions and potential. These relationships provide mutually rewarding benefits and provide a third dimension in the customer dynamic, namely customer development.

Customer relationships can be considered in terms of a series of relationship development phases: customer acquisition, development, retention and decline. The duration and intensity of each relationship phase will inevitably vary and it should be remembered that this representation is idealistic. A customer relationship cycle is represented at Figure 7.2.

The duration and intensity of each relationship phase will inevitably vary.

Customer relationships can be considered in terms of a series of relationship development phases: customer acquisition, development, retention and decline. The duration and intensity of each relationship phase will inevitably vary and it should be remembered that this representation is idealistic. A customer relationship cycle is represented at Figure 7.2.

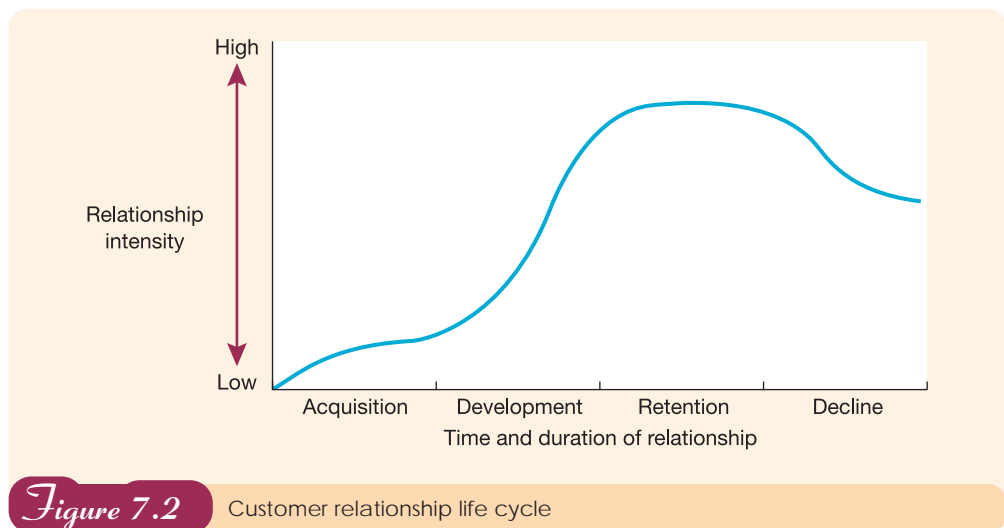


Figure 7.2

Customer relationship life cycle

Table 7.2 Customer acquisition events

Acquisition event	Explanation
Search	Buyers and sellers search for a suitable pairing
Initiation	Both parties seek out information about the other before any transaction occurs
Familiarisation	The successful completion of the first transaction enables both parties to start revealing more information about themselves

Customer acquisition

The acquisition phase is characterised by three main events: search, initiation and familiarisation (see Table 7.2).

The logical sequence of acquisition activities moves from search and verification through the establishment of credentials. The length of this period of initiation will depend partly on the importance of the buying decision, the complexity of the products and partly upon the nature of the introduction. If the parties are introduced by an established and trusted source then certain initiation rights can be shortened. Once a transaction occurs the buyer and sellers start to become more familiar with each other and gradually begin to reveal more information about themselves. The seller receives payment, delivery and handling information about the buyer and as a result is able to prepare customised outputs. The buyer is able to review the seller's products and experience their service quality.

Customer development

The development phase is characterised by the seller attempting to reduce buyer risk and enhance credibility. This is achieved by encouraging cross-selling whereby the buyer consumes other products, by improving the volume of purchases, by engaging the buyer with other added-value services and by varying delivery times and quantities. The buyer's acquiescence is dependent upon their specific needs and the degree to which the buyer wishes to become more involved with the supplier. Indeed, it is during this phase that the buyer is able to determine whether or not it is worth developing deeper relationships with the seller.

Customer retention

The retention phase is the most profitable one where the greatest level of relationship value is experienced. The retention phase will generally last as long as both the buyer and seller are able to meet their individual and joint goals. If the relationship has become more involved greater levels of trust and commitment between the partners will permit increased cross-buying and product experimentation, and b2b relationships, joint projects and product development. However, the very essence of relationship marketing is for organisations to identify a portfolio of customers with whom they wish to develop a range of relationships. This requires the ability to measure levels of retention and also to determine when resources are to be moved from acquisition to retention and back to acquisition.

The retention phase is the most profitable.

Customer decline

Customer decline is concerned with the closure of a relationship. Termination may occur suddenly as a result of a serious problem or episode between the parties. The more likely process is that the buying organisation decides to reduce their reliance on the seller because their needs have changed or an alternative supplier, who offers superior added value, has been found. The

ViewPoint 7.3

Retaining office accounts

The office products division of the Cantrell Corporation had been an important part of the company's overall performance with 40 per cent of its revenue derived online. However, office products customers rely on flawless e-commerce performance from their suppliers to help reduce their administrative overheads, and as a result competition within this sector is strong.

One of the challenges facing Cantrell was that their web site was not integrated with customer account information, so customers with questions about order status or account balances flooded the call centres. Costs were rising, customers were leaving and performance targets were being missed with increased regularity. Cantrell resolved to reassert their prominence in the market by creating a world-class shopping experience, with CRM capabilities, automatic fulfilment and integration with their largest customers. The company developed a new web site and as a result customers are now able to research their questions online, and the company no longer needs to fund an additional call centre.

Customers can now shop online for office supplies, order online training courses and read online newsletters that are customised for them. They can quickly and efficiently find the items they need in the online catalogue, order them and check stock. Cantrell's order fulfilment system now reads web orders just as if they had been generated from the call centre, and fulfils them automatically. As a result, instead of customers leaving, new accounts are being registered at record levels, order fulfilment cycles have been reduced and costs lowered, all in the name of using technology to improve customer management and retention.

Question

To what extent do you believe customer retention is function of the trade-off between trust and the switching costs associated with finding and establishing a relationship with a different supplier?

Task

List and prioritise the top four attributes you believe the supplier of office equipment must possess.

buyer either formally notifies the established supplier or begins to reduce the frequency and duration of contact and moves business to other, competitive organisations.

Theoretical concepts of relationship marketing

There have been numerous theoretical attempts to explain relationship marketing. Three are presented here: social exchange, social penetration and interaction theories.

Social exchange theory

The central premise associated with social exchange theory (Blau, 1964) is that relationships are based upon the exchange of values between two or more parties. Whatever constitutes the nature of an exchange between the participants, equality or satisfaction must be felt as a result. An absence of equality means that an advantage might have been gained by one party and this will automatically result in negative consequences for another. Therefore, in a b2b context,

organisations seeking to maintain marketing channel relationships should not raise prices past threshold levels or allow levels of service output to fall below those of competitors. If channel partners perceive a lack of added value from these exchanges they are more likely to compare performance with other potential suppliers, and even withdraw from the relationship by establishing alternative sources of supply.

The central premise associated with social exchange theory is that relationships are based upon the exchange of values between two or more parties.

Exchanges can occur between two parties, three parties in sequence, or between at least three parties within a wider network and not necessarily sequentially. Relationships evolve from exchange behaviour that serves to provide the rules of engagement. They are socially constructed and have been interpreted in terms of marriage and social relationships (Tynan, 1997). Social norms drive exchange reciprocity within relationships, and serve to guide behaviour expectations.

Whether in personal or interorganisational relationships, exchanges are considered to consist of two main elements. First, there are value exchanges, which are based on the exchange of resources (goods for money) and second, there are symbolic exchanges where, in an inter-organisational context, goods are purchased for their utility plus the feelings and associations that are bestowed on the user.

Social exchange theory serves to explain customer retention on the basis that the rewards derived through exchanges exceed the associated costs. Should expectations about future satisfaction fall short of the levels established through past exchanges, or alternative possibilities with other organisations suggest potentially improved levels of satisfaction, then the current partner may be discarded and a new relationship encouraged.

Social exchange theory serves to explain customer retention on the basis that the rewards derived through exchanges exceed the associated costs.

Social penetration theory

This theory is based on the premise that as relationships develop individuals begin to reveal more about themselves. Every encounter between a buyer and seller will allow each party to discover more about the other and make judgements about assigning suitable levels of relationship confidence. Consequently, the behaviour and communications exhibited between parties may well change from a very formal and awkward introduction to something more knowledgeable, relaxed and self-assured.

As relationships develop individuals begin to reveal more about themselves.

Altman and Taylor (1973) refer to personality depth and personality breadth as two key aspects of the social penetration approach. Personality breadth is concerned with the range of topics (or categories) discussed by the parties and the frequency with which organisations discuss each topic. Unsurprisingly, products and customer needs are two main categories that are discussed by organisations. The analogy of an onion is often used to describe the various layers that make up the depth of a personality. The outer layers are generally superficial, contain a number of elements (of personality) and are relatively easy to determine. However, the key personality characteristics, those that influence the structure of the outer levels, are embedded within the inner core. The term personality depth refers to the difficulties associated with penetrating these inner layers, often because of the risks associated with such revelations.

Personality depth can be interpreted in terms of the degree to which a seller understands each of its customers. This client knowledge will vary but may include the way they use the products, their strategies, resources, culture and ethos, difficulties, challenges, successes and other elements that characterise buying organisations. Through successive interactions each organisation develops more knowledge of the other, as more information is gradually exposed, revealed or made known. At the outset of relationships, buyers tend to restrict the amount of information they reveal about themselves, but as confidence and trust in the other party develops so the level of openness increases. Likewise, as relationships develop so the degree of formality between the parties decreases, becoming more informal. This relationship intensity impacts on the quality of the relationship between two or more organisations.

As relationships develop so the degree of formality between the parties decreases, becoming more informal.

Deconstructing a relationship reveals that it is composed of a series, or layers, of interactions. Each interaction results in judgements about whether to terminate or proceed with the

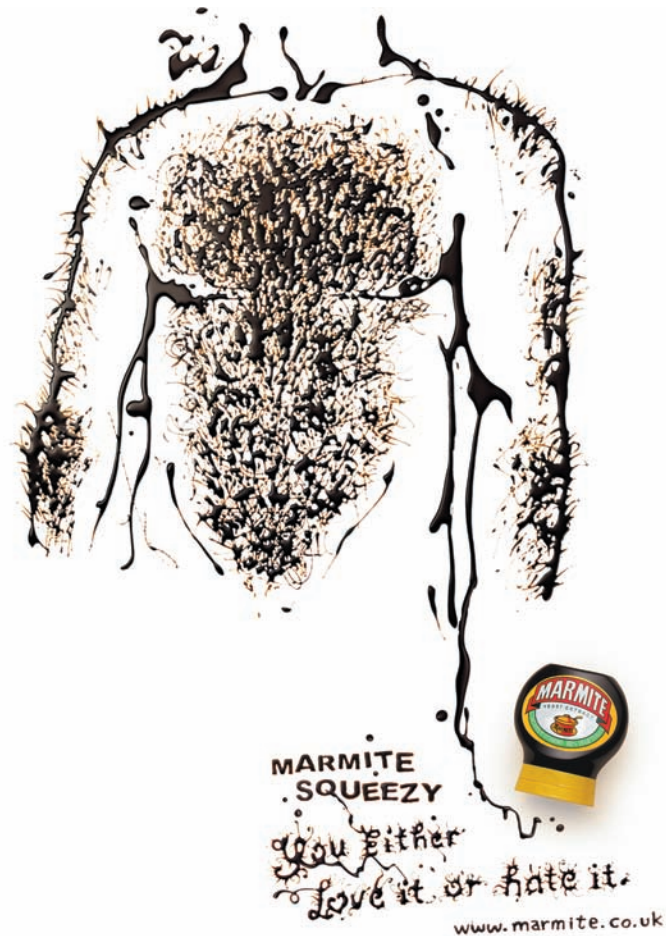


Exhibit 7.2

Marmite – love it or hate it. Brand personality that openly proclaims contrasting consumer preferences and brand relationships
 Courtesy of Unilever and Marmite.

relationship. The judgement is based on the accumulation of interactions, the history of the relationship and the level of customer knowledge that has been revealed.

Interactional theory

The development of relationship marketing appears to coincide with the emergence of network approaches to interorganisational analysis. This is referred to as industrial network analysis, and has evolved from the original focus on dyadic relationships (Araujo and Easton, 1996). The International Marketing and Purchasing Group (IMP), a significantly strong and influential research group, focuses on the interaction between members of a network. The IMP Group analyses relationships, rather than transactions between buyers and sellers but, unlike relationship marketing theorists, they believe that both parties are active participants. Relationships between buyers and sellers are regarded as long-term, close and complex, and through episodes of exchange the links between organisations become institutionalised. Processes and roles become established, ingrained and expected of one another. It is particularly significant in this interactional approach that other organisations are considered to influence the relationship between a buyer and a seller. This incorporates ideas concerning network interpretations of business-to-business and channel configuration, considered in Chapter 8.

The Interactional approach is based on relational exchanges with a variety of organisations within interlocking networks. An important aspect of network operation is the high degree of cooperation and reciprocity necessary between participants. This cooperation is manifest through the various exchanges that organisations undertake. McLoughlin and Horan (2000) identify five main exchange elements, while the IMP Group determine four. These are set out in Table 7.3:

The Interactional approach is based on relational exchanges with a variety of organisations within interlocking networks.

Table 7.3 Elements of exchange episodes

McLoughlin and Horan (2000)	IMP Group
Financial and economic exchange	Product/service exchange
Technological exchange	Information exchange
Information exchange	Financial exchange
Knowledge exchange	Social exchange
Legal exchange	

These two lists are largely similar and both encompass formal and informal exchanges. These occur over time, with varying levels of intensity between two or more organisations.

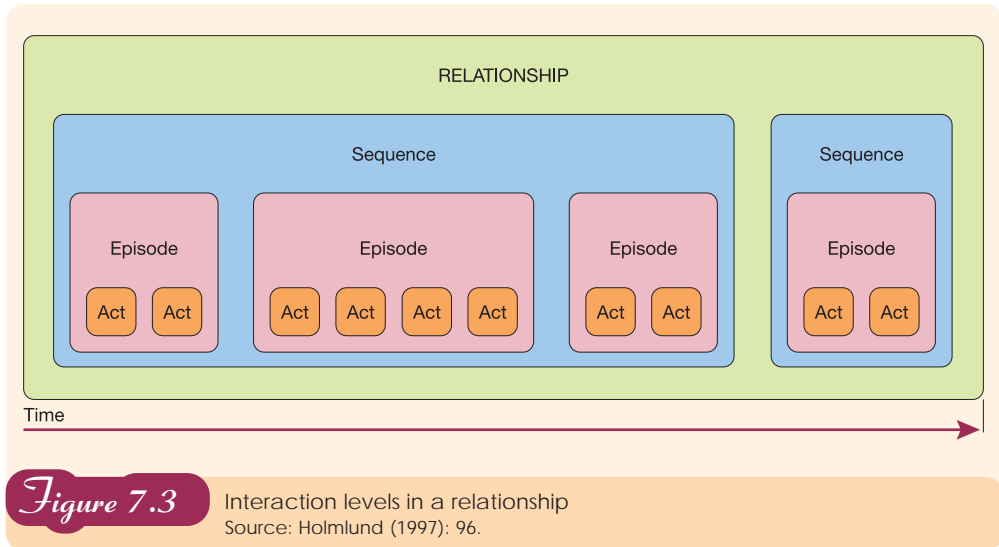
Building marketing relationships

As discussed earlier, relationships are developed through interaction and dialogue. Exchanges that occur as a result of interaction are influenced by four main factors: technology; organisational determinants (size, structure and strategy); organisational experience; and individuals. The result of this is an atmosphere in which a relationship exists and which reflects issues of power-dependence, the degree of conflict or cooperation and the overall closeness or distance of the relationship.

Relationships consist of much more than just interaction or a series of exchanges so deconstruction of a relationship can provide a deeper understanding of the nature of relationships and, in doing so, indicate how marketing communications might best be used. Holmlund (1997), cited by Gronroos (2004) suggests that an on-going relationship can be considered to consist of four components. These are set out in Figure 7.3.

Holmlund states that an on-going relationship consists of various sequences, which in turn consist of episodes constructed from a series of acts. Phone calls and email, factory and site visits, service calls and the provision of information are examples of *acts*, which represent interaction. An *episode* is developed from a series of interrelated acts. The delivery of an order consists of a number of actions such as the placement of the order, the credit checking, fulfilment, delivery and unloading and each of these are *acts*. Interrelated episodes are referred to as *sequences*, which are time-specific. For example, an advertising or sales promotion campaign, a construction project, a training programme or all activities experienced during a holiday or visit to a hotel. Relationships, therefore, are composed of sequences, many of which might overlap. Marketing activities, including communications, can therefore be better understood and deployed within this structured approach to understanding relationship development.

An episode is developed from a series of interrelated acts.



ViewPoint 7.4

Building relationships for 'You & Us'

UBS is one of the world's leading financial firms and claim to operate in two locations: 'Everywhere, and right next to you'.

A few years ago they launched a major corporate advertising campaign under a single brand. It represented a clear change of direction from their traditional advertising strategy based around the promotion of the various merits of UBS' products and services. The theme of their new campaign 'You & Us' highlights the importance of UBS' client relationships.

The campaign used global television and print advertising to focus on the importance and strength of UBS' client relationships that are backed by the powerful resources of the firm. The campaign's strapline, 'You & Us' is used to represent the intimacy of the relationship between individual clients and their advisors. It is used on all communication materials, including their home page. All of the advertisements feature just two people, a client and advisor, meeting in familiar situations. For example, sitting at a restaurant table, meeting in a conference room or an aerial shot of them crossing a road. The messages are reinforced by the voiceover that tries to be reassuring and natural, similar to the voice of a trusted friend, and definitely not corporate. The background to the ads carry images of skyscrapers, offices and mountains. These were used to reinforce the message that each UBS advisor has the support of a large, powerful organisation with all the resources necessary to meet a client's needs.

UBS provide a sophisticated business-to-business service so the advisors (actors) in the ads play a crucial role as they effectively become the face of UBS. Through their advisors, clients can access the 'UBS universe' of products, services, tools and resources. The 'You & Us' line is a promise that only the firm's employees keep through their day-to-day contact with clients.

Source: www.ubs.com/1/e/media_overview/media_americas/virtualpresskits/.

Question

Apart from the impact on customers, who else might be affected by this new positioning?

Task

Find two other global finance corporations and note how they position themselves.

Related relationship concepts

Among the many concepts associated with relationship marketing, three stand out. *Trust* and *commitment* and *loyalty* are considered in turn.

Trust

Many writers contend that one of the crucial factors associated with the development and maintenance of interorganisational relationships is trust (Morgan and Hunt, 1994; Doney and Cannon, 1997). However, Cousins and Stanwix (2001) believe that the concepts, although important, are difficult to define, and suggest that many authors fail to specify clearly what they mean when using them. A review of the literature indicates that trust is an element of personal, intraorganisational and interorganisational relationships, and is both necessary for and results from their perpetuation. As Gambetta (1988) argues, trust is a means of reducing uncertainty in order that effective relationships can develop.

Cousins and Stanwix (2001) also suggest that, although trust is a term used to explain how b2b relationships work, often it actually refers to ideas concerning risk, power and dependency and these propositions are used interchangeably. From their research of vehicle manufacturers, it emerges that b2b relationships are about the creation of mutual business advantage and the degree of confidence that one organisation has in another.

Interorganisational trust is based on two main dimensions: credibility and benevolence. Credibility concerns the extent to which one organisation believes (is confident) that another organisation will undertake and complete its agreed roles and tasks. Benevolence is concerned with goodwill, that the other organisation will not act opportunistically, even were the conditions for exploitation to arise (Pavlou, 2002). In other words, interorganisational trust involves judgements about another organisation's reliability and integrity.

Interorganisational trust is based on two main dimensions: credibility and benevolence.

ViewPoint 7.5

Losing trust in television?

Both the BBC and ITV faced criticisms in 2007 concerning the way they ran some phone-in programmes. The first scandal to break concerned the previously crystal-clean children's show *Blue Peter*. It was revealed that following a technical fault with the phone lines, they used a studio guest to phone-in to claim a prize. The 40,000 viewers who had called the premium-rate line were disbarred from the competition as they had no chance of winning. Unfortunately, the joy associated with the researcher whose 'quick thinking' enabled the programme to proceed, turned sour when the producers and the programme's editor failed to report the incident (deception) to BBC management.

Both GMTV and Channel 4 (*Richard and Judy*) were found by Ofcom to have rigged phone-in competitions by picking winners before the phone lines were switched off. Later it was found that programmes such as *Ant and Dec's Saturday Night Takeaway*, *Gameshow Marathon* and *Soapstar Superstar*, all on ITV, were also rigged and effectively defrauded customers.

These scams resulted in large fines and many people having to resign their positions. Perhaps the more significant outcome was the public's loss of trust and faith in television programmes, the competitions they offer and the messages they deliver.

Sources: Byrne (2007); Robinson (2007); Sherwin (2007).

Question

To what extent should the control of all competitions be regulated by legislation?

Task

Find another phone-in scandal. How did the promoter respond when first approached about the issue?

Table 7.4 Elements of institutional trust

Element of institutional trust	Key aspect
Perceived monitoring	Refers to the supervision of transactions by, for example, regulatory authorities or owners of b2b market exchanges. This can mitigate uncertainty through a perception that sellers or buyers who fail to conform with established rules and regulations will be penalised.
Perceived accreditation	Refers to badges or symbols that denote membership of externally recognised bodies that bestow credibility, authority, security and privacy on a selling organisation.
Perceived legal bonds	Refers to contracts between buyers, sellers and independent third parties, so that the costs of breaking a contract are perceived to be greater than the benefits of such an action. Trust in the selling organisation is therefore enhanced when bonds are present.
Perceived feedback	Refers to signals about the quality of an organisation's reputation and such feedback from other buyers about sellers, perhaps through word-of-mouth communication, can deter sellers from undertaking opportunistic behaviour.
Perceived cooperative norms	Refers to the values, standards and principles adopted by those party to a series of exchanges. Cooperative norms and values signal good faith and behavioural intent, through which trust is developed.

Source: Based on Pavlou (2002).

It has been suggested that interorganisational trust consists of three main elements (Zucker (1986); Luo (2002)). *Characteristic* trust, based on the similarities between parties, *process* trust, developed through familiarity and typically fostered by successive exchange transactions, and *institutional* trust, see below. This third category might be considered to be the most important, especially at the outset of a relationship when familiarity and similarity factors are non-existent or hard to discern respectively.

Pavlou (2002) argues that there are six means by which institutional trust can be encouraged (see Table 7.4).

Institutional trust is clearly vital in B2C markets where online perceived risk is present and known to prevent many people from purchasing online. In the B2B market, institutional trust is also important but more in terms of the overall reputation of the organisation. The development and establishment of trust is valuable because of the outcomes that can be anticipated. Three major outcomes from the development of trust have been identified by Pavlou, namely satisfaction, perceived risk and continuity. Trust can reduce conflict and the threat of opportunism, which in turn enhances the probability of buyer satisfaction, an important positive outcome of institutional trust.

Perceived risk is concerned with the expectation of loss and is therefore tied closely with organisational performance. Trust that a seller will not take advantage of the imbalance of information between buyer and seller effectively reduces risk. Continuity is related to business volumes, necessary in online B2B marketplaces, and the development of both on- and offline enduring relationships. Trust is associated with continuity and, when present, is therefore indicative of long-term relationships. Ryssel *et al.* (2004: 203) recognise that trust (and commitment) have a 'significant impact on the creation of value and conclude that value creation is a function of the atmosphere of a relationship rather than the technology employed'.

Table 7.5

Components of trust

Trust component	Explanation
Reputation	Provides a summary statement of the likelihood that purchase and experience expectations will not disappoint.
Familiarity/closeness	Personal or human trust is a significant component witnessed by organisations recruiting people with skills and experience that potential buyers can identify with. Sales force representatives and slice of life advertising typify ways in which organisations seek to establish familiarity.
Performance	The performance of the product or service becomes regularised and habitual.
Accountability	The use of trade associations, credit agencies and professional organisations to underwrite and enforce performance standards give consumers the necessary confidence to trust and can be important in areas where consumers have limited specialised knowledge.

Source: Morrison and Firmstone (2000). Used by permission of WARC.

Trust within a consumer context is equally important as a means of reducing uncertainty. In particular, brands are an important means of instilling trust, mainly because they are a means of condensing and conveying information so that they provide sufficient information for consumers to make calculated purchase decisions in the absence of full knowledge. In a sense, consumers transfer their responsibility for brand decision-making, and hence brand performance, to the brand itself. Through extended use of a brand, purchasing habits develop, or what is termed routinised response behaviour. This is important not just because complex decision-making is simplified, but because the amount of communication necessary to assist and provoke purchase is considerably reduced.

The establishment of trust can be based around the existence of various components (Morrison and Firmstone, 2000). These are set out in Table 7.5.

According to Young and Wilkinson (1989) the presence of trust within a relationship is influenced by four main factors: the duration of the relationship; the relative power of the participants; the presence of cooperation; and various environmental factors that may be present at any one moment. Extending these ideas into what is now regarded by many as a seminal paper in the relationship marketing literature, Morgan and Hunt (1994) argue, and support with empirical evidence, that the presence of both commitment and trust leads to cooperative behaviour and this in turn is conducive to successful relationship marketing.

The presence of both commitment and trust leads to cooperative behaviour.

Online trust and security

These components can be substantiated through experience but in terms of information systems technology (IST) and the Internet in particular, problems arise when attempting to apply these criteria. There is a total lack of accountability on the Internet that may explain why a certain proportion of the population are reluctant to engage in online transactions. Many consumers do not understand the performance characteristics of the Internet and of various aspects of the digital world, which suggests to Morrison and Firmstone that there is too much missing knowledge for a sufficient level of trust to be present.

This factor may dissipate as successive generations become more conversant and confident in technology and its performance characteristics, as the proportion of digital natives outweighs the number of digital immigrants. However, at the moment a lack of familiarity might

partly explain why sufficient numbers of consumers do not place their trust when there is so much that is unknown. In addition, the cues by which trust is established offline have yet to become established in the online world. Symbols, trade marks and third-party endorsements need to be available so that the trust-inducing cues can be interpreted and relied on. Finally, brand reputation is a summary statement of performance and reputation conveys signals that others do, and for long-established brands, have in the past trusted the brand. Morrison and Firmstone (2000: 621) argue that ‘existence confers an invitation to trust and a long existence gives strength to the presumption that one should trust’. This means that pure play operations will have a more challenging task to establish reputation than bricks and clicks operations that are able to transfer part of their offline reputation into their online world.

Technology is available to provide virtually secure online transactions and, despite the relatively small amount of online crime, there is a strong consumer perception that online transactions are not safe, even though many of these same people willingly give their credit card details over the telephone to complete strangers. eRetailers should use marketing communications to reduce levels of perceived risk associated with online shopping and to provide a strong level of consumer reassurance. Thomas (2000) suggests that there are a number of things that can be done to provide such reassurance:

1. Strong offline brands immediately provide recognition and an improved level of security, although care needs to be taken to convince audiences that the operator’s online work is as effective as that of the offline brand.
2. Ensure that the web pages where sensitive data are stored are hosted on a secure server. Use the most up-to-date security facilities and then tell consumers the actions you have taken to create a feel-good association and trust with the online brand. It is also worthwhile listing any physical, tangible addresses the company might have in order that consumers feel they are dealing with a modern yet conventional business.
3. Provide full contact details, fax, telephone, postal addresses and the names of people they can refer to. Again, this enables a level of personalisation and may soften the virtual atmosphere for those hesitant to immerse themselves in online transactions.
4. Provide an opportunity for the consumer to lock into the online brand by registering and subscribing to the site. Many organisations offer an incentive such as a free email newsletter or introductory offer.
5. By satisfying criteria associated with transparency, security and customer service it is possible to earn accreditation or cues that signal compatibility and compliance. The Academy of Internet Commerce operates a best practice called the Academy Seal of Approval. The logo appears on the site and when clicked provides a full text of the charter itself, a powerful form of reducing functional and financial risk.

Post-purchase communications are just as important in the online as well as the offline environment.

Post-purchase communications are just as important in the online as well as the offline environment. Email acknowledgement of an order provides reassurance that the company actually exists and prompt (immediate next day) delivery or, if on extended delivery, an interim progress report (email) will provide confidence.

Online order tracking is now quite common, making it possible to see the exact location of an order.

ViewPoint 7.6

Making an omelette out of credit

The world of personal finance has become increasingly complex. Part of this complexity is due to increased consumer wealth but it also because much of the business has moved online. The digital era has changed the relationship between banks and their customers. Consumers no longer rely on newspapers and expert comment. They now go online and search for information to either substantiate or develop views about

products and services. Consumers now expect 24/7 access, and social networking sites enable people to share brand experiences, good and bad, more quickly and away from the influence of the expert and the bank.

Trust can be easily eroded in the digital environment even by events offline. The collapse of Northern Rock in late 2007 hit the industry hard as people queued to withdraw their savings while the Northern Rock web site ground to a halt.

In February 2008 the Citigroup bank announced that it was withdrawing the credit cards from 161,000 of their 'Egg' customers. This action was taken in attempt to offload customers who were reported by the bank to have a 'higher than acceptable risk profile'. Many customers complained, claiming they paid off their credit balances each month and could not be deemed to be credit risk customers. However, it might be seen that they were relatively unprofitable customers and the bank would rather work with customers who ran balances up to their credit levels and only paid the minimum amount each month.

The bank has now cancelled an agreement entered into with their customers, some of whom may not have transgressed the terms and conditions. The issue concerns whether this action is in the best interests of the bank's long-term relationships with its stakeholders and whether it will impact on its reputation. This realignment by the bank may send signals to prospective customers that this organisation is not to be trusted.

Sources: Nottage (2007); Ashton and Watts (2008).

Question

Does the *Egg* case suggest that bad publicity is so short-lived that it is deemed acceptable to work in this way?

Task

What sort of relationship do you have with your bank and how does this differ from the relationship you have with other financial providers . . . why?

Commitment

Morgan and Hunt regard commitment as the desire that a relationship continue (endure) in order that a valued relationship be maintained or strengthened. They postulated that commitment and trust are key mediating variables between five antecedents and five outcomes (see Figure 7.4).

Commitment and trust are key mediating variables.

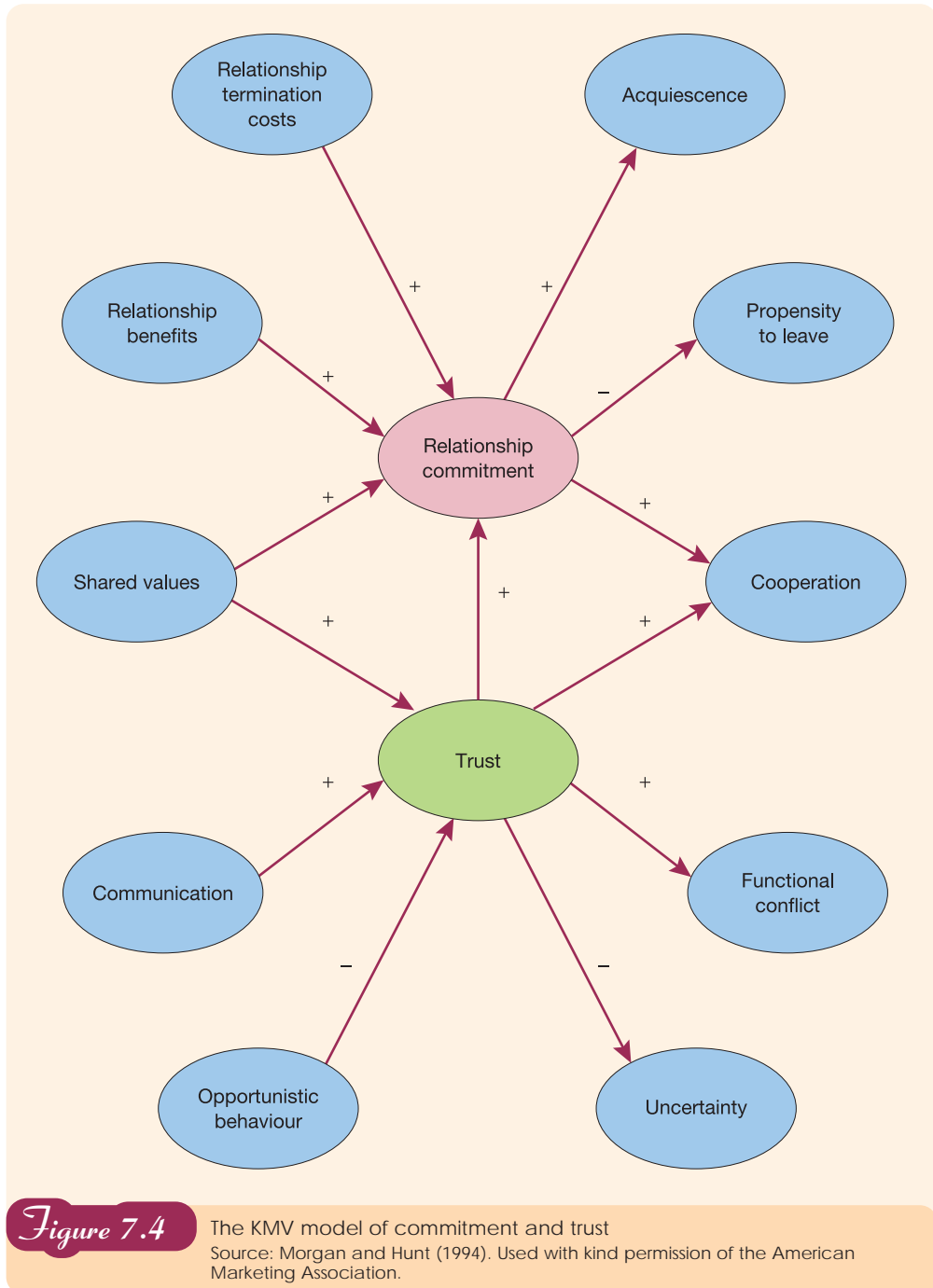
According to the KMV model the greater the losses anticipated through the termination of a relationship the greater the commitment will be expressed by the exchange partners. Likewise, when these partners share the same values commitment increases. Trust is enhanced when communication is perceived to be of high quality but decreases when one organisation knowingly takes action to seek to benefit from the relationship, which will be to the detriment of the other.

Kumar *et al.* (1994) distinguish between *affective* and *calculative* commitment. The former is rooted in positive feelings towards the other party and a desire to maintain the relationship. The latter is negatively oriented and is determined by the extent to which one party perceives it is (not) possible advantageously to replace the other party.

The centrality of the trust and commitment concepts to relationship marketing has thus been established and they are as central to marketing channel relationships as to other b2b relationships (Achrol, 1991; Goodman and Dion, 2001).

Customer loyalty and retention

Implicit within this customer relationship cycle is the notion that retained customers are loyal. However, this may be misleading as 'loyalty' may actually be a term used to convey



convenience or extended utility. Loyalty, however presented, takes different forms, just as there are customers who are more valuable than others. Christopher *et al.* (2002) depict the various types of relationships as stages or steps on a ladder, the 'Relationship marketing ladder of loyalty' (Figure 7.5).

A prospect becomes a purchaser, completed through a market or discrete exchange. Clients emerge from several completed transactions but remain ambivalent towards the seller organisation. Supporters, despite being passive about an organisation, are willing and able to



Figure 7.5

Relationship marketing ladder of loyalty
Source: Christopher *et al.* (2002).

enter into regular transactions. Advocates represent the next and penultimate step. They not only support an organisation and its products but actively recommend it to others by positive, word-of-mouth communications. Partners, who represent the top rung of the ladder, trust and support an organisation just as it trusts and supports them. Partnership status, discussed in greater detail later in this chapter, is the embodiment of relational exchanges and interorganisational collaboration.

Partnership status is the embodiment of relational exchanges and interorganisational collaboration.

This cycle of customer attraction (acquisition), development, retention and decline represents a major difference to the 4Ps approach. It is, above all else, customer-focused and more appropriate to marketing values. However, even this approach is questionable as, although the focus of analysis is no longer the product but the relationship, the focus tends to be oriented towards the 'customer relationship' rather than the relationship *per se*. In other words there is a degree of asymmetry inherent in the relationship marketing concept.

The simplicity of the loyalty ladder concept illustrates the important point that customers represent different values to other organisations, and that perceived value (or worth) may or may not be reciprocated, thus establishing the basis for a variety and complexity of different relationships. The theoretical development of relationship marketing encompasses a number of different concepts. These involve a greater emphasis on cooperation rather than competition and the identification of different development phases within customer relationships, namely customer acquisition, development and retention.

Types and levels of loyalty

The concept of loyalty has attracted much research attention if only because of the recent and current popularity of this approach. Table 7.6 represents some of the more general types of loyalty that can be observed.

These hierarchical schemes suggest that consumers are capable of varying degrees of loyalty. This type of categorisation has been questioned by a number of researchers. Fournier and Yao

Table 7.6 Types of loyalty

Emotional loyalty	This is a true form of loyalty and is driven by personal identification with real or perceived values and benefits.
Price loyalty	This type of loyalty is driven by rational economic behaviour and the main motivations are cautious management of money or financial necessity.
Incentivised loyalty	This refers to promiscuous buyers: those with no one favourite brand who demonstrate through repeat experience the value of becoming loyal.
Monopoly loyalty	This class of loyalty arises where a consumer has no purchase choice owing to a national monopoly. This, therefore, is not a true form of loyalty.

(1997) doubt the validity of such approaches and Baldinger and Rubinson (1996) support the idea that consumers work within an evoked set and switch between brands. This view is supported on the grounds that many consumers display elements of curiosity in their purchase habits, enjoy variety and are happy to switch brands as a result of marketing communication activities and product experience.

Loyalty at one level can be seen to be about increasing sales volume, that is, fostering loyal purchase behaviour. High levels of repeat purchase, however, are not necessarily an adequate measure of loyalty, as there may be a number of situational factors determining purchase behaviour, such as brand availability (Dick and Basu, 1994).

There is plenty of evidence to show that many satisfied customers buy a variety of brands.

At another level, loyalty can be regarded as an attitudinal disposition. O'Malley (1998) suggests that customer satisfaction has become a surrogate measure of loyalty. However, she points out that there is plenty of evidence to show that many satisfied customers buy a variety of brands and that polygamous loyalty, as suggested by Dowling and Uncles (1997), may be a better reflection of reality.

Another interesting perspective on relationship marketing concerns the role of consumer satisfaction.

Garbarino and Johnson (1999) researched the attitudes and motivations of people who held long-term subscriptions to a theatre. While this group might be said to hold a strong relationship with the theatre, it was possible to determine two sub-groups of customers. Some had a functional orientation towards the service provider and others were determined as holding partnership characteristics. These they termed low and high relational customers respectively. Their research found that the long-term intentions of the low relational customers are driven by overall satisfaction measures. In contrast, high relational customers are driven by trust and commitment which means that satisfaction is an irrelevance for this customer group. They will continue subscribing regardless of whether the plays and performances are entertaining and enjoyable. The implication for the design of marketing communication programmes is that transactional-based communications that focus on developing measures of satisfaction will be suitable for customers who have a functional yet long-term relationship with a brand. For those more passionately involved, communications should focus on building trust and commitment.

The Institute of Practitioners in Advertising (IPA) published a report that indicated that as little as 9 per cent of loyalty schemes were significantly profitable. When schemes are successful, this is not achieved by retaining customers but through the attraction of new ones (McLuhan, 2007). In other words the whole notion that loyalty schemes serve to retain customers is possibly flawed.

At whichever level of loyalty, customer retention is paramount and neither behavioural nor attitudinal measures alone are adequate indicators of true loyalty. O'Malley suggests that a combination of the two is of greater use and that, when used together, the twin parameters

relative attitudes (to alternatives) and patronage behaviour (the recency, frequency and monetary model), as suggested by Dick and Basu (1994), offer more accurate indicators of loyalty (see Chapter 21 for a consideration of loyalty programmes).

The role of marketing communications in relationships

Having considered ideas about relationship marketing and established its centrality within contemporary marketing thought, it now remains to explore ways in which marketing communications can contribute to relationship marketing. Transaction marketing, where the focus is product and price, uses mass communications with persuasion as a central element. Relationship marketing, with its focus on the relationship between the participants, encourages interaction and dialogue. This is compatible with the concepts of integrated marketing communications (IMC). Gronroos (2004) suggests that although IMC cannot be synonymous with relationship marketing, it is an important aspect of relationship marketing. He argues that within an interaction and planned communication context customer messages can be divided into five groups. These are set out in Table 7.7.

Gronroos develops the view that there are two main types of message that customers receive, process and use to determine the extent to which a relationship delivers value. The first of these types is the planned marketing communication message, which is predetermined and delivered through various media and tools of the communication mix. Planned messages set out an organisation's promises. In addition, there are messages generated through the product and service aspects of the interaction that occurs between organisations and their customers. The degree to which these two streams of messages support or counter each other will influence the type of unplanned communications that ensue. See Figure 1.1 in Chapter 1 for a graphical representation of these types of marketing communication message.

The greater the degree that the two sets of messages support or reinforce one another, the more favourable the unplanned communication that should result in positive word-of-mouth communication (Gronroos and Lindberg-Repo, 1998). This can lead to the establishment of two-way communication, an increasing propensity to share information, a process of

Table 7.7

Source of messages about an organisation.

Message Source	Explanation
Planned marketing communications	Make promises about how solutions to customer problems should occur – for example, mass communications, brochures, sales, direct response, WWW pages
Product messages	For example: the design, technical features, utility, appearance, production process, durability and distribution
Service messages	Derived from interactions with an organisation's customer service – deliveries, invoicing, claims handling, product documentation
Unplanned messages	News stories, references, gossip, Internet chat groups, word-of-mouth communications
Absence	A lack of communication or silence following service breakdown

Source: Derived from Gronroos (2000) who acknowledges the work of Calonius (1989) and Duncan and Moriarty (1997).

Through shared meaning trust increases.

reasoning and ultimately dialogue. Reasoning is important because it enables a sharing of values and a deeper understanding of the other party's needs and position. Through shared meaning trust increases. Gronroos (2004) argues that relationship marketing develops not from planned marketing communications, but through the interaction and personal experience of products and services and the degree to which these two sets of messages and meanings complement the promises and messages transmitted previously. He suggests that when these two processes come together a single, two-way communication process emerges. Put precisely he says, (p. 107) 'the two processes merge into a relationship dialogue'.

Communication during the customer lifecycle

Marketing communications can play an important role throughout all relationship phases and at all stages of the customer lifecycle. Indeed, marketing communications should be used to engage with audiences according to the audiences' needs, whether transactional and remote, or relational and close. According to Ryssel *et al.* (2004) the use of IST, which enables communication to be timely, accurate and direct, has a positive impact on trust. During the acquisition phase, marketing communications needs to be geared towards creating awareness and access to the brand. Included within this period will be the need to help potential customers become familiar with the brand and to help them increase their understanding of the key attributes, possible benefits from use and to know how the brand is different and represents value that is superior to the competition. Indeed, marketing communications has to work during this phase because it needs to fulfil a number of different roles and it needs to be targeted at precise audiences. Perhaps the main overriding task is to create a set of relevant brand values, which represent significant value for the target audience. In DRIP terms differentiation and information will be important and in terms of the promotional mix, advertising and direct marketing in the b2c market and personal selling and direct marketing in the b2b market.

The main goals during the development phase are for the selling organisation to reduce buyer perceived risk and to simultaneously enhance their own credibility.

The main goals during the development phase are for the selling organisation to reduce buyer perceived risk and to simultaneously enhance their own credibility. In order to reduce risk a number of messages will need to be presented through marketing communications. The selection of these elements will depend upon the forms of risk that are present either in the market sector or within individual customers. Marketing communications needs to engage by communicating messages concerning warranties and guarantees, finance schemes, third-party endorsements and satisfied customers, independent testing and favourable product performance reports, awards and the attainment of quality standards, membership of trade associations, delighted customers, growth and market share, new products and alliances and partnerships, all of which seek to reduce risk and improve credibility. In DRIP terms information and persuasion will be important and in terms of the promotional mix, public relations, sales promotion and direct marketing in the b2c market, and personal selling, public relations and direct marketing in the b2b market will be significant.

The length of the retention phase will reflect the degree to which the marketing communications is truly interactional and based on dialogue. Messages need to be relational and reinforcing. Incentive schemes are used extensively in consumer markets as a way of retaining customers and minimising customer loss or churn. They are also used to cross-sell products and services and increase a customer's commitment and involvement with the brand. Through the use of an integrated programme of communications value can be enhanced for both parties and relational exchanges are more likely to be maintained. In business markets personal contact and key account management are crucial to maintaining interaction, understanding and mutual support.

Through the use of an integrated programme of communications value can be enhanced for both parties and relational exchanges are more likely to be maintained.

Electronic communications have the potential to automate many routine transactions and allow for increased focus on one-to-one communications. In DRIP terms reinforcement and information will be important and in terms of the promotional mix, sales promotion and direct marketing in the b2c market, and personal selling (and key accounts), public relations and direct marketing in the b2b market will be significant.

The final phase of decline concerns the process by which a relationship is eventually terminated. This process may be sharp and sudden or slow and protracted. Marketing communications plays a minor role in the former but is more significant in the latter. During an extended termination, marketing communications, especially direct marketing in the form of telemarketing and email, can be used to deliver orders and profits. These forms of communication are beneficial because they allow for continued personal messages but do incur the heavy costs associated with field selling (b2b) or advertising (b2c). In DRIP terms reinforcement and persuasion will be important and in terms of the promotional mix, direct marketing in both markets and sales promotion in the b2c market will be significant.

Customer relationship management

One technological approach, designed specifically to enable better customer service and retention, is customer relationship management, more commonly referred to as CRM systems. Establishing what constitutes CRM is far from easy based on the various interpretations that have been placed on the term. Ang and Buttle (2003) suggest that there are three main approaches: *strategic*, where CRM is seen as a core business strategy; *operational*, where CRM is about automating different aspects of an organisation's selling, marketing and service functions; and, finally, *analytical*, where CRM is about manipulating data to improve the efficiency and effectiveness of each phase of the customer relationship lifecycle. From this it is possible to consider CRM as the delivery of customer value through the strategic integration of business functions and processes, using customer data and information systems and technology.

Early CRM applications were designed for supplier organisations to enable them to manage their end-user customers and consequently they became regarded as a front-end application. Originally developed as sales force support systems (mainly sales force automation – see Chapter 22) they have subsequently evolved as a more sophisticated means of managing customers, using real-time customer information.

CRM applications typically consist of call management, lead management, customer record, sales support and payment systems. These are necessary in order to respond to questions from customers (e.g. about products, deliveries, prices and order status) and questions from internal stakeholders about issues such as strategy, processes, operations and sales forecasts.

CRM applications typically consist of call management, lead management, customer record, sales support and payment systems.

These systems should be used at each stage of the customer lifecycle, in order to develop an understanding about customer attitudes and behaviour that the organisation desires. Theoretically, CRM should be used to assist in making decisions about whom to target, which customer differences should be taken into account and what impact this will have on profitability. It is this aspect of profitability, or relative profitability of individual customers, that is important and which is a core aspect of relationship marketing. As Nancarrow and Rees (2003) suggest, only by understanding the actual, potential, current and lifetime forms of individual customer profitability can different strategies be developed for different profit segments. Low-profit-generating customers may need to be treated differently from those customers that are highly profitable, and those customers who incur losses for the organisation may need to be dropped.

The conceptual idea of using customer and transactional data in order to proactively shape customer relationships is appealing. IST now enables much of this to happen. However, many client organisations have voiced disappointment and even criticism when such systems fail to meet their expectations, while Rigby *et al.* (2002) report that very few CRM investments have proved to be successful. Table 7.8 lists some of the more prominent reasons.

Table 7.8

Reasons for CRM disappointment

Author	Reasons for CRM underachievement
Wightman, 2000	Failure to adopt CRM within a strategic orientation
Stone, 2002	CRM is regarded as a mere add-on application that is expected to resolve all customer interface difficulties
Sood, 2002	Failure of systems to accommodate the wide array of relationships that organisations seek to manage
O'Malley and Mitussis, 2002	Internal political issues concerning ownership of systems

Most of the reasons cited in Table 7.8 are based on the failure of a large number of organisations, both clients and vendors, to understand the central tenets of a customer-focused business philosophy. If CRM systems are to work then a central business strategy, one based on the importance of trust, commitment and customer satisfaction, has to be agreed and led by the senior managers. Only within this context can it be expected that the installation of databases, data warehouses and associated software will help influence the quality of an organisation's relationships with its customers and stakeholders. Good customer management requires attention to an organisation's culture, training, strategy, propositions and processes. Regrettably, too many organisations focus on the interface or fail to understand the broader picture.

Summary

In order to help consolidate your understanding of the role of marketing communications within relationship marketing, here are the key points summarised against each of the learning objectives:

1. Explore the concept of value and its role in developing marketing relationships.

Value is the customer's estimate of the extent to which a product or service can satisfy their individual needs. Value is relative to customer expectations and experience of competitive offerings within a category, and can be derived from sources other than products, such as the relationships between buyers and sellers.

The development of customer perceived value is now regarded not only as crucial for commercial success but there is an increasing amount of evidence that indicates that the relationships organisations form, with a range of stakeholders, not just customers, are themselves a generator of value and hence an important aspect of contemporary marketing.

2. Consider the characteristics of relationship marketing.

Interaction between customers and sellers is based around the provision and consumption of perceived value. Relationship value can be visualised as a continuum.

At one end of the continuum are transactional exchanges, characterised by short-term, commodity or price-oriented exchanges, between buyers and sellers coming together for one-off exchanges independent of any other or subsequent exchanges. Both parties are motivated mainly by self-interest.

At the other end of the continuum are relational or collaborative exchanges. These are characterised by a long-term orientation, where there is complete integration of systems and

processes and the relationship is motivated by partnership and mutual support. Trust and commitment underpin these relationships and these variables become increasingly important as collaborative exchanges become established.

3. Appraise the theoretical concepts underpinning relationship marketing.

There have been numerous theoretical attempts to explaining relationship marketing. Three are presented here: social exchange, social penetration and interaction theories.

4. Consider the importance of customer retention and the use of loyalty programmes to reduce customer defection.

By undertaking a customer profitability analysis it is possible to identify those segments that are worth developing, and hence build a portfolio of relationships, each of varying dimensions and potential. These relationships provide mutually rewarding benefits and provide a third dimension in the customer dynamic, namely customer development.

At the heart of many relationship marketing strategies are loyalty or customer retention programmes. Whether these are loyalty or perhaps convenience programmes may be debatable but organisations in the b2c market should always question whether consumers really desire a relationship with a brand and whether their actions are bred of loyalty or inertia. Questions concerning trust and commitment have far-ranging implications for marketing communications whether these are delivered offline or in an online context.

5. Examine ways in which marketing relationships can be developed.

Exchanges that occur as a result of interaction are influenced by four main factors: technology; organisational determinants (size, structure and strategy); organisational experience; and individuals. The result of this is an atmosphere in which a relationship exists and which reflects issues of power-dependence, the degree of conflict or cooperation and the overall closeness or distance of the relationship.

Relationships consist of much more than just interaction or a series of exchanges so deconstruction of the relationship construct can provide a deeper understanding of the nature of relationships and in doing so indicate how marketing communications might best be used. Customer relationships can be considered in terms of a series of relationship development phases: customer acquisition; development; retention; and decline.

6. Explore issues concerning the development of trust in online environments.

The cues by which trust is established offline have yet to become fully established in the online world. Symbols, trade marks and third-party endorsements need to be available so that the trust-inducing cues can be interpreted and relied on.

Strong offline brands provide immediate recognition and an improved level of security, although care needs to be taken to convince audiences that the operator's online work is as effective as that of the offline brand. By satisfying criteria associated with transparency, security and customer service it is possible to earn accreditation or cues that signal compatibility and compliance.

7. Explore ways in which marketing communications can help organisations develop relationships.

Where transaction marketing is predominant, one where the focus is product and price, the use of mass communications with persuasion as a central element is recommended. Where collaborative exchanges prevail, personal communications that emphasise the relationship with its focus on interaction and dialogue is important.

Marketing communications can play an important role throughout all relationship phases and at all stages of the customer lifecycle. Indeed, marketing communications should be used to engage with audiences according to the audiences' needs, whether transactional and remote, or collaborative and close.

Review questions

1. Discuss the view that the notion of customer value is too abstract to be of worth to organisations when loyalty is so hard to establish.
2. Identify the three principles Doyle established for the development of customer value.
3. Without looking back, draw the figure depicting the range of value-oriented exchanges.
4. Make a list of the main differences between transactional and relationship marketing.
5. Write brief notes explaining relationship marketing in terms of social exchange, penetration and interaction theories.
6. Explain the concepts trust and commitment and outline the linkages between them.
7. Evaluate reasons why it has been difficult for organisations to establish online customer trust.
8. Identify two different commercial loyalty programmes and consider the marketing communications used to support them.
9. Prepare brief notes explaining different types of loyalty.
10. Discuss ways in which marketing communications can be used to develop relationships with customers.

MiniCase

Reggae Reggae Sauce

Angela Carroll: University of Leeds

Background

The Reggae Reggae Sauce brand was invented by entrepreneur, chef and singer Levi Roots. Born in Clarendon, Jamaica, Levi learnt to cook from his grandmother who taught him how to mix Caribbean flavours and the importance of natural ingredients in her kitchen. She passed onto him an old family recipe which had been handed down from generation to generation. When he came to England to join the rest of his family, Levi used cooking to combat homesickness, spending hours in the kitchen preparing his grandmother's recipes including jerk sauce. He perfected and refined the secret recipe to create Reggae Reggae Sauce, a marinade which is popular for barbecued food and which can also be used on its own as a dip or condiment.

Jerk is a Jamaican style of cooking which traditionally used a mixture of dry-rubbed spices called

Jamaican Jerk. Jerk spice must contain two essential ingredients to get the right level of flavours: Jamaican pimento (otherwise known as allspice) and scotch bonnet peppers, which give it a kick. In addition, a range of other ingredients such as cinnamon, garlic, cloves, tomatoes and nutmeg may be included. Jerked meat dates back centuries to the end of the 15th century when Columbus visited Jamaica but Jerk-stands are a very popular feature of modern-day Jamaica. Traditionally, jerk spice was always used with pork but today chicken, fish and tofu are also used.

For a number of years Levi made batches of the sauce in his kitchen in Brixton and sold it at Brixton market out of a bag on his back. The popularity of the sauce among Brixton's community persuaded Levi to set up a web site to promote and sell it. In addition, he regularly had a stall at the annual Notting Hill carnival which was called the Rasta'raunt because it was much more than a food experience. Levi's other passion in

life is music and as a reggae musician he was nominated for best reggae singer at the 1998 MOBO awards. Through Reggae Reggae Sauce Levi felt that he could combine his two great passions and create a fusion between the food he was cooking and the music he was singing.

In 2006 Levi was spotted at the World Food Market by a BBC researcher who invited him to appear on the BBC2 programme *Dragon's Den*. In the programme aimed at aspiring entrepreneurs, individuals compete for investment from the panel of successful business figures in exchange for a share in the business. Two of the panel, Peter Jones and Richard Farleigh, were won over by his presentation during which he sang a reggae tune 'Proper Tings' and claimed that the sauce 'puts music in your food'. They agreed to invest £25,000 each in the business for a 20 per cent return share.

Following the programme's airing in February 2007, an exclusive deal was secured with Sainsbury's who agreed to stock the product in 607 stores at a retail price of £1.49. The weeks that followed *Dragon's Den* were a testing time for Levi: he had to distribute a product that had previously been made in his own kitchen to a national market in a very short space of time. A licence was granted to a company in South Wales to manufacture the product to Levi's secret recipe and to meet the demand from Sainsbury's. In addition packaging decisions had to be taken including shape of the bottle and label design. Media interest in Levi escalated with requests for interviews, television appearances and music performances. His web site was flooded with orders and the brand became Sainsbury's fastest selling product in the category. He has subsequently developed a loyal customer base who are fond of both the product and the man behind it.

Despite the pressures created by the brand launch, Levi continued with his music career. He launched 'Proper Tings' as a single under the title 'The Reggae Reggae Sauce Song', with proceeds donated to Comic Relief. He is currently working on a new album with legendary producer Mad Professor while also compiling an album entitled 'The Best of Levi Roots'.

Determined to combine his love of food and music Levi said, 'I'm not in this to be the next Heinz Ketchup. I just want to bring the sweet, sweet flavour of reggae music to the world.'

In June 2007, Levi also opened a take away outlet in London, Papine Jerk Centre, serving traditional West

Indian food. The ethos is to prepare fresh, healthy food in front of customers in a fun, vibrant atmosphere.

In terms of market, Reggae Reggae Sauce competes most directly in the bottled sauce sector rather than the cooking sauce sector due to its versatility and the fact that it does not have to be heated. The bottled category was worth £362m in 2006 with the manufacturer brands of table sauce such as tomato ketchup accounting for 65 per cent of the market. Dish-specific sauces such as Reggae Reggae Sauce account for 16 per cent of the market. Growth has been moderate in this category with a 5.3 per cent increase between 2003 and 2006. However, the development of the barbeque market, fuelled by higher temperatures in the United Kingdom, is forecast to create a strong year-round presence for such sauces. In addition, there is evidence that some consumers are seeing established sauce products as boring and seeking more adventurous flavours, adopting a more experimental approach. Advertising expenditure in the sector has fluctuated over the past five years but is currently around £8m per annum. Traditional table sauce brands such as Heinz account for a significant level of expenditure. Competitors to Reggae Reggae Sauce include Nandos who have a range of spicy sauces including a sweet and sticky marinade and Encona, an Afro-Caribbean range produced by WT Foods, which was relaunched in 2006 with the aim of emphasising the Caribbean heritage.

MiniCase references

Bottled sauces, UK, Mintel, November 2006
www.itzcaribbean.com
www.reggae-reggae.co.uk

MiniCase questions

1. Discuss what factors Levi might consider when developing relationships with retailers such as Sainsbury's and independent food retailers.
2. Outline how the brand might use marketing communications to develop relationships with both retailers and consumers.
3. Consider how consumers could be encouraged to buy Reggae Reggae Sauce for the first time and then repeatedly in the future.

References

- Achrol, R.S. (1991) Evolution of the marketing organisation: new forms for turbulent environments. *Journal of Marketing*, **55**(4), 77–93.
- Altman, I. and Taylor, D.A. (1973) *Social Penetration: The Development of Interpersonal Relationships*. New York: Holt, Rinehart & Winston.
- Anderson, J.C. and Narus, J.A. (1998) Business Marketing: understand what customers value. *Harvard Business Review*, **76** (June), 53–65.
- Anderson, J.C. and Narus, J.A. (1999) *Business Market Management*. Upper Saddle River, NJ: Prentice-Hall.
- Ang, L. and Buttle, F.A. (2003) ROI on CRM: a customer journey approach. *CRM Today*. Retrieved 16 August 2004 from www.crm2day.com/library/EpFlupuEZVRmkpZCHM.php.
- Araujo, L. and Easton, G. (1996) Networks in socioeconomic systems: a critical review. In *Networks in Marketing* (ed. D. Iacobucci). Thousand Oaks, CA: Sage.
- Ashton, J. and Watts, R. (2008) Good payers face being axed by credit card firms. *Sunday Times*, 3 February 2008. Available online at <http://www.timesonline.co.uk/tol/money/borrowing/article3295315.ece>.
- Baldinger, A. and Rubinson, J. (1996) Brand loyalty: the link between attitude and behaviour. *Journal of Advertising Research*, **36**(6) (November–December), 22–34.
- Blau, P. (1964) *Exchange and Power In Social Life*. New York: John Wiley & Sons.
- Byrne, C. (2007) Serious Fraud Office reviews evidence in ITV phone-in scandal. *The Independent*, 20 October 2007. Retrieved 20 October from www.news.independent.co.uk/media/article3078884.ece.
- Calonius, H., Aviontis, G.L., Papavasiliou, N.K. and Kouremeos, A.G. (eds) (1989) *Market communication in service marketing, Marketing Thought and Practice in the 1990s, Proceedings from the XVIIIth Annual Conference of the European Marketing Academy, Athens*.
- Canning, L. and Hammer-Lloyd, S. (2002) Modelling the adaptation process in interactive business relationships. *Journal Business and Industrial Marketing*, **17**(7), 615–36.
- Christopher, M., Payne, A. and Ballantyne, D. (2002) *Relationship Marketing: Creating Stakeholder Value*. Oxford: Butterworth Heinemann.
- Cousins, P. and Stanwix, E. (2001) Its only a matter of confidence! A comparison of relationship management between Japanese and UK non-owned vehicle manufacturers. *International Journal of Operations and Production Management*, **21**(9) (October), 1160–80.
- Cox, J. (2004) The Ludlow Sausage Company – winning the ‘coopetition’ game. Retrieved 19 October 2004 from wisdomnetwork.com.
- Day, G. (2000) Managing market relationships. *Journal of the Academy of Marketing Science*, **28**(1) (Winter), 24–30.
- Dick, A.S. and Basu, K. (1994) Customer loyalty: toward an integrated framework. *Journal of the Academy of Marketing Science*, **22**(2), 99–113.
- Doney, P.M. and Cannon, J.P. (1997) An examination of the nature of trust in buyer–seller relationships. *Journal of Marketing*, **62**(2), 1–13.
- Dowling, G.R. and Uncles, M. (1997) Do customer loyalty programmes really work? *Sloan Management Review* (Summer), 71–82.
- Doyle, P. (2000) *Value Based Marketing*. Chichester: Wiley.
- Duncan, T. and Moriarty, S. (1997) *Driving Brand Value*. New York: McGraw-Hill.
- Fournier, S. and Yao, J.L. (1997) Reviving brand loyalty: a reconceptualisation within the framework of consumer–brand relationships. *International Journal of Research in Marketing*, **14**(5), 451–72.
- Gambetta, D. (1988) *Trust: Making and Breaking Co-operative Relations*. New York: Blackwell.
- Garbarino, E. and Johnson, M.S. (1999) The different roles of satisfaction, trust and commitment in customer relationships. *Journal of Marketing*, **63** (April), 70–87.

- Goodman, L.E. and Dion, P.A. (2001) The determinants of commitment in the distributor–manufacturer relationship. *Industrial Marketing Management*, **30**(3) (April), 287–300.
- Gronroos, C. (2000) Creating a relationship dialogue: communication, interaction, value. *Marketing Review*, **1**(1), 5–14.
- Gronroos, C. (2004) The relationship marketing process: communication, interaction, dialogue, value. *Journal of Business and Industrial Marketing*, **19**(2), 99–113.
- Gronroos, C. and Lindberg-Repo, K. (1998) Integrated marketing communications: the communications aspect of relationship marketing. *IMC Research Journal*, **4**(1), 3–11.
- Holmlund, M. (1997) *Perceived quality of business relationships*. Helsingfors: Hanken Swedish School of Economics, Finland/CERS.
- Kothandaraman, P. and Wilson, D. (2001) The future of competition: value creating networks. *Industrial Marketing Management*, **30**(4) (May), 379–89.
- Kumar, N., Hibbard, J.D. and Stern, L.W. (1994) *The Nature and Consequences of Marketing Channel Intermediary Commitment*. Working paper. Cambridge, MA: Marketing Science Institute, 94–115.
- Luo, X. (2002) A framework based on relationship marketing and social exchange theory. *Industrial Marketing Management*, **31**(2) (February), 111–18.
- Macneil, I.R. (1980) *The New Social Contract*. New Haven, CT: Yale University Press.
- Macneil, I.R. (1983) Values in contract: internal and external. *Northwestern Law Review*, **78**(2), 340–418.
- McLoughlin, D. and Horan, C. (2000) Perspectives from the markets-as-networks approach. *Industrial Marketing Management*, **29**(4), 285–92.
- McLuhan, R. (2007) Is loyalty a myth? *Marketing*, 15 August, 29–30.
- Morgan, R.M. and Hunt, S.D. (1994) The commitment-trust theory of relationship marketing. *Journal of Marketing*, **58** (July), 20–38.
- Morrison, D.E. and Firmstone, J. (2000) The social function of trust and implications of e-commerce. *International Journal of Advertising*, **19**, 599–623.
- Nancarrow, C. and Rees, S. (2003) Market research and CRM. Retrieved 21 August 2004 from <http://www.wnim.com/issue21/pages/crm.htm>.
- Nottage, A. (2007) Clarity will boost consumer trust. *Marketing*, 10 October, 21.
- O'Malley, L. (1998) Can loyalty schemes really build loyalty? *Marketing Intelligence and Planning*, **16**(1), 47–55.
- O'Malley, L. and Mitussis, D. (2002) Relationships and technology: strategic implications. *Journal of Strategic Marketing*, **10**(3) (September), 225–38.
- Palmer, R. (2007) The transaction–relational continuum: conceptually elegant but empirically denied. *Journal of Business and Industrial Marketing*, **22**(7), 439–51.
- Pavlou, P.A. (2002) Institution-based trust in interorganisational exchange relationships: the role of online B2B marketplaces on trust formation. *Journal of Strategic Information Systems*, **11**(3–4) (December), 215–43.
- Porter, M.E. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*, New York: Free Press
- Puth, G., Mostert, P. and Ewing, M. (1999) Consumer perceptions of mentioned product and brand attributes in magazine advertising. *Journal of Product Brand Management*, **8**(1), 38–50.
- Rao, S. and Perry, C. (2002) Thinking about relationship marketing: where are we now? *Journal of Business and Industrial Marketing*, **17**(7), 598–614.
- Rapacz, D. and Reilly, M. (2008) The new view of relationship marketing. *Journal of Integrated Marketing Communications*, 19–25. <http://jimc.medill.northwestern.edu/JIMCWebsite/2008/RelationshipMarketing.pdf>.
- Reichheld, F.F. and Sasser, E.W. (1990) Zero defections: quality comes to services, *Harvard Business Review*, (September), 105–11.
- Reinartz, W.J. and Kumar, V. (2002) The mismanagement of customer loyalty. *Harvard Business Review*, (July), 86–94.

- Rigby, D.K., Reichheld, F.F. and Schefter, P. (2002) Avoid the four perils of CRM. *Harvard Business Review*, February, 101–9.
- Robinson, J. (2007) Phone fiasco gives BBC a wake-up call. *The Observer*, 18 March 2007, 12.
- Rowe, W.G. and Barnes, J.G. (1998) Relationship marketing and sustained competitive advantage. *Journal of Market-Focused Management*, 2(3), 281–97.
- Ryssel, R., Ritter, T. and Gemunden H.G. (2004) The impact of information technology deployment on trust, commitment and value creation in business relationships. *Journal of Business and Industrial Marketing*, 19(3), 197–207.
- Sherwin, A. (2007) BBC fined £50,000 for Blue Peter scandal. *The Times*, 10 July 2007. Retrieved 18 October from www.timesonline.co.uk/tol/news/uk/article2051044.ece.
- Simpson, P.M., Sigauw, J.A. and Baker, T.L. (2001) A model of value creation: supplier behaviors and their impact on reseller-perceived value. *Industrial Marketing Management*, 30(2) (February), 119–34.
- Sood, B. (2002) CRM in B2B: developing customer-centric practices for partner and supplier relationships. Retrieved 28 April 2003 from <http://www.intelligentcrm.com/020509/508feat2r2.shtml>.
- Spekman, R. (1988) Perceptions of strategic vulnerability among industrial buyers and its effect on information search and supplier evaluation. *Journal of Business Research*, 17, 313–26.
- Stone, M. (2002) Managing public sector customers. *What's New in Marketing*, (October). Retrieved October 2002 from www.wnim.com/.
- Thomas, R. (2000) How to create trust in the net. *Marketing*, 2 March, 35.
- Tynan, C. (1997), A review of the marriage analogy in relationship marketing. *Journal of Marketing Management*, 13, 695–703.
- Wagner, S. and Boutellier, R. (2002) Capabilities for managing a portfolio of supplier relationships. *Business Horizons*, 45(6), 79–88.
- Wightman, T. (2000) E-CRM: the critical dot-com discipline. *Admap*, April, 46–8.
- Young, L.C. and Wilkinson, I.F. (1989) The role of trust and co-operation in marketing channels: a preliminary study. *European Journal of Marketing*, 23(2), 109–22.
- Zucker, L. (1986) Production of trust: institutional sources of economic structure 1840–1920. *Research in Organisation Behaviour*, 8(1), 53–111.