Relationship Marketing

Value creation and strategy implementation
Agenda

• The Changing Focus in Marketing
• Traditional versus Relationship Marketing Approach
• Transactional versus Relationship Marketing
• Relationship Marketing: principle and orientation
• The role of RM to competitive marketing strategy
“As a merchant you’d better have a friend in every town”

An ancient Middle Eastern proverb
The Changing Focus of Marketing

Product focus

Production focus

Sales focus

Marketing Mix focus

Competitive position focus

Customer relationship focus

Service dominant

Market dominant

Product Dominant

Time

Pre 1800s 1920s 1950s 1970s 1980s 1990s 2000+

Source: Christopher et al (1991)
Traditional Marketing Approach

• Marketing Mix (4Ps) Approach
  – Product
  – Price
  – Place
  – Promotion
Problems with Traditional Marketing Approach

- It assumes all segments of customers are similar and may be treated in a standardized way
- It assumes consumers are passive absorbers of marketing information
- It assumes short-term and often one-off transactions based around the exchange of goods for money

Source: Christopher et al (1991)
# Definition of Relationship Marketing

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Berry (1993) from a service perspective</td>
<td>“Relationship Marketing is attracting, maintaining and mult-service organizations enhancing customer relationship”</td>
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<tr>
<td>Jackson (1985) from an industrial marketing perspective</td>
<td>“Marketing concentrated towards strong, lasting relationship with individual accounts”</td>
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<tr>
<td>Berry and Parasuramen (1992) from a service perspective</td>
<td>“Attracting, developing and retaining customer relationships”</td>
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<tr>
<td>Gronos (1995) from a network perspective</td>
<td>“To identify and establish, maintain and enhance relationship with customers and other stakeholders, at profit so that the objectives of the partners interest are met, and this achieved by a mutual exchange and fulfillment of promises”</td>
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</table>

Source: Christopher et al (1991)
General Model of Relationship Marketing

- Focuses on a relationship rather than transactional approach to marketing
- Understands the economics of customer retention
- Highlights the critical role of internal marketing in achieving external marketing success
- Extends to more diverse market
- Recognizes the quality, customer services and marketing need to be closely integrated
- Ensures that marketing is considered a cross functional context
The Transactional to Relationship Marketing

Emphasis on all market domains and customer retention

Emphasis on customer acquisition

Functionality-based Marketing

Cross-functionality-based Marketing

Source: Christopher, Relationship Marketing, 2002
<table>
<thead>
<tr>
<th>Transactional Marketing</th>
<th>Relationship Marketing</th>
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<tr>
<td>-Focus in volume</td>
<td>-Focus on profitable retention</td>
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<tr>
<td>-Emphasizes product features</td>
<td>-Emphasizes customer value</td>
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<tr>
<td>-Short timescale</td>
<td>-Longer-term timescalers</td>
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<tr>
<td>-Little emphasis on customer services</td>
<td>-High customer service emphasis</td>
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<tr>
<td>-Moderate customer contact</td>
<td>-High customer contact</td>
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<tr>
<td>-Primary concern with product quality</td>
<td>-Concern with relationship quality</td>
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Principles of Relationship Marketing

• Maximizing Customer Lifetime Value (CLV) is a fundamental goal of Relationship Marketing
  – The future flow of net profit discounted back to the present
• Focusing marketing action on multiple markets
  – Six Markets Model
• It must be cross-functional
  – “Marketing is too important to be left to the marketing department” (David Packard)
The Relationship Marketing Orientation

Quality

Customer Service

MARKETING

RELATIONSHIP MARKETING

Marketing

Source: Christopher et al (1991)
Benefits RM to the firms

• To win a new customer is more expensive than to retain an existing customer.
• Established customers tend to buy more (share of wallet).
• Satisfied customers are more likely to refer others (reduce cost of acquisition).
• Loyal customers can be less price sensitive and may be less likely to defect due to price increases.
• Retaining customers makes market entry difficult for competitors.
The Role of RM to Competitive Marketing Strategy

- Value as the central role to develop and implement relationship marketing strategy
- Stakeholders interaction process
- Key value activities
The Role of Customer Value

• Customer Perceive Value (CPV)
  Is the difference between the prospective customer’s evaluation of all benefits and all the costs of an offering and the ‘perceived’ alternatives.

• Customers tend to be value maximizers
Component of Customer Value

Product Attributes
Service Attributes
Transaction cost
Life Cycle Cost
Risk

Perceived benefit
Perceived sacrifice

Expected Customer Value

The Value Process

• Value Determination
• Value Creation
• Value Delivery
• Value Assessment
Relationship Value Management Framework

**Customers:**
- Customer markets
- Referral Market

**Employees:**
- Internal Market
- Recruitment markets

**External stakeholders:**
- Shareholders
- Other influence markets
- Suppliers and alliance markets

**Value PROCESS**
- Value determination
- Value assessment
- Value creation
- Value delivery

**Customer retention**
**Employee retention**
**Employee recruitment**
**Employee satisfaction**
**Customer satisfaction**
**Customer attraction**
**Stakeholder retention**
**Stakeholder satisfaction**

Source: Christopher, Relationship Marketing, 2002
Choice of Relationship Strategy

• Three generic strategies identifies by Treacy and Wierseman:
  – Operational excellence
    Providing customers with reliable products or services at competitive prices and minimal inconvenience
  – Product leadership
    Providing products that continually redefine the state of art
  – Customer intimacy
    Selling the customer a total solution not just a product or service
References

Thank You