

CHAPTER 4 - RELATIONSHIP MARKETING

4.1 INTRODUCTION

Christopher, Payne and Ballantyne (2002:2) asserts that in the early 1970s, the focus was on volume and market share or what we would refer to as the transactional approach to marketing. The marketer's challenge in the growth markets was to obtain as much of that growth in demand as early as possible. Corporate objectives of maximising market share have changed towards the "quality of share" in recognition of the fact that not all customers are equally profitable (Christopher et al. 2002:2). This switch in objectives has taken place when many markets have matured in the closing decades of the twentieth century.

The era of matured markets is also well known to us where growth was low. Brand loyalty is weaker than it used to be due to these matured markets and it seems that the 4Ps of marketing is not enough to retain customers in consumer markets. Christopher et al. (2002:3) states: "The efficacy of conventional marketing has been repeatedly challenged in articles and conference papers along the line of 'is marketing dead?'" Competitors have furthermore been increasingly adopting similar principles and have been achieving similar performances. Gordon (1998:1) comments that marketing rarely achieves its promise of differentiating and developing enduring, competitively superior value.

Today's marketing –orientated companies have therefore started to take a new approach to create and deliver value to the customer. Organisations recognise that long-term profits are more likely to be maximised through the retention of satisfied customers. This is also the emerged paradigm of relationship marketing. Consumers are more sophisticated and less responsive to the traditional marketing pressures than that of the 1950s (Christopher et al., 2002:3). Customers now have a greater choice as a result of globalisation and more competition in the markets.

This is how relationship marketing originated which will describe the new way of marketing thinking. Internal collaboration amongst departments is needed where an ongoing relationship exists where customers look for value in the total service offering. These departments are responsible for different elements of the offering, such as taking care of complaints, advertising the product and delivering of the product. The whole chain of activities has to be co-ordinated and managed as a total process. Therefore, relationship marketing, for the same reason as modern management principles, requires a process management approach (Grönroos, 2000:29).

4.2 DEFINITION

Relationship marketing is first and foremost a perspective of how the firm can relate to its customers and other parties, which has an impact on how the business is developed and customers are managed (Grönroos, 2000:39).

Marketing is therefore, according to this perspective seen as the management of customer relationships. According to Grönroos (2000:41), “the relationship marketing philosophy relies on co-operation and a trusting relationship with customers and other stakeholders and network partners instead of an adversarial approach to customers; on collaboration within the company instead of specialisation of roles and the division of labour only; and on the notion of marketing as a market-oriented management approach, with part-time marketers spread throughout the organisation, rather than as a separate role for specialists only.”

Gordon (1998:9) defines relationship marketing as an ongoing process of identifying and creating new value with individual customers and then sharing the benefits from this over a lifetime of association. It involves the understanding, focusing and management of ongoing collaboration between suppliers and selected customers or mutual value creation and sharing through interdependence and organisational alignment (Gordon, 1998:9).

4.3 DIFFERENCE BETWEEN EXCHANGE AND RELATIONSHIP PERSPECTIVES

Grönroos (2000:24) states that the process of creating value for customers is different in a relationship perspective than an exchange-or transaction perspective. In traditional marketing models based on the exchange perspective, value is created by the organisation. Products are manufactured in the factory and distributed to customers. In a service organisation the value will be created for an example in the organisation's administration back office. Value that is created in such a way is therefore the outcome of products from a production process. Value, according to the relationship perspective is created through the relationship between the customer and the organisation. The focus is therefore not on products but on mutual relationships between customers and organisations.

4.4 DIFFERENCE BETWEEN TRANSACTION MARKETING AND RELATIONSHIP MARKETING

Grönroos (2000:25) identifies the difference between exchanged-based transaction marketing approach and the relationship marketing approach. The transaction marketing approach is based on a notion of mass markets where individual customers are anonymous. The objective is to make customers choose a particular brand over a competing brand. Gronroos (2000:25) make the comment that a situation of competition between the marketer and the customer develops. The main problem with such an approach is that the customer is seen as someone the marketer does something to, instead of what the organisation can do for you. Customers in the transaction marketing approach make independent choices from among the available option. Customers are also exposed to many competing products.

Grönroos (2000:25-26) argues that in relationship marketing, where interactions and co-operation exist at some level, the customer and the supplier or service provider are not totally isolated from each other. In the relationship marketing approach the customer to some extent do purchases on mutual influences. There is therefore an inter -dependence between the two parties

In the relationship approach the organisation creates value, and provide

possible value solutions in order to satisfy customer's needs.

4.5 FUNDAMENTAL GOAL OF RELATIONSHIP MARKETING

Cristopher et al. (2002:5) points out that maximising the lifetime value of a customer is a fundamental goal of relationship marketing. Cristopher et al. (2002:5) defines the lifetime value of a customer as the future flow of net profit, discounted back to the present, which can be attributed to a specific customer.

Relationship value of a customer is a concept or calculation that looks at customers from the point of view of their lifetime revenue and /or profitability contributions to a company (Zeithaml et al., 2003:162). The relationship value is therefore a concept that looks at customers from the point of view of their lifetime revenue contributions to a company. Estimating customer lifetime value is therefore critical when the organisation is thinking about long-term relationships with their customers. The financial implication of losing a customer becomes a major focus that leads to changed or new customer retention strategies.

4.6 THE COMPONENTS OF RELATIONSHIP MARKETING

4.6.1 Organisation culture

Descriptive details are organised as ethnographies wherein the presence of culture is displayed by language, rituals, taboos, codes, rites, symbols, standards of behaviour, and moral codes shared by members (Smit, 1987:21).

Culture is learned, shared, and transmitted from one generation to the next, and is multidimensional (Zeithaml & Bitner, 2003:49). Culture is very important in relationship marketing as it influences the ways customers evaluate and use services. Culture will also have an impact on how the organisation and the customer interact. Organisations need to change from their old traditional cultures and need to entrench a genetic code approach in order to adapt to customers in the global arena of business. Refer to paragraph 2.2.4 for the contrasting management paradigms.

4.6.2 Values and attitudes

Values and attitudes help to determine what members of a culture think is right, important, and /or desirable. Because behaviours, including customer behaviour, flow from values and attitudes, services marketers who want their services adopted across cultures must understand these differences (Zeithaml et al., 2003:50). Gordon (1998:23) therefore states that the customer's culture and values must be conducive to the formation of an enduring relationship. According to the discussion in Chapter 1, organisations need to change from old economy (second wave) to new economy (3rd and 4th wave) organisations in order to adapt to the ever-changing market. Refer to Table 2.2, Chapter two. Organisational values need to change from the focus on profit, growth and control to organisations that entrench values such as personal fulfilment of employees, taking responsibility for the whole and for service delivery.

4.6.3 Leadership

Gordon (1998:24) comments that leadership must view sharing as a virtue and understand the real meaning of a relationship before committing the company to relationship marketing. Relationships in the industrial or old economy has been viewed that the organisation and its leaders are separate and need to compete. The viewpoint of the new economy leadership is to see the organisation, leaders and customers as one and choose to co-create instead of only creating value for one. Gordon (1998:24) points out that no organisation will successfully implement a relationship marketing initiative as long as the leadership in the company is focused on winning at the expense of others. We can clearly see from this comment that relationship marketing will not be successful if value is created for one party only.

The leader must offer inspiration, and not his or her own old economy dogmatic views. The leaders within the company must focus on the value that can be unlocked through relationship marketing and on the mutual interest of individual customers and organisations.

The new generation organisation leader is essentially recognised as having a strong visionary component in his basic make-up (Nasser et al., 1993:135).

Nasser et al. (1993:135) is of the opinion that the new generation leader fits the following emerging leadership profile;

- Entrepreneurial
- Takes risks
- Suggests innovative solutions and is willing to experiment
- Proactive
- Positive and optimistic
- Mindset adopt a before-the fact posture, thereby making the future happen
- Seeks challenges
- Responds quickly to opportunities

4.6.4 Structure

Gordon (1998:25) states that the structure of a company should facilitate its strategy. According to Gordon (1998:25) relationship marketing impacts on the entire organisation and can therefore result in structuring the organisation in a total different way. Organisations must in order to adopt a relationship marketing approach consider to go beyond old economy (2nd wave) organisational structures such as business units organised by product or market. “Go beyond considering traditional organisational structures such as business units organised by product or market “(Gordon, 1998:26).


Consideration must be given to organisations that organise by relationships and capability, a structure that entrench team and community value. Have for instance a relationship manager in charge of each business segment. Gordon (1998:25) points out that an organisation that organised according to relationship marketing will have managers who own a specific category of relationship, such as that of current customers, new customers and employees.

4.6.5 People

People are involved and are the key to any relationship. People at the front lines should have the ability to communicate with customers in a manner that understand the customers' issues and needs, recognises them, remembers their contact history

and is able to predict anticipated behaviours and possible solutions to problems. It is therefore that ABSA Personal Financial Services train and develop their relationship managers to being process owners of relationships. Many, if not most people in a company focused on relationship marketing should move from being functional experts to being process owners of relationships (Gordon, 1998:27). In Chapter two, Table 2.2 the characteristics of locus of control and authority of the fourth wave (new economy) is described as a consensual discussion making and where everyone in the organisation is a leader. Everyone in the organisation must be a leader and must be responsible and accountable in order to create customer relationship. Train, develop and grow people into owners of a process which seeks to build customer bonding and purchase favourability (Gordon, 1998:27).

Gordon (1998:56) identifies a number of differences in the new era of relationship marketing compared with traditional marketing. The issues affect people in the relationship marketing era:

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- Customer knowledge is now distributed, where it was previously centralised in research reports. Marketing information and systems were not always accessible to front-line personnel.
 - More front-line personnel interface with the customer in more ways, resembling in better personal internal and data communication.
 - Teamwork is emphasised over the importance of the individual of the past. Relationship marketing now requires teams that also include the Customer.
 - People need to manage and improve technology, knowledge, capabilities and processes. People need to work according to defined methodologies and not just on the basis of personal benefits and interest.

- People interact with one another in order to create real time value with customers and internally within the organisation. Traditionally people would provide their opinions in carefully considered responses to issues and prepare reports. Now people participate with others to obtain solutions.
- People focus on strategic customers, not on all customers within the segment. Relationship marketers need to make choices together with others in the organisation and with customers.
- Relationship marketers should be transferring information to build their individual organisation and customer capabilities. Traditionally market information was closely guarded and not shared by everybody in the organisation.
- Relationship marketers should be developing customer information systems, rather than marketing information systems. Detail on the customer such as customer behaviour, attitudes and interaction with the organisation should be obtained.



4.6.6 Process

Processes need to focus around existing customers, giving each the value they want and communicating as every one wishes to be engaged by the company (Gordon, 1998:31).

Processes must be created and developed in order to add value to existing customers and to attract new customers. The process must give value and communicate the way in which every customer wishes to be dealt with by the organisation. ABSA Personal Financial Services has therefore changed the role of the sales force away from initial selling, only to create value for customers and having the relationship managed in an integrated way, tying together the various processes, people and technologies with which the customers can relate. Gordon (1998:31) states that the process therefore also includes the change from old marketing share viewpoints to total market value creation.

4.7 CONCLUSION

All the different divisions in the organisation should be organised and managed as a value-creating process that enables and strengthens relationship-building and management. It is accepted that the real purpose of business is to create and sustain mutually beneficial relationships, especially with selected customers. A successful relationship is a two-way flow between customers and the organisation where the customer benefits from the value from the relationship which converts into the value for the organisation in the form of profitability.

Internal collaboration among departments is needed to ensure an ongoing relationship with customers that look for value in the service offering. Activities such as advertising, delivering of the product and taking care of complaints must be coordinated and managed as a total process. Relationship marketing therefore requires a process management approach. A process management approach should be taken to the whole operation of the organisation. Maximising the lifetime value of a customer is a fundamental goal of relationship marketing. The objective of the new economy leadership organisation is also to create value for the customer. New economy or also called new generation organisations eradicate those activities, processes, procedures and people that do not create value for the customer. This implies that organisations that entrench new economy leadership principles are able to effect major changes in customer relationship management (CRM) and relationship marketing as are required to make it a leader in its field.

Chapter 5 will provide an in-depth explanation of the division Personal Financial Services, in which this study will be executed.