

chapter *twelve*

RELATIONSHIP MARKETING

LEARNING POINTS

Careful study of this chapter will help you to:

- examine why relationship marketing has become of major importance in marketing management
- connect the concept of relationship to the concept of communication
- realize some implications for marketing planners
- consider the importance of communicating before, during and after a value exchange

Marriage is one long conversation, chequered by disputes. Two persons more and more adapt their notions to suit the other, and in the process of time, without sound of trumpets they conduct each other into new worlds of thought.

Robert Louis Stevenson

INTRODUCTION

As traditional marketing becomes more and more obsolete, the idea relationship marketing highlights the centrality of communication – not as a means of informing, but as the mode of organizing exchanges. Relating requires communication, and communicating arises within a relationship.

Thus, in a book on marketing communication, we have to see relationship management as fundamental. Consider, again, for a moment, the shift in conceiving communication as a participatory social phenomenon rather than as a neutral tool for objective informing. As we have seen in the discussions of the preceding chapters, communicating is what is done with people, rather than to or from them. This is the very basis of relationship marketing.

Communication is the mode of inter-action, and a relationship is the shared context for meaning-making. Thus, whereas recent writers have begun to speak of 'interactive communication', a more helpful way of defining a framework for responsive and responsible management is to think of communicative interaction (as part of the corporate communication system of managing that sees marketing and public relations converging) (see Varey, forthcoming).

Grönroos (1990) highlighted that traditional marketing activity treats all people the same – there is little or no distinction between first-time and repeat/long-standing customers – in traditional marketing, everyone is treated as a prospect for recruitment, even if they have already traded and established a relationship. Interactive marketing, on the other hand, is what arises when customers and providers cooperate to co-produce the value they need and want.

The cost of recruiting a new customer may be several times the cost of retaining an existing customer. It can be much more cost-effective, profitable, and satisfying in other ways to maintain trading relationships with customers than to allow them (through neglect) to exit and then have to exert effort in trying to attract them back or to recruit replacement customers.

Trust and commitment are key requirements for lasting trading relationships, and are the outcome of communicating. The management of communication is key to managing relationships with customers and other stakeholders.

The problem for marketing managers is how to treat consumers, buyers, and customers personally. This aim is nothing new. Treating different customers differently should be seen as a reason for institutionalizing managed interaction with consumers and buyers.

MANAGING DIALOGUE

Dialogue has been defined as reasoning together in trust-based interactions (Ballantyne, 1999). This theory is highly significant for marketing communication managers since dialogue and knowledge generation in relationship marketing create and contribute value for stakeholders – customers, suppliers, and other people.

It is worthwhile revisiting our earlier question on what we imagine human communication is like – and thus how we might try to manage communication for a purpose. Nowadays, we often see the phrase 'interactive communication'. This is misleading. To be conceptually clear, interaction is any action that generates a response. In marketing systems, interaction is mutual and requires participation. Communication is a special kind of

interaction that enables communicators to construct meaning by speaking and listening (remember the idea of intentional strategic talk mentioned in chapter nine?). These reflective conversations are entered into in order to get beyond the understanding of any one person (a 'third way of knowing') – thus, dialogue moves from interaction to participation. This is where past textbook authors have gone wrong – relationship marketing is much more about partnering (dialoguing) in cooperative relationships, than it is about managing information. We need the term communicative interaction to provide the necessary emphasis for the management task. Marketing managers manage communication systems.

RELATIONSHIPS AS VALUE ADDED

Products are increasingly commodities, but relationships will always be unique. But why would a consumer or buyer wish to relate to a provider? A trading relationship saves time, ensures some consistency in value for money, and provides a sense of comfort and security. For the provider, a loyal customer buys more and generates more profit.

Strong relationships are built on trust, whereas profitable relationships are built on knowledge. The trading partners need to know each other's preferred ways of being treated and what is available for exchange. Yahoo!, for example, offers the proposition that the user will save time and get help in finding the information they want (see Box 12.1). Being the Internet site of first choice is the basis for a strong relationship.

BOX 12.1 PROBABLY THE WORLD'S BEST INTERNET SEARCH EXPERIENCE?

Google Inc. indexes more than 1 billion URLs, thus providing access to the full text of 560 million web pages. This means that I can search the equivalent of a stack of paper more than 70 miles high in less than half a second! With searches available in 10 languages and highly relevant search results, I have become an enthusiastic advocate for using this search engine for all Internet searches. Google almost always finds what I want. Google is my first choice when using the www for communication, learning, and entertainment.

The people at Yahoo! are so impressed with Google's technology that they have struck a deal that makes Google their default search results provider to complement their Web directory and navigational guide.

We will meet Google again in a later chapter.

(See www.google.com and www.yahoo.com)

Communication and culture guru Marshall McLuhan observed in the 1960s that commercial competition creates resemblance. This has serious implications for marketing managers in pursuit of competitive advantage! Providers competing over a market niche or position tend to grow more alike. This

leads to escalation in competitive effort. Thus, market share becomes harder to gain. The only way out is to change the rules of the game. McLuhan termed this the competitive exclusion principle (McLuhan and Powers, 1989).

The relationship may be valued when product performance and quality is taken for granted and there is little differentiation on that basis alone.

RELATIONSHIP STATUS

Consumers, buyers, and providers (sellers) seek to establish and maintain trading relationships when they believe that such an investment will enable them to accomplish the goals of their 'life projects'. The buyer–seller relationship has been likened to a marriage (Tynan, 1997). These ways of thinking about such relationships are drawn from the study of interpersonal relationships by social psychologists. Dwyer *et al.* (1987), on the other hand, used a life-cycle approach to model the buyer–seller relationship (Figure 12.1).

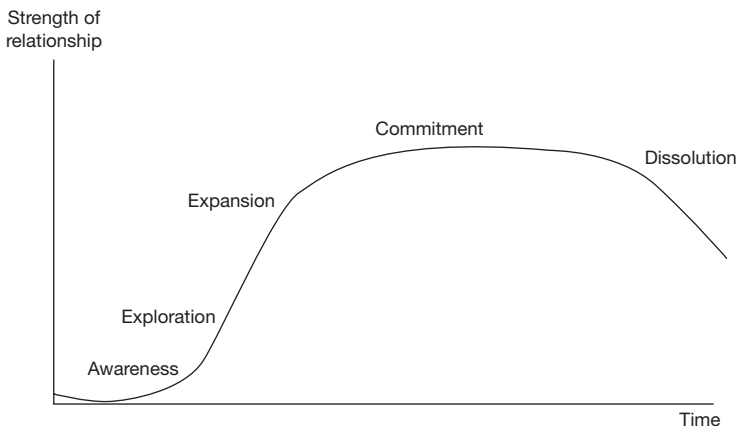


Figure 12.1 A buyer–seller relationship life cycle

Source: Based on Dwyer *et al.*, 1987

In the exploration stage, parties try to attract the attention of the other, to bargain, and to understand the expectations, norms, and power of the other. Expansion occurs when the initial exploration succeeds in establishing the basis for a continuing relationship. Exchange outcomes provide clues about the suitability of this. Commitment reduces the need for searching for alternatives. The possibility of termination is always present, and the consequences are greatest once the parties have made significant investments in the relationship. The relationship-marketing task is to sustain and maintain the trading relationship for as long as it provides benefits to the parties – see Box 12.2. If we refer back to the marketing mix discussion of chapter seven, we can see that relationship development requires a fully integrated approach to managing the wide-ranging marketing communication situations (see chapter thirteen for elaboration of this key idea).

BOX 12.2 CARING FOR CUSTOMERS – GUARANTEED!

In 1993, SONY UK launched a customer care-line and a product insurance policy as part of its move into relationship marketing (Toor, 1993). Customers register at the point of sale for access to the information telephone service and are offered an extended-service warranty. SONY's quality development manager, Paul Campbell, identified customer desire for a relationship with the manufacturer that extends beyond the initial purchase: 'It's important that we have the opportunity to communicate directly with our customers', he commented. This becomes more difficult, and the market for consumer electronics products becomes more fragmented and broadcast advertising then becomes less cost-effective. Broadcast advertising will focus on brand exposure, while direct mail is used to generate sales leads. For example, owners of 7-year-old TV sets were mailed with brochures on new technology sets.

Ironically, in the early 1980s, SONY was one of many consumer electronics manufacturers who dropped the guarantee card because they were overwhelmed with thousands of cards that they could not find resource to deal with. Today, electronic registration at point of sale and on the Internet has solved that headache! The customer care programme has become a major element of the marketing communication system.

We will see in chapter fifteen how the nature of the relationship and any gap between this and the desired relationship can be addressed by setting appropriate communication objectives. Later in this chapter, we will examine marketing communication approaches to establishing commitment as loyalty.

Several levels of commitment can be identified. A prospect has yet to establish a relationship, whereas a strong advocate is fully committed not only to product purchase for themselves but also to recommending to associates, friends, and family – see Figure 12.2.



Figure 12.2 The ladder of consumer/buyer commitment

TRANSACTION VS. RELATIONSHIP APPROACH

Whereas market exchanges are casual short-term discrete (transactional) episodic encounters primarily motivated by self-interest, relational exchanges develop when people wish to develop long-term exclusive and supportive relationships on the basis of mutual knowledge that simplifies their trading environment. Whereas traditional marketing, operating through market exchanges, manages the preparation and promotion of an offering in order to consummate an exchange, relationship or interactive marketing also works to maintain the relationship between product-based exchange episodes.

Rather than pursue a market relationship to bring a product and a consumer/buyer together, relationship marketing attempts to establish and cultivate a marketing relationship that enables cooperative problem-solving (Table 12.1). Communication is participated in for the purpose of informing, answering, listening, aligning, and matching.

Characteristics of relationship marketing:

- Retention of selected customers, rather than recruiting new ones to replace valued defectors.
- A focus on long-term associations, with an orientation to identifying and meeting future customer needs.

Table 12.1 How does relationship marketing differ from the traditional approach?

<i>Transaction marketing</i>	<i>Relationship marketing</i>
Focus on recruitment of customers for a single sale	Focus on customer retention
Orientation on product features	Orientation to product benefits and system solutions
Short-time horizon	Long(er) time horizon
Little attention to customer service	Customer service considered very important
Limited commitment to customer	Commitment to customer is high
Moderate contact with customer	Customer contact is frequent and rich
Quality is primarily a concern of production	Quality is the concern of all
Communication is for persuasion	Communication is for meaning-making
Information is the content of communications	Information is the product of communicating
Business model is functional, mechanistic, production-oriented	Model is humanistic, relationship based

- A focus on service benefits, rather than features – a system orientation which customizes offerings, including communication, through interaction (Grönroos, 1983).
- Emphasis on high levels of customer service through repetitive interaction.
- High levels of commitment based on promises to and from selected customers.
- High level of customer contact (frequency and number of people involved) – many transactions merged together.
- Interactive-marketing function connected with all other business functions, not separated like the traditional marketing function.
- Interactive marketing supported by marketing mix activities – customers involved in design of solutions, rather than unilateral attempts to change attitudes.
- Customers less sensitive to price.
- People in the supplier organization become critical marketing resources as ‘part-time marketers’.
- Direct management of the customer portfolio, rather than concern for market share.
- Continuous real-time dialogue with customers, rather than ad hoc satisfaction surveys.
- Anticipated conflicts of interest and future trouble are counterbalanced by trust and efforts at unity – a mutual learning interaction.
- Joint efforts related to both performance and planning over time.
- The seller regards relationship marketing as a strategic issue, mainly because the profit centre is increasingly the customer rather than individual transactions.
- The buyer considers relationship marketing as a communication process that should enhance the relevance of the seller’s offering.
- A balanced formal/informal communication strategy with measurement of satisfaction in relational terms.
- What is offered in the relationship – the service content – may be undifferentiated. Then it is the relationship itself which provides the benefits, rather than what is delivered.

Box 12.3 provides an unusual example of relationship marketing.

The relationship approach requires that business managers responsible for matching, producing, and representing value exchange opportunities need to adopt a service orientation to the manner in which the business is operated, with a process perspective that recognizes the manner in which value is created and provided to consumers and buyers. This requires active involvement of partners in a value-creating network of suppliers, producers, intermediaries, and so on.

Relationship marketing focuses on the individual customer, but also other stakeholders, and seeks to manage the relationships to add value for each person.

BOX 12.3 ORGANIC COOPERATIVE PUNCHES ABOVE OWN WEIGHT

Richard Counsell of Somerset Levels Organic Foods has just been voted UK e-commerce operation of the year. This is some considerable achievement for a small Somerset farm that only recently acquired a second-hand PC by swapping it for an Aberdeen Angus heifer and established an Internet site using free software from a magazine.

The site sells organic lamb, beef, cider, Cheddar cheese, and fresh vegetables to 800 customers, and orders are growing by 5 to 10 per cent per month, averaging £90 each. Trading with supermarket chains was robbing the farm of much of its profit. Today, the proprietors can deal directly with consumers, many of whom would otherwise never have heard about the firm's produce. Orders come in from as far afield as the Orkneys and the Channel Islands, many from high-class restaurants. Customers can pay online and take a virtual tour of the farm, as well as select produce for their order, and get a recipe of the month.

ONE-TO-ONE MARKETING

Don Peppers promotes the notion of a shift, enabled by electronic telecommunications systems, to customer relationship management from the traditional product management of mass marketing. In this strategy, the aim is to establish and build enduring trading relationships in which customer relationship managers find products for their customers. This is very different to the product manager's task of finding customers for the corporation's products. Consider the examples illustrated in Boxes 12.4 and 12.5.

BOX 12.4 SELLING A HOUSE IS EASIER WITH EASIER.CO.UK

A new business model is displayed in this situation where an Internet site removes the need for a traditional house sale agent as the go-between seller and buyer. The Internet connection allows direct interaction between vendor and potential purchasers, without the need for an intermediary.

Interestingly, what are traditional estate agents doing about this development?

The first requirement is the ability to identify each customer individually and to classify them in terms of their purchase and consumption habits and preferences. Then, customers must be differentiated in terms of why they buy so as to gain a greater share of their total purchasing power. Thirdly, interaction with the customers is a crucial part of the business strategy. Asking about needs, interests, uses, preferences, and experiences – then listening to the answers and acting upon them – is the basis for one-to-one marketing. Finally, the value production process must be capable of delivering customized

BOX 12.5 INFORMATION TECHNOLOGY OR RELATIONSHIP TECHNOLOGY?

How do marketers use the Internet to build relationships with their customers and consumers and buyers who are prospective customers?

There is more to it than merely connecting a website to a database. A variety of new means for posing questions, listening to responses, and, in turn, responding to them are available. It is not sufficient to take a broadcast approach, a direct response approach, or a publishing approach. What is required is a dialogue approach – i.e. a website and associated features, such as e-mail, as a conversation tool.

products to valued customers. The relationship must be continually producing learning, and requires customer relationship management.

THE RETENTION STRATEGY

Traditional ‘marketing’ practice aims to recruit new customers who will make purchases that contribute profit margin with a short-term performance framework. The concept of the most valuable customers is ignored or given low priority. Also the influence of one customer on another is largely ignored.

Current customers should be encouraged to participate in retention and expansion. Lapsed customers need reconciliation activities. Prospective customers need to be engaged by attractive offerings that transcend mere product and price. One way of identifying the people who are important for the business of the provider is to analyse the lifetime value (LTV) of a customer’s patronage. For example, a house mortgage can be thought of either as a £500 per month revenue stream or as a £250,000 contract over twenty-five years. Similarly, a car purchase may be thought of as a single £10,000 transaction or part of a fifty-year stream of car purchases worth £150,000. The weekly supermarket shopping bill may total £50. Over the next fifty years this will amount to £125,000!

Another crucial question is why do 10 to 30 per cent of our customers move on to other providers each year? Apart from ceasing to need a particular product, mostly people switch because they feel neglected or misunderstood. Even worse, they feel that their interests are not central to the way providers operates their business system.

Providers can act to retain customer patronage by:

- adding value to the relationship
- operating a loyalty programme that rewards a continuing relationship
- barring exit from the relationship

Any attempt to make a customer dependent upon a provider is an act of aggression and is going to fail eventually. Once a customer feels that they are being ‘held hostage’, then the basis of the trading relationship is unhealthy

and may prove costly for both parties. We will not consider such an approach any further.

CUSTOMER RELATIONSHIP MANAGEMENT

The creation of customer satisfaction with the product and their treatment is a sure way to earn repeat business. This is not, of course, solely the responsibility of the marketing team. We have seen that generative, productive, and representative work is necessary. We will consider the problem of integrating this in chapter thirteen. The starting point of a relationship marketing strategy is a deep understanding of why customers would want a relationship with you as a provider of value? The answer, stated simply, is that a sustained relationship with you must itself provide additional value to the customer. Such a developing committed relationship will come from:

Knowledge, privilege, cooperation

Information that is interpreted and transformed into satisfying products is essential. Increasingly, it is this transformation of knowledge from one form to another that is the basis of the business: i.e. the customer-product relationship. Then, customers have to be treated differently from prospects. Commitment must be reciprocated if the provider is to be rewarded for their relationship management efforts with profitable sales and favourable word-of-mouth publicity and promotion.

The growing adoption of a Customer Relationship Management (CRM) system is evidence that more and more providers are trying to put the customer's interest at the heart of their business by integrating marketing, customer support, and other functions to maximize added value in a dialogical relationship. Instead of finding customers for products, providers are managing relationships in which they find products for customers (Peppers and Roger, 1993, 1997). Marketing communication no longer simply tries to create and refresh product awareness and identification. Instead of saying 'we are here, look what we have got', providers are saying 'we are here with you, continually providing value'.

CRM is a holistic approach to the generation, production and representation of a value-creation system, i.e. marketing, customer service, and logistics. The aim is to move the supply chain nearer to the customer to link customer needs more directly into the management of supplies, design, manufacturing, packaging, transport, and the ultimate purpose of all of this – profitable exchange. This enterprise view is a shift away from a departmental view. The technology captures and provides information about interaction history, enabling a consistency of experience for valuable customers in all interactions – inquiry, order, delivery, maintenance, upgrade, and so on. (See Box 12.6 for an example of exploiting technology to effect.)

CRM systems can send customers reminders about essential servicing and tailored offerings based on past trading history and personal information

profiles. Customers can self-select assistance through the provider's website, and gather information about products, billing, order progress, and so on.

This development should challenge the marketing communications manager because it includes knowledge management, marketing automation, customer care, call centres, and sales force automation. This is obviously much more than promotional advertising design.

BOX 12.6 E-COMMERCE TAKES OFF AT AIRTOURS

The launch of mytravelco.com provides a global branded integrated travel service through which holiday and travel products can be bought through multiple channels including the Internet, interactive TV, WAP phones, telephone call centres, and high-street offices.

The integration of customer relationship management and distribution systems is founded on strategic technology partnerships with BT, Oracle, Sun Microsystems, the Landmark Travel Channel, Lonely Planet, Telewest, and others. This recognizes that the distribution structure that puts value into the 'hands' of consumers and buyers is part of the total communication environment. Marketing communication management is a critical aspect of supply chain management, and not separate from it.

The mytravelco loyalty programme rewards customers with points throughout the holiday experience.

Chairman David Crossland believes that this £100m investment will 'revolutionize our relationships with our customers, enhance our revenues and provide significant opportunities to further increase efficiency'.

(www.airtours.com/emedial)

AFFINITY MARKETING

For the provider, customer loyalty means that customers continue to repeat their purchases over an extended period of time. This means that at some point in time they are not switching their purchases to brands that offer more benefits and/or lower prices. This continuity in purchase behaviour may be due to lethargy or a fear of the risk of changing product and/or supplier. Looked at from the marketing communication manager's perspective, loyalty to another brand can be broken by sales promotion and created by advertising (NB: if it works for you, it may work for competing providers too!).

Loyalty schemes provide rewards to customers in return for their continued patronage. The value provider is able to gather personal information that is much more valuable for customized product offerings than is any of the aggregate data about the 'average' customer or market segment typically used in traditional marketing practices. Thus, data can be gathered from enquiries, purchases at store checkouts, and so on. However, because the enabling technologies are being heavily promoted by their vendors, such schemes may not provide competitive differentiation for long. Arguably, it is the relationship that matters, rather than rewards that can be copied and bettered by other providers.

Some examples of popular loyalty schemes are: the Tesco Clubcard with nine million holders, of which six million are very active spenders with the card and are considered to be loyal; and Sainsbury's Reward Card.

Shell Smart card partners with ten retailers, enabling the four million people who hold the card to earn points when shopping for a range of goods and services. The aim is to increase the number of partner retailers to around thirty to cater for consumers' everyday needs – in some cases with a smartcard that can be used through a digital TV set-top box to make purchases online.

The affinity card, which links a business with a charity or cause, has become a popular way for consumers to identify with a particular cause and to make a donation to charity based on spending. This form of innovative fund-raising has been adopted by charities such as the RSPCA and Save the Children. It has also become part of the commercial fundraising activities of football clubs (a 'grown-up T-shirt', according to Nick Begy, sport account manager at US affinity marketing corporation TransNational).

The reward card carries redeemable points for spending, and generates consumer purchase behaviour information for the provider. A number of co-branded cards have been launched, and a number of consortia of retail, financial services, and utilities have been formed to share marketing resources, distribution channels, and information about customer purchasing.

Marketing objectives for these schemes are to: generate income; add value for, and build affinity with, (credit)card holders; develop loyalty; and develop brand awareness.

Ultimately, if loyalty schemes are to be sources of sustainable competitive advantage, they have to catalyse an alternative way of thinking about the business of the value provider. Instead of a 'what can I make and how can I sell it?' mentality, this approach drives a 'who are my customers and what can I sell them?' mentality. And, as a bonus, loyalty schemes generate information that has value in its own right (Mitchell, 1996); see Box 12.7. Thus, the task at hand is for marketing communication managers to think in terms of their contribution to relationship management.

One implication of a relationship-marketing strategy is the need for consistency in marketing communication activities so that trust is built through coherence in stakeholder relationships. We explore the idea of integrated marketing communication in which a single voice and consistency in the expression of corporate values, product performance, and brand identity and position is designed into communication processes that are appropriate for each category of product–market combination in chapter thirteen. Box 12.8 deals with the question of when relationship marketing might not be a viable option.

BOX 12.7 COMING ON STRONG WITH THE HOG

Once, a Harley-Davidson motorcycle was the symbol of rebellion – today it is a status symbol and so popular that new orders take more than a year to deliver. Customers are certainly loyal! Some even tattoo the company name onto their bodies.

All new owners are given a one-year membership of the Harley Owners' Group (HOG), and receive regular mailings of literature and manuals. Dealers support the relationship by sponsoring local HOG chapters. A customer retention direct-mail programme was devised with help from the US Postal Service Tactical Marketing and Sales Development division. This aims to encourage HOG members to renew their \$40 annual membership by mailing humorous reminder cards, member magazines, and easy-to-use renewal kits. When the HOG was launched in 1983 there were 33,000 members. With a 75 per cent renewal rate, this has grown to more than 500,000 members.

In 1999 the HOG.com website was launched to provide on-demand membership information and administration. As the site proudly proclaims, 'some HOG benefits you hold in your hand – some you hold in your heart'.

(www.harley-davidson.com, www.hog.com and www.harley-davidson.co.uk)

BOX 12.8 WHEN RELATIONSHIP MARKETING IS NOT APPROPRIATE

Commodity product providers cannot adopt a relationship-marketing strategy because their customers have no reason to remain loyal to a single provider. They routinely search for the most accessible lowest-cost product supplier. The suitability of a relationship marketing strategy depends on the nature of: the product (risky products in turbulent markets and where benefits accrue over a period of time, e.g. personal services and medical care); the customers (valuing of economic and social exchanges of relationships, orientation towards transactions or relationships, and trust and commitment); and the provider (emphasis on differentiation and value-creation manifest in corporate structure, processes, and core values).

Relationship marketing can pay off handsomely with customers who have long time horizons and high switching costs.

(Kotler, 1991: 197)

REVERSE MARKETING

In some situations, the buyer takes the initiative in seeking suitable suppliers. This situation has been termed reverse marketing, buyer initiative, or proactive procurement (Leenders and Blenkhorn, 1988). When this occurs, the provider has to respond through a reactive-marketing process. However, this is a passive strategy that will not attract buyers to form trading relationships with the corporation.

Although this situation has been recognized, particularly in industrial and business-to-business marketing management, it has largely been taken to be the adoption of a marketing system by buyers in order to persuade an attractive supplier to supply.

What has largely been missed is that this concept of reverse marketing suggests that marketing communication systems must be able to cater for buyer-initiated interaction. Often, this responsibility for communicative interaction has been located with a customer service group and treated as an administrative task. Thus, the marketing communication system must be receptive as well as expressive – and providers need to expect that in some situations buyers will be hunting for suitable suppliers. Surely, this presents an (often unrecognized) opportunity for many supposedly customer-oriented corporations. Promise-making may have to be more receptive, accommodating, and responsive. These are all questions of communication system capability.

EFFICIENT MARKETING COMMUNICATION

Wernerfelt (1996) proposes that providers should treat their customers as partners when they make decisions about marketing communication. Efficient marketing communication adopts partnership criteria to help customers to learn in order to avoid unfavourable uninformed expectations without misleading them, and to construct positive beliefs about benefits of purchase. Persuasion is seen as a short-term strategy (is it then really only a recruitment tactic?). It is better in the long run to help consumers/buyers and customers to assess whether a product is a good choice for them. Disappointed customers are harder (more costly) to persuade! Wernerfelt compares, in general terms, benefits available to customers and the related costs to customers and providers for each means of communication (Table 12.2).

Wernerfelt reminds us that these characterizations are general and benefits, cost of acquisition, and cost of supply will vary among consumer, product attributes, and market conditions.

Table 12.2 How efficient is your marketing communication?

<i>Means of communication</i>	<i>Benefits to customer</i>	<i>Cost for customer</i>	<i>Cost for provider</i>
Sales force	Sales person can determine suitability of complex products, and can customize information	Planning, meeting and travelling time	One-to-one communication is expensive
Retail showroom	Evaluation through seeing and/or handling the product, paying attention to what matters to them	Travel, including time	Expensive, but economies of scope are possible with multiple brand stock
Catalogue	Less reliable and customizable information is provided, with only pictures and description	Cheap to use at any time, no travel necessary, but requires concentrated attention	Relatively cheap with economies of scale in production, but delivery precision is critical
Print advertising	Similar to catalogues	Located among newspaper articles and reports	Variable targeting efficiency and costs, and simultaneously carry numerous advertisements
Television advertising	Easy to access	Easy to watch	Large economies of scale – cheap on a per-consumer basis, but cannot customize information
Samples by mail	Good information provider for experience products (e.g. coffee, shampoo)	No information is provided if the sample is not used, and an opportunity cost is incurred if tried instead of pursuing other activities	Depends on the nature of the product – most useful when market segments are difficult to identify
Word of mouth	Beneficial information at negligible cost, but what incentive to users?	Negligible	Negligible – reliability of information is reduced by incentives

CASE STUDY 12 BUILDING A RELATIONSHIP BUSINESS

Established in 1993 in Westwood, Massachusetts, Streamline Inc. has gone a step further than the growing number of online grocers who offer Internet-based ordering and home delivery. In order to improve quality of life by alleviating some of the most mundane hassles facing overworked and stressed people, customers in the Boston, Chicago, and Washington, DC, areas pay a monthly fee for the use of a refrigerator, a freezer, and storage shelves. A ring bar-code reader, worn on the finger and linked to a wrist-worn computer radio-frequency data communication unit, is used to record what each customer keeps in these, in their medicine cupboard, and in their kitchen cupboards. A personal shopping list is then posted to the Streamline website. This allows editing by the customer. Over a period of weeks, the list is refined, allowing ordering, via the web or fax, of a selection from over 10,000 grocery items, video rental, dry cleaning, parcel delivery, shoe repairs, picture processing, ready-made meals, and bottle and can recycling. Typical orders are placed forty-seven weeks a year for seventy-five or so items totalling \$110 and paid for by credit card or electronic funds transfer. Thus the annual value in the relationship is around \$5,000.

Rather than being based on leading-edge technology, the Streamline offer is a home-based relationship that attends to necessity, frequency, and reliability. The corporation has carefully selected who they want to trade with. 'It's easy to get customers. It's harder to get the right customers', argues Gina Wilcox, Director of Strategic Relations. In choosing to do business with young and middle-aged couples with high incomes and at least one child, 'we collaborate with families that want to run better', explains Vice President of Marketing and Merchandising, Frank Britt. Consumers are coming to depend on the corporation to help them make their lives simpler and better, thereby freeing up time to do the things that really matter. For example, almost 50 per cent of customers use the 'Don't Run Out' service that has Streamline staff regularly replenish the items that the family identifies as 'must-have'. This redefines loyalty and marketing, suggests Gina Wilcox. They are pioneering new supply chain strategies with their customers and their suppliers to provide 'lifestyle simplification'. The relationship is very tangible and interactive. Apart from the weekly orders, Streamline representatives have permission to enter the customer's garage even when they are not at home. How many businesses have that level of trust? The website has 'smiley faces' that allow customers to rate the service at every interaction, and 'Streamline Screamline' provides telephone access for feedback and venting of any frustrations.

The Streamline business model follows the notion of a 'products for customers' strategy as explained by Don Peppers. There is fast learning during the installation phase, then a strong understanding of the customer's purchasing patterns arises and needs can be very effectively anticipated. Using sophisticated databases and telecommunications, the customer response centre tracks orders and maintains a customer profile. There are immediate benefits to everyone. Only competitors, who find it hard to attract customers away from the service, are disadvantaged. A number of partnerships are being built to provide the kind of products and services that customers want. UPS collect and deliver parcels, while Kodak process pictures in a variety of formats. Marketing and advertising partnerships are being developed with leading packaged goods companies (i.e. fast-moving consumer goods or FMCG) to provide revenue from fees, merchandising, and other direct-marketing activities. Fresh foods, such as fish, are supplied just-in-time direct to the consumer.

Founder Tim DeMello is clear that 'We are not in the grocery business. We are in the lifestyle-solutions business. We are not a product business. We are not a service business. We are a relationship business'. The asset is the consumer relationship. What prompted the launch of the business was the 'commoditization' of time and the introduction of technology that enables people to interact with service providers. Streamline becomes a consolidator and gatekeeper to its customers. Bills, delivery, and problem-solving are easily accessed together, while the corporation recognizes each customer's needs, learns from them, and responds accordingly.

Streamline Inc. plan to roll out their service to twenty US metropolitan areas by 2004. The business publicly issued shares in June 1999. More than 75 per cent of orders are received over the web. By August 1998, the company was ringing its office bell to welcome another new family every hour or so. The annual customer retention rate is about 90 per cent. DeMello claims that in the categories of consumer spending served his corporation get around 85 per cent of the money that their customers spend each year. The referral rate is also very high.

CASE STUDY 12A NATIONAL GEOGRAPHIC'S SUBSCRIBERS HAVE ALWAYS BEEN MEMBERS^a

We all recognize instantly the distinctive *National Geographic Magazine*. But did you know that it was first produced as a benefit for the members of the learned society founded at the Cosmos Club (across the street from the White House) in Washington in 1888 by thirty-three men from diverse backgrounds to increase and diffuse geographical knowledge. The first issue of the National Geographic Society's magazine was provided to 265 member subscribers as a journal. Today, some 9 million people receive the magazine in 17 languages. Furthermore, 60 million members in 62 countries and 14 languages receive the National Geographic TV channels via B SkyB, NBC, and Fox. Some 147 book titles are published in 24 languages, and a thriving video, CD-ROM, and DVD business operates internationally with several production and distribution partners. *The Complete National Geographic: 109 Years of National Geographic Magazine* on CD-ROM (retailing at \$130) brings 180,000 photographs and 9,300 articles together in a searchable format that could never have been imagined by those early members of the Society. There are two websites and a gateway through CompuServe. Online delivery provides members with not only super-fast distribution, but further added-value from special editorial content.

To bring the corporation up to contemporary performance, membership is being re-emphasized over subscriptions. The relationship-marketing programme has been developed to manage expectations, in terms of fulfilling member needs and keeping promises. New products are being developed to diversify the business into additional markets. This has been managed through partnerships based on licences, affinities, and some joint ventures.

National Geographic is sold to new members through direct-marketing activities of direct mail, door-to-door, direct-response TV and radio, and affinity programmes. Some press and TV advertising (particularly on the NG channel via cable and satellite) and sales promotion

supports this effort. Customers are retained through emphasis on efficient and friendly service, a number of added-value benefits, and a recently enhanced renewal management strategy.

Partnering with other providers enables National Geographic to capitalize on local market expertise and to build huge databases that provide the information that enhances knowledge about interests and values. For example, in 1998 WebRep LLC forged an advertising and sales partnership with the Society.

Today, the Society is concerned over the alarming lack of geographical knowledge among young people and the pressing need to protect natural resources. New vehicles are under development for broadening their reach and enhancing their ability to bring the world to millions of members. At the same time, the magazine faces a continuously declining circulation, and must increase sales and reduce operating and production overheads if it is to avoid extinction.

The National Geographic Society is the largest non-profit scientific and educational institution with around 1,400 employees and income of £323m in 1998. To date, over 7,000 expeditions have been funded. The for-profit subsidiary, National Geographic Ventures, is developing the TV, Internet, map-making, and retail businesses, owning 25 per cent of the National Geographic Channel.

Relationship marketing requires that managers provide suitable different ways of treating consumers who are to be recruited as customers, and those customers who are members of the network. There must be both traditional and interactive marketing – recruitment marketing plus retention marketing. The crucial way of seeing this is as the initiation of a relationship, then the nurturing of the relationship. Increasingly, other types of business system are being turned into relationship-management networks.

(See www.nationalgeographic.com and www.ngstore.com)

Note: ^a The assistance of Jenny Mosley, Vice-President of Marketing, National Geographic Society, is gratefully acknowledged.

WHAT DO YOU THINK?

- 1 How might database (or data-driven) marketing support a relationship-marketing strategy?
- 2 How do affinity cards add value for the co-branders and for customers who use them?
- 3 Is there any need (and justification) now for mass communications?
- 4 How does the marketing communication system contribute to total customer satisfaction?
- 5 Relationship marketing requires a continuing conversation between provider and consumer/buyer. How can/do customers benefit from this?
- 6 Try to identify some examples of providers rewarding people for providing information to them that is subsequently transformed into satisfying products (Dell Computers is but one example!).
- 7 Are 'loyalty' and 'affinity' synonymous with close continuing relationship?

- 8 How could loyalty programmes undermine brands?
- 9 Marketing communication has both planned and unplanned (word-of-mouth) elements. How can favourable WOM be planned for in a Relationship Marketing programme?
- 10 As the newly appointed Marketing Communication Manager at National Geographic, what will be your priority for further developments?

FURTHER READING

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It's easy to dismiss the importance of marketing research. After all, when you first think of a business idea, spending hours on market research is the last thing on your mind. Most of us would... 7. Decision-Making Becomes Simple. The need for and importance of marketing research frequently comes up when making tough business decisions. Instead of having arbitrary criteria for the decisions you make as a business owner, you can always go back to your market research report. More Resources to Help You Start Your Marketing Research. Now that you see the importance of marketing research, it's time to get started on the process. Don't be intimidated by the task ahead. Instead, start by gathering data only on these two things: your target customer and your competitors. But in understanding "why" be careful not to stop at the first answer. Dig deeper. In the marketing world, rational benefits never win for long. The current "Back To School" marketing campaigns by children's clothing retailers are a prime example of this in use. During the 6 week break from school, parents will be making preparations for their children to return to school, and new smart school clothing will be needed. By focusing offers and marketing campaigns on the school-friendly clothing lines during this period, children's clothing retailers will maximise the sales of this lines. Who Are They Buying For? There are many occasions to be considered when the product's intended audience are not the actual buyers. Guidelines To Help You Start Your Marketing Career. How To Gain Marketing Experience? 6 Reasons to Choose Marketing As Your Career. In comparison to some short-time and boring jobs, marketing always has something to offer to you. That is why working in marketing could make you feel more motivated, and you could also enjoy many projects that you like. This century is the time of online stuff, and you will always have to offer your skills to the market. In this way, you should not worry about the chances for success. If you are the right person, everyone will turn to you for help, and your job will be on a long-term basis. 2. Diverse. Marketing is a very creative profession, as it includes a bunch of different things. CRM helps businesses build a relationship with their customers that, in turn, creates loyalty and customer retention. Since customer loyalty and revenue are both qualities that affect a company's revenue, CRM is a management strategy that results in increased profits for a business. Effectively using customer relationship management can also provide a strategic advantage. Well organized customer data helps companies select the correct recipients for promotions and new products. Operational CRM usually has to do with one of the three types of operations: marketing, sales and service. Operational CRM is an important tool for lead generation because it frequently deals with past customer data such as previous marketing campaigns, purchases and service satisfaction.