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CONTENTS

Relationship marketing is considered a paradigm change in both academic and practitioner literature. However, despite its popularity, relationship marketing has not yet evolved into becoming a discipline. The authors propose focus on eight areas to help relationship marketing evolve into a discipline. They compare the successful evolution of consumer behavior, services marketing and marketing strategy with the failure of international marketing, social marketing and business marketing as a discipline.

KEYWORDS. Relationship marketing, relationship marketing discipline, domain to discipline, relationship marketing theory

The Evolution of an Idea: An Environmental Explanation of Relationship Marketing

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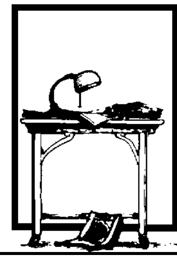
The principles and practices of relationship marketing date back many centuries, yet as a topic of academic and applied interest, it has achieved pre-eminence as a paradigm only during the past two decades. Some may dismiss relationship marketing as merely an old idea with new language. However, this paper argues that recent development of relationship marketing has been based on significant changes in the business environment of organizations. An environmental audit analysis is used to explain the recent growth of relationship marketing, and more importantly, to identify future challenges for relationship marketing as the business environment evolves.

KEYWORDS. Relationship marketing, loyalty marketing, environment, trend analysis

EDITOR'S COMMENT



This is the charter issue of the *Journal of Relationship Marketing,* a peer-reviewed journal that is interdisciplinary and international in nature. Our goal is to publish conceptual and empirical papers of original works that make significant contributions to the understanding of relationship marketing theory, research, and practice.

I am very pleased with the articles in this issue and hope that we can continue with this momentum in future issues. I am thankful to the authors of these articles and would like to encourage and invite you and your colleagues to consider submitting your research to *JRM*.

I sincerely thank the readers, the Advisory Board members, and the Editorial Review Board members for their support. I further acknowledge and thank the staff and administration at The Haworth Press, Inc., and Virginia State University for their support of this project.

David Bejou, PhD
Founding Editor
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Evolving Relationship Marketing into a Discipline

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ABSTRACT. Relationship marketing is considered a paradigm change in both academic and practitioner literature. However, despite its popularity, relationship marketing has not yet evolved into becoming a discipline. The authors propose focus on eight areas to help relationship marketing evolve into a discipline. They compare the successful evolution of consumer behavior, services marketing and marketing strategy with the failure of international marketing, social marketing and business marketing as a discipline. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-342-9678. E-mail address: <getinfo@haworthpressinc. com> Website: <http://www.HaworthPress.com> E 2002 by The Haworth Press, Inc. All rights reserved.]*

KEYWORDS. Relationship marketing, relationship marketing discipline, domain to discipline, relationship marketing theory

Relationship marketing, at least at the practice level, is recognized as a major paradigm shift in marketing comparable to what the mar-

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keting concept in the 1960s (with its focus on customer needs and wants) and more recently the quality concept (with its focus on customer satisfaction) did in transforming business practices and philosophy (Gruen 1997; Gummesson 1999; Lambe, Spekman and Hunt 2000; Mattsson 1997; Webster 1992). Indeed, at Procter & Gamble, the company that pioneered the modern marketing organization and integration of the four Ps of marketing (product, place, promotion and price) has recently renamed its trade department as ''Customer Business Development'' and has shifted focus toward its immediate customers such as large retailers and supermarkets. Similarly, many business-to-business companies such as Xerox, IBM, and Citicorp are investing in global account management processes to serve their key accounts more uniformly across national and cultural boundaries (Yip and Madsen 1998; Parvatiyar and Gruen 1999). Finally, with databases, many service companies such as airlines, banks, insurance, telephone, and direct marketing companies including the catalog companies, have begun to implement one-to-one marketing and loyalty programs with their end user customers (Breshnahan 1998).

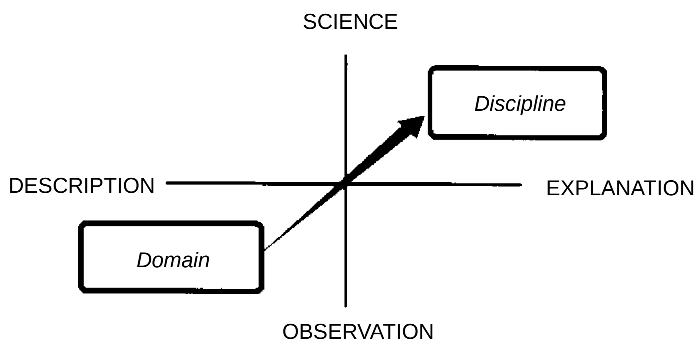
Relationship marketing with a focus on customer retention and customer commitment as well as on share of the customer business instead of market share has also generated enormous research interest. Hundreds of papers have been presented at dozens of conferences. Several papers have been published in top journals and many books have been written on this topic, as indicated by the literature reviews presented in Sheth and Parvatiyar (2000).

JOURNEY FROM DOMAIN TO DISCIPLINE

Will relationship marketing create a paradigm shift? Will it become a discipline out of a domain? Nobody knows for sure. However, to us this is ''déjà vu'' all over again. Therefore, we can learn some key lessons from situations in the past in which new concepts or domains either succeeded or failed to become distinct disciplines of marketing.

In order for a domain to become a discipline, it needs to go beyond description and into explanation of the phenomenon by providing hypotheses and theory; and at the same time, it needs to go beyond observation and become a science by utilizing methodological rigor (see Figure 1). Therefore, our concern here is with *paradigms that guide disciplined enquiry.* It can be characterized by the way their

FIGURE 1. Domain vs. Discipline



proponents respond to the *ontological* (nature of reality), *epistemological* (nature, sources and limits of knowledge), and *methodological* (process of conducting inquiry) questions (Guba 1990). They form the starting points or givens that determine what inquiry is and how it is to be practiced. For a paradigm to be adopted as a discipline it must adequately summarize knowledge of related entities, laws, and mechanisms in the form of time- and context-free generalizations. Values and other biasing or confounding factors must be excluded from influencing the outcomes; and questions and/or hypotheses should be empirically tested through rigorous methodology (Guba 1990).

In the past three decades, there have been at least three successes and three failures in the journey from domain to discipline. The three successes are consumer behavior, marketing strategy, and services marketing. The three that have failed to become a distinct discipline even though domain knowledge exits are international marketing, social marketing, and business marketing. By analyzing and understanding, why they failed or succeeded in becoming disciplines of marketing, we may learn some insights and even engage in intervention to make sure that relationship marketing becomes a distinct discipline in marketing.

CONSUMER BEHAVIOR VERSUS INTERNATIONAL MARKETING

In the 1960s, consumer behavior made a successful transition from domain to discipline but international marketing did not. Consumer behavior quickly focused on only the buying behavior of consumers and attempted to provide explanation for the systematic preferences of consumers to choose a particular brand within a product class. At the same time, it began to utilize the operations research techniques of stochastic processes (Markov chains) and underlying theory of learning over time to measure quantitatively the degree of brand loyalty exhibited by household customers.

Unfortunately, for whatever reason, international marketing did not or could not generate its own focus or theory. The debate about standardization versus adjustment of marketing mix across cultures and countries did not result in any well-accepted theory. Also, researchers in this area did not use scientifically accepted methodologies especially statistical analysis and inferences to rise above observation.

A number of other factors also contributed toward consumer behavior becoming a discipline. First, it attracted scholars trained in economic, behavioral and quantitative sciences to devote their time and talents on this domain. This enhanced the respectability of the domain. Second, most marketing curricula in schools of business developed a separate course on consumer behavior as part of marketing core knowledge. Third, a separate journal, namely the *Journal of Consumer Research* (*JCR*), was established with the blessings of several disciplines and organizations. JCR now ranks among the top three journals in marketing. Fourth, consumer behavior researchers had the good fortune of having access to longitudinal household panel data from the *Chicago Tribune* and *MRCA*, which enabled access to significant amount of empirical research without the enormous cost and time constraints. Finally, several theories of consumer behavior–some very simple, such as Bauer's (1960) theory of risk reduction and Festinger's (1957) theory of cognitive dissonance, and some very comprehensive, such as Howard and Sheth's (1969) theory of buyer behavior–added legitimacy to the transition of consumer behavior from a domain into a discipline.

Unfortunately, none of these factors was available to international marketing. On the contrary, there were traditional scholars who believed at that time that international marketing is strictly a contextual phenomenon requiring no unique constructs or theory, and therefore it should not be a distinct discipline. Marketing departments had a tough time to create separate courses in international marketing, although it is now more prevalent.

MARKETING STRATEGY VERSUS SOCIAL MARKETING

The decade of the 1970s saw a similar race between two other domains to become disciplines; namely, marketing strategy and social marketing. Marketing strategy became a discipline but social marketing did not. A number of enabling events were very helpful to marketing strategy. First of all, business strategy was mandated by the accreditation process of the American Assembly of Collegiate Schools of Business (AACSB) as part of core business education. This resulted in an evolution of academic journals in business strategy similar to the evolution of management science and operation research journals in the 1960s. Second, and perhaps more importantly, the Strategic Planning Institute allowed academic institutions to license and use industry benchmarking data called the PIMS, which proved to be a gold mine for exploration and discovery. Also, the PIMS advocates discovered several lawlike generalizations anchored to the impact of market share and customer satisfaction on financial performance.

The transition of marketing strategy from a domain to a discipline was further propelled by the impact of Porter's (1980) book on competitive strategy and its links to market strategies of differentiation and focus. Also, a number of alternative theories, such as population ecology and transactions cost, became popular in marketing strategy as explanations for market behaviors. Finally, most marketing curricula developed capstone courses anchored to marketing strategy. This was further enhanced by several computer simulation games, such as the MarkStrat and the Beer Game that encouraged a more analytical approach to education and learning.

In contrast, social marketing suffered, right at its inception, from definition debate. Is it marketing of non-profit and social services (education, healthcare, population control) or is it the malpractices of marketing such as misrepresentation, deception, and ecological and cultural harm that marketing practices create? Even today, this debate has not been resolved. At the same time, there was a strong movement toward consumerism and "consumer bill of rights," including truth in lending and truth in advertising. Even public policy research could not provide a focus for this domain. Unfortunately, there was also an advocacy–or evangelistic fervor–among well-known marketing scholars who braved research in this area. This made objective scientific inquiry untenable. Finally, as in the case of international marketing, most scholars believed that social marketing is an extension of marketing theory and practice, and therefore, needed no unique constructs or its own theory. It is unfortunate that despite good scholars publishing in top journals, social marketing could not make the transition from a domain to a discipline.

SERVICES MARKETING VERSUS BUSINESS MARKETING

The decade of the 1980s saw a similar parallel between services marketing and business-to-business marketing. The former has begun to become a discipline, whereas the latter continues to be a domain. What is the difference? First of all, by the 1980s, the economy had become predominantly a services economy, and the total quality management philosophy, with its focus on customer service, had become very popular. Both the government and the industry were willing to commit money to improve product and service quality, especially in consumer mass markets. This led to the emergence of government quality awards (Malcolm Baldrige Award) and private quality awards (J. D. Power), and to performance metrics such as airline on-time arrival and baggage delivery, to rate superiority of one company over others. Soon thereafter, the Marketing Science Institute supported major research funding that led to the development of SERVQUAL, a methodology to measure service quality (Parsuraman, Zeithaml and Berry 1988). At about the same time, several books were published to articulate how and why services are different from products (Batesan 1989; Grönroos 1990; Lovelock 1991). This led to the conceptualization of several unique properties of services such as intangibility, interactivity, perishability, and proximity. A number of universities and schools of business started separate centers of research and education in services marketing in addition to offering separate courses.

Services marketing started the journey toward becoming a discipline by establishing its own scholarly journal (*Journal of Services Research*), by focusing its research on services as unique and distinct from products, and by having access to large-scale databases related to customer support services.

Business-to-business marketing in the United States has not enjoyed the same benefits. Although there are some research centers and some focus, it is not a significant phenomenon. On the other hand, in Europe research in business-to-business marketing has led to multicountry, multi-industry consortia research and has now become the IMP school of thought, with an emphasis on networks of alliances and relationships both vertically and horizontally (Håkansson and Snehota 2000). Unlike the rest of the world, U.S. marketing is focused more on consumer marketing. Industrial marketing, therefore, has not attracted as many scholars. Also, business-to-business marketing is closely related to organization behavior and management, which employ comparable concepts and research techniques. In other words, business-to-business marketing has not been able to create its own distinct domain and still remains synonymous with marketing activities in business-to-business companies, which are predominantly sales support activities, and not have the degree of centrality that brand management enjoys in a packaged goods company.

LESSONS FOR RELATIONSHIP MARKETING

What lessons can relationship marketing learn from the above examples? How can it evolve into a discipline of marketing? We believe it needs to focus on the following eight areas:

Delimit the Domain. The concept of relationship and relational behavior is universal. It is in physical, animal, plant and human sciences. Therefore, every discipline has applications and implications of relational behavior. Indeed, it is so universal that the most widely used statistical technique is correlation, or the relationship between two or more phenomena, whether bivariate or multivariate in nature. Therefore, it is not only easy but also tempting to extend the concept of relationship beyond marketing and beyond business–but then it would lose its identity and uniqueness. This is analogous to consumer behavior, which is only one subset domain of all human behaviors–that is, the behavior and the roles people manifest as consumers in contrast with the roles of producers or middlemen or citizens or kinship. In short, relationship marketing must be limited to the discipline of marketing, which is focused on understanding and managing customers and their buying, paying and consuming behaviors (Sheth, Mittal and Newman 1998).

Furthermore, not all marketing can be relationship marketing. Relationship marketing has to be a subset of marketing. In other words, not all marketing relationships are relationship marketing. Just as we have services marketing, international marketing and social marketing, there is or should be a unique domain called relationship marketing whose objectives, processes, performance and governance are unique with respect to organization's marketing and non-marketing resource allocations. The objective of relationship marketing is to increase customer's commitment to the organization through the process of offering better value on a continuous basis at a reduced cost. This can be achieved partly within the organization and partly through partnerships with suppliers and even competitors. The measure of success is the growth of the share of a customer's business and its profitability.

Agree on a Definition. Relationship marketing has been proliferated with many definitions and many programs (see Parvatiyar and Sheth 2000). It includes affinity marketing, loyalty marketing, cross selling, up selling, co-branding, co-marketing, and customer-supplier partnering. In professional services, it includes personalized one-to-one relationship with individual clients and dedication of organization's resources to the individual relationship. In business-to-business marketing, it includes key account management and solution selling.

Analogous to social marketing, there is already a definitional debate about relationship marketing. Some have argued that it is an old concept already incorporated in existing schools of marketing thought, and therefore, needs no separate identity; others have suggested that it overlaps with so many domains of marketing (services, channels, global, and direct marketing) that it needs no separate identity. Still others believe that relationship marketing is synonymous with direct marketing, and, thus, it is more appropriate in business-to-business marketing and services marketing (Baker 1998; Fournier, Dobscha and Mick 1998).

What we need is a definition that will articulate the uniqueness of the concept with its own distinct properties, similar to what services marketing has done. There are at least three aspects unique to relationship marketing. First, it is a one-to-one relationship between the marketer and the customer. In other words, relationship cannot be at an aggregate level; it has to be at an individual-entity level. Second, it is an interactive process and not a transaction exchange. This is a fundamental distinction, because marketing is founded on the principle of exchange and transactions. Relationship marketing, however, is all about interaction and activities; it is co-production and co-consumption in which time, location and identity boundaries between the supplier and the customers are blurring into one extended supply-and-demand chain of management. At the same time, each member in the value chain is a distinct and independent organization with its own capital and management and, therefore, it is a virtually integrated network of organizations and not a traditional vertically integrated organization.

The third, and equally important, uniqueness of relationship marketing is that it is a value-added activity through mutual interdependence and collaboration between suppliers and customers. Just as hardware and software create a symbiotic value addition, and one without the other is less useful to users and consumers, relationship marketing must add value through collaborative and partnering mindsets and behaviors of suppliers and customers. This is very obvious in services industries where the user must cooperate and collaborate with the provider whether it is a doctor, accountant, lawyer, or a teacher. It is becoming more the case with automated services such as automatic teller machines, telephone answering systems and gasoline pumps. Finally, with electronic ordering and Internet commerce, it is also becoming prevalent for traditional product offerings, especially in business-to-business marketing.

Build Respectable Databases. Perhaps the single biggest lesson we can learn from marketing strategy is the access to PIMS databases with measures of financial performance. We believe relationship marketing needs to access similar data from corporations and service bureaus. It was the availability of household panel data on more than 200 consumer products that led to quantitative performance measures of brand loyalty in consumer behavior. Today, it is the availability of scanner data through IRI and A.C. Nielsen that is propelling scientific research on brand equity.

Develop Performance Metrics. It is equally important that we develop some standardized metrics to measure relationship marketing's performance as well as antecedents that are likely to be its determinants. For example, SERVQUAL, a standardized instrument to measure service quality, is now utilized across national boundaries, similar to the Myers-Briggs personality test or the 360-degree feedback for management performance.

It is not sufficient to develop scales to measure constructs such as trust, commitment and long-term orientation (Doney and Cannon 1997; Fein and Anderson 1997; Gruen, Summers and Acito 2000); it is equally important to measure performance outcomes using well-accepted financial and accounting measures. Recent studies by several scholars concerning the merging and purging of existing public financial and customer-supplier databases and utilizing them to examine the impact of relationship marketing on the performance of the firm are very encouraging (Kalwani and Narayandas 1995; Naidu et al. 1999; Reddy and Czepiel 1999). However, we need to do more. We do not believe that psychological instruments, not matter how well they are validated, will be sufficient. What we need to know is not what informants say or believe therein, but rather what organizations do. This is equally true for household customers. It is, therefore, encouraging to see that many services companies (such as telephone, insurance, airlines, and utilities) have begun to analyze actual behavioral or usage data of their customers through billing and customer service and to develop standardized performance measures by linking them to the cost of serving each customer.

Employ Longitudinal Research Methods. Relationship marketing, like product life cycle and diffusion of innovation, is a time-centric process. It is an evolutionary and dynamic phenomenon over time. Therefore, it is important to utilize research techniques such as longitudinal panels, which measure changes over time; we need time series data similar to what psychologists use in measuring learning or econometricians use to measure business cycles and trends.

Although it is easy to use cross-sectional data as surrogates, this method is not as legitimate as the use of longitudinal data. We believe the need for longitudinal data will create more difficulties for young scholars, who have to publish quickly to get tenure and promotions. It was the access to longitudinal household panel data that enabled consumer behavior scholars to analyze brand loyalty relatively quickly. Similarly, it is the time series data obtained from government agencies or the stock market that enables scholars in economics, finance and accounting to test time-centric concepts in their respective disciplines. The point we are trying to make is that we should not compromise the integrity of research methodology because of publishing urgency.

Publish in Top Journals. The Medium is the message. Therefore, it is very important for an emerging discipline's researchers to publish in first-tier journals of the main discipline. These journals provide source credibility and legitimacy. Unfortunately, it is also not easy to get published in first-tier journals, especially if the emerging discipline is part of a paradigm shift. Resistance to changing or challenging a discipline's lawlike generalizations is pervasive, and it takes strong editorial leadership or revolt by a journal's readership to encourage innovation. There are two alternatives to publishing in mainstream first-tier journals. The first is to create a new journal devoted to the emerging discipline, but the success of this strategy depends to a large extent on the new journal gaining the same level of academic reputation as the traditional journals of the discipline. This is precisely what happened in consumer behavior with the successful creation of the *Journal of Consumer Research* and, more recently, with *Marketing Science* for modeling scholars.

The second alternative is to publish a seminal book on the topic. Indeed, there are numerous examples of this in all disciplines. Books and monographs have often made greater impacts on disciplines than the journals, probably because of their wider reach and distribution. Most journals have very limited circulations when compared with books. That is what happened with the publication of Howard and Sheth's *The Theory of Buyer Behavior* (1969) book, as was also the case with Michael Porter's *Competitive Strategy* (1980) book. More recently, even such popular professional books on management as *In Search of Excellence* (Peters and Waterman 1982) and *Reengineering the Corporation* (Hammer and Champy 1993) have had significant impacts on business disciplines.

Encourage Respected Scholars. We must learn from the consumer behavior discipline in marketing as well as from finance and accounting disciplines about this reality. Finance became even more respectable when well-trained and well-known economists got interested in finance. Similarly, rural sociology became more respectable when top sociologists began to focus on that area, which led to seminal theories, such as the diffusion of innovation. Similarly, both behavioral concepts and psychometric methodology enhanced accounting to a discipline from a double-entry system of practice. And consumer behavior became respectable when psychologists, modelers, and economists began to focus their time and talent on the issues of consumer behavior.

Relationship marketing needs a similar infusion of respected marketing scholars, especially those who can add conceptual and methodological rigor to the domain. Since relationship marketing is very popular, at least in practice, we believe it is likely to attract respected scholars.

Develop Explanatory Theory. No domain has ever become a discipline without some explanatory theory, or at least development of some constructs. Fortunately, relationship marketing has a good start in this direction. A number of constructs including trust, commitment and long-term orientation, have emerged as building blocks of a theory. Also, even if we cannot develop a theory, it is important that we develop at least some lawlike generalizations comparable to product life cycle, diffusion of innovation, and PIMS research. However, no matter what we do, it is important that we make sure that the constructs as well as the lawlike generalizations are unique and distinct to relationship marketing. In this regard, trust and commitment may not be as unique, because even for a one-time transaction, such as buying a home, there must be minimum level of trust and commitment between the seller and the buyer. On the other hand, the concept of collaboration is unique because it is not characteristic of other types of marketing relationships.

Fortunately, it should be possible to develop a theory of relationship marketing because of the richness and universality of relationship as a phenomenon. We already have a number of theories (social contract, agency and transaction cost theories) from other respected disciplines. Also, there is a growing and interesting body of knowledge on cooperation, collaboration and co-opetition.

CONCLUSION

Will relationship marketing become a well-respected, freestanding, and distinct discipline in marketing? Our belief is that it certainly has the potential; we wish that it would happen, because marketing will benefit enormously from it.

The lessons learned from previous efforts, both successful and unsuccessful, of various marketing domains that have tried to become disciplines provide a good road map of how to evolve relationship marketing into a distinct discipline. As an intervention strategy, it would be highly desirable for relationship marketing scholars to organize their own association and their own scholarly journal.

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A Theory and Model of Business Alliance Success

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ABSTRACT. Business alliances, an important form of relationship marketing, are becoming ubiquitous. However, many alliances are unsuccessful. The authors provide an integrative model of alliance success based on sub-models that rely on the resource-based, competence-based, relational factors, and competitive advantage views of alliances. The authors then show how a theory of competition, "resource-advantage theory," grounds the integrative model. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-342-9678. E-mail address: <getinfo@ haworthpressinc. com> Website: <http://www.HaworthPress.com> E 2002 by The Haworth Press, Inc. All rights reserved.]*

KEYWORDS. Relationship marketing, business alliances, resource-based view, competence-based theory, resource-advantage theory, competitive advantage

Business alliances, an important form of relationship marketing (Day, 1995; Johansson, 1995; Morgan and Hunt, 1994; Varadarajan and Cunningham, 1995), may be defined broadly as collaborative efforts between two or more firms that pool their resources in an effort to achieve mutually compatible goals that they could not achieve easily alone (Bucklin and Sengupta, 1993; Das and Teng, 2000; Day, 1995; Heide and John, 1990; Kogut, 1988; Spekman et al., 1996; Varadarajan and Cunningham, 1995). The use of alliances is growing rapidly. Indeed, researchers estimate that over 20,000 alliances were formed in 1995 and 1996 alone (Harbison and Pakar, 1997). Consistent with the works of Falkenberg (1996) and Gummesson (1995, 1999), which maintain that "behavioural assets" and "structural capital" are the primary determinants of firm value, estimates are that alliances account for 6% to 15% of median company value (Kalmbach and Roussel, 1999). Therefore, because of their growing importance and the fact that as many as 70% of all alliances are judged unsuccessful (Day, 1995), it is no surprise that researchers are offering theories of alliance success.

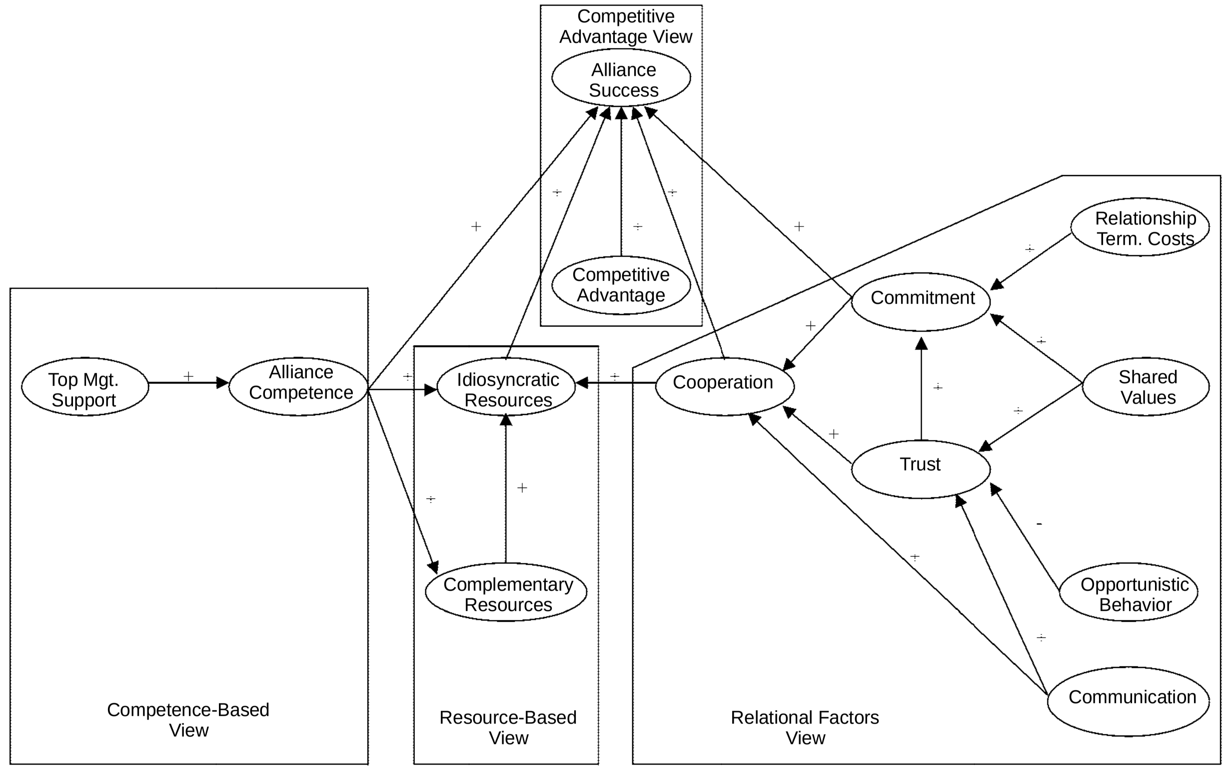
Proposed explanations for alliance success may be grouped into four categories. First, the *resource-based* view focuses on the role of heterogeneous and imperfectly mobile resources. In this explanation, alliance success results from partners bringing complementary resources to the alliance and developing idiosyncratic resources during the alliance's life (Jap, 1999). The *competence-based* view focuses on the role of alliance-management capabilities. In this explanation, alliances are successful when the partners have developed an organizational capability for securing, developing, and managing alliances (Hutt, 1995; Lambe, Spekman, and Hunt, 2000; Sivadas and Dwyer, 2000; Spekman et al., 1996). The *relational factors* view focuses on characteristics of the alliance relationship. In this explanation, successful alliances result from relationships that have such characteristics as cooperation, trust, commitment, and communication (e.g., Dwyer, Schurr, and Oh, 1987; Morgan and Hunt, 1994). Finally, the *competitive advantage* view focuses on marketplace positions. In this last explanation, successful alliances result from alliances enabling firms to produce market offerings (relative to their competitors) that have superior value or lower costs (Day, 1995; Hunt, 1997, 2000; Hunt and Morgan, 1995, 1996, 1997).

Authors and advocates of the four views of alliance success customarily make no claim of exclusivity. Indeed, advocates of the four views recognize them as intertwined. As yet, however, no one has put forth a theory-based model that integrates all four perspectives. This paper develops an integrative model and provides an integrative theory of alliance success. We begin by discussing how each of the four explanations of alliance success contributes to the model shown in Figure 1. We then show how resource-advantage theory provides an underlying theory for the four explanations.

THE RESOURCE-BASED VIEW

The first explanation of alliance success draws on the resource-based view (RBV) of the firm (Barney, 1991, 1992; Conner, 1991; Peteraf, 1993; Wernerfelt, 1984). Contrasted with neoclassical theory, which assumes that firms produce homogeneous products by combining homogeneous, perfectly mobile resources (i.e., labor and capital), RBV theorists argue that firms are best described as producing heterogeneous products by combining heterogeneous, imperfectly mobile resources. A *resource* is any tangible or intangible entity available to the firm that enables it to produce a market offering that has value for some market segment(s) (Hunt and Morgan, 1995). Differences in the financial performance of firms are viewed as being determined primarily by differences in the assortments of resources that firms own or have access to, i.e., resource *heterogeneity* explains firm diversity. Firms will enjoy continuing, superior financial performance when they have access to resources that are immobile, i.e., not readily bought and sold in the ‘‘factor’’ markets, inimitable, and nonsubstitut-

FIGURE 1. An integrative model of alliance success.



able. As to business alliances, RBV researchers posit that complementary and idiosyncratic resources foster alliance success (Jap, 1999).

Complementary resources are those that firms bring to an alliance that enable their alliance partners to fill out or complete their resource assortments (Das and Teng, 2000; Jap, 1999; Varadarajan and Cunningham, 1995). Complementary resources, then, enable alliance partners to access resources that they do not own. For example, in the Ford-Mazda alliance, Ford accesses the manufacturing and product development know-how of Mazda. In exchange, Mazda accesses Ford's marketing and product-testing expertise (Hunt and Arnett, 2001). Gummesson (1995), Hunt (1997), and Möller and Halinen (1999) maintain that the relationships in alliances constitute an important part of the firm's resource portfolio.

Alliance-derived *idiosyncratic* resources (1) are created through the combining of the respective resources of partner firms, (2) are developed during the life of the alliance, and (3) being unique to the alliance, may have little value or use outside of the alliance (Anderson and Weitz, 1992; Jap, 1999; Lambe, Spekman, and Hunt, 2000). Idiosyncratic resources may be tangible, such as a joint manufacturing facility, or intangible, such as developing a highly efficient process for working together. For example, QUALCOMM and Ericsson's strategic alliance seeks to jointly develop and market wireless technology solutions. Each company provides expertise in different forms of technology. The integration of their respective technological resources aims at developing innovative wireless products with ''unimagined'' benefits (QUALCOMM Investor Relations, 1999).

Therefore, our model of alliance success, from the resource-based view, posits that both complementary and idiosyncratic resources will be positively related to alliance success. However, consistent with the empirical work and theorizing of Jap (1999) and Lambe, Spekman, and Hunt (2000), we posit that the primary effect of complementary resources on alliance success occurs by virtue of its being a key antecedent of idiosyncratic resources. In short, the complementarity of resources has an indirect effect on alliance success *through* idiosyncratic resources.

THE COMPETENCE-BASED VIEW

The second explanation of alliance success draws on the competence-based theory of the firm and the nature of competition (Aaker, 1995; Bharadwaj, Varadarajan, and Fahy, 1993; Day and Nedungadi, 1994; Sanchez and Heene, 1997; Sanchez, Heene, and Thomas, 1996). In this view, a competence is ''an ability to sustain the coordinated deployment of assets in a way that helps a firm achieve its goals'' (Sanchez et al., 1996, p. 8). Just as skills are individual *employee* capabilities, competences are *firm* capabilities. For competence theorists, competition (1) should focus on intangible assets, (2) is dynamic, (3) involves strategic learning, and (4) is embedded within systems of social relations and societal structures (Sanchez et al., 1996).

Lado, Boyd, and Wright (1992) maintain that *managerial* competences are key for understanding firm success. Therefore, Lambe, Spekman, and Hunt (2000) argue that some firms may simply be more competent in managing alliances. They define an *alliance competence* as an organizational capability for securing, developing, and managing alliances and propose that an alliance competence is a ''higher order'' resource (Hunt 2000) consisting of three ''basic'' resources: alliance experience, alliance manager development capability, and partner vigilance capability.

First, for Lambe, Spekman, and Hunt (2000), because much alliance knowledge is ''tacit'' (Polanyi, 1996), firms must have extensive experience with alliances to acquire the knowledge necessary for an alliance competence. Second, the basic resource of alliance manager development capability suggests that firms having an alliance competence have the ability to *develop* capable alliance managers. And third, firms having the basic resource of partner vigilance capability have the ability to seek out potential partners that have the complementary resources needed to ''develop a relationship portfolio or 'mix' that complements existing competences and enables it to occupy positions of competitive advantage'' (Hunt, 1997, p. 440). An alliance competence, then, is a distinct ''package'' of these three resources.

Consistent with the work of Lambe, Spekman, and Hunt (2000), we posit that alliance competence is positively related to alliance success. Furthermore, because those firms that have an alliance competence should also be more capable of developing idiosyncratic resources in their alliances, we posit a positive relationship between alliance competence and idiosyncratic resources. Moreover, because a key component of alliance competence is partner vigilance capability, we posit that alliance competence is positively related to complementary resources. That is, firms having an alliance competence will have alliances characterized by greater resource complementarity than firms that do not have such a competence. Finally, again following the work of Lambe, Spekman, and Hunt (2000), we posit that the support of top management is essential for those firms wishing to develop an alliance competence.

THE RELATIONAL FACTORS VIEW

The third explanation of alliance success, the relational factors view, is based on the premise that many of the exchanges involved in marketing are not of the discrete, ‘‘transactional’’ variety, but rather are long in duration and reflect an ongoing relationship-development process (Dwyer, Schurr, and Oh, 1987; Macneil, 1980). These *relational* exchanges, it is argued, are becoming increasingly important in marketing. Indeed, Morgan and Hunt (1994, p. 22) highlight the concept of relational exchange in their definition of relationship marketing: ‘‘relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges.’’ Thus, the relational factors view of relationship marketing has tended to focus on the attributes of successful relational exchange, including cooperation (Anderson and Narus, 1990; Dwyer, Schurr, and Oh, 1987; Morgan and Hunt, 1994), trust (Achrol, 1991; Ganeson, 1994; Wilson, 1995), relationship commitment (Anderson and Weitz, 1990; Berry and Parasuraman, 1991; Moorman, Zaltman, and Deshpande, 1992), shared values (Dwyer, Schurr, and Oh, 1987; Heide and John, 1992; Morgan and Hunt, 1994), keeping promises (Bitner, 1995; Gronroos, 1996), and (the absence of) opportunistic behavior (John, 1984).

Our integrative model draws extensively on Morgan and Hunt’s (1994) relational factors model of relationship marketing, which has cooperation as a key dependant variable and commitment and trust as key mediating variables. Accordingly, we posit that alliances characterized by significant cooperation among the parties will be more successful. Furthermore, alliances characterized by cooperation should be more effective in developing idiosyncratic resources and, thus, cooperation should *indirectly* contribute to alliance success. As to relationship commitment, like Mohr and Spekman (1994), we posit that it directly and significantly improves the likelihood of alliance success because parties will work hard enough to *make* their alliance succeed. Likewise, the willingness to work hard prompted by commitment will foster cooperation and, thus, indirectly affects alliance success. Trust among the parties of the alliance, because it promotes confidence in partners' competence and integrity, will significantly increase cooperation. Finally, because trusted parties are highly valued, trust promotes commitment.

As to antecedents of commitment and trust, the model focuses on termination costs, shared values, communication, and opportunistic behavior. When dissolving an alliance would entail high termination costs such potential losses will result in the partners being more committed to maintaining the alliance. Shared values or shared ''norms'' (Heide and John, 1992) refer to beliefs in common concerning what is important/unimportant, appropriate/inappropriate, and right/wrong. Thus, alliance partners who share values will identify with their partners and be more committed to the alliance. Also, trust among the parties will be positively affected by shared values and communication, but negatively influenced by partner opportunistic behavior. Finally, effective communication will directly promote cooperation because effective cooperation requires extensive interactions among partners. It also indirectly promotes cooperation by increasing trust, as proposed by Morgan and Hunt (1994).

THE COMPETITIVE ADVANTAGE VIEW

The fourth explanation of alliance success, the competitive advantage view, maintains that an alliance is successful when it provides both parties with some kind of advantage over their competitors in the marketplace. That is, because, a market-based economy is characterized by privately owned, self-directed firms *competing* with each other (Hunt and Morgan, 1995), an alliance will be more successful when it enables firms to be more *competitive*.

Competitive advantage theory traces to the works of Clark (1954, 1961) and Alderson (1957, 1965)–though modern-day competitive theorists seldom acknowledge the works of these prescient authors. Clark (1954, p. 36) maintained that firms compete by seeking a ''differential advantage'' over other firms: ''[Competition is] a form of independent action by business units in pursuit of increased profits . . . by offering others inducements to deal with them, the others being free to accept the alternative inducements offered by rival business units.''

Alderson (1957, pp. 184-97) then identified six bases of differential advantage: market segmentation, selection of appeals, transvection, product improvement, process improvement, and product innovation.

Since the works of Clark and Alderson, competitive advantage theory has been further developed by numerous theorists, including Aaker (1995), Barney (1991), Bharadwaj, Varadarajan, and Fahy (1993), Day (1984), Day and Wensley (1988), and Porter (1985). As to alliance success, the competitive advantage view maintains that successful alliances must provide partners with some advantage over their competitors. Therefore, our integrative model has competitive advantage positively related to alliance success.

RESOURCE-ADVANTAGE AS AN INTEGRATIVE THEORY

Figure 1, our integrative model, shows the posited linkages among the four explanations of alliance success. What the model requires is a theory of competition that, likewise, is integrative. We argue that resource-advantage theory is such a theory.

Resource-advantage (R-A) theory as developed by Hunt (2000) and Hunt and Morgan (1995, 1996, 1997) is a general theory of competition and, as such, provides a theoretical foundation for grounding the four views of alliance success. Due to space limitations, we provide only a brief overview of R-A theory (for a detailed explanation see Hunt, 2000) and then show how it incorporates the four views of alliance success.

R-A theory draws from, and has affinities with, several research traditions. First, following the historical tradition and resource-based view of the firm, R-A theory views firms as historically situated in time and space, as combiners of heterogeneous, imperfectly mobile resources, and as producers of heterogeneous products. Second, drawing from heterogeneous demand theory, R-A theory maintains that demand is heterogeneous both within and across industries. Therefore, firms must produce different market offerings for different market segments within the same industry. Third, consistent with ''Austrian'' and evolutionary economics, R-A theory maintains that innovation and organizational learning are endogenous to competition, firms and consumers have imperfect information, and entrepreneurial competence and institutions influence economic performance. Fourth, as does economic sociology and institutional economics, R-A theory maintains that societal resources, societal institutions, the actions of competitors and suppliers, the behavior of customers, and public policy decisions significantly influence competitive processes. Fifth, like differential advantage theory, R-A theory maintains that marketplace positions of competitive advantage (disadvantage) determine superior (inferior) financial performance. Sixth, following evolutionary economics, competition is viewed as a struggle that produces innovation, Schumpeter's (1950) ''creative destruction,'' increases in productivity, and economic growth.

For R-A theory, firms seek superior financial performance, e.g., more profits than last year, better profits than competitors. Firms do not and cannot, as neoclassical theory maintains, *maximize* profits because (1) they lack the capability and information to maximize, (2) managers' self interests sometimes diverge from those of the firm, (3) financial performance is constrained by managers' views of morality. Rather than maximize, firms seek superior performance relative to some referent that may differ from time to time, industry to industry, and culture to culture.

As Figure 2 shows, competition consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance. The nine cells of Figure 3 categorize marketplace positions according to relative resource-produced value and relative resource costs. Cells 2, 3, and 6 are marketplace positions of competitive advantage and cells 4, 7, and 8 are marketplace positions of competitive disadvantage. Firms can have (1) an efficiency advantage, that is, *more* efficiently producing value, (2) an effectiveness advantage, that is, efficiently producing *more* value, or (3) an efficiency-effectiveness advantage, that is, *more* efficiently producing *more* value. Marketplace positions of competitive advantage result in firms having superior financial performance, i.e., *success*, and marketplace positions of competitive disadvantage result in inferior financial performance, i.e., *failure*. Because not all firms can be superior at the same time, the constant pursuit of *superior* performance ensures the dynamic nature of competition. Therefore, since all firms seek superior performance, firms will continuously take actions to improve their competitive positions, which results in firms' actions being disequilibriating, not equilibriating.

Innovation, which plays a key role in R-A theory, consists of *proac-*

FIGURE 2. A schematic of the resource-advantage theory of competition. Read: Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance ‘‘signaling’’ relative market position, which, in turn signals relative resources. Source: Hunt and Morgan (1997).

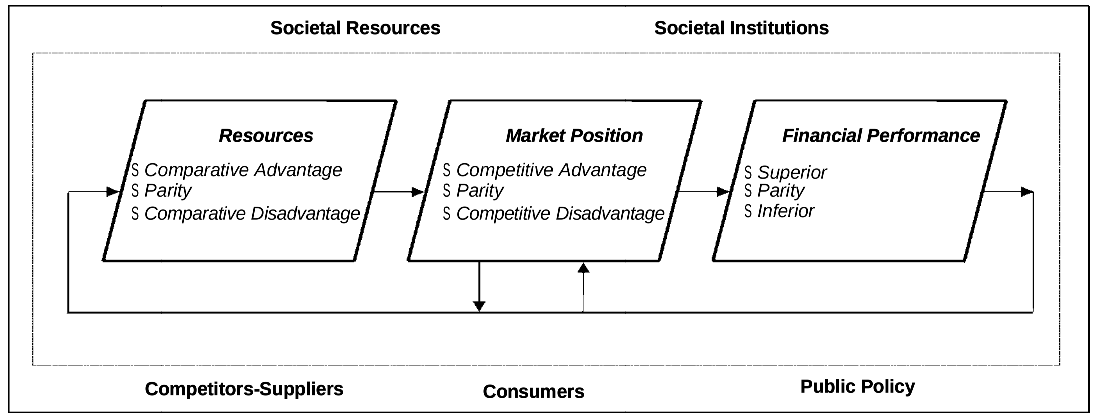


FIGURE 3. Competitive position matrix. Read: The marketplace position of competitive advantage identified as Cell 3 results from the firm, relative to its competitors, having a resource assortment that enables it to produce an offering for some market segment(s) that (a) is perceived to be of superior value and (b) is produced at lower costs. Source: Hunt and Morgan (1997).

		Relative Resource-Produced Value		
		Lower	Parity	Superior
Relative Resource Costs	Lower	1 Indeterminate Position	2 Competitive Advantage	3 Competitive Advantage
	Parity	4 Competitive Disadvantage	5 Parity Position	6 Competitive Advantage
	Higher	7 Competitive Disadvantage	8 Competitive Disadvantage	9 Indeterminate Position

tive innovation and *reactive* innovation (Hunt and Morgan, 1996). Firms engage in proactive innovation when they identify new opportunities and efficiently and/or effectively develop valued market offerings for some segment(s), which then leads to firms gaining positions of competitive advantage and superior financial performance. Reactive innovation occurs when firms find themselves in positions of competitive disadvantage (i.e., cells 4, 7, and 8) and, therefore, must attempt to neutralize and/or leapfrog the advantaged competitor. Reactive innovation may allow a firm move from competitive disadvantage to advantage if firms are able to better manage existing resources, obtain the same or equivalent value producing resource as their competitors, and/or develop a new resource that is less costly or produces superior value (Hunt and Morgan, 1996). Because firms must innovate to achieve competitive advantage and superior financial performance, the innovation prompted by R-A competition fosters the dynamism of competition.

Once a firm has reached a position of competitive advantage (cells 2, 3, or 6), maintaining that position requires that (1) it must engage in proactive innovation, (2) it continue to reinvest in the resources that produced the advantage, and/or (3) rivals' efforts at acquiring, neutralizing, or leapfrogging the advantage-producing resource must fail. Efforts to erode a firm's competitive advantage will be inhibited if the advantage-producing resource is protected by societal institutions (e.g., patents) or it is causally ambiguous, socially complex, highly interconnected, tacit, or has time-compression diseconomies or mass efficiencies.

R-A THEORY AND ALLIANCE SUCCESS

R-A theory can provide a theoretical foundation for models of alliance success because it broadens the concept of *resource* to include intangibles (not just neoclassical theory's land, labor, and capital). That is, resources are defined as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s). By expanding the view of resources to include all entities that have an enabling capacity, R-A theory categorizes the multitude of *potential* resources as financial (e.g., cash reserves and access to financial markets), physical (e.g., plant, raw materials, and equipment), legal (e.g., trademarks and licenses), human (e.g., the skills and knowledge of individual employees), organizational (e.g., competences, controls, policies, and culture), informational (e.g., knowledge about consumers, competitors, and technology), and–most importantly for business alliances–*relational* (e.g., relationships with competitors, suppliers, employees, and customers). In general, therefore, determining whether an alliance constitutes a relational resource is an essential first step for explaining why some alliances are successful and others are not: some alliances succeed and others fail to contribute to the partners' abilities to produce efficiently and/or effectively market offerings that have value for some market segment(s).

Now consider the resource-based, competence-based, relational factors, and competitive advantage approaches to alliance success. First, because the resource-advantage theory of *competition* adopts a resource-based view of the *firm*, it provides a theoretical foundation for the resource-based explanation of alliance success. Indeed, complementary and idiosyncratic resources are precisely the kinds of immobile resources R-A theory posits as important for understanding competition. Second, because R-A theory views firm competences as *higher-order* resources, it incorporates the competence-based explanation of alliance success. Specifically, for R-A theory, competences are socially complex, interconnected combinations of tangible basic resources (e.g., specific machinery) and intangible basic resources (e.g., specific organizational policies and procedures and the skills and knowledge of specific employees) that fit together coherently in a synergistic manner to enable firms to produce efficiently and/or effectively valued market offerings (Hunt 2000a,b).

Third, recall that the relational factors view suggests that such relationship characteristics as communication, trust, commitment, and cooperation contribute to alliance success. R-A theory maintains that they do so only contingently. Specifically, they do so only when such relationship characteristics contribute to an alliance's ability to efficiently and/or effectively produce a valued market offering for some market segment(s) (Hunt and Arnett, 2001). Indeed, the ‘‘alliance’’ commonly referred to as a price conspiracy may have good communication, high trust, etc. Yet, price conspiracies–though they may contribute to profitability–are not resources, for they do not contribute to the ‘‘partners’’' ability to produce efficiently and/or effectively market offerings that have value for some market segment(s). Therefore, R-A theory incorporates and explicates in fine detail the relational factors view of alliance success.

Fourth, because R-A theory adopts the view that firms in positions of competitive advantage will be successful, i.e., will have superior financial performance, it incorporates the competitive advantage view of alliance success. Furthermore, R-A theory provides guidance for understanding the concepts of ‘‘competitive advantage’’ and ‘‘competitive disadvantage.’’ R-A theory restricts *competitive advantage* to the three marketplace positions of cells 2, 3, and 6 in Figure 3 and *competitive disadvantage* to cells 4, 7, and 8. That is, it restricts these concepts to certain combinations of the market offering's relative, resource-produced value and relative, resource costs. In turn, the term ‘‘comparative advantage’’ is restricted to the possession of (or access to, in the case of alliances) the resources that enable the firm to produce the attributes of the market offerings. Competitive advantage links to comparative advantage in that it is a firm's comparative advantage in resources that enables it to occupy positions of competitive advantage in the marketplace (cells 2, 3, and 6). Likewise, it is a comparative *dis*advantage in resources that results in a firm occupying positions of competitive *dis*advantage (cells 4, 7, and 8). Therefore, R-A theory brings precision to the lexicon and structural relationships in competitive advantage theory–a precision that it sorely needs.

Now consider ''alliance success.'' When an alliance manager maintains that some alliances are *successful* and others *unsuccessful,* what does this mean? Clearly, it does not mean that the alliance maximized profits (or wealth) because no manager has the capability or information to know the requisites for maximization. For R-A theory, alliance success implies that the alliance is a relational resource that leads not just to financial performance in absolute terms, but a relational resource that leads to *superior* financial performance. ''Superior'' in this sense equates with *more than* and/or *better than* some referent. The referent could be, for example, time, competitors, or an industry average. That is, ''alliance success'' might mean that the alliance is a relational resource that results in more profits (or sales, market share, etc.) than (1) the firm made the year (or two years, etc.) prior to the alliance, (2) the firm would have made without the alliance, (3) the firm would potentially have made with other alliance partners, (4) the firm made relative to specific competitors, or (5) the firm made relative to an industry average. Therefore, R-A theory provides a theoretical foundation for research on the positive question of what measures of alliance performance managers actually use and the normative question of the measures they should use.

In summary, R-A theory provides a theoretical foundation for the integrative model of alliance success: (1) Alliance success results from alliance partners achieving superior financial performance. (2) Superior financial performance results from alliances that are (a) relational resources and (b) enable partner firms to occupy positions of competitive advantage. (3) Marketplace positions of competitive advantage result from alliances in which partners, relative to competitors, (a) have complementary resources, (b) create idiosyncratic resources, (c) have an alliance competence, and/or (d) are effective cooperators because of trust, commitment, high termination costs, shared values, communication, and (the absence of) opportunistic behavior.

CONCLUSION

Business alliances, a major form of relationship marketing, are becoming ubiquitous. However, many alliances are unsuccessful. We provide an integrative model of alliance success based on sub-models that rely on the resource-based, competence-based, relational factors, and competitive advantage views. We then show how a theory of competition, resource-advantage theory, grounds the integrative model. Although there is empirical evidence for R-A theory in general and for several of the integrative model's posited linkages, in particular, there has been, as yet, no test of the overall model. We offer it for that purpose.

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Relationship Marketing in the New Economy

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ABSTRACT. This article aims to put relationship marketing in the context of the New Economy; it is a quest for valid and practical theory. It is preoccupied with the reigning marketing management paradigm and a shift to a relationship marketing paradigm. A systemic view, referred to as total relationship marketing, is presented together with the core values and beliefs of relationship marketing. The article concludes that relationship marketing is fundamentally different from traditional marketing management and that successful implementation requires new mindsets.

KEYWORDS. Relationship marketing, networks, interaction, CRM, New Economy, paradigm shifts, intellectual capital, balanced scorecard

ACKNOWLEDGING PARADIGM SHIFTS

In the relationship marketing concept to be presented here the core variables are relationships, networks and interaction. The choice is not

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arbitrary; these variables recurrently emerge in the new marketing theories that have challenged the reigning marketing management paradigm during the past twenty-five years. These variables are not new; they were there thousands of years ago and they present themselves ‘‘here and now.’’ They will be here in the future, no matter if they are represented by relationship marketing or something else. They are part of society. In fact, society is nothing less than a network of relationships within which we interact, and marketing is a dimension of society. Research and education in business have only recently begun to acknowledge the existence of relationships, but have not as yet understood their omnipresence and deep impact on marketing.

Although it is encouraging that relationships have been made visible and that the interest in them is soaring, major problems follow. One is that those who start to explore and implement relationship marketing techniques are often not sufficiently familiar with the foundations of relationship marketing, its paradigm. Furthermore, relationship marketing is put under siege by the traditional marketing management paradigm, and the techniques used in relationship marketing implementation are often more grounded in marketing management values than in relationship marketing values.

The New Economy is an umbrella term for changes in economic life and business but its definition will always be indeterminate and changing. For the purpose of this article it is sufficient to say that the New Economy embraces such phenomena as the network society, a focus on services, new customer roles, information technology (IT), globalization, deregulation of financial systems, and mega-alliances between countries (such as the European Union, EU, and the North American Free Trade Agreement, NAFTA). The New Economy requires major re-thinking of marketing and management.

As is characteristic of paradigm shifts, mainstream researchers, educators, and practitioners–who are in majority–attempt to force those who deviate from standard thinking–who are in minority–to adhere to the rules and regulations of ‘‘normal science’’ and to squeeze new thinking into the old costume. This resistance slows down and partly distorts the introduction of new marketing behavior. It is perhaps so deeply rooted in human genes that it cannot be abandoned to allow faster progress. Although technological paradigms shift more rapidly than ever before and drive changes, existing paradigms in social sciences–including management and marketing–seem to linger, hoping to conquer the new within a derelict conceptual edifice.

The article will review the relationship marketing paradigm within two areas. The first is a systemic and integrated approach to relationship marketing manifested in the concept of total relationship marketing. The second area embraces the core values and beliefs of relationship marketing.

THE TOTAL RELATIONSHIP MARKETING PARADIGM-A SYSTEMIC APPROACH

We need to abandon the myopic look at marketing and sales as isolated and well-defined phenomena. We need to broaden marketing and sales to general management and to social life, even to life itself.

There are many definitions of relationship marketing, most of them stressing the development and maintenance of long term relationships with customers and sometimes with other stakeholders (Christopher, Payne and Ballantyne 1991; Morgan and Hunt 1994; Grönroos 1997, 2000). My definition of relationship marketing is broader by being systemic and viewing relationship marketing in a comprehensive management and social context (Gummesson, 1999, p. 24):

> *Total relationship marketing* is marketing based on relationships, networks and interaction, recognizing that marketing is embedded in the total management of the networks of the selling organization, the market and society. It is directed to long term win-win relationships with individual customers, and value is jointly created between the parties involved. It transcends the boundaries between specialist functions and disciplines.

Total relationship marketing embraces not just the supplier-customer dyad as does one-to-one marketing and CRM (customer relationship management) but also relationships to a supplier's own suppliers, to competitors and to middlemen; these are all *market relationships*. Furthermore, relationships are found a step above market relationships, to public authorities, the media, and other entities in society that exert influence on market behavior. These relationships are partly beyond the control of the marketing and sales departments and the subject for both general management and society; they are *mega rela-*

tionships. *Nano relationships* concern the internal relationships in a company, such as relationships between internal customers and between profit centers as well as to investors. In all, thirty market, mega and nano relationships–the 30Rs–constitute a network of dependent elements that are only marginally observed within the conventional marketing management paradigm.

MARKETING THEORY CONTRIBUTIONS TO TOTAL RELATIONSHIP MARKETING

Total relationship marketing is a synthesis of contributions from several marketing and management theories and practices. First, three marketing theories will be reviewed: traditional marketing management, services marketing, and the network theory of business-to-business (B:B) marketing.

Although the traditional *marketing management* paradigm is challenged here, the new paradigm should also include elements of former paradigms if these elements earn their place in the new context. Marketing management and its 4Ps (product, price, promotion, place) will always be important in marketing although they will partly be treated differently within the relationship marketing paradigm. For example, such long established areas as image and brands are currently more in vogue than ever, but in the context of the New Economy. The Internet, the volatility of stock markets, and the interest in the balanced scorecard and intellectual capital are affording new meaning to them through the concepts of brand equity and brand identity. ''The marketing concept,'' which urges the firm to put the customer in focus, is part of marketing management but has been difficult to implement. In the New Economy it is more viable than ever. Marketing management is limited in the sense that it is primarily designed for consumer marketing, or business to consumer, B:C, as it is increasingly being referred to.

Services marketing has put the light on the fact that modern economies are largely service-based whereas traditional marketing management has its heart in manufactured and packaged consumer products for mass distribution. Services marketing has contributed to relationship marketing by stressing interaction between customers and suppliers and between the customers in the service encounter. It further emphasizes the importance of good personal relationships with customers as the production, delivery and consumption of services are partly simultaneous processes, taking place in a ''servicescape,'' an environment, that should be conducive to the efficiency of these processes and should cement future relationships to customers.

The *network theory of B:B marketing* has been an important source of inspiration for total relationship marketing. As Ford, Håkansson and Johanson (1986, pp. 26-27) express it:

> A company can be viewed as a node in an ever-widening pattern of interactions, in some of which it is a direct participant, some of which affect it indirectly and some of which occur independently of it. This web of interactions is so complex and multifarious as to deny full description or analysis. Indeed, the interaction between a single buyer and selling company can be complex enough . . .

Services marketing and the network theory are both oriented toward the management of the whole company. Services marketing is closely knit to service management through the fact that services marketing, production and delivery are largely handled by the same people and performed simultaneously. The network theory has established the necessity in B:B to see marketing, sales, engineering, design, product development, and manufacturing in a unified management context.

The domains for traditional marketing management, services marketing, and the network theory are summarized in Figure 1. By combining these domains into total relationship marketing, marketing theory reaches a higher level of generality. Especially researchers from Northern Europe–The Nordic School–have taken an interest in merging these theories (Gummesson, Lehtinen and Grönroos 1997).

MANAGEMENT THEORY CONTRIBUTIONS TO TOTAL RELATIONSHIP MARKETING

In addition to these contributing marketing theories, three management theories are important in defining a comprehensive relationship marketing concept. These are total quality management (TQM); the new developments in organization theory, here presented as the network organization; and the new accounting with intellectual capital and the balanced scorecard as key elements to help capture ROR, return on relationships.

FIGURE 1. The domains of marketing theories contributing to total relationship marketing (revised from Gummesson 1999, p. 248).

Relationships / Products	To consumers B:C	To organizations B:B
Goods	Marketing management/ mix/4Ps	Network theory
Services	Services marketing and service management	

Total Quality Management, TQM

Quality control in its traditional costume epitomizes the hazard of approaching a phenomenon on a substantive and narrow basis, not seeing it in the context of total management. It was not until quality management was expanded to encompass all activities in the company that TQM emerged and became a driver in the New Economy.

TQM is not only a revolution in quality management but also a *strengthening of marketing orientation*. In marketing management, quality had regressed to a hollow cliché, which was routinely appended to advertising copy and sales-talk, and without further elaboration was mentioned as ''important'' in marketing textbooks. Today, quality is interpreted as *customer perceived quality,* meaning that it is marketing-oriented and focused on customer satisfaction. The most conspicuous contribution from TQM to relationship marketing is the creation of a link between the internally and technically oriented operations management and the externally oriented marketing and sales function.

That quality has moved from the shop floor to the management of the whole corporation becomes evident in the now widespread quality awards for which The Malcolm Baldrige National Quality Award initially became a role model. The European Quality Award, with a different structure than the Baldrige, has become a driver for a holistic and customer-oriented view on management among corporations and governments in Europe.

The awards have increasingly added aspects of relationships to its criteria and explanatory notes. Here are excerpts from the Malcolm Baldrige Award (1997) that underscore dimensions of both market, mega and nano relationships:

- ‘‘Describe how the company determines and enhances the satisfaction of its customers to strengthen relationships . . . [and] . . . explain how the company ensures that complaints are resolved effectively and promptly . . .’’ (p. 9)
- ‘‘Examples of approaches that might be part of listening and learning strategies are: . . . relationship building, including close integration with customers . . . interviewing lost customers to determine the factors they use in their purchase decisions . . . won/lost analysis relative to competitors . . . post-transaction follow-up . . .’’ (pp. 22-23)
- ‘‘Relationship enhancement provides a potentially important means for companies to understand and manage customer expectations. Also, frontline employees may provide vital information to build partnerships and other longer term relationships with customers.’’ (p. 23)
- ‘‘. . . analysis and priority setting for improvement projects based upon potential cost impact of complaints, taking into account customer retention related to resolution effectiveness.’’ (p.23)
- ‘‘For many companies, key suppliers and partners are an increasingly important part of achieving not only high performance and lower-cost objectives, but also of strategic objectives . . . improving your own procurement and supplier management processes (including seeking feedback from suppliers and ‘internal customers’), joint planning, rapid information and data exchanges, use of benchmarking and comparative information, customer-supplier teams, training, long-term agreements . . .’’ (p. 29)
- ‘‘The item addresses current levels and trends in key measures and/or indicators of supplier and partner performance.’’ (p. 30)
- ‘‘Internal partnerships might include labor-management cooperation, such as agreements with unions . . . [and] . . . network relationships among company units to improve flexibility, respon-

> siveness, and knowledge sharing . . . External partnerships might be with customers, suppliers, and education organizations . . . An increasingly important kind of external partnership is the strategic partnership or alliance . . . [which] . . . might offer a company entry into new markets or a basis for new products or services . . . blending of company's core competencies or leadership capabilities . . . thereby enhancing overall capability, including speed and flexibility.'' (p. 41)

The concept of *relationship quality* was introduced in the Ericsson Quality program in 1985 (Gummesson 1987). The purpose was to call attention to the fact that relationships are part of customer perceived quality. This quality concept is a long way from the traditional engineer's logic of quality inspection and statistical process control of mechanical components manufacturing. Relationship quality now stands out as a pivotal issue in relationship marketing (Storbacka, Strandvik and Grönroos 1994; Holmlund 1997).

The Network Organization

The network organization is a generic designation for new organizational structures of enterprises as well as of society as a whole. In his treatise on the network society, Castells (1996, p. 168) claims that networks are ''. . . the fundamental stuff of which new organizations are and will be made.'' Network organizations are bigger than they look on paper. Their core can be small, yet they can engage huge resources in their network of alliances, personal contacts, and outsourced activities.

The classic–and in economic and management theory still prevailing–perception of a company as a unit with clear boundaries and a hierarchical structure is an *exclusive organization*; it excludes the customer and others who are not employed. The network organization is an *inclusive organization*. It embraces customers and others in a network and key strategies are outsourcing and alliances. In IT terms it includes the members of not only an organization's intranet but also of its extranet (close allies such as regular suppliers and those customers that are, for example, members of a customer club), and all others on the Internet that chose to interact directly with the company. In total relationship marketing terms, the nano relationships structure the internal organization into a network, but the boundaries to market and mega relationships are fluid.

Three nano relationships within the thirty relationships of total relationship marketing will be mentioned here as particularly pertinent to the network organization. The first is *internal marketing*, a contribution from services marketing that has subsequently been adopted by all types of organizations; for a current review of the concept, see Lewis and Varey (2000). Current marketing terminology usually reserves internal marketing for the application of marketing management knowledge–which was originally developed for external marketing–on the "internal market," that is the employees and others within an organization's network. The purpose is to get employees in tune with existing conditions and procedures as well as with major changes–such as a revised business mission after a merger–thus making them better equipped to handle the external marketing. Internal marketing is to a large extent based on personal contact, internal mail and close interaction but also on mass information.

The second nano relationship is a consequence of deregulation. Progressing globally on the external market for two decades, deregulation has also taken place within the planned economies of organizations. Through decentralization and profit centers, corporations have gone from internal planned economies to internal market economies. Today, organizational units are partially competing, selling and buying between each other. Sometimes profit centers are incorporated and enjoy autonomous legal status and high independence. Sometimes they are business areas, divisions, or units with varying names; they have limited autonomy but are basically responsible for their financial results. Compared to the concept of internal marketing, which emerged around 1980, the profit center organization started as a trend in manufacturing industries in the 1960s and the trend has proven sustainable. The idea was subsequently adopted by private service industries and government agencies.

The third nano relationship defines employees as *internal customers*, a concept from TQM. The internal customer concept is ascribed to the founder of Toyota who said in the 1950s that "the next process is your customer" (Lu 1985, pp. viii). An employee's ability to influence and satisfy the needs of others inside the organization is considered an antecedent to external customer satisfaction. Only if internal customer relationships work can the quality of the outcome be excellent, thus creating satisfied, or even better, delighted external customers.

There are many names and variants of the new organization. The virtual organization may be the most common, but it is usually perceived as directly tied to IT. I prefer the more generic and neutral term network organization as the common denominator appears to be a network structure. Other designations are the federative organization and Triple I–intelligence, information, ideas (Handy 1990, pp. 117ff and pp. 141ff); the spider's web and the starburst organization (Quinn 1992, pp. 120ff and 148); the cluster organization (Mills 1991, p. 31); the team-based organization (Tjosvold 1993); the transcendent organization glued together through collective consciousness (Gustavsson 1992, Harung 1999); and imaginary organizations (Hedberg et al. 1997).

New Accounting and Return on Relationships, ROR

In business life it is imperative to monitor the financial impact of activities; the bottom line is magic. The current obsession with shareholder value creates a short term perspective whereas relationship marketing advocates a long term perspective. These perspectives are often incompatible. When managers ask the question ''Does relationship marketing pay?'' the answer has to be broadened to include both short term and long term considerations.

Return on relationships is an umbrella under which are gathered accounting and measurement approaches pertinent to total relationship marketing. It is defined as follows (Gummesson 1999b, p. 183):

> Return on relationships (ROR) is the long term net financial outcome caused by the establishment and maintenance of an organization's network of relationships.

A similar concept is customer equity, proposed by Rust, Zeithaml and Lemon (2000) and Heskett, Sasser and Schlesinger (1997) offer a service-profit chain embracing satisfaction, loyalty and profitability. Many authors stress lifetime value of customers. Reichheld (1996) found that long relationships generally pay, and that the annual return per customer grows with the longevity of the relationship. He also acknowledges that a company must retain employees and investors; without a stable relationship to them it is not possible to pursue a long term customer retention strategy. This is in line with the total relationship marketing approach where relationships thrive in a broad network context with other market relationships but also with mega relationships on the societal level, and nano relationships on the organizational level.

As numbers from accounting exert a significant influence on decisions and practices by being continuously reported to top management and shareholders, supportive accounting is an antecedent to total relationship marketing. New accounting theories and practices, most notably the *balanced scorecard,* register indicators of other types of capital than the traditional financial capital. The original balanced scorecard contains indicators in four groups of capital: financial, customer, internal business process, and learning and growth (Kaplan and Norton, 1996).

Within a balanced scorecard approach, the concept of *intellectual capital* is challenging the supremacy of short term *financial capital* (Edvinsson and Malone, 1997; Sveiby, 1997). Intellectual capital can be defined as the total value of a company–the price of its shares–minus its book value. In other words: all assets except those in the balance sheet. The significance of intellectual capital clearly shows in the stock prices of such companies as Coca-Cola, Microsoft and Amazon.com for which the balance sheet only explains a fraction of the price of its stock.

A company's survival and growth is eventually determined by its financial outcome. *The issue is to recognize the long term importance of intellectual capital for the generation of future financial capital, and to gradually convert intellectual capital into financial capital.*

Intellectual capital can be divided into two major types. The *human* or *individual capital* consists of employees and their qualities. It includes the individuals' knowledge, behavior and motivation but also their network of relationships. If an employee leaves a company, the human capital vanishes. Employees cannot be owned, that would be slavery. They are "9 to 5 assets."

In contrast, *structural capital* stays if an employee leaves. In a relationship marketing sense, structural capital consists of relationships that have been established with a company as such and are tied to its culture, systems, contracts, brands, and the network to which a company belongs. The more successfully a company ties relationships to its structure, the less dependent it is on individual employees.

Skandia, a Swedish-international assurance and financial group, has acquired a global reputation for experimenting with the balanced scorecard and intellectual capital indicators. Skandia developed a list of 111 indicators and a reserve of another 55. This is certainly no short-list and it should scare off any executive as being too complicated to report, let alone act upon. The following indicators have apparent relevance to relationship marketing (Skandia, 1996, 1997; Edvinsson and Malone, 1997, pp. 151-158):

- *With focus on the customer:* annual sales/customers, customers lost, average duration of customer relationships, rate of repeat customers, average customer purchases/year, average contacts by customer/year, points of sale, customer visits to company, days spent visiting customers, and a satisfied customer index.
- *With focus on employees, but with consequences for customer relationships:* motivation index, empowerment index, employee turnover, and average years of service with company.
- *With particular focus on customers and electronic relationships:* IT investment/customer, IT investment/service and support level, number of internal IT customers, number of external IT customers, and IT literacy of customers.

Although the new approaches prescribe measurement, it is essential not to discard the non-measurable. Long term effects of vision, leadership and risk-taking are not measurable in the short term, and yet they are the essence of management for survival. The investment in customers based on future or even lifetime consumption, particularly of new products and services, cannot be predicted with any certainty or probability. The decisions must be based on experience, common sense, intuition and belief. For example, Swedish Ericsson and Finnish Nokia who have become world leaders in mobile telephony during the 1990s, would not have existed had they been prompted to prove with numbers, even in the late 1980s, that they were on the right track.

HIGH TECH-HIGH TOUCH: h-RELATIONSHIPS AND e-RELATIONSHIPS

Much of the relationship marketing literature is devoted to the influence that IT is exerting on marketing and management. When being in the midst of the changes as we are right now, it is difficult to see which are the viable avenues to travel and which are blind alleys. Only risk-taking and experimentation can teach us which developments will have a sustainable future.

One aspect with particular relevance for relationship marketing will be discussed here, namely the interdependence between human relationships (h-relationships) through physical, face-to-face contact and electronic relationships (e-relationships) through the new media, particularly e-mail, websites, and mobile telephony.

The Internet offers a network infrastructure through which you can send and receive information. You create relationships and interaction in new forms. The cellphone allows you to be accessible with little time and space limitations. If you are not connected, you are about to lose both your professional and social status. IT is presented as the ultimate pill, the combined Viagra and Prozac of business life. But all pills have side-effects, some being known and publicized, others being hidden from the public, and yet others are not known and will be difficult to prove as they need time to surface.

One of the side-effects concerns the human side of business: Are h-relationships out? In my interpretation they are not. On the contrary, IT and human aspects are deeply linked, although IT is getting the money and the attention. IT transforms corporate cultures and social life. Through escalating speed and fading human touch, IT both creates efficiency and negative stress in organizations. ‘‘Management by e-mail’’ cannot completely replace ‘‘management by walking around’’ (Hallowell, 1999).

A problem with integrating IT with total relationship marketing so far is that IT offers little theory or context; it offers promises, speculation, and a constant flow of new software and hardware in bits and pieces. It has offered stock market euphoria and IT startups that had never made a cent in profit were suddenly worth billions of dollars on the stock market. Since computers appeared in the 1950s, IT has been presented as replacement for human beings and a rationale for downsizing, but neither has occurred.

The concept of *high tech–high touch* offers an integrative opportunity. High tech is sometimes replacing the human touch but it is also boosting it. It becomes a joint creation of a new platform: the more tech, the more need for touch. There are many observations within this ethos. For example, there have never been so many international business and research conferences with so many delegates as during the last years of the 1990s, the same years during which the Internet began to become part of everyday life. A possible explanation is that the e-relationship is remodeling the shape of h-relationships through the use of e-mail, voice mail, websites and global mobile telephony. The e-relationship has a human side. By speeding up and facilitating communication, the e-relationship seems to expand the demand for face-to-face encounters, both in order to work together and to mingle socially.

IT has become the major technology within CRM. Kalakota and Robinson (1999, p. 113) even claim that "CRM will drive the next major wave in information technology." The power of IT should neither be overdramatized nor belittled (Lennstrand 2000). By boosting the role of IT too far, marketing becomes technology and production obsessed and loses in customer orientation. By using IT wisely–and exactly what that is in the New Economy we are desperately trying to find out–it can become a relationship builder.

E-relationships have specific qualities that spawn new markets, new management modes, and new purchasing and consumption behavior. It does not mean that e-commerce and e-business will eliminate current ways of doing business but rather add to the variety. I endorse the view of Wikström, Lundquist and Beckérus (1998, p. 17) that the "primary enabler" of new organizations and new marketing is the human being. They continue: ". . . IT is a secondary enabler and does not live its own sophisticated technological life separated from the possibilities and shortcomings of man . . . [and] . . . without a genuine learning attitude in a company, technology alone will not create an interactive business logic."

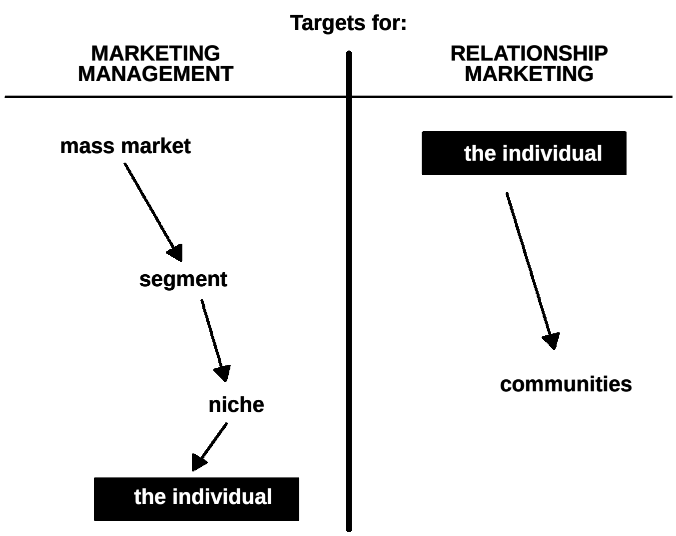
CORE VALUES AND BELIEFS IN RELATIONSHIP MARKETING

This part of the article will define the core values and beliefs on which relationship marketing is grounded. Many of those who do research in relationship marketing or try to implement CRM programs today have not sufficiently reflected on these basic conditions and consequently run into a brick wall.

Each customer is an individual. The traditional marketing management approach is mass marketing. Customers are treated as statistics, decimals, and averages of grey masses, whether it is a large general mass or smaller mass segments. Mass promotion and mass distribution have been said to be cost-effective, and most companies still seem to feel that it is too costly to treat customers, especially ordinary consumers, as individuals. Relationship marketing addresses each customer as an individual, which is distinctly epitomized in the expression one-to-one marketing (Peppers, Rogers and Dorf 1998, Newall 2000); heterogeneity, not homogeneity, is the key concept. Wind and Rangaswamy (2000) stress this further by suggesting the concept of "customerization," a step beyond mass customization and organizational compartmentalization: "Customerization is a call to every manager–regardless of his or her discipline–to rise to a new standard of interacting with customers and building relationships with them."

Figure 2 points out that the starting point is the key. If you start by looking at the market as an anonymous mass and then divide it, the customer becomes no more than a residual in a hierarchy. Relationship marketing requires you to start with each individual and build from there, either keeping the customer as an individual, or making customers members of communities according to their wants and behavior. This is a major paradigm shift, which may sound impossible to imple-

FIGURE 2. Customers as segmented masses and customers as individuals and members of communities.



ment until you fully accept it. IT and CRM offer techniques to make this possible.

Collaboration and joint value-creation. Competition has been well-established in both economics and marketing for centuries. Perhaps the main contribution from relationship marketing, and what it will be remembered for by future generations, is its emphasis on collaboration. In a narrow sense it comprises the collaboration between customer and supplier. This has always been a practical necessity in the development, production, marketing and purchasing of services as well as for complex products in B:B marketing. Its practice, however, is often unprofessional and guided by bureaucratic and legal values and lack of empathy. Its introduction in theory and education is long overdue. Although collaboration was advocated by Alderson in 1965 (and possibly by others) as necessary in a functioning market economy, it did not arouse general interest. Today several sources independent of relationship marketing stress collaboration (see, for example, Solomon 1992; Mattsson and Lundgren 1992-93; Brandenburger and Nalebuff 1996). Collaboration is the very reason for forming an organization; you collaborate inside and compete outside. In total relationship marketing you both collaborate and compete, inside as well as outside the organization. Partners in collaboration create value together. The traditional view is that the supplier creates value; it is referred to as value-added and follows Porter's (1985) popular value chain. The value constellation or the value field (Normann and Ramírez 1993; Duncan and Moriarty 1998) as well as relationship marketing and network organizations all say differently; value is created in a network of relationships of stakeholders. In the traditional sense, consumption is destruction; according to the dictionary the word consumption even means ''a wasting disease, esp. pulmonary tuberculosis.'' But for the consumer the product or service is adding value only when it is consumed and used, and for services the production, delivery and consumption are in part concurrent events.

Long term relationships pay. This is just a reminder of what was discussed under the notions of ROR, the balanced scorecard and intellectual capital. A series of studies show that the longer the relationship to a customer, the higher the profit will be. This is primarily due to two effects of customer loyalty: reduced marketing costs when fewer customers defect; and increased ''customer share'' or ''share of wallet'' (a higher share of the customer's purchase of a product or service goes to a single supplier). Long relationships are also needed inside the organization. Reichheld (1996) claims that high turnover of employees, downsizing and early retirement–which have characterized the 1990s–deprive an organization of human intellectual capital, including internal and external relationships.

Win-win, not win-lose or lose-lose. Effective collaboration in a long term relationship can only take place if the parties feel like winners, or at least that they gain from a relationship or that it is their best option under current circumstances. Håkansson and Snehota sum up (1995, pp. 384-385):

> What makes the economy of relationships so special is indeed that a relationship has functions (has economic consequences) for several actors and thus that the outcomes of different relationships are interdependent . . . Thus it is not enough for any actor to be concerned just about itself in order to be successful, as is suggested in all recommendations based on market theory.

It requires each party to think of the other party as a partner rather than as an adversary. Short term street smarts and excessive greed, which are characteristics of much marketing practice and internal maneuvering, have no place in relationship marketing. Internal win-win relationships–when employees feel they are working in a company that gives them something back such as reasonable salary, encouragement and development potential–boost motivation and performance.

Service and relationship values versus bureaucratic-legal values. Much of the marketing management paradigm has, in practical performance, become dominated by values that are not acceptable in relationship marketing. The bureaucratic-legal values are typical of government bureaucracies but unfortunately also of many private companies. Table 1 is a comparison between the values that are inherent in relationship marketing–relational and service values–and bureaucratic-legal values.

CONCLUSIONS

Relationship marketing and applications such as CRM will never develop beyond techniques if they are treated as yet another add-on to traditional marketing management. Total relationship marketing pro-

TABLE 1. Comparing bureaucratic-legal values with relationship and service values.

Bureaucratic-legal values	Relationship and service values
1. Focus on an average customer to be treated with a mass approach	1. Each customer to be treated as an individual with individual needs
2. Routines, policies and regulations more important than the end result	2. Only end results count
3. The supplier is in focus	3. The customer is in focus
4. A professional jargon that does not communicate with the customer	4. A language that communicates on customer conditions
5. Important to win over the customer in an argument	5. A win-win strategy
6. The provider is the expert, the customer is the amateur	6. The customer is also knowledgeable
7. The customer is the ''other party,'' even an adversary	7. The customer is a partner and a co-producer
8. The customer is a cost	8. The customer is revenue

vides a systemic view based on the core variables relationships, networks and interaction. This requires a management approach that transcends the boundaries of marketing and sales. It is apparent that the two marketing theories that have developed during the past twenty-five years–services marketing and the B:B network theory–are just as much management theories. The non-marketing theories that have contributed to total relationship marketing–TQM, network organizations, balanced scorecard and intellectual capital–offer insights into relationship marketing from an integrated and systemic perspective.

Total relationship marketing adheres more strictly to ''the marketing concept'' than does traditional goods and consumer focused marketing management. Relationship marketing is geared toward collaboration and co-production of value; the individual is in focus instead of masses; long term relationships are found to be more profitable than one shot transactions; all parties are winners and not just one party; and interaction is preferred to one-way persuasion. In summary, the bureaucratic-legal values are abandoned in favor of relationship and service values.

It took many years–far too many–before it dawned on me that life itself and society can be approached as networks of relationships within which interaction takes place. Marketing needs to raise its eyes above the established discipline and understand the context within which it operates, hence my preoccupation with a systemic view. *If marketing theory and practice had embraced this systemic view earlier it could not have missed the significance of relationships, networks and interaction.*

Furthermore, research in marketing must liberate itself of the excessive use of superficial survey techniques and simplistic hypothesis testing. It has to move to theory generating and creative approaches where theory is challenged and tested, not by being ''proved'' but by being continuously ''im-proved.'' This requires more deployment of participant observation and action research and recognition of experience and tacit knowledge (Gummesson 1998, 2000). It is to be hoped that the seeds of total relationship marketing that are currently growing will produce plants that represent new mindsets and a paradigm shift in marketing. The New Economy, whatever it turns out to be in the end, needs this support.

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Relationship Marketing of Services– Perspectives from 1983 and 2000

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ABSTRACT. In 1983 the author presented a paper entitled simply "Relationship Marketing" at the American Marketing Association's Services Marketing Conference. The paper was published in the conference proceedings and for the first time the phrase "relationship marketing" appeared in the marketing literature. For this charter issue of the *Journal of Relationship Marketing,* the original 1983 paper is reprinted in full. The author then offers fresh perspectives on his paper in the form of a commentary.

KEYWORDS. Relationship marketing, services marketing, internal marketing, relationship pricing

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RELATIONSHIP MARKETING

When it comes to marketing, many service firms devote most of their resources to attracting new customers. Efforts to retain existing customers are minimal, at least insofar as formal marketing programming is concerned. This view of marketing is needlessly restrictive and potentially wasteful.

It is needlessly restrictive because firms benefit by keeping valued customers as well as by attracting new customers. Assuming equality in customer attractiveness, the firm that attracts 100 new customers and loses 20 existing customers for a net gain of 80 customers is better off than the firm attracting 130 new customers but losing 60 for a net gain of 70 customers.

The ‘‘new customer only’’ approach to marketing can also be wasteful since it conceivably may cost more to acquire new customers than retain or build up existing ones. For example, a firm spending $1 million in advertising to attract new customers may experience less of a gain in net business than if it were to spend $750,000 divided among new customer advertising, direct mail to existing customers promoting additional services, and staff training to improve service quality.

Thinking of marketing in terms of having customers, not merely acquiring customers, is crucial for service firms. The combined impact of low growth rates in many service industries and deregulation–which has centered on service industries–is resulting in ‘‘everyone getting into everyone else’s business.’’ Securities brokerage companies have attracted billions of deposit dollars from banking and thrift institutions through money market mutual funds. Sears, which announced the acquisition of the nation’s largest real estate company (Coldwell-Banker) and fifth-largest securities firm (Dean Witter) within the span of one month in 1981, is gearing up to become the United States’ largest department store of financial services. The discount brokerage sector of the securities industry is emerging as a significant competitive influence and will become a major factor now that banks are entering this business. The Airline Deregulation Act has resulted in intense competition–and price cutting–on popular routes. Consumers can now select from among multiple suppliers of long-distance telephone service. Clearly, marketing to protect the customer base is becoming exceedingly important in a wide variety of service industries.

This paper introduces the concept of ''Relationship Marketing'' and discusses some of the principal relationship marketing strategies available to service organizations. The theme is that relationship marketing is an appropriate and useful approach for many service firms.

WHAT IS RELATIONSHIP MARKETING?

Relationship marketing is attracting, maintaining and–in multi-service organizations–enhancing customer relationships. Servicing and selling existing customers is viewed to be just as important to long-term marketing success as acquiring new customers. Good service is necessary to retain the relationship. Good selling is necessary to enhance it. The marketing mind-set is that the attraction of new customers is merely the first step in the marketing process. Cementing the relationship, transforming indifferent customers into loyal ones, serving customers as clients–this is marketing too.

For such a basic idea, there has been relatively little attention paid it in the services marketing literature. As Schneider (1980) writes:

> What is surprising is that (1) researchers and businessmen have concentrated far more on how to attract consumers to products and services than on how to retain those customers, (2) there is almost no published research on the retention of service consumers, and (3) consumer evaluation of products or services has rarely been used as a criterion or index of organizational effectiveness. (p. 54)

Although smaller than one would expect, a body of literature relating to the idea of relationship marketing is developing. Levitt (1981) emphasizes the need for firms marketing intangible products to engage in constant reselling efforts. Ryans and Wittink (1977) have categorized services based on the degree of differentiation of competing service offerings and the ability of consumers to change suppliers and have suggested that many service firms pay inadequate attention to encouraging customer loyalty. Gronroos (1981), Berry (1980, 1981), George (1977) and others have stressed improving the performance of service personnel as a means of retaining customers. Berry and Thompson (1982) have applied relationship marketing to the banking industry, claiming the concept ''. . . will dominate retail bank marketing practice and thought throughout the 1980's.''

The practice of relationship marketing is most applicable to a service firm when each of the following conditions exists:

1. There is an ongoing or periodic desire for the service on the part of the service customer, e.g., telephone or janitorial service versus funeral home service.
2. The service customer controls selection of the service supplier, e.g., selecting a dry cleaner or dentist versus entering the first taxi in the airport waiting line.
3. There are alternative service suppliers and customer switching from one to another is common, e.g., patronizing various restaurants or airlines versus buying electricity from the one electric utility serving a community.

These conditions are actually quite prevalent. Relatively few service firms sell ‘‘one-time’’ services and in most service situations the customer both controls the choice process and has alternatives from which to choose. When these conditions do exist, the opportunity to not just attract customers but to build relationships with them is present. Required are specific strategies that differentiate the service from competitive offerings on dimensions that are meaningful to customers and difficult for competitors to duplicate (Ryans and Wittink, p. 314).

RELATIONSHIP MARKETING STRATEGIES

There are a number of possible relationship marketing strategies to be considered in the development of a relationship marketing plan. Discussed in this paper are five such strategies:

1. Core Service Strategy
2. Relationship Customization
3. Service Augmentation
4. Relationship Pricing
5. Internal Marketing

These strategies are not totally independent of one another and can be used in combination. A firm might use all five simultaneously.

Core Service

A key strategy in relationship marketing is the design and marketing of a ‘‘core service’’ around which a customer relationship can be established. The ideal core service is one that attracts new customers through its need-meeting character, cements the business through its quality, multiple parts, and long-term nature, and provides a base for the selling of additional services over time (Berry and Thompson). Core services are directed toward central rather than peripheral target market needs.

An example of a core service is the ''Individual Financial Services'' program offered through the trust department of Wachovia Bank and Trust headquartered in Winston-Salem, North Carolina. In this program customers select those specific services they wish from a package of services including tax preparation, cash flow analysis, budget assistance, insurance analysis, investment analysis, purchase and safekeeping of securities, financial record keeping, bill paying, asset management, and estate planning. Customers pay only for those services they select. The Individual Financial Services program addresses affluent consumer needs that many banks fail to address, has multiple parts, is long-term in nature, and offers a platform from which other financial services can be sold.

Merrill-Lynch's Cash Management Account also illustrates the concept of a core service. Introduced in 1977, the Cash Management Account is a $20,000 minimum balance margin account that automatically sweeps money from stock or bond sales into a money market fund. Consumers can access the dollars in their money fund account by writing a check or using a Visa debit card. If the balance in the money fund account is insufficient to cover such transactions, credit collateralized by securities is automatically extended.

By the fall of 1982, Merrill-Lynch had more than 750,000 Cash Management Account customers with an average account balance of about $67,000. The appeal of this service to upscale consumers has recently prompted other securities firms and, increasingly, commercial banks to develop their own versions of the service. However, the lag time of several years between when Merrill-Lynch launched the service and when similar services began appearing from competitors allowed Merrill-Lynch to attract many thousands of new clients who then became prospects for the firm's other service lines.

Customizing the Relationship

The nature of services affords many service firms the opportunity to customize the relationship. By learning about the specific characteristics and requirements of individual customers, and then capturing these data for use as needed, service firms can more precisely tailor service to the situation at hand. In so doing, they provide their customers an incentive to remain as customers rather than ''starting over'' with other suppliers.

The possibilities for relationship customization are considerable, especially when personal service capabilities are combined with electronic data processing capabilities. For example, Xerox has introduced a service system called ''Field Work Support System'' that involves keeping the history of a customer's equipment in a computerized database. When assistance is required, the customer calls a ''work support representative'' on a toll-free number. The representative can instantly access data concerning the customer's location, equipment, and its service record. If the problem cannot be worked out over the telephone using a computer checklist, a field service representative is sent to the customer's site.

American Express has recently run a print advertisement on the American Express Card with the headline: ''When you have a question on a bill, you'll get some human understanding.'' The small copy then reads:

> This is not a recording. American Express Card customer service telephones are answered by real live people. Sure, the service centers are equipped with some amazing computers, but we count on our people to be equipped with brains of their own, as well. So they're expected and authorized to use their judgment and initiative to solve billing problems, and to explain the many services that go along with Cardmembership.

Free Spirit Travel, a Colorado-based travel agency with several outlets, assigns frequent traveler commercial clients a specific travel agent to coordinate all travel arrangements. The travel consultant develops a personal profile card on each business traveler in a company and records such information as preferred form of payment, secretary's name, and seating preferences in computerized reservation system client files. Clients receive personalized baggage tags with the travel consultant's business card on one side (in case of emergency) and the traveler's own business card on the other side.

Automotive Systems, a foreign car repair firm near Atlanta, provides explicit notes on customer service bills specifying the work that still needs to be done on the car and the time frame within which it should be done.

Whereas goods are manufactured, services are performed. Frequently they are performed by people who are in the position to custom-fit the service to the customer's particular requirements. If the customer receives custom service from company A but not from company B–and if receiving custom service is valued by the customer–then the customer is less likely to leave company A for B than would otherwise be the case.

Service Augmentation

Another relationship marketing strategy is service augmentation. Service augmentation involves building ''extras'' into the service to differentiate it from competitive offerings. For meaningful service differentiation to occur, the extras must be genuine extras–that is, not readily available from competitors–that are valued by customers. When this is the case, customer loyalty is encouraged. As Levitt (1974) writes: ''Having been offered these extras, the customer finds them beneficial and therefore prefers doing business with the company that supplies them'' (pp. 9-10).

One practitioner of service augmentation is the Fairfax Hotel in Washington, D.C. The Fairfax attempts to differentiate itself with its upscale target market by providing concierge service, night butler and 24-hour room service, a multi-lingual staff, a morning newspaper delivered to all guest rooms, a mint and cognac with the evening turn-down service, and room amenities including terry-cloth robe, linen laundry bag and bathroom telephone. More than 60 percent of the Fairfax Hotel guests have stayed there previously (Gates, 1982).

A totally different application of service augmentation in the same industry is Holiday Inn's ''No Excuses'' room guarantee program. Holiday Inn places the following written guarantee in each room:

- Your room will be right. It will be clean, everything will work properly, and you'll have enough of everything you need.
- Or we will make it right.
- Or we will refund the cost of your room for that night.

One form of service augmentation becoming more prominent is the ''preferred customer club.'' By inviting priority customers to join a company-sponsored club, the service company augments the offer with special services and added prestige while establishing a vehicle to stay in touch with these customers through promotional mailings, newsletters and the like. Marriott's Club Marquis provides still another example from the hotel industry. There is no membership fee to belong to Club Marquis. To qualify for membership, an individual must stay at Marriott hotels on five separate occasions and have their visits validated. Members receive the following services:

- Express reservation service through a toll-free number.
- Reservations automatically guaranteed for late arrival.
- Pre-registration.
- Most deluxe accommodations in the rate category requested.
- Check-cashing privileges.
- Complimentary *Wall Street Journal* delivered to the room each morning.
- Express check-out.
- Semi-annual newsletter.

Members also receive an identification card and personalized luggage tags. Club Marquis memberships are honored at all Marriott properties.

The three hotel examples used demonstrate the inherent flexibility of service augmentation. The ''extras'' can be anything so long as they are valued by the target market and not easily matched by competitors. The use of hotel examples does not mean, however, the concept is applicable only to hotels. The real estate company that spends a portion of an anticipated listing commission to cosmetically upgrade a home prior to marketing it is using service augmentation. So is the car rental company that provides time-saving services to members of a preferred membership club and the bank that conducts business management seminars for its small business clients.

Relationship Pricing

An old marketing idea–a better price for better customers–forms the basis of relationship pricing, another strategy option available to service companies pursuing customer loyalty. Relationship pricing means pricing services to encourage relationships. In effect, customers are given a price incentive to consolidate much or all of their business with one supplier.

Although the concept of quantity discounts is not new, some service companies are applying the concept in innovative ways. The ''frequent flyer'' programs of various airlines, which offer travelers upgrades to first class seating and free trips if they fly a certain number of miles on a given carrier, are an attempt to build brand loyalty in what many regard as a commodity business. An April 1982 poll of more than 6,000 frequent flyers indicated that 77 percent of the respondents were participating in an airline frequent flyer incentive program (*Frequent Flyer,* 1982).

Transamerica Corporation sponsored a program during 1982 in which passengers on its airline could receive first day car rental free when renting from Budget Rent a Car for three or more days. Citibank was one of the first banks to offer consumers reduced installment and mortgage loan rates in return for their checking and savings account business.

As with the other relationship marketing strategies presented, relationship pricing can be implemented in various ways in various service industries. For example, a sports team could package a third or one-half of its home games for a reduced per game price to encourage fans who cannot afford or do not want season tickets to attend more games. A university could offer reduced tuition for each additional family member enrolling. A movie theater could sponsor a ''Tuesday Night at the Movies Club'' with participants buying a ticket packet including five regularly priced tickets, five reduced priced tickets, and two free tickets. Regardless of the form relationship pricing takes, the objective remains the same: to encourage customer loyalty by rewarding it.

Internal Marketing

A pivotal relationship marketing strategy for many service firms is internal marketing. There are several forms of internal marketing. What all forms have in common is the ''customer'' is inside the organization. The usage in this paper is the employee as the customer and the job as the product.

The people who buy goods and services in the role of consumer are the same people who buy jobs. What is known in marketing about selling and reselling them goods and services can also be used in selling and reselling them jobs. The stress placed on customer satisfaction in external marketing is just as appropriate, just as necessary, in internal marketing.

Internal marketing is relevant to virtually all organizations. It is especially important, however, for labor-intensive service organizations. In these organizations, the quality of services sold is determined in large measure by the skills and work attitudes of the personnel producing the services. To the extent that labor-intensive service firms can use marketing to attract, keep, and motivate quality personnel, they improve their capability to offer quality services. Offering services that consistently meet the quality requirements of target markets is clearly an important factor in building strong customer relationships in many service industries.

The processes one thinks of as marketing–for example, marketing research, market segmentation, product modification, and communications programming–are just as relevant to internal marketing as to external marketing. Just as marketing research procedures can be used to identify needs, wants, and attitudes in the external marketplace, so can they be used for the same purposes in the internal marketplace. Marriott Corporation, for instance, annually surveys employees at each of its hotels about their jobs. Survey results are discussed with the management of the hotel property and shared with upper management at Marriott headquarters. Minnesota Power and Light and GEICO are among the service companies that have regularly used small group meetings between senior management and employees to encourage dialogue and feedback (*Business Week*, 1979). If employee needs and wants are to be satisfied, they must first be identified. The tools and techniques of marketing research can help.

To combat high turnover rates for bank tellers, which averaged 40 percent in 1979 (Zweig, 1980), a growing number of banks are implementing teller accreditation/career advancement programs. Generally, these programs are designed to raise the stature of the teller position while allowing promotion and personal growth opportunities within it. In-bank and non-bank courses, examinations, time-in-grade, and favorable job performance evaluations are typical requirements for becoming certified. First Interstate Bank of Arizona lowered its teller turnover rate from 42 percent in 1979 to 35 percent in 1980 after instituting a teller certification program (*American Banker*, 1981). In effect, banks developing such programs are modifying the teller job-product for a market segment willing to take on extra assignments and tasks to move forward in their jobs.

The growing number of service companies instituting ‘‘flexible work hour’’ or ‘‘cafeteria benefit’’ programs are also responding to the heterogeneity of the work force by segmenting the market and modifying the job-product to better fit the requirements of different segments.

Formal communications programming designed to shape work attitudes and behavior can also be an important element of an internal marketing strategy. For example, a service company’s advertising directed to the external customer can often be designed in such a way that it motivates and/or educates employees as well. Indeed, employees are an important ‘‘second audience’’ for a company’s advertising (George and Berry, 1981). Recent Delta Airline advertising making repeated references to Delta employees as ‘‘professionals’’ and including pictures of actual employees is an example of advertising to external and internal audiences simultaneously.

In essence, internal marketing involves creating an organizational climate in general, and job-products in particular, that lead to the right service personnel performing the service in the right way. In consumption circumstances in which the performance of people is what is being sold, the marketing task is not only that of encouraging external customers to buy but also that of encouraging internal customers to perform. When internal customers perform, the likelihood of external customers continuing to buy is increased.

CONCLUSION

Relationship marketing concerns attracting, maintaining and–in multi-service firms–building customer relationships. The relationship marketing firm invests in formal marketing programming not only to attract new customers but also to keep and improve existing customers. Attracting new customers is viewed as an intermediate objective.

Relationship marketing is applicable when there is an ongoing or periodic desire for the service and when the customer controls the selection of a service supplier and has alternatives from which to choose. The concept is critical for those service firms vulnerable to customer loss due to intensifying intratype and/or intertype competition.

Discussed in this paper were the five relationship marketing strategies of core service marketing, relationship customization, service augmentation, relationship pricing, and internal marketing. These strategies can be used in combination and in fact a service firm might use all five simultaneously. The common element in all relationship marketing strategies is the incentive the customer is given to remain a customer. The incentive may be extra service (service augmentation) or a price break (relationship pricing) or something else but in each case the customer is given one or more reasons not to change suppliers.

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*COMMENTARY ON RELATIONSHIP MARKETING**

I presented my paper "Relationship Marketing" in 1983 at the American Marketing Association's Services Marketing Conference. It was then published in the conference proceedings (Berry, 1983). The publication of this paper marked the first time the phrase "relationship marketing" appeared in the marketing literature although other writers, including myself, had discussed in earlier works the importance of retaining customers. I reference these writings in my original paper.

Given the strong interest in the subject today, it is surprising that less than 20 years ago relationship marketing did not exist in the marketing literature as a distinct area of study. After all, relationship marketing's central idea–market to existing customers so that they become better, more loyal customers–is common sense. Why devote significant marketing resources to attract new customers only to ignore them once they are attracted? I did not write the original paper to start a new field of inquiry; I had no such pretensions. Rather, it seemed incongruous to me that marketing thought and practice could be so focused on new-customer attraction. So little attention directed to existing customers was foolish. Marketing could be applied to existing customers. Why not apply it to sell more to the same customer for a longer time? Why not seek a more balanced marketing effort to not only open the front door for new customers, but also close the back door to existing customers?

I was struck by how applicable relationship marketing is to services. I listed the conditions under which relationship marketing best fits services in the original paper and it turns out that most services meet these conditions. Customers generally need to use a specific service more than once and have alternative service suppliers from which to choose. If a service is needed over time and the customer can choose the supplier, the potential for relationship marketing exists.

The Test of Time

The paper has stood the test of time well. Were I rewriting the paper today, I would add to and develop the ideas originally presented rather

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*Prepared by the author for this charter issue of the *Journal of Relationship Marketing*. "Commentary on Relationship Marketing" by Leonard L. Berry than discard them. The basic concept of relationship marketing still holds and the five strategies presented (core service, customization, augmentation, relationship pricing, and internal marketing) still are relevant. Of course, we know much more about relationship marketing now having benefited from the research of so many contributors and the experiences of so many companies.

In rereading my original paper to prepare this commentary, I found the examples especially interesting. Some marketing practices that now are commonplace were just starting to be applied during the early eighties. The Fairfax Hotel example illustrates how once-innovative marketing practices for an upscale hotel have become expected practices that are more likely to be missed by customers if absent than appreciated if present:

> The Fairfax attempts to differentiate itself with its upscale target market by providing concierge service, night butler and 24-hour room service, a multi-lingual staff, a morning newspaper delivered to all guest rooms, a mint and cognac with the evening turn-down service, and room amenities including terry-cloth robe, linen laundry bag and bathroom telephone. (Gates, 1982)

In 1983 I had no idea that the information technology revolution ahead would enable relationship customization to the extent that it has. In writing that the ‘‘. . . possibilities for relationship customization are considerable, especially when personal service capabilities are combined with electronic data processing capabilities’’ (Berry, 1983, p. 26), I did not envision the database systems technologies that exist today. I did not anticipate that a phenomenon called the ‘‘Internet’’ would so greatly influence the behaviors of customers and the marketing practices of companies. Who realized in 1983 that a mere 15 to 20 years later customers would be using computers on a real-time basis to communicate with, learn from, and buy from marketing organizations throughout the world without a word being spoken. With each passing day, the relationship customization capabilities of these systems would grow.

Newer Perspectives

I have grown in my thinking about relationship marketing through the years as I have done more research and writing on the subject, studied companies that effectively practice relationship marketing, and benefited from the research and writing of others. Here are some post-1983 perspectives.

The essentials of relationship marketing. I discussed five distinct relationship marketing strategies in the original paper but did not recognize their relative importance. I would not make that omission today. Companies can practice relationship marketing without service ‘‘extras’’ (service augmentation) and without incentive pricing (relationship pricing). These strategies can be useful in building customer relationships, but they are not essential. What is essential in relationship marketing is a need–or want–meeting service delivered excellently. The right service performed well strengthens customers’ trust–the customers’ confidence in the firm’s reliability and integrity (Morgan and Hunt, 1994, p. 23)–and builds commitment. Service firms market promises–invisible products that customers normally pay for before experiencing–and customers’ trust based on their prior experiences give these promises credibility. Low-trust organizations are barred from relationship marketing.

In my 1983 paper I discussed the importance of a core service around which to build a relationship and the importance of internally marketing to employees so they would be more willing and able to serve customers. I did not discuss the role of trust. Today, I would position core service(s), service quality and trust at the center of relationship marketing. All else revolves around these constructs.

An integrative approach. Relationship marketing at its best is a philosophy, not just a strategy, a way of thinking about customers, marketing and value-creation, not just a set of techniques, tools, and tactics. Relationship marketing is holistic, a sum of integrated parts that drive a firm’s marketing competencies.

I did mention the integrative nature of relationship marketing in the original paper but not with the forcefulness I would use today. The seeds for relationship marketing excellence are planted when executives ask and answer this question: ‘‘how must we fundamentally change what we do and how we do it to create lifetime customers?’’ As Reichheld (1993, p. 64) stressed ‘‘ . . . few companies have systematically revamped their operations with customer loyalty in mind.’’ Yet, systemic revamping is precisely what relationship marketing requires; it requires starting over with a clean piece of paper and designing an integrated approach to marketing (including services mix and performance, pricing, promoting, positioning, internal marketing and organizational structure) that produces a market offer so compelling that price or other entreaties of competitors have little effect. The unthinkability of switching is the true meaning of ''lifetime customers'' and is the potential of relationship marketing when all pieces of the marketing puzzle are coordinated to produce a compelling customer experience and solution.

Relationship marketing at such a level is quite possible. In my study of service companies that have achieved sustained excellence and success (Berry, 1999), I found considerable evidence of lifetime-customer creation. USAA, a large financial services organization, has an automobile insurance client retention rate of more than 99 percent. The St. Paul Saints, a minor league professional baseball team competing against a major league team in the same market (The Minnesota Twins) sells out each of its home games and has a season-ticket waiting list of more than 1,400 people. Dial-A-Mattress, a company that sells mattresses over a toll-free number and delivers them within any four-hour window the customer specifies, obtains about a third of its new business from customer referrals.

A good idea for customers. The intangible nature of services makes them difficult for customers to evaluate prior to purchase. Services have to be bought to be experienced, experienced to be evaluated, evaluated to be considered fit for the next time. Many services also are heterogeneous; they vary in quality from one customer to the next–and from one service experience to the next for the same customer. The more labor-intensive the service, the greater the potential for variability because of skill, knowledge and attitude differences among service providers and situational factors that affect the same service provider.

Services also differ in complexity; customers can assess the overall quality of a completed manicure or lawn-cutting service more easily than a completed automotive repair or medical service. ''High-involvement'' services such as medical exams, fitness training, and educational courses cannot be performed well without the customers' presence and active participation. Services also are of unequal importance to customers. Customers have more at stake in using some services (financial planning) than others (lawn mowing).

Many services exhibit most or all of the characteristics noted above–intangibility, variability, complexity, involvement, and importance. These characteristics add purchase risk which encourages customers to remain with service providers they trust. Most customers want to be relationship customers of providers of high-risk services in which they have confidence. The relationship is valuable to the customer for its risk-reducing benefit.

Customers also can obtain social benefits from certain relationships. As Czepiel (1990) discussed, because service encounters also are social encounters, repeated contacts between customer and provider naturally assume personal as well as professional dimensions. Indeed, relationship customers may form friendships with their service providers (Price and Arnould, 1999). Repeated service to the same customer also can offer learning-curve benefits. That is, the provider learns more about the customer's requirements and uses this knowledge to tailor the service to the customer's precise specifications.

The potential for risk-reduction, social, and service-customization benefits helps explain why customers often seek out relationships for certain services. This is a perspective I did not develop in my original paper. I wrote about the benefits of relationship marketing from the firm's perspective: what relationship marketing is, why it is important, how to practice it. Only later did I focus on how customers could benefit (Berry, 1995, Bendapudi and Berry, 1997).

Broadening the scope. Literature in the 1990s broadened the scope of relationship marketing to include not only customer relationships but all forms of relational exchange. Especially influential was research by Hunt and Morgan (1994) in which they proposed that building relationships with parties integral to the creation of a valuable market offer best prepared a firm for an era of ''network competition.'' As Morgan and Hunt (1994, p. 23) wrote: ''Relationship marketing refers to all marketing activities directed at establishing, developing, and maintaining successful relational exchange in . . . supplier, lateral, buyer, and integral partnerships.''

In my original paper I focused on the end-customer as the target of relationship marketing. I also suggested that strengthening relationships with ''internal customers'' (service providers) would help a firm strengthen its relationships with external customers: ''To the extent that labor-intensive service firms can use marketing to attract, keep, and motivate quality personnel, they improve their capability to offer quality service. Offering services that consistently meet the quality requirements of target markets is clearly an important factor in building strong customer relationships in many industries'' (Berry, 1983, p. 27).

My view in 1983 was that the customer relationship was the focal relationship and that strong employee relationships helped organizations establish strong customer relationships. I didn't suggest the significance of other stakeholder relationships, such as relationships with vendors. I broadened my view of relationship marketing's scope over time while maintaining my belief that the purpose of non-customer relationships ultimately is to strengthen customer relationships.

Summing Up

My initial attempt in 1983 to write specifically about a marketing approach I called "relationship marketing" provided me a solid foundation on which to develop my thoughts further. I did not consider my paper to be any kind of breakthrough. I recall viewing the paper more of a reminder to the discipline that marketing is about having customers not merely acquiring customers.

Nor did the paper have much visible impact upon its presentation and publication. Little published work on relationship marketing appeared during the rest of the 1980s and my paper was referenced much more frequently in the 1990s than the 1980s. As recently as 1992, Webster was moved to write: ". . . relationship marketing is not new in management thinking. However, there appears to have been a fairly long period of time when it was not a top priority for most companies, and it was not a part of the basic conceptual structure of the field as an academic discipline" (pp. 6-7).

In the early to mid-1990s, interest in relationship marketing emerged, slowly at first and then with a rush unabated to this day. Convergent influences propelling the growing interest in relationship marketing included the maturing of the services marketing literature, increased recognition of relationship marketing's benefits to both firms and customers, and rapid advances in information technology (Berry, 1995).

It is quite stimulating to prepare a public commentary on a 17-year-old paper. Studying the original paper quickly revealed to me how much I've learned about the topic over the years. I have much more to say on the subject today. Yet, my overriding sense is that the paper is conceptually sound. The ideas provide a foundation from which to build. For this I am pleased. Now, what other old paper should I revisit?

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The Evolution of an Idea: An Environmental Explanation of Relationship Marketing

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ABSTRACT. The principles and practices of relationship marketing date back many centuries, yet as a topic of academic and applied interest, it has achieved pre-eminence as a paradigm only during the past two decades. Some may dismiss relationship marketing as merely an old idea with new language. However, this paper argues that recent development of relationship marketing has been based on significant changes in the business environment of organizations. An environmental audit analysis is used to explain the recent growth of relationship marketing, and more importantly, to identify future challenges for relationship marketing as the business environment evolves. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-342-9678. E-mail address: <getinfo@haworthpressinc.com> Website: <http://www.HaworthPress.com> © 2002 by The Haworth Press, Inc. All rights reserved.]*

KEYWORDS. Relationship marketing, loyalty marketing, environment, trend analysis

INTRODUCTION

A search through most publications databases would reveal very few, if any, references to "relationship marketing" prior to 1980.

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However, since the early 1990s the number of times the term is mentioned in the title or as a keyword in articles has appeared to grow exponentially. This might seem curious as the whole notion of buyer-seller relationships, which lies at the heart of relationship marketing, can be traced back several centuries. Numerous writers and historians of Victorian England, for example, have described activities which amount to modern day relationship marketing (Clegg 1956). The question then arises of the theoretical and practical underpinnings of this ‘‘new idea.’’ Is relationship marketing merely another ‘‘big new idea’’ which has risen on an opportunistic wave, only to follow previous big ideas such as Total Quality Management and Management by Objectives into obscurity when critics realized that there was really nothing new? Or does the development of relationship marketing reflect fundamental shifts in the business environment, which will continue to provide a place for the concept?

One view is that when the underlying principles of relationship marketing are examined, they are quite indistinguishable from the fundamental principles of marketing. Viewed as a philosophy, relationship marketing shares with traditional definitions of marketing a concern for satisfying customers effectively and profitably. The UK Chartered Institute of Marketing’s definition of marketing as being ‘‘The management process which identifies, anticipates and supplies customer requirements efficiently and profitably’’ could be equally applied to relationship marketing when applied at the level of a guiding philosophy (Berry 1995). By this view, relationship marketing will mature until it becomes essentially a basic of principle of marketing, and the distinguishing title of ‘‘Relationship’’ will become less relevant.

An alternative view is that relationship marketing emerged in the 1990s in response to changes which were occurring in the business environment. As environmental change continues, relationship marketing will evolve by fragmenting into numerous specialist interest subjects. Academics and practitioners will need to keep hold of a ‘‘big idea,’’ which will gradually mutate. Part of this mutation may be represented by subtle changes in language which have appeared in published material and training courses, for example ‘‘customer relationship management,’’ ‘‘database marketing,’’ ‘‘direct marketing’’ and ‘‘customer loyalty.’’

There have been many studies of how ideas grow to become mainstream and the critical factors involved in this process. Chaos theory and the study of mimetics has offered an explanation of how, through random events, a small local idea can develop into a global paradigm. A recent analysis by Gladwell has discussed how reaching a critical point is facilitated by the existence of ''connectors,'' ''mavens'' and the ''stickiness'' of an idea (Gladwell 2000). If it can be shown that relationship marketing rose in prominence as a result of the factors described by Gladwell, it may be expected that another idea developed by a ''maven'' may come along with similar levels of ''stickiness'' and promulgated by a new set of ''connectors.''

So is relationship marketing a passing ''big idea,'' or a paradigm which is fundamentally rooted in its environment? The aim of this paper is to explain the rise of relationship marketing as a dominant paradigm during the 1990s. If the basic principles were not new, why did it suddenly become so popular? This paper uses an environmental audit analysis to seek an explanation. More significantly, what can a study of the marketing environment say about likely future development of relationship marketing? Is the evolution of the paradigm simply a shift in semantics or are there underlying forces in the environment which explain its growth and will continue to sustain the paradigm?

This paper is primarily concerned with the rapid development of relationship marketing in the business to consumer domain. Contemporary origins of relationship marketing are rooted in relationships between organizations, but the paradigm has subsequently been stretched to situations in which there are a few sellers and possibly millions of buyers. In such situations, the existence of power imbalances is common and consumers may not seek a relationship at an attitudinal level which is often implied by business to business models of buyer seller relationships. Nevertheless, relationship marketing has featured prominently in the marketing strategies of many consumer goods and services companies during the 1990s.

DEFINING RELATIONSHIP MARKETING

The term relationship marketing has been used generically to cover various activities, with distinction made between its philosophical, strategic and operational dimensions (Berry 1995). Gronroos (1994) provided a general definition of the domain of relationship marketing when he described it as being about mutually beneficial exchanges and fulfillment of promises by both parties in a series of interactions over the lifetime of their relationship. A number of recurrent themes have helped to define the domain of relationship marketing, especially trust, commitment, a long-term orientation and co-operation (Morgan and Hunt 1994; Bagozzi 1995; Gronroos 1994; Christopher, Payne and Ballantyne 1991). It has been noted that relationship marketing at the level of business to business exchange requires very different principles and techniques compared with relationship marketing between a company and numerous low value personal customers (Gummesson 1999).

Critics of the relationship marketing concept are numerous, both at an academic level among those who criticize the absence of theoretical positioning to the concept; among practitioners who may fail to see tangible benefits from implementing relationship marketing programs; and from consumers for whom attempts to develop relationships may be viewed with cynicism (Tzokas and Saren 1997; O'Brien and Jones 1995; O'Malley 1998). Reports of declining levels of loyalty by customers to organizations may be seen as evidence of the futility of relationship marketing programs, or may serve to emphasize the need for a more focused attempt at retaining customers. There is a view that in consumer markets, loyalty and ongoing relationships are illusory, and recently launched brands have been observed to have as much loyalty as longer established ones (Ehrenberg and Goodhart 2000).

The fragmentation of interest in relationship marketing into specialist subjects of study, including customer loyalty and database management, may be symbolic of a need to keep hold of a "big new idea," or it may reflect the rapidly changing environment in which relationship marketing mutates and becomes stronger by changing its focus. Relationship marketing is probably best understood as an umbrella concept which stresses the need to see exchanges from a long-term perspective rather than short-term. The implementation of this philosophy is influenced by situational factors.

It is evident that there has been some semantic drift in the development of relationship marketing and the term relationship has itself often been used metaphorically to describe associations between two parties which are asymmetric in terms of power, knowledge and resources and which would probably not be described as a relationship in a social context.

The purpose of this paper is not to seek to understand semantic shifts in discussion of relationship marketing, but to identify the macro-environmental changes which impact on the development of relationship marketing. As a broad umbrella topic, relationship marketing emerged rapidly during the 1980s and 1990s. While part of this growth may have been partly semantic and based on a rediscovery of old principles, there were nevertheless powerful drivers in the macro-environment. If macro-environmental factors can explain the rise of relationship marketing, what does a reading of this environment suggest may be the future course of relationship marketing?

MACRO-ENVIRONMENTAL EXPLANATIONS OF THE GROWTH OF RELATIONSHIP MARKETING

How can we explain the rapid rise in discussion of relationship marketing during the 1990s? The volume of literature on the subject would suggest the existence of some underpinnings of a ''big new idea.'' This paper takes a normative approach to the study of the business macro-environment facing organizations that sell consumer goods and services. An environmental audit approach is adopted and four elements of the marketing environment analyzed under the overlapping headings of technological, social, economic and political/legal. A retrospective analysis is undertaken to try and understand the reasons that might explain the rise of relationship marketing during the 1990s. Following this, current and projected future environmental trends are examined and an assessment made of their likely impact on the future development of relationship marketing.

THE TECHNOLOGICAL ENVIRONMENT

Many authors have attributed the development of relationship marketing to the ease with which technology can now allow large organizations to communicate with thousands, or even millions of individual consumers of their products (Zineldin 2000). It has been noted that computers have allowed corporations to recreate the personal relationships that SMEs had previously enjoyed (Peppers and Rogers 1999).

In 1991, Ikujiro Nonaka began an article in the Harvard Business Review with a simple statement: ''In an economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge'' (Nonaka 1991). Knowledge was accessible to the owner of a small business who may have known each customer individually and was able to assess their needs and credit worthiness without recourse to complex information systems. The link between business and customer was weakened in the era of industrialization and mass marketing when the management and owners of businesses became remote from their customers, with a poor infrastructure available for keeping in touch with customers. IT developments during the 1980s and 1990s effectively allowed companies to catch up with the pattern of relationships that had slipped away during the period of industrialization.

The loyalty program emerged as a relatively inexpensive means by which an organization can collect information about its customers (Hamilton and Howcroft 1995). It has been noted that customer-specific loyalty programs are particularly valuable in situations where an organization has had little opportunity to gather in-depth information about each of its customers (O'Brien and Jones 1995). Marketers have traditionally based their value propositions on information gained from small samples of customers, but during the past two decades, have increasingly been able to base decision making on analyses of their entire customer database. Many organizations have created data warehouses from which they can ''mine'' potentially useful information.

Although information technology has had the potential to add to a company's relationship advantage, this is dependent upon two principal factors: whether the company needs large volumes of information about its customers; and whether a relationship based program will provide information that the company did not previously have. It is also crucial that marketing managers have the skills with which to handle large volumes of customer information. It has been noted that IT skills among senior marketing managers remain weak and many prefer to rely on instinct rather than data which is available from data warehouses (Morten et al. 1999).

Trends for the Future

In business to consumer markets, an information imbalance has developed in which technology has been used by sellers to manipulate an essentially passive audience of buyers. More recently, the proliferation of technology to households creates new opportunities for private consumers to become active managers of information about existing and potential sellers. Search engines, comparative web sites and intelligent buying agents have the potential to reduce the information imbalance between buyer and seller. It has been noted that consumers increasingly recognize that personal data has a value and are typically becoming more instrumental in the manner in which personal information is divulged (Marketing 1999). This represents a new challenge for relationship marketing in consumer markets, and may require a change in the attitude of some consumer marketers that relationship marketing is something that companies ‘‘do’’ to customers.

There is a further argument that over-reliance on information technology can lead to a proliferation of ‘‘me-too’’ solutions. In a changing environment, it is the quality of interpretation of data that gives a firm a competitive advantage in its use of information. If relationship marketing becomes formalized as a data-gathering exercise, the ‘‘feel’’ for customers which the SME owner traditionally enjoyed in their relationship with customers may never be achieved. It is a challenge for technology to create relationships which are regarded as sincere by all parties. To adapt a quotation of Groucho Marx, an organization which is able to fake and mass produce sincerity is likely to win out. While there has been much recent interest in ‘‘virtual’’ relationships and communities which are led by technology, there is a view emerging that technology cannot replicate holistic relationships based on social and physical contact.

There is also a view that technology will reduce the cost of acquiring new customers, thereby reducing the power of the argument that it costs typically 5 to 10 times as much to retain an existing customer compared to recruiting a new one. The Internet has the capability of reducing the cost of targeting potential customers and automated systems can reduce the cost of processing new customers. This may give added credence to the argument of the Ehrenberg school of thought that the most effective method of building customer loyalty is simply to build large volume (Ehrenberg and Goodhart 2000).

THE SOCIAL ENVIRONMENT

A number of social phenomena may explain the rise of co-operative buyer-seller relationships in place of traditional confrontational, transactional exchange.

One stream of thought is that individuals' attitudes to co-operative business relationships may be the result of a much broader set of attitudes towards co-operation in general. It has been observed that the post 2nd World War period has seen one of the longest periods of sustained world peace in modern history, and the co-operative values associated with peace have permeated throughout society (Earley and Gibson 1998). Commentators have observed that following a prolonged period of world peace, traditional marketing strategy analogies based on confrontation no longer seemed appropriate (Gronroos 1994). The underlying relevance of innate co-operation to the development of commercial relationships has been seen as essential by some (e.g., Henderson 1989; Kanter 1994) who stress the recognition by all parties of the gains which result from co-operative rather than competitive strategies. However, Darwinian theories may suggest that co-operation is not an innate human phenomenon, but individualism and competition may be crucial in creating a dynamic tension which moves a relationship forward (Palmer 2000).

It might seem interesting that individuals' relationships with commercial sellers have become more significant while their other relationships would appear to be in decline. During recent years, a number of commentators have noted the weakening of relationships which individuals in western cultures have with a number of institutions, especially the church and family. In the UK, regular church attendance has declined to below 5% while families have become more fragmented, demonstrated in the extreme case by a rising proportion of single person households, and by the "cellular" family in which each member functions with much greater autonomy (*The European* 1998).

How does relationship marketing fit this observed phenomenon? Based on the evidence of family and church life, cynics may argue that relationships *per se* are less sought as Darwinian theories of self-preservation take hold. But an alternative explanation may be that individuals' networks of relationships have shifted, away from traditional networks based on the church and family, towards commercially oriented organizations. From a practical perspective, such sources provide an increasing range of services (e.g., care for children and the elderly) which were previously undertaken by family and church. The number of associates of an individual has been noted to be stable across cultures (Ridley 1996) and relationships with companies provide new opportunities for individuals to gain identity and a position within society, replacing church and family as a source of identity.

A further intriguing social reason for the development of relationship marketing was the increasing role of women in buying and selling during the 1980s and 1990s. Numerous studies have pointed to the growing role of women, both as significant buyers of consumer products, and as managers responsible for company-customer encounters. There is an extensive body of literature on differences in personality traits which exist between males and females. One important area of difference is in the way that males and females develop relationships with others, with masculine gender traits being characterized as aggressive and instrumental, while feminine traits are more commonly associated with showing empathy and resolving conflicts through reconciliation (e.g., Keys 1985; Riger & Gilligan 1980; Statham 1987; Palmer and Bejou 1995). Recent moves from warfare approaches to business exchange toward collaborative approaches may appear novel when judged by the stereotypical value systems of males, but may be considered normal by the value system of females. Although there is the possibility of role conflict, women as buyers and sellers are likely to bring values to commercial exchanges which are more relational than transactional.

Finally, the need for greater social responsibility has encouraged the development of business-consumer relationships in some sectors. Legislation and voluntary codes of conduct have recognized that it is unethical to sell many types of services without the seller first entering into some form of relationship with the buyer to establish their needs. In the UK, the Financial Services Act 1986 effectively made some form of relationship compulsory for companies selling various long-life, high risk financial services. The absence of such relationships and an over-emphasis on transactional exchanges has led to many financial services providers being fined by regulatory bodies for failing to establish the true needs of their clients.

Trends for the Future

The notion that we are living in a new era of peace in which co-operation rather than confrontation is the norm is open to challenge. Even the idea that we live in an era of world peace is ambiguous, for it has been noted that the last twenty years of the twentieth century witnessed more local wars than the first half of the century

(Sardar 1999). An increasing willingness of consumers to challenge authority and to complain about poor service may weaken the case for an increasingly co-operative society (Caudron 1994).

It has been suggested that consumers are increasingly seeking instant gratification, evidenced by the popularity of instant delivery of goods and services through the medium of the Internet. How do ongoing relationships fit into a scenario where consumers make short-term evaluations of a transaction? A presumption of relationship marketing is that through co-operation, each party invests in a relationship with the expectation that they will receive a payback at some time in the future. For the customer, this may take the form of a loyalty reward, or an augmented standard of service. For the seller, the payback may be a long and profitable series of sales.

Finally, consumers have rising expectations of the ethical and social welfare standards of commercial organizations. There are now many well documented cases of companies who have acted in an unethical or anti-social manner and incurred bad publicity. Buyer-seller relationships have the potential for a wide range of unethical practices, for example football teams who exploit their supporters' relationship with the team by changing their strip each year (or more frequently) and expecting their loyal fans to invest in the new one. If the quality of relationships is to continue to be a source of competitive advantage, the ethical standards by which relationships are conducted are likely to become increasingly important to consumers.

THE ECONOMIC ENVIRONMENT

Two important economic arguments have been advanced to explain the development of relationship marketing in the 1980s and 1990s. Firstly, there is the familiar argument that it is more cost effective to retain existing customers than to continually recruit new customers to replace lapsed ones. This argument was of course nothing new, but information technology has allowed for more precise tracking of customers and the development of personalized retention strategies.

Secondly, the quality of buyer-seller relationships emerged as a point of sustainable competitive advantage. A previous pre-occupation with tangible design properties in the 1960s was followed by a pre-occupation with augmented services (e.g., financing, warranty and maintenance services) but this itself was replaced in the 1990s by competition on the basis of superior ongoing relationships.

Relationship marketing also arose at a time when the choice available to consumers within most product categories increased markedly. Buyer behavior models are essentially concerned with understanding how buyers simplify their choice processes in order to reduce the psychological cost of a decision and it has been noted that buyers' motivation to enter into a relationship with a seller is essentially based on a desire to reduce their choice set and simplify their choice process (Sheth and Parvatiyar 1995).

Future Trends

It was noted earlier that one of the underlying principles of relationship marketing is the cost effectiveness of retaining existing customers rather than continually recruiting new ones. During a period of media inflation, the cost of communicating with new and potential customers may have given some basis to this argument, although empirical evidence remains limited. With the falling cost of Internet media, this assumption may be challenged. The futility of pursuing customer loyalty where no relationship is sought may be strengthened by evidence from Ehrenberg that consumers are typically fickle and that distribution of relationship length is broadly similar for new brands as for long established brands (Ehrenberg and Goodhart 2000).

Other phenomena, often enabled by new technology, pose challenges for relationship marketing. The emergence of "auction" websites such as QXL.com place much more of the onus of relationship management on the consumer. In such an environment, what becomes of marketers' models of relationship pricing? The mass enabling of consumers to initiate and guide relationships with suppliers has potential to redress the power imbalances which have so far been typical of business to consumer relationships. Far from being the end of relationship marketing as we know it, this enabling of consumers opens up new challenges and possibilities for the marketer. Power may be of little relevance to consumers if it does not bring goods and services which consumers value.

Business to consumer relationships may also be challenged by an apparent increase in consumers' confidence. This may be borne out of rising education levels, legislation which increasingly protects the rights of consumers and the growing variety of television programs which champion consumers' rights. These have helped to reduce the power imbalance between consumers and sellers.

Finally, it was noted that markets have evolved from a primary focus on tangible product features, to a focus on augmented services and finally to a focus on relationship quality. Advance to the next stage has occurred where saturation had been reached at the previous stage and firms were no longer able to use that positioning as a source of competitive advantage. But what happens if relationships reach a similar stage of equalization between the main players? What next will be the basis for differentiation?

THE POLITICAL/LEGAL ENVIRONMENT

The political environment of many western economies during the 1990s emphasized a desire to dismember state monopolies and to develop competitive markets. The outsourcing of many functions traditionally carried out by government organizations (and by large private sector firms) created the need for close co-operation between autonomous units in place of previous unified command and control structures. In Williamson's terminology, outsourcing of peripheral functions through networks of suppliers leads to a transition from hierarchies to markets, with hybrid organizations being the end result.

Simultaneously, governments of many western countries have sought to outsource many services provided to consumers (e.g., many health and pension services) and encouraged the development of on-going relationships between the two parties. Sometimes this has been enshrined in legislation, as in the case of private pension provisions where the existence of some form of relationship is a prerequisite to advice being given by a pension provider.

Future Trends

The political environment may have given support for the development of relationship marketing, but more recent reading of the environment may suggest greater caution. Attitudes towards freely competitive markets with minimal state involvement appear to have been toned down, in Britain at least. From the extreme views of the Thatcher era, a more pragmatic attitude towards workable competition and a role for state enterprise has been increasingly recognized (Weatherill 1996).

There is also increasing concern that co-operation which is favourable to the participants may have harmful consequences for public welfare (Staber 1998; *The Economist* 1998). While legislation to curb anti-competitive business practices has traditionally been aimed at horizontal relationships within a distribution channel, there is mounting evidence of regulators' involvement in vertical supply relationships. As examples, the EU Commission has in recent years held British Airways' favored relationships with selected travel agents to be against the public interest while the UK Monopolies and Mergers Commission has held the exclusive freezer supply relationships operated by the Walls company to be a restrictive practice in the UK impulse ice cream market (Mortished 1999; Gray 1998).

Political ideology may have contributed to the development of relationship marketing, but growing recognition of the negative impact of buyer-seller relationships may act as an increasing constraint.

There is another dimension in which the political environment can be seen to have influenced the development of relationship marketing. The mounting level of consumer protection legislation in most western countries raises the issue of whether an ongoing relationship with a supplier continues to reduce buyers' level of perceived risk, when legislation may have a similar effect of reducing such risk. In the financial services sector for example, it is becoming increasingly difficult for consumers to lose money as a result of bad advice. Knowing that compensation is likely to be available for the results of bad advice may reduce the value of a trusted relationship.

CONCLUSION/MANAGEMENT IMPLICATIONS

Relationship marketing as it has developed during the past two decades is firmly based on change in the business environment of organizations. It is too simplistic to say that it is nothing new or simply a big idea spun out of long standing practice. There are many factors in the business environment which explain why the concept became a dominant idea of the 1990s. Many of the changes which gave rise to Relationship Marketing will still have effect over the next couple of decades, so the concept will still be with us. However, the challenge of relationship marketing is to recognize the subtle changes in the business environment and to adapt to them. The reduction in power imbalances between consumers and commercial organizations through the development of consumer focused technology will call for a reinvigoration of consumer relationships. The desire for sincerity in relationships in some sectors may put pressure on companies to improve qualitative aspects of their relationships with customers. The use of customer ties is likely to be increasingly challenged by regulatory authorities as being anti-competitive.

It has been widely accepted that relationship marketing at the philosophical level differs very little from general definitions of marketing, and this is likely to continue to be the case. However, in its evolution, new strands of specialization are likely to emerge. The emergent technology has spurned new areas of study in the form of database marketing, for example. Inevitably some semantic drift will occur as big new ideas are promoted to highlight specific areas. The concepts of data mining, for example, may not be entirely new to statisticians but as a subset of relationship marketing is likely to be received by an eager audience seeking to get more out of its databases.

Relationship marketing is not new and it is not a passing fad. There are sound reasons to explain its emergence and that it will need to adapt to change in the environment if it is to remain an important paradigm.

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