

Relationship Marketing: Is It a Paradigm Shift?

Introduction

Relationship marketing emerged as a contestant to traditional marketing theories since the early 1990s. Proponents of relationship marketing as a paradigm shift to traditional marketing theories criticized the transactional nature of traditional marketing concept. They argued that the positivist nature of theorizing marketing based on microeconomic models ignored the factor of relationship in a marketing process and its strategic implications in human interactions in an exchange process. This paper outlines their major contentions and provides a critique on the subject.

Contentions of Relationship Marketing As a Paradigm Shift

With the rapid changes in economic and business environment, Berry (1982) recommended the American banking industry to adopt a relational approach in marketing. He suggested that bank marketing should shift the focus from product-marketing and order-taking to a relational approach in marketing. The approach, relationship banking, was termed as “attracting, maintaining, and enhancing client relationships” (Berry, 1982, p. 6). Berry (1983) further reinforced the relational approach in a conference proceeding in services marketing with the American Marketing Association where the term “Relationship Marketing” was first used to describe the relational approach in services marketing. Although Berry did not present the relational approach as a paradigm shift, the transactional approach in services marketing was severely challenged for its divergence from the rapidly changing operating environment in the services industry.

In succession, Gummesson (1987) criticized that the short term nature of transactional marketing did not apply to services marketing and industrial marketing. He interpreted that practitioners in services marketing and industrial marketing emphasized long term, interactive relationship between buyers and sellers. Traditional marketing concept that focused on consumer marketing did not consider relationship as a crucial factor in the exchange process. He further raised nine issues that signified the deficiency in traditional marketing theories:

1. The need to thoroughly understand the relational webs that consist of people in various operating units from both buyer and seller organizations.
2. The manipulation of regulations and policies by various professional and

government authorities has crippled the marketing mix from being able to identify the real decision maker in an exchange process.

3. While customer feedback is used to loop back the marketing process for refining the marketing mix, interaction between buyer and seller provides on the spot refinement opportunity in serving the customer. In essence, the customer has become a co-producer in the exchange process.
4. The market is a complex network of relationships between inter-linking industries that depend on each other. The network has to be analyzed to better identify and assess market opportunities.
5. With increasing business partnerships such as strategic alliances, joint ventures and cross shareholding between organizations, market mechanisms are brought into organizations. Without clear boundaries as to who is the competitor, buyer, or seller, the phenomenon has created an internal market where marketing strategies have to be developed to address the need.
6. Interactions between customers and staff in various operating units of different organizations in the exchange process have made them part-time marketers in addition to the full-time marketing professionals in the marketing unit.
7. Product development, production, purchasing, marketing, and other functions within an organization work together toward achieving the common goal of serving the customer. People in an organization should treat one another as internal customers.
8. People in an organization should be well attuned to achieving the common purpose of the organization. Human resources are crucial to the success of an organization.

Therefore, internal marketing within the organization is a prerequisite for successful external marketing.

9. Relational quality, the quality of a relationship, has a major impact on the long-term business relationship with the customer.

Furthermore, Gronroos (1994) criticized the transactional nature of the marketing mix that was derived out of microeconomic theories. He asserted that transactional marketing theories focused on optimizing the economic gain in an exchange process between seller and buyer. In addition, such calculated exchange ignored humanism that positioned people at the center of the social interaction (Smith & Higgins, 2000).

Trust and commitment are imperative to a relationship (Morgan & Hunt, 1994). In an exchange process, they form the basis for a reliable and enduring relationship. With higher costs in creating new customers than retaining existing ones, economic benefit exists in building and maintaining relationship with customers (Gronroos, 1995; Storbacka, Strandvik & Gronroos, 1994). Transactional marketing has ignored the implicit financial value of relationship in an exchange process.

The underpinning of the argument that relationship marketing is a paradigm shift lies in the interpretations on the differences between transactional marketing and relationship marketing. In addition to the critical challenges toward transactional marketing contended by Gummesson (1987), Gronroos (1994, 1995) further contended that relationship marketing maintained a long-term relationship with the customer while transactional marketing was transactional and short-term in nature. In relationship marketing, customers tended to be less calculated. In addition, relationship marketing focused on the customer, attended to their satisfaction, and maintained quality interactions with the customers. On the other hand, transactional marketing relied on gimmicks, focused on single transaction (Christopher, Payne & Ballantyne, 1993), ignored quality of interactions with the customers, and was market share oriented (Gronroos, 1994).

However diverging the interpretivists and the positivists in their respective contentions, the notion of the strategic nature of relationship in an exchange process is shared by many academics. Webster (1992) asserted that strategic partnerships and networks were

gradually replacing large, bureaucratic organizations. The new, flatter form of exchange process required relationship building of a long term nature. Taking a resource-based approach, Gronroos (1996) illustrated that relationship played a strategic and tactical role in networking between business partners. Stone and Mason (1997) demonstrated the strategic nature of relationship in marketing with the close-knitted networking and interdependencies of business partners participating in the processes of system selling, just-in-time, and quick response system. Morgan and Hunt (1999) illustrated the strategic value of organizational resources in obtaining a relationship-based competitive advantage. Li and Nicholls (2000) contended that the mutually cooperative interaction in an exchange process was a strategic choice.

Relationship marketing was loosely defined (Coviello, Brodie & Munro, 1997) with limited coherence among academics. Almost at the same time, Gummesson and Gronroos offered their propositions on the frameworks on relationship marketing for further research. Gummesson (1994) offered a 30R approach within an operational perspective. The approach defined relationship marketing as “relationships, networks and interaction” (Gummesson, 1997, p. 267). It emphasized customer retention, value in interaction, operational and practical, linkage to organizational structure and management, and collaboration to compete. Gronroos (1994) accentuated the strategy continuum with marketing focus, customer perceived quality, customer satisfaction, inter-organizational collaboration, and internal marketing. Coviello et al. (1997) classified marketing into transactional marketing and relationship marketing, with relationship marketing incorporating database marketing, interaction marketing and network marketing. Mattsson (1997) perceived relationship marketing as a development within transactional marketing. Moller & Halinen (2000) argued that relationship marketing did not form a general theory but viewed the relational theory in a consumer, market-based theme and an inter-organizational, network-based theme. Gronroos (2004) conceived relationship marketing as a process and proposed the framework of interaction process as the core, a planned marketing communication process, and the outcome from a customer value process.

Critique

Berry's (1982) assertion that the banking industry needs to practise relationship banking is an accusation that the bankers do not practise salesmanship. Relationship building is a key feature of salesmanship. Salesmanship is important in personal selling, where personal selling is a major activity in transactional marketing (Borden, 1964). It is the job of a sales person in the bank, or any person in contact with the customer to attract, maintain and reinforce the relationship between the customer and the bank.

Gummesson's (1987) interpretation of the short term nature of transactional marketing ignores that branding links the buyer with the seller under a relationship (Aggarwal, 2004; Fournier, 1998; McKenna, 1991; Thorbjornsen, Breivik & Supphellen, 2002). The implicit relationship signifies the commitment of the seller to provide the expected value to the buyer, where the buyer trusts the seller through the symbolic representation of the brand. Through case study with an interpretive approach, Fournier (1998) proposed a brand relationship quality model to illustrate the quality of relationship between the consumer and the brand. However, Bengtsson (2003) argued that there was no reciprocity between the consumer and the brand, challenging the validity of a relationship between a human and a symbol. Nevertheless, it is arguable that whether the brand is communicating with the buyer through the identity or personality it represents.

The issues that Gummesson has further raised are discussed as follows:

1. Traditional marketing theories primarily deal with the external environment. Although internal resources are considered in the planning process, transactional marketing has largely ignored the importance of the relational webs within an organization, between partnering organizations, and the inter-linking industries. This is due to the function of marketing in an organization. As with any division of work, the manufacturing staff will not normally perform the task of marketing, for example, working with an advertising agency to design an advertising campaign. Similarly, the marketing staff will not normally work with the manufacturing staff of a component supplier outside the organization to discuss the manufacturing requirements. This is

because the division of work that aims to optimize organizational effectiveness and efficiency requires the manufacturing staff to perform the duties. It is a normal management process that the manufacturing requirements be discussed within the organization before releasing to a supplier outside the organization. The marketing staff will not normally work with the manufacturing staff of the supplier to discuss the manufacturing specifications unless the manufacturing staff is not able to communicate the specifications or a major problem arises that the manufacturing staff is not able to resolve.

2. The division of work also explains the phenomenon of the part-time marketers. The practice of salesmanship and relationship building between people in different organizations or between customers and non-marketing staff in an organization reflect the culture of the organizations involved. Although marketing people emphasize the importance of customer service and salesmanship, it is the power of the higher management to support people implement the practice of salesmanship and relationship building throughout the organization. Organizational culture also explains the issues of internal customers and internal marketing. Respecting individuals and treating them as customers reflect the culture of the organization and the behavior and value of the people in the organization. The integration of people's skill and knowledge to work coherently toward the common goals of the organization is a leadership issue as well as a cultural one. Although people from the marketing department are able to demonstrate the importance of synergy of resources within the organization, it is the higher management that has the ultimate authority to implement the practice throughout the organization.
3. Lobbying and building relationships with government and professional organizations and with partnering organizations have major impact on the long-term business of an organization. The impact has been drawing attention to the top management of organizations where top managers have been finding every way to derive competitive advantage out of lobbying and

relationship building. Although marketing is involved in the process, its impact has made it a priority of the top management rather than a function of marketing.

4. Whether customer feedback can be used to change the contents of a service in real time, that is, the customer becomes a co-producer of the service, depends on the policy of an organization. If a staff is not empowered to change the contents of the service upon receipt of customer feedback because of rigid organizational policy, then the customer cannot be a co-producer. In essence, organizational policy and empowerment of staff determine whether the customer is a co-producer of the service.
5. Relationships discussed above need to be quantified before they can be measured. Quality of a relationship between any parties is crucial to the success of the partnership. It is only relationship can be quantified and measured can its quality be evaluated.

Gronroos's (1994, 1995) assertion of building relationship with customers in order to retain them is less expensive to finding new customers assumes that purchasing decisions are made primarily based on relationship. Product uniqueness, technological advantage and the value proposition of the offer are largely ignored. Customer retention is a defensive marketing tactics. Sellers should relentlessly move ahead of the competition to maintain loyalty of the buyers. If better relationship and social interaction with the buyer can turn the buyer less price sensitive, then higher economic gain of the transaction will rest with the seller – at the expense of the buyer. In a buying and selling exchange, it is unrealistic to find buyers who are willing to sacrifice financial value for relationship. In a business to business exchange, the purchase price becomes a cost to the buyer. If relationship out-weights cost in an exchange, then there must be implicit value in the offer that the buyer is willing to pay a premium for the transaction.

In any transaction, it is the responsibility of the representative of the seller to attend to the customers in order to further understand their needs and expectations. Being calculated in a selling process does not imply ignoring customer needs and expectations, and there is no ground to justify the quality of interaction with the buyer based on the focus of gaining

economic value in the exchange process. Brodie, Coviello, Brookes and Little (1997) illustrated in their research that the contribution of economic value in transactional marketing could not be ignored although relationship marketing had been increasingly practised in services marketing and industrial marketing.

Conclusion

Economic value forms the basis of exchange between buyers and sellers. It is fundamental to the formation of organizations. An organization will not be able to sustain its operation without sufficient funds either generated from economic gains in exchanges or obtained from other sources. The notion of being calculated ignores the attention to customer presents no ground in the allegation. Personal selling is a primary promotional activity in an exchange process. It is therefore unrealistic to allege that transactional marketing ignores the quality of interaction with the customer and the attention to customer need, satisfaction and expectation.

Relationship between exchange parties is crucial to a successful transaction. One party will not exchange with another party under poor relationship unless there is implicit value that no other parties are able to provide, or there are motives that other parties are unable to satisfy. In any transaction, people are at the center of the social interaction. It can be said that pure economic exchange ignores the notion of humanism. Personal selling constitutes a major activity in the marketing mix, while interactions among people with a stake in the exchange process extend well beyond the transaction. Therefore, building relationships with other stakeholders beyond the immediate decision maker are both tactical and strategic.

The notions of the importance of relationships between stakeholders of different parties and the economic value for organizational sustainability are both relevant in an exchange process. Although academics and practitioners have been emphasizing the critical perspectives of both notions, no theoretical framework exists to assess and identify an optimal balance between them. Therefore, opportunities exist in theorizing a model to appraise and identify an optimal balance between relationship and economic value in an exchange process in the organizational perspective.

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