PART I
Perspectives and Dimensions of Relationship Marketing
Introduction to Relationship Marketing

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Introduction to Relationship Marketing

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The concept of relationships with customers is nothing new! One only has to read the ancient Middle Eastern proverb “As a merchant, you’d better have a friend in every town” (Grönroos, 1994: 18) to appreciate the importance attached to relationships in a commercial context through history. Indeed, during the Middle Ages there is substantial evidence to suggest that merchants were well aware that some customers were worth “courting” more than others (Buttle, 1996).

One only has to think of a trip to the hairdresser, dentist or even the traditional corner shops to recognize that sole traders and small businesses have always had an intimate knowledge of customers culminating in outcomes such as product suggestions, credit and social interaction (e.g. Palmer and Bejou, 1994). Close, complex and long-term relationships between buyers and sellers have always been a natural outcome of business interaction.

However, with the advent of mass-produced goods and the concurrent growth and expansion of many business organizations, levels of personal contact have diminished, as the increased usage of call centres highlights. This was particularly the case within consumer
markets which increasingly became transaction based. Even within the service sector there was a growing anonymity between buyers and sellers. The customer was turned from a relationship partner into a market share statistic (Grönroos, 1995). With these developments the foundations of the traditional marketing mix or 4Ps (product, price, place and promotion) were laid.

INSIGHT: “Relationship Marketing is an ‘old new’ idea but with a new focus” (Berry, 1995: 23).

There were some markets, however, where this was never the case. Industrial markets, and some services markets in particular, did not fit the concepts of the marketing mix and these formed the springboard from which many RM theories and concepts were developed.

The purpose of this chapter is to explore the roots and development of RM. It does this by initially carrying out a brief evaluation of the traditional marketing approach based on the four Ps. It then proceeds to explore the development of the RM paradigm before briefly exploring possible future directions within the RM field.

An Overview of the Traditional Marketing Approach

The origins of marketing can be traced back hundreds of years to a time when the functional attributes of a product or service, its market price and its psychological benefits were all used to determine its “just price”. An exchange process then took place that usually involved money for goods (Ambler, 2004). However, the marketing mix approach (see Figure 1.1), so familiar in introductory marketing texts (such as Jobber, 2004 and Kotler et al., 2003) only came to the fore of marketing in the latter half of the twentieth century.

The foundations of the marketing mix were proposed as a set of variables by McCarthy as early as 1960 and subsequently Borden (1964) termed these variables “the marketing mix”. The marketing mix concept was generally accepted for many years as the central marketing concept on which many other marketing theories were based and developed. Indeed, its validity was rarely questioned despite having a limited basis in empirical research to back it up (Kent, 1986). This was primarily because a limited number of marketing variables (i.e. the four Ps) appeared to fit the typical characteristics of the contexts facing many marketing managers of that period (see the mini-case on the traditional marketing approach, p. 7). Typically these characteristics

![FIGURE 1.1 The Marketing Mix.](image-url)
America was the first country to use sponsor-funded programming as its model for both radio and television. During the 1950s a single company would pay for the production costs of a show. In return the sponsor’s products would be pitched to the audience during the course of the programme and often by a celebrity associated with that programme, such as the presenter. Proctor & Gamble and Lever Brothers, the soap manufacturers, invested heavily in game shows and daytime dramas which subsequently became known as “soap operas” or the “soaps” that we know today.

However, the model of one advertiser for each show became so expensive that only the largest companies could afford to promote their products. In the late 1950s NBC’s president launched “magazine” sponsorship where several different firms bought time on a single show. In return, the TV network paid for the show.

The format proved successful for many products. The manufacturer of the bottled cleaner Lestoil undertook a $9 million television campaign in the early 1960s and saw sales rise from 150,000 bottles per annum to over 100 million in only three years. To quote Professor John Galbraith at the time, “The industrial system is profoundly dependent upon commercial television and could not exist in its present form without it. Radio and television are the prime instruments for the management of consumer demand.”

Thus the traditional marketing mix became the focus of much subsequent theory and development.

Source

Question
While the traditional marketing mix approach is appropriate in some contexts, it may be found to be problematic in others. How appropriate is it within:
1 A b2b industrial context (e.g. a manufacturer of computer components for IBM)?
2 A b2c company selling children’s clothes over the Internet?

revolved around North American consumer markets that formed the basis of many of the studies conducted into marketing during this period. Typically these characteristics included:

- fast-moving consumer packaged goods (FMCGs);
- large mass markets;
- highly competitive distribution systems (e.g. supermarkets); and
- very commercialized media channels (e.g. North American television and radio networks such as ABC, CBC and NBC).

Even today, the 4Ps framework remains popular with practitioners and teachers alike because it is a simple concept, it is easy to understand, it is relatively easy to apply, it is appropriate to many contexts and it is easy to teach (Grönroos, 1994)!
Problems with the Traditional Marketing Approach

However, the traditional marketing mix approach of the 4Ps may be criticized for a number of reasons. These may be summarized as follows:

- The approach assumes that all clusters or segments of customers are similar and may be treated in a standardized way.
- The approach assumes consumers are passive absorbers of marketing information. However, with advances in multimedia technology, there are increasing opportunities for two-way communication and interaction between consumers and marketing organizations using interactive media. Consumers are also increasingly communicating with each other about marketing organizations (e.g. bloggs).
- It assumes short-term and often one-off transactions based around the exchange of goods for money. So, the focus of this approach is on a core product or service that is exchanged almost entirely for money with little value added in terms of additional services. However, the notion of a product with features that customers inspect and then buy is too simplistic! In many markets there is a periodic and ongoing demand for products or services giving the opportunities for some sort of ongoing relationship to develop between the provider and the customer (again, think of a trip to the hairdresser, dentist or corner shop!) So, in a relational context, the offering includes both a core product and additional value-adding aspects. This may be something as simple as a social chat about where you are planning to go on holidays, to collecting points on a loyalty card. Thus, in a relational context, the value-adding offering and its management can become extremely complex.

INSIGHT: “The marketing mix suggests that far from being concerned with a customer’s interests (i.e. somebody for whom something is done) the views implicit in the four P approach is that the customer is somebody to whom something is done!” (Dixon and Blois, 1983: 4).

INSIGHT: “What counts is the ability of the firm to manage its resources to create a holistic offering over time that evolves into an acceptable perceived customer value” (Grönroos, 1995: 410).

Task 1.1

- Imagine you have just received a prescription from your doctor. Regardless of the pharmacy you decide to go to, the medicine prescribed and its price will be identical.
- The prescription may be viewed as a core product or service. What factors influence you as you decide which pharmacy you will take the prescription to in order to collect the medication?
- What opportunities are available to a pharmacy to ensure you use them (think of why people may or may not use Boots)?
Finally, it over-simplifies the variables required within certain marketing contexts and fails to capture the broader complexity inherent in many markets.

INSIGHT: “Marketing in practice has been turned to managing this tool box the marketing mix instead of truly exploring the nature of the firm’s market relationships and genuinely taking care of the real needs and desires of customers” (Grönroos, 1994: 348).

In summary, the traditional marketing approach does not encapsulate the essence of ongoing or relational exchanges. In an attempt to address these deficiencies, academics have periodically suggested additional elements or variables to the traditional marketing mix in an attempt to reflect the ever-more complex nature of marketing interfaces. Indeed, there have been various attempts to extend the idea of the multiple Ps concepts. Some examples may be seen in Table 1.1.

<table>
<thead>
<tr>
<th>The 4Ps</th>
<th>McCarthy (1960)</th>
<th>Product, Price, Promotion, Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>The 5Ps</td>
<td>Judd (1987)</td>
<td>Product, Price, Place, Promotion, People</td>
</tr>
<tr>
<td>The 6Ps</td>
<td>Kotler (1986)</td>
<td>Product, Price, Promotion, Place, Political Power, Public opinion formation</td>
</tr>
<tr>
<td>The 7Ps</td>
<td>Booms and Bitner (1982)</td>
<td>Product, Price, Promotion, Place, Participants, Physical Evidence and Process</td>
</tr>
<tr>
<td>The 15Ps</td>
<td>Baumgartner (1991)</td>
<td>Product/service, Price, Promotion, Place, People, Politics, Public Relations, Probe, Partition, Prioritize, Position, Profit, Plan, Performance, Positive Implementations</td>
</tr>
</tbody>
</table>

Based on: Gummesson (1994)

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**Task 1.2**

Think about the following products and services:

- An ipod
- A journey by air
- An election campaign

Choosing between the 5P, 6P and 7P models, choose one model to apply to each product or service. Identify the way in which each element of the model might be relevant to each product or service.

For each product or service, what elements of the model do you see as critical to whether consumers will feel satisfied with their choice?
However, the consequences of this focus on the marketing mix approach has meant other, possibly less compliant variables (which do not begin with a P!) were neglected. In many cases, these variables were more relevant to particular market contexts. For example, it is now widely accepted within the contexts of business-to-business and inter-organizational marketing that the marketing mix perspective of the 4Ps is too restrictive and fails to capture the broader complexities inherent in these markets. Business markets are often large, complex and populated by many different organizational structures. They are characterized by power-play and negotiation, risk management, specification buying and reciprocal arrangements between buyers and sellers. These aim to achieve cost and performance benefits (Jobber, 2004). It is very difficult to capture this degree of depth and complexity with a four Ps approach. As a result of these criticisms, the context within which the research and practice of marketing occurred has broadened.

The Evolving Focus of Marketing

Christopher et al. (1991) highlight how this broadening manifested itself by identifying “the developing central themes of marketing interest” over the last five decades which have culminated in current marketing thinking.

As can be seen from Figure 1.2, in the 1990s academic and practitioner interest in RM took off to the extent that many marketers viewed it as the key marketing issue of the decade which was to culminate in a fundamental reshaping of the field. Indeed, a number of authors (e.g. Gummesson, 1987; Moller, 1992; Grönroos, 1994) propose that there was a “paradigm shift” within the field of marketing away from the traditional transaction-based approach towards a more relationship-orientated one. To appreciate the intensity of the terminology used by these authors, it is important to examine its development in more depth.

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**FIGURE 1.2** The Changing Focus of Marketing.
Based on Christopher et al. (1991) and Ambler (2004)
Factors Influencing the Development of RM

The developments that have led to the emergence of RM are complex in nature, largely interrelated and difficult to consider in isolation. However, a number of factors may be identified, namely:

- the maturing of service marketing;
- research within industrial markets;
- a recognition of the benefits of RM for firms;
- a recognition of the benefits of RM for customers;
- advances in information technology.

The maturing of services marketing

The importance of people has been repeatedly emphasized within services marketing literature because the service is performed and the performers are employees (often referred to as “actors”). Indeed, Gummesson (1987) coined the phrase “part time marketers” to stress the critical marketing role performed by front-line employees who interact with customers and their contribution towards delivery and service satisfaction.

Related to this was the emergence of the customer care and quality philosophies of the 1980s. Christopher et al. (1991) highlight how there was a shift of focus, particularly within service industries, towards customer care and quality as dimensions that overlap with the marketing philosophy. Interestingly, they attribute part of this shift to the popularity of Peters and Waterman’s text In Search of Excellence (1982). They further propose that the natural outcome of quality service delivery and customer care is the development of relationships through interaction between employees and customers. As a result, these entities are inextricably linked (see Figure 1.3).

More recently, the importance of people as a variable has been extended beyond the marketing of services. The debate on the differences between the marketing of goods and services has taken a new turn. Vargo and Lusch (2004) suggest that goods are a part of service, rather than services being an extension of goods. As Gummesson (1995) states: “customers do not buy goods or services: they buy offerings which render services”. This requires effective knowledge management and information flow between members of the supply chain, from suppliers, through the organization’s value-adding components (departments, functions), to the end user. Indeed, the customer is a co-producer of the service, through their continued involvement in the consumption of the organization’s product (Vargo and Lusch, 2004). A fuller discussion of the way that relational elements of marketing are strongly rooted in services marketing literature is undertaken in Chapter 4.

Research within industrial markets

As indicated previously, the failure of the traditional marketing approach to capture the complexities and depth of industrial markets led to the growth of research within this field. Research in
this area focused on aspects such as inter-organizational exchange and buyer-seller relationships (e.g. Håkansson, 1982; Ford, 1990), social exchange, channels literature, network relationships (e.g. Johanson and Mattsson, 1988), and strategic-management literature including concepts such as value chains. These are all discussed in more depth in Chapter 3.

**A recognition of the benefits of RM for firms**

There has been an increasing recognition of the benefits of RM from both the firm’s and the customer’s perspectives.

From a firm’s perspective, increased competition through the globalization of world markets, market fragmentation and the deregulation of many service markets (e.g. banking, law, airlines, etc.) has meant that protection of the customer base has become paramount. As Buttle (1996) stresses, RM is not based on any philanthropic outlook but on two sound economic arguments:

- First, it is more expensive to win a new customer than it is to retain an existing customer.
- Second, the longer the association that exists between company and customer, the more profitable is the relationship for the firm.

More specifically, its advantages to the firm may be summarized as follows:

**Increased profitability**

It has been widely demonstrated across a variety of industries that profits increase if a firm retains its existing customers rather than attempts to acquire new ones. For example, analysis of more
than 100 companies in 24 industries found that firms could improve profits from 25 per cent to 85 per cent by reducing customer defections by 5 per cent. This may be attributable to a number of factors. For example, ongoing relationships may have a direct impact on financial outgoings by helping to reduce transaction costs associated with repeat ordering (Marshall et al., 1979).

However, there is an increased questioning of the validity of such findings. Reinartz and Kumar (2003) highlight the difficulty in defining relationship length as a customer rarely “signs off” (p. 79) when they stop using an organization. A second issue relates to research which demonstrates that both short-term and longer-term customers may be profitable (Reinartz and Kumar, 2000) and that the value of long-term customers varies “substantially with the category” (East et al., 2006: 12). Finally, Dowling and Uncles (1997) and Reinartz and Kumar (2002) argue that long-term customers may not always be cheaper to serve and are just as price sensitive.

**Competitive advantage through added value**

Some authors suggest RM adds value to a product or service package. This added value is achieved by providing certain “demand peripherals” such as social exchange, customer care, etc. (e.g. Crosby and Stevens, 1987). As a result of this added value, a premium may be charged to the customer. Ballantyne et al. (2003) develop this further by suggesting “recent dismay at unethical short-cut approaches to creating shareholder value” (p. 161) has created a climate where interest in the distribution of value among stakeholders is likely to increase the possibility of developing relationships. Value perspectives are suggested which revolve around supplier-managed relationships, mutually interactive processes and values emerging from within networks.

**Task 1.3**

- Work with one other person for this exercise. Imagine you are both working in a hotel for the summer holidays (on the reception desk).
- Identify a customer group who would use the hotel services regularly. Note what hotel services they might use and where they are likely to spend money when staying at the hotel or using the hotel facilities.
- Identify a group of customers who might be short-term users and are less likely to be repeat customers. Note what services they may use and what they are likely to spend money on.
- Discuss with your partner which customer group will be more profitable in a one-year period – a large number of short-term users or small number of regular users?
  - Will there be any difference in the level of customer service expected by each group?
  - Where could added value be generated for regular users in the hotel services?

**Creation of firm advocates**

As well as retaining customers, it is proposed by some authors that RM may go beyond creating mere customer loyalty and, as the relationship strengthens, may create “customer advocates” of the company. As Christopher et al. (1991) state “The objective of Relationship Marketing is to turn new customers into vocal advocates for the company, thus playing an important role as a referral source” (p. 22). They suggest the existence of a conceptual RM ladder of customer loyalty. Customers are moved up the ladder by enhancing and developing relationships with the customer (see Figure 1.3).
However, the association between relationship length and recommendation is also questionable as some more recent studies have shown no association between the two (e.g. Verhoef et al., 2002). Indeed, East et al. (2005: 11) state that “in a minority of fields, significantly more recommendations will come from recent recruits than from long-tenure customers”.

**A recognition of the benefits of RM for customers**

From a customer’s perspective, if a product or service is variable in quality and/or complexity and if the product is of an intangible nature, these combine to create risk and uncertainty.

Risk reduction and reduced uncertainty are posited as potential outcomes that customers find particularly important within the context of some markets (Morgan and Hunt, 1994). Berry (1995) suggests a relationship allows providers to become more knowledgeable about customers’ requirements and needs. Thus, having a long-term, ongoing, stable relationship with a provider may reduce uncertainty and risk and hence reduce customer stress as the relationship becomes more predictable. As a result, problems are solved, special needs accommodated and the expectation levels set to the extent that “in some cases, customers may even be aware of

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**FIGURE 1.4** The Relationship Marketing Ladder of Customer Loyalty.

Based on: Christopher et al. (1991).
competitors who might provide the same or better service but yet they choose to stay in the relationship due to its predictability and comfort” (Bitner, 1995: 249).

Advances in information technology
Berry (1995) summarizes a number of ways that information technology (IT) as a tool may facilitate the effectiveness of a relational perspective:

- Tracking the buying patterns of existing customers
- Customizing services, promotion and pricing to customers’ specific requirements
- Co-ordinating or integrating the delivery of multiple services to the same customer
- Providing two-way communication channels (company to customer and customer to company)
- Minimizing the probability of service errors and breakdowns
- Augmenting core service offerings with valued extras
- Personalizing service encounters as appropriate

The extent to which emerging technologies have impacted on relationship development since Berry’s (1995) appraisal is discussed in more detail in Chapter 7.

Emerging Themes of RM

As RM evolved, marketers and academics studied and applied it from different geographical, disciplinary and contextual perspectives (see Figure 1.5). Studies were taking place simultaneously within Scandinavia, the USA, the UK and Australia. These studies were drawing on theories from a diverse range of disciplines such as economics, sociology, psychology and more established marketing concepts. At the same time, research was taking place within a variety of contexts such as business-to-business manufacturing, FMCG and services marketing.
Within each of these perspectives and contexts, different elements and components of RM were considered to be more relevant than others and so the focus of the research of these had a different emphasis. This resulted in RM evolving into a number of different areas or themes. Various authors have attempted to categorize and classify these using a variety of criteria. Table 1.2 provides an example of these and the classification criteria that have been used.

As can be seen in Table 1.2, Relationship Marketing concepts have been developed from multiple perspectives, but also have emerged across time and have incorporated various sub-areas of focus. RM is really a composite of several different frameworks.

One of the contributors in Table 1.2, Palmer et al. (2005), identify relationship marketing “schools of thought”. In Table 1.2 they identify key components by which the “different schools of thought” they propose may be compared and contrasted. Initially, there is an identification of whether the focus is, for example, on the four Ps or relationships: what the basis of exchange is and whether the timescale involved is short term or long term. The number of relationships within markets is explored and this may range from a single relationship between a buyer and a seller to a whole host of suppliers, competitors, customers and stakeholders (this is discussed in more detail in the next chapter). Also considered are the features of the organization in terms of its structure and processes and its culture in terms of the extent and priority attached to internal marketing.

What this table shows is that, when we look at the components of each of the schools of thought, each perspective on RM is complex and implementing parts of a particular framework requires significant strategic thinking on the part of the firm. For all perspectives, resources need to be allocated in areas such as product quality and measurement of relationship success. For some perspectives, (e.g. Nordic school) there is a strategic need to look internally as well as externally. Thus, variation in resource allocation will follow variation in perspective.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>■ the Nordic School (e.g. Grönroos, 1995);</td>
<td>■ service contexts (e.g. Berry, 1983; 1995; Grönroos, 1990);</td>
<td>■ relational contracting (e.g. Macneil, 1980);</td>
<td>■ the Nordic school (e.g. Grönroos, 1995);</td>
</tr>
<tr>
<td>■ the Network approach within industrial marketing (e.g. Håkansson et al., 1976);</td>
<td>■ inter-organizational exchange (e.g. Håkansson, 1982; Ford, 1990).</td>
<td>■ relational marketing (e.g. Dwyer et al., 1987);</td>
<td>■ the IM-G Group and IMP (Industrial Marketing and Purchasing) (e.g. Håkansson, 1982; Ford, 1990);</td>
</tr>
<tr>
<td>■ the Anglo-Australian approach (e.g. Christopher et al., 1991); and,</td>
<td>■ channels literature;</td>
<td>■ working partnerships (e.g. Anderson and Narus, 1990);</td>
<td>■ the Anglo-Australian school (e.g. Christopher et al., 1991).</td>
</tr>
<tr>
<td>■ strategic alliances and partnerships.</td>
<td>■ network relationships (e.g. Johanson and Mattsson, 1988);</td>
<td>■ symbiotic marketing (e.g. Varadarajan and Rajaratnam, 1986);</td>
<td></td>
</tr>
</tbody>
</table>


### TABLE 1.3 Comparison of Main Components of Major Schools of RM versus Transaction Marketing

<table>
<thead>
<tr>
<th>Key Component</th>
<th>Transaction Marketing</th>
<th>IMP Group</th>
<th>Nordic School</th>
<th>Anglo-Australian Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis</td>
<td>Exchange and the 4Ps</td>
<td>Relationships between firms</td>
<td>Services</td>
<td>Service /Quality/ Marketing</td>
</tr>
<tr>
<td>Time-frame</td>
<td>Short term</td>
<td>Short term and long term</td>
<td>Long term</td>
<td>Long term</td>
</tr>
<tr>
<td>Market</td>
<td>Single customer</td>
<td>Multiple Network</td>
<td>30 markets with four categories</td>
<td>Six Markets</td>
</tr>
<tr>
<td>Organization</td>
<td>Hierarchical and functional</td>
<td>Functional and cross-functional</td>
<td>Cross-functional process based</td>
<td></td>
</tr>
<tr>
<td>Basis of exchange</td>
<td>Price</td>
<td>Product/service, information, financial and social</td>
<td>Less sensitive to price</td>
<td>Perceived value</td>
</tr>
<tr>
<td>Product quality dimension</td>
<td>Product/technical/output quality</td>
<td>Technological</td>
<td>Interaction quality</td>
<td>Function of value and cost ownership</td>
</tr>
<tr>
<td>Measurement</td>
<td>Revenue and market share</td>
<td>Customer profitability</td>
<td>Quality, value, customer satisfaction</td>
<td>Customer satisfaction</td>
</tr>
<tr>
<td>Customer Information</td>
<td>Ad hoc</td>
<td>Varies by relationship stage</td>
<td>Individual</td>
<td>Customer value and retention</td>
</tr>
<tr>
<td>Internal Marketing</td>
<td>Augmentation to core product</td>
<td>Close buyer-seller relations</td>
<td>Integral to product</td>
<td>Basis for differentiation</td>
</tr>
</tbody>
</table>

Sources: Aijo (1996); Christopher (1996); Christopher et al. (1991); Ford (1994); Grönroos (1994); Kotler (1992); Palmer et al. (2005); Ravald and Grönroos, (1996); Turnbull et al. (1996)

### Task 1.5

Collect together some adverts from various published sources such as lifestyle magazines, trade journals and newspapers.

- With reference to Table 1.3, what approach to Relationship Marketing do you think the company strategy is focusing on?
- What would you say the adverts are attempting to achieve in terms of customer response?
- In what areas should the company allocate resources to implement a good Relationship Marketing approach?

However, it should be remembered that not all customers want or require relationships with their suppliers (Jackson, 1985a; Blois, 1996) and it may not always be possible or desirable to
develop relationships within certain markets (Palmer and Bejou, 1994). Examples of this may include:

- price-sensitive products where items are purchased purely on the basis of price;
- commodities that are homogeneous; and
- where there are purely transaction-based demand patterns.

**Task 1.6**

Think of a recent example of where you have been interested in just purchasing a product or service and not forming “a relationship” with the supplier.

- What was the background surrounding the purchase?
- What are the features of the market?
- What are the bases of competitive advantage for organizations within the market?

From looking at the growth and development of RM, it becomes apparent that many differing strands of relational marketing have developed with differing contexts and with differing areas of precise focus. One can conclude that organizations have relationships with different individuals and groups of individuals within many different organizations and within different contexts requiring different strategies and tactics. Have a look at the mini-case on 888 for an illustration of this (see p. 18).

**Definitions of RM**

As a result of its varied roots, there are at least 26 definitions of RM (Ballantyne et al., 2003). Some of the definitional perspectives are shown in Table 1.4.

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berry (1983) from a services perspective</td>
<td>“Relationship Marketing is attracting, maintaining and multi-service organizations enhancing customer relationships” (p. 25)</td>
</tr>
<tr>
<td>Jackson (1985a) from an industrial marketing perspective</td>
<td>“Marketing concentrated towards strong, lasting relationships with individual accounts” (p. 120)</td>
</tr>
<tr>
<td>Berry and Parasuramen (1991) from a services perspective</td>
<td>“Attracting, developing and retaining customer relationships” (p. 133)</td>
</tr>
<tr>
<td>Grönroos (1995) from a network perspective</td>
<td>“To identify and establish, maintain and enhance relationships with customers and other stakeholders, at a profit so that the objectives of the partners interest are met; and this is achieved by a mutual exchange and fulfillment of promises”</td>
</tr>
</tbody>
</table>
The 2005 Gambling Act acted as a catalyst for huge market growth within the gambling industry after many years of regulatory restrictions. The Act allowed for an increase in the supply of new casinos, a relaxation of advertising restrictions and the opening up of new channels including the Internet. However, the push for this expansion is perceived by many as coming from the government and the gambling industry and not the market itself.

The public appear deeply divided over government plans to allow deregulation of the gambling industry. Many are behind senior Church of England and Roman Catholic figures who, together with the heads of the Methodist Church, the Church of Scotland and The Salvation Army, are vociferous in their raising of concerns related to the social consequences of gambling. However, a YouGov poll highlighted some of the anomalies the public have. Many people are worried about the potential problems gambling may create but, at the same time, this is balanced with the right to choose what they do in their own leisure time.

With market research suggesting the most likely targets for the new Las Vegas style casinos to open across the country are ABC1 males in the 18–24 age group who have visited casinos abroad, the growth in popularity of online gambling has largely been sidelined. Online virtual casinos are likely to attract other potential customers such as females who may be daunted by the prospect of visiting “bricks and mortar” casinos. Principal among the providers of such services is 888.com.

888 Holdings plc is licensed and regulated by the Government of Gibraltar where its main headquarters is located. It is one of the world’s most popular online gaming companies offering products such as blackjack, roulette and video poker. Preferring not to outsource, 888 develops and runs its own software, marketing, payment processing, risk management and member relationship management. Although losing 55 per cent of its revenues when the United States outlawed online gambling in October 2006, 888’s profits rose by 34 per cent to $90.5m despite the loss of 26 million of its registered customers.

While the company attempted to reduce costs by slashing 210 jobs (equating to 23 per cent of the workforce) and cutting its marketing costs by 16 per cent to $84.3 million, it stepped up research and development spending by 71 per cent to $19.4 million. The latest product offerings include multi-hand poker and backgammon. Gigi Levy, the chief executive, highlighted how 888 was continually exploring new ways to attract new customers and retain existing ones. This includes a women-only poker table. The new table is set to feature pink baize, players can enjoy disco balls and there is a virtual bar where players can enjoy cocktails.

Sources:
www.888holdingsplc.com
www.totalgambler.com/tips/bettingnews

Question:
Which loyalty schemes that you are familiar with do you think are appropriate within this context?
When examining definitions of RM, nearly all involve common underpinning themes such as attracting, maintaining and enhancing mutually beneficial relationships which are characterized by interactions. Very often these individual relationships are viewed within a much wider network of relationships.

**Chapter Summary**

From studying the literature, there are clearly some areas of commonality across the themes that have emerged (e.g. a services context, network and industrial marketing, etc.) Principal among these is the desire to develop stable, long-term relationships with all stakeholders so as to acquire competitive advantage (Egan, 2003). It has been argued that strategic marketing, which emphasizes profitability and market share, overshadows the customer and that the four Ps are product and production focused with limited application to emerging services. Traditional marketing theory emphasizes the transactional nature of exchanges, but marketing exchange is more meaningful at an organizational level when multiple exchanges are viewed over time. This identifies the importance of the development of the client relationship. Perspectives on RM are complex, and several schools of thought have emerged. These apply RM ideas that require different resource allocations. However, it is the diversity of these themes and their appropriateness and applicability to differing contexts that is problematic. Unsurprisingly, given such a plethora of differing terms, perspectives and strands, there has historically been much discussion not only as to what RM constitutes but who and what should be involved in the relational context and within which boundaries.

Chapter 2 explores in more depth the concepts central to Relationship Marketing, and discusses the appropriateness and applicability of some key dimensions. Chapters 3 and 4 review different marketing contexts in which Relationship Marketing has emerged and where relationship approaches play a key role: on the one hand, industrial marketing and supply relationships and, on the other consumer service contexts.

**Review Questions**

1. Think of an FMCG market and a services market. Is RM of more relevance to one market than the other? What are the key areas of commonality and differences from a firm and customer perspective?
2. Is RM relevant to a publicly funded hospital? If so, how?
3. In what circumstances might a transactional approach to marketing strategy be appropriate?

**Further Reading**


Tesco

Tesco plc is a UK-based global supermarket chain with annual revenues in excess of £30 billion. By October 2006 Tesco was posting half-year profits of £1.15bn. With an established presence in the huge brick-and-mortar infrastructure, Tesco is also the world’s most successful and profitable online grocer.

Tesco.com is by far the most popular online grocery site in the UK, capturing 66 per cent of all online grocery orders, with 750,000 regular customers placing an average of 30,000 orders per day. Total sales online everyday have risen to approximately £2.5 million.

Tesco attribute part of their success to a focus on the customer experience: “Customers value the timesaving of not having to drive to a store, manually pick the groceries, queue up to pay, drive home and unload the car. Customers do, however, usually enjoy the opportunity to touch and feel the fresh produce and to make ‘impulse buys’” says Patricia Seybold, a journalist for the Financial Daily.

Tesco has managed to streamline the customer’s shopping experience while ensuring customers get the quality and the prices they want. At the same time they have seamlessly integrated customers’ in-store and online shopping experiences.

Many online grocery services assume that it is more cost-effective to handle inventory and fulfilment operations from a distribution warehouse. But Gary Sargeant of Tesco realized that customers would prefer to purchase online from the store in which they would normally shop in person. That way, customers would receive the same price for each item online as the price in the store nearest their home.

Customers were also familiar with the selection of products available in their local stores. By linking the online shopping application directly to each store’s inventory systems, it was unlikely that customers would order a product that was not available, saving considerable time and effort for both customers and for Tesco. Finally, the servers in each store could save a history of each customer’s favourite products to ensure that these were always in stock. Tesco keeps track of what each family has bought, both in the store and online.

This “shop online from my store” scenario permits regional pricing variations to be maintained, boosting overall profits (in the supermarket business, certain neighbourhoods support higher prices than others). At the same time, customers’ online prices remain competitive with the prices charged by local stores.

The Tesco Direct team takes the customer experience very seriously. They monitor on-time deliveries, accuracy of orders and customer satisfaction. They also simulate customers’ online shopping experiences to monitor the state of the end-to-end customer experience proactively.

Tesco’s online shopping site also does a good job of cross-selling and up-selling. When you check off an item (such as bread), other related items (such as marmalade or butter) pop up on the screen.

Every purchase the household makes – online and offline – is captured. That information is used to improve the shopper’s convenience and their experience with Tesco.

Tesco will also launch a 184-page catalogue to promote non-food goods. It will be handed out in 15 stores where customers will be able to order goods for delivery to their home or to be picked up from the store later. Tony Shiret, an analyst at Credit Suisse, described Tesco’s venture into the kind of multi-channel sales pioneered by Argos, the catalogue store, as “a toe in the water”. He said: “This looks like a limited trial, but I would be fairly surprised if they didn’t extend it.”
Sources:

“Shopping on-line with Tesco”, Patricia Seybold, Financial Daily from the HINDU Group, 7 March 2002.

Questions

1 What type of relationship do Tesco and its customers have?
2 Who are the winners and who are the losers or is this the “win-win” situation for all stakeholders that RM theorists often mention?

References


