

History of relationship marketing



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1. Introduction

Marketing can be traced back as far as 7000BC, and for the greater part of this century there has been a major focus on transactions and exchanges. However, recently there has been a paradigm shift and a greater emphasis on relationships in business-to-business and business-to-consumer markets. Relationship marketing is one of the many concepts employed by marketers to not only maintain, but also build stronger business-customer relationships. In theory marketing is the process of creating, communicating, delivering and exchanging offerings of value to attract, and then satisfy the customer's needs and wants, however, what it takes to initially attract a first-time buyer to a brand is often quite different from what it takes to turn that buyer into a "customer who is married to the brand". The purpose of this report is to determine whether or not a satisfied customer is sufficient for customer retention. Furthermore, I will highlight the importance of relational mediators and discuss their impact on customer retention.

2. Literature Review

2.1 History of Relationship Marketing

Traditional Marketing has been a much discussed topic in the field of marketing for centuries. Traditional marketing is focuses more so on customer acquisition, rather than retention. Because this process only focuses on the current transactions, and concern about future transactions, customer satisfaction and loyalty are discarded. For centuries this type of model has been efficient in creating revenue for the firm, but due to our rapidly changing economic climate, technological advances and consumer behaviour trends, a firm cannot just rely on customer acquisition.

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Relationship marketing is a relatively new concept of marketing which has developed within the latter quarter of the century. Morgan and Hunt (1994) define Relationship Marketing as “ all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges”. In essence this suggests that in order to complete successful transactions, there must be a relationship between the firm and the customer. Firms are now focusing on acquiring new customers and turning them into a loyal customer that is deemed as being ‘ married’ to the brand. This suggests that firms are now looking to form long-term relationships with other firms and customers in order to secure

Relationship marketing can prove to be very beneficial for the firm. Loyal customers will introduce the firm to others through word of mouth, which in the long term expands the business. They are also willing to try new products and give feed back in order to improve future products and services. Reichheld and Sasser (1990) suggest that even a 5% improvement in customer retention can increase profitability between 25 and 85 percent. Customers also benefit by receiving higher quality service and products. Companies, particularly in the service sector are finding new and innovative ways to build long term relationships with their customers. This is achieved by developing a genuine concern to meet and exceed the customers’ expectations, and to provide the best possible service in an environment of trust and commitment (Buttle, 1996).

2. 2 The Extended Marketing Mix

Marketing concepts in the 1960’s were driven around consumer needs and wants. There was little concern about quality or any long term aspects such

as loyalty or retention. Traditional marketing introduces the four P's (place, price, product and promotion), which are a set of institutions and processes used to create offerings that have value for customer. These four processes heavily influence firm-customer transactions and disregard any future transactions (Textbook, 2010). However, relationship marketing focuses on delivering the promise and meeting customers' expectations in order to form a relationship. This is where the extra three P's are introduced.

People, Process and Physical evidence and part of the extended service marketing mix. These 3 elements of the extended marketing mix focus on the relationship between the firm and the customer, rather than the product itself. People in the marketing mix are those who come into contact with customer. They explain product or service features, and often do so face-to-face with clients, and the customers experience with staff can have a dramatic affect on the relationship it has with the firm (Rafiq & Ahmed, 1995). People who interact with customers must exceed the customers' expectations of service quality and provide a high standard of service delivery in order to engage the customer.

Process refers to the activities and systems used to create, communicate, deliver and exchange and offering (Textbook, 2010). Due to its high focus on the buyer-seller relationship, Process is regarded as the most important feature of the marketing mix (Rafiq & Ahmed, 1995). The buyer-seller interaction process can influence the buyers' decision to return to the seller in the future. It is advisable to focus the attention primarily of effective and efficient service.

Finally, physical evidence refers to environment in which the service is delivered.

2.3 Link between customer satisfaction and retention

For decades marketers have been discussing customer satisfaction in areas such as market research. Due to the paradigm shift from transactional marketing to relational marketing, the focus is once again on customer satisfaction, hoping that a satisfied customer will return to the brand. There have been many publications that suggest that the key to customer retention is customer satisfaction.

Several studies using real purchasing data have been conducted to examine the relationship between satisfaction and customer retention. Firstly, using the data from a survey of people who purchased a motor vehicle from a car dealership, it was found that 40% of the buyers who claimed they were satisfied with the brand and service engaged in a repeat purchase. However, it was also found that despite their dissatisfaction, 15% of the unsatisfied customer's returned to the dealers (Hennig-Thurau & Klee, 1997). In a separate German study, Hennig-Thurau & Klee (1997) found that between 40% and 62% of interviewed customers admitted to changing brands even though they stated they were satisfied in the survey.

The results conclude that although customer satisfaction plays a large role in customer retention, there are still other factors that have to be examined. In order to achieve customer loyalty the firm needs to successfully form a relationship in which the customers' expectations are met. The four factors a firm has to consider include; Commitment, Trust, Relationship satisfaction

and Relationship Quality. These are known as Consumer-Focused Relational Mediators, and hold the key to successful customer retention.

2. 4 Customer Focused Relational Mediators

We now know that firms cannot rely on customer satisfaction alone in order to achieve a strong firm-customer relationship. Four relational mediators exist (commitment, trust, relationship satisfaction and relationship quality) and play specific roles in engaging customers and strengthening the firm-customer relationship. Adopting the conceptualizations of commitment in marriage, social exchange and organisations, Morgan and Hunt (1994) define relationship commitment as an exchange believing that an ongoing relationship with another is so important it warrants maximum efforts to maintain it. Commitment and brand loyalty go hand in hand according to Assael (1987), who defines brand loyalty as “ commitment to a certain brand”.

Trust can be defined as “ Confidence in an exchange partner’s reliability and integrity” (Palmatier et. Al., 2006). Trust has often been referred to as perhaps the most powerful marketing tool available to achieve long term relationships (Spekman, 1988). Trust has the ability to propose commitment among exchange partners, forming a bond in which both parties benefit. Trust has been found to be most critical for co-operation compared to all the other mediators, which supports Berry’s (1995) findings that trust in a provider should lead to customer commitment to the relationship. Morgan and Hunt’s (1994) article on the Commitment-Trust theory concludes that the concepts of commitment and trust are important in Relationship

Marketing because combined they have strongest relation with customer satisfaction.

Relationship quality was found to have the most significant on relationship marketing outcomes. Hennig-Thurau & Klee (1997) define relationship quality as “ the degree of appropriateness of a relationship to fulfil the needs of the customer”. It has been noted that firms who listen and interact with customers in such a way to make the client feel acknowledged and wanted, were regarded as possessing excellent relationship marketing (Bennett & Anna Barkensjo, 2005). There is a strong relation between relationship quality and customer loyalty. Customers who feel acknowledged and wanted are more likely to recommend branding to others as well as returning to the brand themselves.

Relational mediator strategies have had a wide range of effectiveness in developing strong relationships; however no single mediator alone can achieve full customer engagement. Customer engagement occurs when all mediators are applied together. Our findings suggest the constructs of customer satisfaction, commitment, and trust as dimensions of relationship quality (with trust being also a type of relational benefit) influence customer loyalty, either directly or indirectly. In addition, the results highlight the special relevance social benefits have, above and beyond the technical quality of the service, in influencing relationship marketing outcomes.

3. Conclusion

It is clearly evident that marketing has evolved over the years and no longer focuses only on current transactions. Long term relationships with customers

are becoming more and more common with the introduction of relationship marketing. It is clear that these relationships promote customer loyalty and retention, which in the long run increase revenue and market share. With that being said, customer satisfaction plays a key role in customer retention; however it is not the only factor to be considered. With the use of research and various studies, we have found that each mediator plays a different role in customer engagement and satisfaction – however, there is