

Relationship Marketing: Groundwork for Customer Relationship Management

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Abstract

This paper contributes in the theory formation and evolution of Customer Relationship Management (CRM). This paper also discusses that the root of CRM lies in the Relationship Marketing (RM). There is also dialogue on paradigmatic shifts in the development of CRM and various factors responsible for evolution of RM. Historical evolution of RM was emphasized. Various approaches of scholars on different perspectives and schools of thoughts on evolution of RM have been discussed. At last the conceptual domain of CRM was also focused.

Key Words- Customer Relationship management, Relationship Marketing, Service Marketing, Mass Marketing, Industrial Marketing, Organization, Mass Marketing, Individualized Marketing

1. Introduction

This paper addresses at relationship marketing (RM) as a promising subfield of

the marketing facet. As the competition becomes fiercer, the most important issue the sellers and service providers facing are no longer to provide good quality products or services, but also to keep loyal customers who will contribute long term profit to organizations (Tseng, 2007). Every service organization is facing turbulent competitive pressure after liberalization and privatization. To compete in such competitive and interactive marketplace, marketers are forced to look beyond the traditional marketing strategy for achieving competitive advantage. Therefore, RM (RM has been replaced as CRM and these terms can be used interchangeably as denoted by Parvatiyar, 2001) has become an alternative means for organizations to build strong, ongoing associations with their customers (Andaleeb, 2006). The development of CRM has received a lot of attention in both academy and practice areas in the last few decades. Hence, this study is conducted to

identify the impact of various CRM practices that contributes towards loyalty of customers and prevents them from defection from one service provider to another.

This study is an endeavor to study the theoretical foundations of RM which further cultivated the concept of CRM. This study also discusses the various schools of thoughts of various scholars and researchers that results in development of RM. Reasons that contributes towards growth of RM is also discussed in brief. The consequence of RM that begins the journey of CRM is also thrashed out. The study also emphasized upon the brief introduction accompanied with the technological aspects of CRM. The technology is considered as an underlying factor of success for CRM as a process to approach individual customer and focus towards customized marketing.

Origin and Route of Relationship Marketing

The early attempt on acknowledging marketing relationships started when Alderson and Cox (1948) studied the impact of ecological studies on marketing theory. Kotler (2002) stated that in 1950s scholars proposed that 4P's of marketing becomes insufficient as a marketing logic and relationship marketing becomes new

approach for marketing theory and practices. The base of relationship marketing was conceptualized in mid of 1970s when Bagozzi (1974, 1975) understood the concept of marketing as an exchange between buyer and seller. The concept 'Customer Relationship Management' (CRM) is originated from 'Relationship Marketing' (RM) and relationship marketing and customer relationship management are used interchangeably (Parvatiyar and Sheth, 2001). Relationship marketing is the theoretical foundation for evolution of customer relationship management. Though the root of concept of relationship marketing actually grew during 1980s and 1990s (Möller and Halinen 2000) but the historical evidences proved that this concept has originated in the pre-industrial era when there was direct contact between producers of agricultural goods and customers (Sheth and Parvatiyar, 1995). That time sellers and buyers knew each other and sellers used to serve the buyers through customized marketing. But, the concept has been changed when the focus of relationship was changed into sales promotion of goods and hence, the concept of mass marketing came into origin during industrial era. After some time marketers realized that this concept of mass marketing has become outmoded

enough to explain the concept of current market context. Several academicians advocated this concept Grönroos (1990), Sheth, Gardener and Garrett (1998), Sheth and Sharma (1997) or Sisodia and Wolfe (2000) Grönroos (1990). On 1980s the Industrial Marketing and Purchasing (IMP) group has made a considerable contribution on the field of industrial marketing which consisted experts from 12 Universities. This IMP group had emphasized separately on the characteristics of importance of buyers and sellers. IMP group viewed relationship marketing as interaction between buyers and sellers (www.impgroup.org). This work influences the further research in US and UK and by early 1990s researchers started working on relationship marketing. This direct selling leads development of relational bonding between producers and customers. Any scholars stated that Many scholars (Hollander 1986; Fullerton 1988; Kohli and Jaworski 1993; Jones and Richardson 2007) stated that relationship marketing is an expansion and advancement of marketing concept by applying information technology. Shapiro and Moriarty (1980) discussed the concept of Key Account Management Programme which insisted upon new purchasing patterns such as: - Master Purchasing Agreement,

and National Contracts. This Key Account Management Programme was emphasized upon suppliers and this measure created integrity and co-operation between buyer and seller relationship. This programme assess the needs of customers and made provisions for customers satisfaction. This all over process results in ‘Strategic Partnering Relationship Programmes’ within the domain of relationship marketing (Anderson and Narus, 1991; Shapiro, 1988). Though the basic concept of relationship marketing was evolved in service and industrial market in 1980’s (Berry, 1983; Gummesson, 1987; Christopher, Payne, and Ballantyne, 1991), but Sheth and Parvatiyar (1995) wrote about relationship marketing practices in the history.

The early work of Levitt (1983) in industrial marketing literature indicated the actual relationship between supplier and customer takes place after occurrence of sale. He emphasized that the suppliers should focus on delivering superior customer satisfaction and there by maintaining a lifetime relationship with them rather than closing relationship after a sale. Berry, (1983) was one of the earliest to define relationship marketing. Berry, (1983) defines relationship marketing as “attracting, maintaining and in multiservice

organizations enhancing customer relationships”. Later, Morgan and Hunt (1995) stated relationship marketing means all types of marketing activities intended for establishing, developing and maintaining successful relational exchanges. After few years Berry (1995) defined relationship marketing as- “new-old concept” continuing that “the idea of a business earning the customers’ favour and loyalty by satisfying their wants and needs was not unknown to the earliest of merchant”. Gronroos (1990), asserted that: “The role of relationship marketing is to identify, establish, maintain and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all other parties involved are met; and that this is done by a mutual exchange and fulfillment of promises”.

He also developed wide varieties of relationship building strategies which could be used by an organization. In order to meet the high demand of customers with the relationship marketing the concept was modified as ‘Relationship Management’ first time. The term relationship management was used by Leonard L. Berry (1983) Professor of Marketing at Texas A & M University while presenting paper at service marketing conference sponsored by American marketing Association. This term

was appeared first when the proceedings of the conference was published. Hence, field of service marketing has a major contribution in the designing of relationship marketing (Berry, 1983; Dwyer et al., 1987; Ford, 1980; Hammarkvist et al., 1982; Jackson, 1985; Kim and Kim, 2001; Guenzi and Pelloni, 2004; Matthing et al., 2004; Akerlund, 2005). Later the term relationship management was used in business to business context by Jackson (1998). Later Buttle (1996) narrow down the concept of relationship marketing as one- to-one marketing and further, Gummesson (2002) described relationship marketing as interaction based marketing. Hence, relationship marketing has multiple definitions.

Within Europe the work of Gummesson, (1994) and Gronroos, (2002) along with the colleagues (Swedish school of Economics and Business Administration in Finland) on relationship marketing drew a wide attention. Jackson (1985) was the first to differentiate transactional marketing from relationship marketing. Her work outlined the relationship marketing with the context of industrial sale. She further opined that a number of things are mandatory to execute over a consecutive period of time for building and enhancing customer

relationship management. Her work was based on the working of various organizations like shipping, Communication and computer industries.

Factors responsible for development of relationship marketing

Parvatiyar and Sheth, (1999) described some factors and reasons responsible for development and rapid evolution of relationship marketing and widely contributed in the field of relationship marketing:

- (1) Disintermediation:- the advent of diversified industries lapsed with advanced technologies and communication modes permitted or facilitate the direct communication and contact between buyer and seller helps build relationship between them.
- (2) Service economy: - with reference to services, the same firm / organization produces the services. This leads to closure interaction and stronger bonding between producer and customer since there is no role of middlemen (Berry & parsuraman, 1991; Bitner, 1995; Crosby, 1987 Groomroos, 1995).

- (3) Advances in technology: - Sophistication and advancement in communication and logistic sector leads to replication of pre-industrialist global market at national or local level. While transacting in global market, consumer expects and demand, trust and exchange a relational based exchange (Sheth & Parvatiyar, 1995).
- (4) Total quality management: - When the philosophy and concept of Total Quality Management (TQM) was introduced by company its purpose was to improve the quality and reduce the cost of all the steps and levels in value chain .TQM concept involve all the stakeholder, hence it will lead to a close working relationship between customers and supplier and other members too.
- (5) Increase in global competition :- After the concept of globalisation , liberalization and privatization many competitive firms entered in market especially for commodity products .This makes competitors focus on pricing strategy and concentrate on customer retention and loyalty programme as customers churn rate are likely to increase in competition .
- (6) Just in Time (JIT) :- JIT and Material Resource Planning (MRP) also made use

of interdependent relationship between suppliers and customers . (Frazier, Speakmen and O’Neal, 1988).

2. Approaches of relationship marketing

Coote (2005) identified three approaches of Relationship Marketing:-

- (a) Anglo Australian Approach: This approach basically revealed the work of Christopher Ballantyne, Payne, (1991) and focused the area of quality management, service marketing concept and customer relationship economics.
- (b) Nordic Approach: based on work of Gronroos (1990) and focused on the area of interactive network theory of industrial marketing, service marketing concepts and customer relationship economics.
- (c) North American Approach: based on work of Berry (1983) and Levitt (1983) and focused buyer seller relationship.

Fernandes (2008) again identified three approaches or school of thoughts about relationship approaches as follows-

- (a) Industrial Marketing and Purchasing (IMP) Group approach to business relationship:

Relationship concept is underlying in the interaction approach of IMP which was based upon cooperation between buyers and sellers. Business process is more a process of interaction which happened at multiple levels in the organizations. The interaction approach viewed relationship as a unit analysis that affects overall relationship. This approach helps to understand how relationship of analysis develops in a network context and how market was originated from the networks of relationships. Hence, industrial networks are the complex aggregation of relationships.

- (b) The Nordic approach to service marketing:

The core concept of service research was same as of IMP Group- relationship, network and interaction Gummesson (2004). The Nordic school was also proposed that there is a change from transaction oriented marketing to relationship oriented marketing. Nordic School of approach broadened the view of simple marketing by combining network and interaction and relational part of view on traditional marketing.

(c) IT, CRM and one-to-one approach of database marketing:

The growth of information technology during mid 1980s compelled the marketers to maintain long term relationship with the customers through database marketing (Gummesson 2002; Möller and Halinen 2000; Peppers, Rogers and Dorf 1999; Rao and Perry 2002), they also emphasized on one-to-one marketing. The intention was to promote individual marketing (Gummesson 2004; Sisodia and Wolfe 2000).

3. Journey of customer relationship management

In the decades of 90's the relationship marketing drew attentions of practitioners and academicians along with scholars where peppers and Rogers (1993) highlighted the term one to one marketing which transformed the concept mass marketing to individualized marketing where the supplier and customer engage in mutually beneficial co-production process (Bendapudi and Leone, 2003). Peterson (1999) stated that introduction of electronic diaries and databases facilitated better understanding of customers' needs and demand. Subsequently, the concept of Contact management System (CMS) in sales and marketing came into existence. The contact

managers help in developing a rapport between customers and service providers. The CMS leads to the development of large volume of database of customers and this CMS leads towards development of Sales Force Automation (SFA). Later, SFA results in the emergence of customer relationship management.

Principal practices of customer relationship management included Sales Force Automation (SFA) and Customer Services (CS) commented in Financial Times (2000). The SFA is concerned with supporting the sales persons and sales methodologies to develop a better interconnection of sales with other functions such as productions. SFA basically includes contact management, activity management, communication management, forecasting, opportunity management, order management, document management, sales analysis, product configuration (Gray, P. and Byun, J. 2001). Customer Service is concerned with providing after sales services to the customers in order to resolve the complaints of the customers quickly. This will enhance the customer loyalty. Call center management, field service management and help desk management are the basic components of customer services (Gray, P. and Byun, J. 2001).

The development of new means of communications and information technology after economic reforms in 1990s added a new facet to the concept of customer relationship management. This development leads towards advancement of customer relationship management potential. This advancement can be seen in terms of improved customer services, gifts and incentives to the customers to enhance customer loyalty (Ramana et al. ,2003). Moreover, other advancement took place in customer relationship practices in modern organizations to build a mutually beneficial and long term relationship with the customers which is aided by technology.

4. Customer relationship management

In the severe competitive scenario, it is the demand of the hour to think and look beyond the traditional marketing strategies and need was felt to approach an alternative mean which should be capable to maintain relationship with the customers and retain them. Customer relationship management emerged in the past few decades (1990's) as a modern way to approach customers to achieve competitive advantage for the organizations. In 20th century customer relationship management started dominating

the marketing field (Egan, 2001). CRM is undeniably a customer centric activity, which combines different activities of sales, marketing and customer care service to add value for the company and its customers.

Many scholars noticed that customer relationship management means different meaning to different people (Winer, 2001) and hence what constitutes customer relationship management is still a topic of debate to researchers & scholars. This concept is also supported by Luck and Lancaster (2003) that customer relationship management reflects different perspectives. Hence, numerous attempts have been made to define customer relationship management in domain of philosophy, process, technology and capability. Galbreath and Rogers (1999) stated that customer relationship management smoothes the progress of the relationship between enterprise, customers, business partners, suppliers and employees. It also helps the organization to identify the loyal and profitable customers. Greenberg (2002) affirmed customer relationship management as a combination of process and technology for managing the relationship with existing and potential customers. Similarly Injazz and Karen (2004) opined that customer relationship management is a combination

of people, process and technological applications to capture, and retain customers in order to provide them services. Xu and Walton (2005) focused that through customer relationship management a company can increase the value of interaction with customers to retain the most profitable customers. Hence, Payne and Frow (2006) defined it and viewed customer relationship management as combination of people, process and technology, while Galbreath and Rogers (1999) seemed it as a combination of technology and business. Customer relationship management can be further defined as-“strategic process of selecting the customers a firm can most profitably serve and shaping the interaction between that company and these customers with the goal of optimizing the current and future value of customers for the company (Kumar and Reinartz, 2006). Sometimes the customers may decide to move from one organization (service provider) to the other due to poor network coverage, low tariff, poor service quality, etc. hence, customer relationship management is a set of strategy, process and technology that helps the company to improve interactions and engagement of customers. To develop a customer centric organization, customer relationship management is an inevitable

practice for the organization. The ultimate goal of customer relationship management is to make the customers loyal through involving them in relational exchanges (Peng and Wang, 2006). Customer relationship management focuses on managing each aspect of customers despite of their diverse needs and preferences.

IT companies use the term customer relationship management for describing software applications responsible for automation of marketing, selling and service functions of businesses (Buttle, 2013). Hence, this term has underlying meaning of technology. Other scholars contradicted this view that considering customer relationship management only as a technological tool leads to the failure of customer relationship management and hence, it is more a process than technology.

5. Conclusion

The development of relationship marketing can be observed as; at a micro level, the concept is related with the nature of the relationship between the firm and customers that focus on long-term relationship that takes into account the customer’s needs and value. At a macro level, the term describes the relationship within which the organization engages with all stakeholders,

thus the deliberate issue is to create the portfolio of the relationship that is crucial for the firm (Stewart and Durkin, 1999 mentioned in Rao and Perry, 2002). Companies are losing its customers because they are failing in meeting customers' expectations moreover; companies are unable to provide the satisfied solution to their complaints. Since, CRM is important for growth of business to build strong customer relationship. In service industry CRM is important because service is an intangible concept and customers judge the services on the basis of relationships (Saadat and Nas 2013).

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