Chapter Five

BUILDING CUSTOMER RELATIONSHIPS

5.1 Concept of relationship marketing

Meaning of Relationship Marketing; Relationship marketing a paradigm shift from an acquisitions/transaction focus toward a retention/relationship focus.

Relationship marketing (or relationship management) is ***a philosophy of doing business, a strategic orientation that focuses on keeping and improving current customers, rather than on acquiring new customers*.**

Relationship marketing is focused on building customer loyalty.

Relationship marketing philosophy assumes that ***consumers prefer to have an ongoing relationship with one organization than to switch continually among providers in their search for value.***

Building on this assumption and the fact that it is usually much cheaper to keep a current customer than to attract a new one*,* ***successful marketers are working on effective strategies for retaining customers.*** It has been suggested that firms frequently focus on attracting customers (***the "first act"***), but then pay little attention to what they should do to keep them (***the "second act"***).

Relationship Marketing is an alternative approach to the traditional 4P marketing mix management. Relationship marketing management seeks to establish individualized ties through strong personal appeal and continuing commitment.

Its earliest guises, relationship marketing focused simply on the development and cultivation of longer term profitable and mutually beneficial relationships between an organization and a defined customer group.

The relationship marketing process has been explained by Kotler as the creation and development of 'value laden' relationships with stakeholders.

Relationship marketing constitutes a range of other parties, including distributors, suppliers and public institutions

5.2 Goals of relationship marketing

- The primary goal of relationship marketing is ***to build and maintain a base of committed customers who are profitable for the organization.***
- A firm which holds the view of relationship marketing shall focus on the ***attraction, retention,*** and ***enhancement*** of customer relationships.
- The firm will seek to attract customers who are likely to become long-term relationship customers.

- Through market segmentation the company can come to understand the best target markets for building lasting customer relationships
- Customers' retention will be more likely when they are consistently provided with quality products and services and good value over time
- Customers are less likely to be pulled away by competitors if they feel the company understands their changing needs and by constantly improving and evolving its product and service mix.
- ***The goal of customer enhancement suggests that loyal customers*** can be even better customers if they buy more products and services from the company over time.
- Loyal customers not only provide a solid base for the organization, they may represent growth potential.

5.3 Benefits of long-term relationship to customers and firms

❖ **Benefits for Customers**

1. Inherent benefits (the attributes of the core service)
   - ❑ Consumers are more likely to stay in a relationship when the gets (quality, satisfaction, specific benefits) exceed the gives (monetary and nonmonetary costs.)
2. Relational benefits
   - ❑ Confidence benefits - Feelings of trust or confidence in the provider, along with a sense of reduced anxiety
   - ❑ Social benefits and the personal banker
   - ❑ Special treatment benefits**.**

❖ **Benefits for the Organizations**

- The benefits to an organization of maintaining and developing a loyal customer base are numerous.
- The major benefits include:
  - ❑ Increasing sales and profit
  - ❑ Lower costs
  - ❑ Free advertising through word of mouth
  - ❑ Employee retention

5.4 Relationship value of customers

Relationship Marketing Values long-term collaboration for mutual value creation with **win–win outcomes**

- all parties recognized as ***active where the relationship is co-managed***
- Relational and service values – bureaucratic–legal values are discarded in favor of treating customers as differing.

Traditional marketing thinking is prejudiced in favor of the benefits of competition, while ***excluding collaboration as an inhibiting force.***

Traditional marketing represented the consumer as ***a passive and receptive object to be acted upon*** through market interventions whereas the ***relationship marketing logic views the consumer as a highly active agent who acts productively on the basis of personal motivations.***

The marketing strategy continuum

Relationship Vs. Transaction Marketing

Transaction marketing	**Relational marketing**
➢ Focus on short-term performance and recruitment of customer for single sales	➢ Long-term performance is the priority with attention to transaction history and potential, for customer retention
➢ Management of marketing mix	➢ Marketing interaction (supported by marketing mix activities)
➢ Attention to technical quality of product ➢ Customers are price-sensitive ➢ Quality is production oriented	➢ Customers less price-sensitive as value of benefits and solutions is realized ➢ Quality of interactions is paramount
➢ Market share is taken as customer satisfaction indicator	➢ Customer satisfaction assured by managing trading relationships
➢ Customer information from adhoc satisfaction surveys	➢ Customer information from real-time ICT
➢ Interface of marketing, operation and human resource is given little or no importance	➢ Functional interface is strategically important
➢ Customer service not valued ➢ Little commitment to customers ➢ Internal marketing is give little or not attention	➢ Customer service is paramount ➢ Quality is the concern of all ➢ Internal marketing is strategically important
➢ Contact with customer is largely	➢ Customer contact is frequent and

promotional ➢ Consumer packaged goods and durables	cooperative ➢ Industrial goods and services

5.5 Customer profitability segments

Customer profitability (CP) is the profit the firm makes from serving a customer or customer group over a specified period of time, specifically the difference between the revenues earned from and the costs associated with the customer relationship in a specified period. According to Philip Kotler," a profitable customer is a person, household or a company that overtime, yields a revenue stream that exceeds by an acceptable amount the company's cost stream of attracting, selling and servicing the customer."

Measuring customer profitability is crucially important for continued business success because it helps determine whether certain customers are costing you money rather than making you money.

To oversimplify somewhat one can conclude that the sequential logic used in most marketing management text books is the following: identify your target segment; describe the characteristics of the segment members; determine their needs as to the product that you are selling, adapt the marketing mix components according to the segment's needs, sell the products, get increased product profitability and thus increased profitability of the firm.

5.6 Levels of relationship strategies

There are five levels of relationship marketing: basic marketing, reactive marketing, accountable marketing, proactive marketing, and partnership marketing. Each level represents a different stage in relationship marketing. Basic is the simplest form that serves as the first step in relationship marketing, and partnership is the most advanced stage.

Here are the five levels of relationship marketing:

- Basic marketing: This is the first step in marketing. It involves acquiring a customer and successfully guiding them through a sale.
- Reactive marketing: The second step is when a company can receive feedback from a customer after a sale.
- Accountable marketing: Similar to reactive marketing, but taking it a step further, this occurs when a business reaches out to a customer for suggestions to improve their experience with the business.

- Proactive marketing: This is where businesses actively work to improve their products and services, to provide the best possible experience for their customers.
- Partnership marketing: Similar to proactive marketing, partnership marketing involves collaboration with other businesses to improve customer experience and satisfaction.

No matter which level you focus on, good marketing puts its customers at the center of all campaigns and strategies. A business should start with basic marketing to build a customer base, then work through the remaining steps to get to know their customers and provide the best product, service, and experience possible. This will ultimately build loyalty.

Relationship Marketing Strategies

Relationship marketing strategies vary, but they all put the customers at the heart of the marketing campaign. Top strategies include getting to know your customers and building campaigns that provide something of value to them, providing great customer service, and personalizing communications.

Put Your Customers First

No matter what type of marketing campaign you're building, relationship marketing puts customers first. This strategy involves getting to know your customers and then building campaigns around them and their interests. Rather than giving customers a sales pitch, it gives customers something of interest or value to them.

For example, a restaurant may send loyalty program members a gift certificate on their birthday to be used within their birth month. Not only does this encourage repeat business, but it makes the customer feel uniquely valued.

Give Customers More than What You Sell

People have many options when it comes to businesses they choose to buy from. The businesses that are the most successful know that they need to give customers more than the product or services they sell; they need to offer care, interest, and concern. This makes it easy to create loyalty, which in turn grows future sales.

The classic, longstanding example of this is airlines giving free upgrades to loyalty members without them requesting it—making them feel like VIPs. For airlines, it incentivizes customer loyalty at no additional cost to them. For members, it gives them a better in-flight experience without the price tag. This encourages repeat business.

Personalize Communications & Offers

Successful relationship marketing requires businesses to know their customers as individuals. To speak to them as such, they group them by interests or habits—often referred to as market segmentation—and craft messages that resonate with them.

For example, a dog grooming business may learn that some of its customers appreciate frequent grooming discounts while others like to learn about the groomers. Therefore, it offers coupons to some while emailing out groomer bios to others.

Provide Great Customer Service

Customer service is an opportunity to build positive relationships with customers. Typically, customers reach out when they have an issue, so by providing great customer service that helps customers, businesses can build or rebuild relationships.

For example, a clothing company sends a customer the wrong size shirt. Once notified, they send the correct item promptly with expedited shipping along with a coupon code for a discount on a future purchase.