1. The future evolution of relationship marketing

Jagdish N. Sheth

INTRODUCTION

The purpose of this chapter is to review the forces that led to the spectacular rise of relationship marketing both as a marketing practice and as a discipline. More importantly, I will suggest how relationship marketing is likely to evolve in the future.

The fundamental force behind the rise of relationship marketing was the economic recession of the early 1980s caused by the first energy crisis of the 1970s (1974–78). This is often referred to as stagflation (inflation without economic growth). Both the monetary policy of high interest rates to curb inflation and the fiscal policy of wholesale deregulation of infrastructure industries such as airlines and trucking to stimulate growth during the Carter administration failed.

This was followed by the Reagan administration's focus on the global competitiveness of U.S. industries. It led to lowering the corporate tax rate and establishing the Malcolm Baldrige Quality Awards in manufacturing and services industries. The Reagan administration also allowed megamergers of directly competitive businesses. For example, General Electric (GE) was allowed to buy RCA in the consumer electronics industry, and similar mergers and acquisitions were allowed in the beer, soft drinks, aviation, and defense industries. The fundamental impact of this exogenous macro-economic reality was to shift the marketing objective from organically gaining market share to acquiring market share through mergers and acquisitions. The vast amount of prior research which empirically validated the prevailing view (on what was referred to as PIMS database research) that the financial performance of a product or a company was directly related to its marketing plans, including segmentation, positioning, and targeting (SPT) to gain market share, was now questioned. Return on marketing investment (RoMI) could not be justified, especially based on economic value added (EVA) and activity based costing (ABC).

The best ways, therefore, to gain market share were inorganic growth such as mergers, acquisitions, and alliances. This was further reinforced with the growth of private equity companies such as KKR and

Berkshire Hathaway. Hostile takeovers became more prevalent, including the famous takeover of RJR Nabisco by KKR, as well as more long term investment by Berkshire Hathaway in the Coca-Cola Company. Similarly, massive wholesale deregulation of the airline industry resulted in megamergers as airlines raced to survive from regional regulated monopolies to nationally deregulated competitive businesses.

A final factor responsible for the growth of relationship marketing was computerization in the services sectors such as airlines, banks, utilities, and telephone services, all directly marketed to end users, unlike the consumer packaged goods (CPG) companies and industries. This generated enormous amounts of data on usage at the individual customer level, providing significant opportunity for analytic research, including data mining and consumer insights.

Airlines such as United, American, and Delta survived the wholesale deregulation by massively investing in computerized reservation systems (CRS), which provided them with the opportunity to develop and successfully promote loyalty programs such as frequent flyer miles. Industry after industry went into a defensive posture of protecting their existing customers by establishing key account management (KAM) (Shapiro and Moriarty 1980; Shapiro 1988; Anderson and Narus 1991) and at the same time reducing the number of suppliers, using transaction cost economics (TCE) (Williamson 1979). Also, as part of total quality management (TQM) (Crosby 1979; Deming 1986), industrial customers began to reduce the number of suppliers and establish partnerships with their strategic suppliers.

Relationship marketing changed the marketing paradigm from a transactional to a relational perspective, and from a market share to share of wallet objective in marketing. This led to understanding the lifetime value (LTV) of customers, the bundling of offerings, customer profitability analysis, and strategic partnering with customers (Sheth and Parvatiyar 2000). The discipline began to shift from theories of competition and competitive advantage to theories of cooperation and transaction cost economics. Instead of empirically testing low cost or differentiation strategies, scholars began to examine the role of trust, commitment, and interorganizational alignment (Morgan and Hunt 1994; Sheth and Parvatiyar 2000).

In contrast to other schools of marketing thought, relationship marketing became a global phenomenon all at once. Scholars from Scandinavia, the United Kingdom, and Australia began to offer their perspectives and conduct empirical research at about the same time as scholars from North America (Hakansson 1982; Gronroos 1995, 2000; Payne 1995, 2000; Hakansson and Snehota 2000). The diffusion of the relationship marketing school of thought was more exponential than the traditional S-shaped curve.

EXTANT RESEARCH

I have classified most of the empirical research and academic perspectives into the following five areas:

a. Loyalty programs

These began in the 1980s with the airline industry, as mentioned before. Today, they are virtually everywhere, ranging from hospitality to grocery, department stores to pet stores, and hair salons to doctors and dentists. With the growth of the Internet, loyalty programs have exploded in the world of online marketing and especially so with virtual communities (Rosenberg and Czepiel 1984; Dick and Basu 1994; Raphael 1995; Reichheld 1996). Groupon's tri-pronged loyalty program has "Daily Deals" for customer acquisition, "Groupon Now" for businesses to manage demand during the day, and "Groupon Rewards," its most recent foray aimed at retention rather than acquisition, for frequent visitors (Wong 2011). We are at the cusp of a virtual revolution that straddles both reality and imagination, where real money buys virtual currency for trading in virtual clothes, furniture, animals, and even land, such as on *Second Life*, *Habbo Hotel*, and *Farmville* (Keegan 2010). The potential for companies to draw in loyal customers via these virtual realities and alternate economies is immense, but only just being explored.

b. Customer satisfaction, customer lifetime value, and net promoter score

A second area of research and practice has been measuring customer satisfaction, lifetime value of a customer, and word of mouth influence of customers (Payne 2000). Measurement of customer satisfaction was led by J.D. Power and Associates ratings of brands and companies across virtually all industries. It was supplemented by more aggregate industry level indices by the University of Michigan's American Customer Satisfaction Index (ACSI) (Fornell et al. 1996). At the same time, a number of practitioner books were written, such as *Moments of Truth* (Carlzon 1987), *Aftermarketing* (Vavra 1992), and *The Loyalty Effect* (Reichheld 1996). Quantification of customer retention (Pfeifer and Farris 2004) began along with quantification of customer lifetime value (CLV) (Shapiro et al. 1987; Venkatesan and Kumar 2004; Kumar and Rajan 2009). It also led to research on customer profitability, with a discovery that profitability is even more skewed than revenues and, therefore, it is better to withdraw from unprofitable customers and concentrate marketing efforts toward profitable customers (Halinen and Tahtinen 2002; Helm et al. 2006).

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Word of mouth has always been a very powerful form of communication in marketing. It began to be formally introduced as a metric for management compensation into what is referred to as Net Promoter Score (NPS) (Reichheld 2006) (<http://www.netpromoter.com>). Companies rose to the challenge of creating marketing programs that formally galvanized positive word of mouth from loyal customers and made them the company's brand ambassadors. With the eruption of blogging, online reviews, and social media, word of mouth marketing has become a significant part of marketing by virtually all companies (Kozinets et al. 2010; O'Brien 2011).

c. Bundling and share of wallet research

A significant amount of research also took place on multiple offerings to individual customers, especially in financial services (e.g., banking, brokerage, insurance, mortgage) and in telecommunication (e.g., triple play of telephone, Internet, and cable). More recent research cautions against indiscriminate cross-selling, because one in five cross-buying customers may be unprofitable (Shah and Kumar 2012).

As the cost of storing and analyzing customer information became cheaper, companies began to focus on utilizing what came to be known as customer relationship management (CRM) or database marketing (Peppers and Rogers 1995, 2004; Reinartz et al. 2004; Bohling et al. 2006). There was now a direct measure of how marketing efforts led to purchase behavior, including effectiveness of cross-selling other products and services, as well as upselling. Target marketing was no longer a shotgun approach. It was now segment-of-one marketing or what came to be known as one-to-one marketing (Peppers and Rogers 1993). Mass customization and personalized offerings were all cost effective as a result of direct access to end customers, especially in services industries. This complemented the stronger shift of the U.S. economy toward services as American households began to outsource traditional homemaker activities such as cooking, cleaning, and child care. By now, a majority of households had become dual income wage earners. Working outside the family was not just a discretionary activity by the homemaker; it became a necessity even among college educated families. Time shift and time poverty became equally important resource constraints, resulting in the growth of services industries (Sheth and Sisodia 1999).

d. Key account management

A fourth area of research was the establishment of key accounts in business to business marketing (Shapiro and Moriarty 1982; Cannon and Narayandas 2000; Homburg et al. 2002). It was no longer sufficient to segment business customers into vertical markets organized

by standard industrial classification (SIC). Companies began to fully understand the implications of the 80/20 rule (80 percent of the revenue is concentrated in the top 20 percent of the accounts). Retaining these key accounts was not just the responsibility of the sales executive. It needed cross-functional support as well as direct involvement by the supplier company. In fact, it became important to recognize that one-on-one CEO meetings facilitated by the key account managers were critical to negotiating strategic partnerships with customers to become sole source suppliers, if possible. This evolved into strategic account management (SAM) (Spekman 1988) and also into global account management (GAM) (Yip and Madsen 1996). Indeed, as a consequence of reengineering the corporation (which led to downsizing, outsourcing noncore functions, and leveraged buyouts (LBOs) of noncore businesses), customer-supplier relationships were elevated as strategic and collaborative partnerships (Mentzer 2000). Sometimes it led to the creation of joint ventures between a supplier and a customer. For example, Sears and IBM created a separate joint venture company which managed Sears data processing centers. Similarly, General Electric outsourced and spun off its call center and business process outsourcing (BPO) into a separate entity called Genpact. Finally, Citibank did the same with its internal software department into a standalone company called iFlex.

e. Industrial marketing and purchasing (IMP) research

The fifth area of research emerged from Scandinavia, where industrial marketing has historically been a large component of the economy. The focus was to understand industrial buying behavior and the strategic importance of the procurement department. How do customers engage with their suppliers, and what type of relationship is appropriate for developing strong supplier networks and creating supplier ecosystems? Similar to Japan, Scandinavia has a high concentration of the economy in the hands of a few large conglomerates, which made this research unique (Hakansson and Snehota 2000).

The Proverbial Five Blind Men and the Elephant

Over the years, relationship marketing began to diverge rather than converge into a cohesive marketing practice or discipline. While there were several efforts to identify key constructs such as trust and commitment, it did not evolve into a theory with propositions to be empirically testable in contrast to the market orientation perspective in managerial marketing.

Research in relationship marketing today resembles the proverbial five blind men and the elephant. It means different things to different

scholars and practitioners. To some, it means CRM and it is a part of the CIO organization focused on database integration and management, for example predictive modeling and yield management in the airline industry. To others, it means post-sales marketing, including customer support and what is referred to as “aftermarketing.” To most practitioners and scholars, it still means managing loyalty programs and segmenting the market based on customer profitability analysis. In my view, it represents a great opportunity for someone to synthesize the divergent practices and perspective into a comprehensive theory of relationship marketing. The notable exception is Shelby Hunt (2010). However, he has expanded his general theory of marketing anchored to resource advantage and suggests that relationship strength is one of the many resource advantages.

THE FUTURE EVOLUTION

In the meanwhile, relationship marketing as a dynamically evolving practice is likely to shift on two dimensions, as depicted in Figure 1.1. It will shift from share of wallet to share of heart as the purpose of relationship

Figure 1.1 The future evolution of relationship marketing

marketing and from managing relationships with customers to managing contractual or virtual joint ventures with customers.

Share of Heart

As existing relationship marketing practices, including loyalty programs, bundled offerings, personalized services, key account management, and CRM efforts, all become universal and therefore commoditized, marketing strategies and tactics designed to gain the share of wallet of customers as a key metric for relationship marketing will give way to what I refer to as winning the “share of heart” as the new metric.

Share of heart, as the name implies, is bonding with customers on an emotional plane and goes beyond offering just economic or functional value of the product or service. The relationship transcends from business to friendship with customers. It also transcends measuring the strength of the relationship by numerical and financial outcomes both for the company and for its customers. It therefore transcends beyond trust and commitment, the twin foundations of relationship marketing. It also transcends transaction cost economics as the basis of developing and maintaining the relationship. Finally, it transcends from an explicit contractual relationship governed by laws to an implicit friendship governed by passion, purpose, and mutual respect. This will result in at least three new areas of research and practice in relationship marketing:

a. **Emotive feedback**

Past practice and research in measuring relationship marketing, such as customer satisfaction and lifetime value of customers, have been numerical, mechanistic, and impersonal. Even though we have databases on both attitudinal and behavioral dimensions of individual customers, especially in the services industries, customers are still ID numbers to the company. We still don't know who is behind the ID number: what makes them tick and what are their feelings, thoughts, and prejudices about the company and its offerings. This will require restoring the emotive research techniques of the 1970s, such as motivation research (cf. Levy 1985; Zaltman 2003; Zaltman and Zaltman 2008), immersion into the life of customers, and nonintrusive customer safaris – employees and executives visiting customers. It will also require use of brain research (Chamberlain and Broderick 2007; Kenning et al. 2007), storytelling (Brown 2005), metaphor elicitation (Zaltman 1996; see also <http://www.olsonzaltman.com/>), and science fiction, as depicted in movies like *Back to the Future* and *Minority Report*. Finally, it will require more holistic understanding

of customers. Just as we went from analytic to odyssey research in consumer behavior, we will have to learn how to collect, analyze, and interpret conversations and conscious (and unconscious) streams of thoughts. Unfortunately, so far, we have neither the expertise nor the training to analyze video and voice data for scientific research.

b. Being purpose driven

A second major way to win the share of heart of customers is to make products and brands more meaningful to them above and beyond ingredients and benefits. In other words, how can we market the product or the brand so as to make customers feel that they are serving a higher purpose in life when they procure, consume, and dispose of the product or brand? Companies have often attempted to win the share of heart by sponsoring social causes such as breast cancer research, diabetes awareness, obesity reduction, and economic development. They have also encouraged their employees to volunteer their time and talent to serve local social issues. More recently, many companies are proactively engaging in what is referred to as strategic philanthropy or corporate social responsibility (CSR). Retired chairman of Coca-Cola Neville Isdell has even started a connected capitalism initiative, as has founder and chairman of Whole Foods John Mackey. A purpose driven relationship, however, is much deeper and quite different. It is to enable customers to achieve a meaningful life through consumption of a product or brand. In other words, how can a marketer make its brand or product more meaningful through consumption by bonding it with customers at a deeper emotive level? In short, how can customers achieve self-actualization through consumption behavior? This may mean encouraging reduced consumption as opposed to encouraging and enabling mindless consumption; it may mean informing and educating customers about the impact of their choices on society and community; it may mean linking the product or service to spirituality; it may mean informing and educating the consumer about the moral and ethical dilemmas involved in choosing products and brands; and, finally, it may mean the brand itself acts as a moral compass.

c. Brand communities through social media

A third area of future research in relationship marketing is the use of social media in developing and nurturing brand communities. Brand communities are not new. In the business to business markets, companies often organized user groups by vertical market segments. Similarly, Harley-Davidson has organized and nurtured the Harley Owners Group (HOG), and most recently Apple has developed very loyal brand cults. This is also true for some consumer packaged goods

companies and brands, for example Betty Crocker in cake mixes and Bisquick for making biscuits. In most cases, it has been the users who have bonded with the brand at an emotional level; and, once the companies recognized it, they have organized and enabled the users to form communities around the brand. The impact of social media in the development of brand communities has been dramatic even at a nascent stage (Muniz and O'Guinn 2001; Kaplan and Haenlein 2010). First, social media are interactive and allow users to be both consumers and producers of information about the brand or the company. This means not only user generated reviews and comments about the brand or the company but also taking liberties with the brand asset or corporate reputation. The dark side of both unintended and intended consequences is so critical that the marketer must channel the emotive moods of the customer-company relationship. Social media are analogous to a potent drug which has great efficacy but also significant side effects.

Second, social media have enormous reach with lightning speed. It can catch like wildfire. In a dry, brittle season, an accidental fire (usually started by human mistake) can get out of hand and result in disastrous consequences. Therefore, it is best to prevent the fire. And, if it does happen, the local community must be ready for crisis management and allow others to provide resources and capabilities to mitigate the disaster. This analog is critical in managing customer relationships in the age of social media. Unfortunately, all of us are now fish in a digital aquarium. Everyone is curious about everything we do, and they are constantly watching us through the glass. Customers are becoming either vigilantes or ambassadors of brands, products, and corporations. Often, the stakeholding transcends beyond their role as customers (users, payers, and buyers).

Given this reality, traditional concepts and tactics of relationship management will be limiting, and there is an analogy with what the law enforcement agencies are learning: that it takes more than enforcement to be useful to the community. Developing and nurturing brand communities through social media will require a more holistic approach, and the skill sets of sensing, intervention, and mentoring the brand community.

Joint Venturing with Customers

A second dimension of the shift in the evolution of relationship marketing is the formation and governance of what I refer to as joint venturing with customers. A joint venture is a collaborative co-creation of value by

mutual commitment of resources and complementary capabilities by all parties to the venture. In a joint venture, the foundation of the relationship is anchored in mutual interdependence, mutual commitment, and shared mission.

In traditional relationship marketing, it is usually the supplier that commits resources by investing in key accounts or in relationship managers. Customers are free to walk away from the relationship, almost at will, unless they are bound by contracts, such as in cell phone services, or unless there are non-contractual exit barriers, such as in installed technology, machines, processes, or people.

In joint venturing, customers must commit resources (time, money, and capabilities). Also, both parties must accept interdependence instead of dependence in the relationship. Finally, joint venturing with customers does not require formation of a legal entity; it is often governed by contracts. In many traditional cultures, it is also governed by the silent languages of doing business or by social norms.

There are three new areas of research opportunities related to the shift from managing relationships with customers to joint venturing with customers:

a. Co-creation of value for end users

Sheth et al. (2000) and Vargo and Lusch (2004) have suggested why and how co-creating value with customers will be both desirable and necessary as marketing becomes more customer-centric. Prahalad and Rangaswamy (2004) even wrote a whole book on how to create a competitive advantage through co-creation of value. From the perspective of joint venturing with customers, co-creation of value becomes the mission or the goal of the joint venture. Therefore, it requires formal metrics to measure the outcome of co-creation. For example, the co-creation's objective may be cost reduction, quality improvement, or creating value for end users (both internal and external). Alternatively, it can be financial, such as greater revenues and profits. Finally, some goals of co-creation of value may be more intangible, such as co-branding, co-marketing, co-learning, and co-sharing of resources. No matter what, there is a need to define the goals and develop mission driven outcomes for co-creation of value with mutual accountability.

One key perspective in co-creating value is to focus on the customer's customer or the ultimate end users. End users have three different customer roles. They are users, payers, and buyers. As users, they look for performance value; as payers, they look for price value; and as buyers they look for service value. Mittal and Sheth (2001) have

suggested a number of ways a company creates value for end users. For example, performance value is created by quality, innovation, and customization. Price value is created by target costing and lean operations. Service value is created by easy access, rapid response, and relational nurture. In my view, co-creating value for end users with respect to performance, price, and personalization is a useful framework.

b. Cross-functional collaboration

Co-creating value for end users requires both internal and external cross-functional collaboration. Therefore, the traditional approach to relationship marketing, where the key account manager and customer support are the only two touch points with the customer, transcends to where all functions, such as legal, finance, IT, operations, engineering, human resources, and supply chain, learn to collaborate with each other and across customer and supplier organizations. This was a key transformation in Procter & Gamble (P&G)'s relationship with its customers, including Wal-Mart. More than 200 full time P&G employees and managers are embedded in Wal-Mart, and more than 100 full time Wal-Mart employees and managers are embedded in P&G. This is all glued together by the IT systems of both companies, which are also operating in tandem on a global basis.

While P&G and Wal-Mart partnering is well known, it is not unique. This has been the key competitive advantage for Coca-Cola in its Foundation Division with customers such as McDonald's. It has also been the foundation of a long term relationship between Whirlpool and Sears in manufacturing the Kenmore brand of appliances.

The transformation from the traditional key account or relationship management to joint venturing with customers is depicted in Figure 1.2.

What it requires is coordination and communication by the joint venture leadership team of two dedicated executives, one from the supplier and the other from the customer. Their job is to act as relationship ombudsmen and streamline their companies' bureaucracy as well as lead a team of dedicated functional employees from both organizations, ranging from frontline factory workers to top engineering and corporate staff people. The team's performance is measured by the objectives of the joint venture above and beyond performance appraisal by the functional supervisors. As with any joint venture, it requires long term commitment by both the supplier and the customer. As I mentioned before, in many cultures the non-contractual relationship between a supplier and a customer often transcends several generations, especially among family owned businesses.

Figure 1.2 Joint venturing with customers

c. Strategic philanthropy and public private partnership

A third major area of research opportunity is corporate social responsibility and economic development (Porter and Kramer 2006). Through public private partnership, this ranges from sustainability to micro-financing and from nutrition, education, and public health to eradication of poverty and diseases. Large corporate and personal foundations such as the Bill and Melinda Gates Foundation, the MacArthur Foundation, and the Azim Premji Foundation are learning to partner with governments and world agencies such as the World Bank and IMF to contribute toward economic development, especially in emerging markets such as India, Africa, and Latin America. Corporate social responsibility and public private partnership will require understanding public policy, and managing inherent differences in both the goals and the approaches between the capitalistic private sector and the political public sector to serve a common cause. It will require a joint venture perspective.

CONCLUDING REMARKS

In the past 20 years, relationship marketing both as a practice and as a discipline has grown spectacularly. It has definitely become a major school of thought in marketing. Unfortunately, it has also become synonymous with CRM and database marketing. The focus on “relationship” in relationship marketing is relegated to “marketing.” However, I strongly believe that relationship marketing will be revitalized as the discipline begins to shift from the “share of wallet” to the “share of heart” objective, and from managing customer relationships to joint venturing with customers.

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