Chapter Objectives

1. Contrast transaction-based marketing with relationship-based marketing.

2. Identify and explain the four basic elements of relationship marketing, as well as the importance of internal marketing.

3. Identify the three basic levels of the relationship marketing continuum.

4. Explain how firms can enhance customer satisfaction and how they build buyer-seller relationships.

5. Explain CRM and the role of technology in building customer relationships.

6. Describe the buyer-seller relationship in B2B marketing and identify the four types of business partnerships.

7. Describe how B2B marketing incorporates national account selling, electronic data interchange and Web services, VMI, CPFaR, managing the supply chains, and creating alliances.

8. Identify and evaluate the most common measurement and evaluation techniques within a relationship marketing program.
• **Transaction-based marketing** Buyer and seller exchanges characterized by limited communications and little or no ongoing relationship between the parties.
  
  • Focuses on short-term, onetime exchanges.

• **Relationship marketing** Development, growth, and maintenance of long-term, cost-effective relationships with individual customers, suppliers, employees, and other partners for mutual benefit.
  
  • Based on promises of low prices, high quality, prompt delivery, and superior service.
THE SHIFT FROM TRANSACTION-BASED MARKETING TO RELATIONSHIP MARKETING

- Shift away from production-oriented marketing.
  - Emphasis on individual sales and transactions.
  - Limited communication.
  - No ongoing relationship.
  - Still common in some markets, such as residential real estate.
- Shift toward relationship marketing.
  - Views customers as equal partners in transactions.
  - Encourages long-term relationships, repeat purchases, and multiple brand purchases from the firm.
  - Collaborative exchange between buyer and seller.
**Figure 10.1**

Forms of Buyer–Seller Interactions from Conflict to Integration

- **Customer Relationship Management**
  - Integration

- **Relationship Marketing**
  - Cooperation

- **Transaction-based Marketing**
  - Conflict
• To summarize, relationship marketing:
  • Focuses on long term rather than short term.
  • Emphasizes retaining customers over making a sale.
  • Ranks customer service as a high priority.
  • Encourages frequent customer contact.
  • Fosters customer commitment with the firm.
  • Bases customer interactions on cooperation and trust.
  • Commits all employees to providing high-quality products.
ELEMENTS OF RELATIONSHIP MARKETING

• Firms build ______--term relationships in four basic ways:
  • Gather information about their customers.
  • Analyze the data and use it to modify the marketing ______.
  • Monitor interactions with customers.
  • Use knowledge of customers and their preferences to orient every part of the organization.

INTERNAL MARKETING

• ________ customers—people or organizations that buy or use a firm’s goods or services.
• ________ customers—employees or departments within the organization whose success depends on the work of other employees or departments.
• Internal marketing—managerial actions that enable all organizational members to understand, accept, and fulfill their respective roles in implementing a marketing strategy.

  • Improves employee recruitment and retention.
  • Increase employee knowledge and involvement.

• Effective internal marketing also increases employee satisfaction.

  • Satisfied employees can affect the purchasing behavior of those around them.
  • Satisfied employees provide effective customer service.
THE RELATIONSHIP MARKETING CONTINUUM

Firms try to move buyer-seller relationship from the lowest to the highest level of the continuum of relationship marketing to strengthen the mutual commitment between them.

<table>
<thead>
<tr>
<th>CHARACTERISTIC</th>
<th>LEVEL 1</th>
<th>LEVEL 2</th>
<th>LEVEL 3</th>
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<tr>
<td>Primary bond</td>
<td>Financial</td>
<td>Social</td>
<td>Structural</td>
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<tr>
<td>Degree of customization</td>
<td>Low</td>
<td>Medium</td>
<td>Medium to high</td>
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<tr>
<td>Potential for sustained competitive advantage</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
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<tr>
<td>Examples</td>
<td>DaimlerChrysler's 5-year no-interest financing plan</td>
<td>MySpace.com's site design</td>
<td>Barnes &amp; Noble's member program of discounts and special offers online and in stores</td>
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FIRST LEVEL: FOCUS ON PRICE

• Most superficial level, least likely to lead to long-term relationship.
• Marketers rely on pricing to motivate customers.
• Competitors can easily duplicate pricing benefits.

SECOND LEVEL: SOCIAL INTERACTIONS

• Customer service and communication are key factors.
• Example: Wine shop holding a wine-tasting reception.

THIRD LEVEL: INTERDEPENDENT PARTNERSHIP

• Relationship transformed into structural changes that ensure partnership and interdependence between buyer and seller.
• Example: Barnes & Noble’s member program that promotes repeat purchases by customer and provides discounts to the customer.
ENHANCING CUSTOMER SATISFACTION

- Marketers use three major steps to measure and improve how well they meet customer needs.

Three Steps to Measure Customer Satisfaction

1. Understanding Customer Needs
2. Customer Feedback
3. Ongoing Measurement
UNDERSTANDING CUSTOMER NEEDS

• Firms must understand what customers need, want, and expect.

• Must measure customer satisfaction.
  • Measured in terms of gaps between what customers expect and how they perceive what they have received.
  • If goods are better than expected, firms can use this as an opportunity to create loyal customers.
  • If goods are worse than expected, firm may start to lose customers.
OBTAINING CUSTOMER FEEDBACK AND ENSURING CUSTOMER SATISFACTION

• Sources of information include toll free numbers or online feedback.
• Some firms use evaluators posing as customers to evaluate service.
• Complaints help firms overcome problems and demonstrate commitment to service.
• Some firms conduct surveys to measure satisfaction.
• Others monitor blogs for feedback about products.
BUILDING BUYER-SELLER RELATIONSHIPS

• Consumers form __________ to reduce choices and simplify the buying process.

• Perceived positive value in long-term buyer-seller relationships is a key benefit for customers.

• Customers may switch __________ if they perceive better benefits from a competitor.

HOW MARKETERS KEEP CUSTOMERS

• __________ customers is far more profitable than losing them. According to one study, marketers have
  • Sixty to 70 percent chance of selling again to the ______ customer.
  • Twenty to 40 percent chance of winning back an ex-customer.
  • Five to 20 percent chance of converting a __________ into a customer.
• Firms generate more profits with each additional year of a relationship.
  
  • Example: Marriott Rewards program. Seventeen million members spend an average of 2.5 times as much as nonmembers at Marriott hotels and account for 40 percent of total sales.

• **Frequency marketing** Frequent-buyer or user marketing programs that reward customers with cash, rebates, merchandise, or other premiums.

• **Affinity marketing** Marketing effort sponsored by an organization that solicits responses from individuals who share common interests and activities.
  
  • Example: Credit cards tied to customer interests such as sports teams or charities.
DATABASE MARKETING

• **Database marketing** Use of software to analyze marketing information, identifying and targeting messages toward specific groups of potential customers.

- Help firms in several ways:
  - Identify their most profitable customers.
  - Calculate the lifetime value of each customer’s business.
  - Create a meaningful dialogue that builds relationships and encourages genuine brand loyalty.
  - Improve customer retention and referral rates.
  - Reduce marketing and promotion costs.
  - Boost sales volume per customer or targeted customer group.
• Multiple possible sources of data:
  • Credit card applications.
  • Software registration.
  • Product warranties.
  • Point-of-sale register scans.
  • Web sites that offer free access in exchange for information.
• New technologies are providing more data.
  • Example: Interactive television such as TiVo, which collects detailed information on television viewing behavior.
  • Example: Application service providers that provide software for capturing, manipulating, and analyzing masses of data.
CUSTOMERS AS ADVOCATES

- Grassroots marketing—connecting directly with existing and potential customers through nonmainstream channels.

- Viral marketing—satisfied customers get the word about products out to other consumers.
  - Example: The “Tell a friend” link that appears on many Web pages.

- Buzz marketing—relies on volunteers to try products and then talk about their experiences with friends and colleagues.
  - Internet technology gives this word-of-mouth approach far more applications than in the past.
CUSTOMER RELATIONSHIP MANAGEMENT

• **Customer ____________ management (CRM)** Combination of strategies and tools that drives relationship programs, reorienting the entire organization to a concentrated focus on ____________ customers.

• Leverages technology to manage customer relationships and integrate all stakeholders into a company’s product design and development.

BENEFITS OF CRM

• Software systems can make sense of _______ amounts of data.

• Simplify complex business processes while keeping customers’ interests at heart.

• Most ________ as part of an overall business strategy.
PROBLEMS WITH CRM

• Requires companywide commitment and knowledge of how to use system.
• Failures often result from failure to effectively reorganize firm’s people and processes to take advantage of benefits CRM system offers.

RETRIEVING LOST CUSTOMERS

• Customers leave for a variety of reasons:
  • Boredom with product.
  • Move to a new location.
  • No longer has need for product.
  • Tries and prefers a competing product.
Annual Customer Defection Rates


- Power utilities
- Mortgage finance
- Banking
- General insurance
- Retail
- Internet service providers
- Wireless telephone service

Average: 20%
• Customer winback—process of rejuvenating lost relationships with customers.
  
  • Example: **Dell** opened two large new customer service centers after discovering dissatisfaction with its customer service.
  
  • Example: **Cover Girl** reintroducing Christie Brinkley, a former spokesperson now in her 50s, to promote its products to baby boomers.
BUYER-SELLER RELATIONSHIPS IN BUSINESS-TO-BUSINESS MARKETS

• Business-to-business marketing—involves organization’s purchase of goods and services to support company operations or production of other products.

• Advantages of buyer-seller relationship can include lower prices, quicker delivery, improved quality and reliability, and others.

• **Partnership** Affiliation of two or more companies that help each other achieve common goals.
  
  • Protect or improve position in existing markets.
  
  • Gain access to new domestic or international markets.
  
  • Quickly enter new markets.
CHOOSING BUSINESS PARTNERS

• Partner firm must add value to the relationship.
• Partner firms often complement each other.
• Firms must share similar values and goals.

TYPES OF PARTNERSHIPS

• Buyer partnership—firm purchases goods and services from one or more providers.
• Seller partnership—long-term exchanges of goods and services in return for cash or other consideration.
• Internal partnerships—foundation of an organization’s ability to meet its commitment to external entities.
• Lateral partnerships—strategic alliances with other companies or not-for-profit organizations, and research alliances between for-profit firms and colleges and universities.

Briefly Speaking

“One of our ironclad rules is ‘Never do business with anybody you don’t like.’ If you don’t like somebody, there’s a reason. Chances are it’s because you don’t trust him and you’re probably right. I don’t care who he is or what guarantees you get—cash in advance or whatever. If you do business with somebody you don’t like, sooner or later you’ll get screwed.”

—Harry V. Quadracci (1936–2002)
American entrepreneur and founder of Quad/Graphics
COBRANDING AND COMARKETING

- **Cobranding** Cooperative arrangement in which two or more businesses team up to closely link their names on a single product.
  - Example: *Columbia edition of Jeep Liberty*.

- **Comarketing** Cooperative arrangement in which two businesses jointly market each other’s products.
  - Example: *Agreement between Netflix and Wal-Mart* to cross-promote online DVD rentals and ins-store DVD sales.
IMPROVING BUYER-SELLER RELATIONSHIPS IN BUSINESS-TO-BUSINESS MARKETS

• Partnering can lead to enhanced revenues and increased profits.

NATIONAL ACCOUNT SELLING

• Technique of providing special attention to a firm’s largest, most profitable customers by assembling a team to serve just one or more large accounts.
  • Demonstrates depth of commitment to customer.
  • Ability to collaborate on mutually beneficial solution to problems.
  • Improvements in efficiency and effectiveness for both partners.

BUSINESS-TO-BUSINESS DATABASES

• Just as indispensable as in consumer marketing.
ELECTRONIC DATA EXCHANGES AND WEB SERVICES

• **Electronic data interchanges (EDI)** Computer-to-computer exchanges of invoices, orders, and other business documents.
  - Allows quick-response merchandising—a just-in-time strategy for reducing inventory.

• **Web services**—allow companies to communicate even if they’re not running the same or compatible software, hardware, databases, or network platforms.

VENDOR-MANAGED INVENTORY

• **Vendor-managed inventory (VMI)** Inventory management system in which the seller—based on an existing agreement with a buyer—determines how much of a product is needed.

• **Collaborative planning, forecasting, and replenishment (CPFaR)**—modified VMI approach.
MANAGING THE SUPPLY CHAIN

• **Supply chain** Sequence of suppliers that contribute to the creation and delivery of a good or service.

• Effective management offers several potential advantages:
  
  • Increased innovation
  
  • Decreased costs
  
  • Improved conflict resolution within the chain
  
  • Improved communication and involvement among members of the chain.
BUSINESS-TO-BUSINESS ALLIANCES

• Strategic alliances—partnership formed to create a competitive advantage.
  • Improve supply chain relationships and enhance flexibility in operating.
• Can be a new operation in which alliance partners each have an ownership stake.
• May be less formal, such as jointly establishing a new-product design team.
EVALUATING CUSTOMER RELATIONSHIP PROGRAMS

- ________ value of a _________ Revenues and _________ benefits such as referrals and customer feedback that a customer brings to the seller over an _________ lifetime, less the amount the company must spend to acquire, market to, and service the customer.

- Company may _________ lifetime value or payback from a customer relationship.

- May influence the types of customers a firm tries to reach.
  - Example: Lexus markets its cars to older drivers, who have higher repurchase rates than younger drivers.

- Companies of all sizes can _________ technology that helps measure and improve customer value.