CHAPTER 1

Introduction to strategic market relationships

Introduction and objectives

Relationships are visible in the way organisations interact and deal with the demands of different stakeholders with whom they come into contact. While some of these contacts are short and relatively unimportant, others are close and enduring. Key stakeholders in a firm are its customers, investors, suppliers and employees. In particular, managers have to meet on the one hand the demands from customers for greater value and satisfaction and on the other hand the investors' demands for growth, profitability and enhanced shareholder value. Hence, we can observe that making and selling is not sufficient to succeed in business. Instead it requires a different view of business – one that emphasises exchange relationships, focuses on partnerships and accommodates the needs of different stakeholders. In this chapter, we analyse reasons why this important trend in relationships has emerged, or re-emerged, and we compare traditional management, especially marketing management, with a relationship-based approach. Definitions of relationships and relationship marketing are considered, and a claim is made for the need to study the subject in a new and different way on the basis of an analysis of the most important trends in today's markets. These trends are forcing businesses to rethink the markets in which they operate and the way they do business.

After reading the chapter you should understand:

- the structure of the book;
- the reasons for the emergence of business based on a relationship approach;
- the comparison of transactional and relationship-based exchange;
- the similarities and differences between traditional marketing management and strategic market relationships;
- the trends encouraging a relationship approach;
- the implications of relationships for the management of the firm.

The opening case illustration in this chapter, based on the financial services industry, highlights the need to develop close relationships with customers to offer a market solution that meets the needs of the customers or market segments in a better way than your competitors. Financial Services is an industry that requires real-time relevant information so that new and improved products and services can match the needs of identified customer requirements. It is therefore relationship based, and the economics of customer retention are compelling. For example, in a classic study, Reichheld and Sasser (1990) found that a 5% increase in customer retention yielded an improvement in profitability, in net present value terms, of between 20 and 125%. For financial services the improvement, on average, was 85%. Similar research has shown that the cost of one loyal customer is 5–6 times less than the cost of attracting and serving one new customer (Ndubisi & Wah, 2005). This case illustration also highlights that relationships between financial providers and customers need to be managed both strategically and in operational terms, reflecting the theme of this book. We return to the financial services industry in later chapters of the book to illustrate different aspects of relationships.

CASE ILLUSTRATION

UK FINANCIAL SERVICES

Traditionally, the financial services industry in the UK was operated on an oligopolistic basis as a cartel with limited product and price competition. The major industry players (Barclays, Midland, Lloyds, Nat West) were the exclusive providers of financial services and the industry had complete control of the market. Regulation and industry codes were perceived to have been drafted primarily in favour of the providers rather than the consumers, and banks were commonly seen as the principle causes and benefactors of the inefficiencies, lethargy and inertia that engulfed the sector (Boyes & Stone, 2003). Therefore, during this period, the power was very much in the hands of the suppliers.

Deregulation occurred in the UK financial services industry in the 1980s. This effectively enabled more providers to enter the market by reducing the barriers to entry and therefore breaking the monopoly held by the 'big four'. The key changes at this time, which would have a huge impact on the industry, included deregulation, the introduction of a new client-focused regulatory code overseen by a new statutory body, the Financial Services Authority,[1] society change and the rapid development of technology. These changes lowered barriers to entry, reduced switching costs and increased competition for customers who were becoming more and more sophisticated and financially astute. The aim was to shake up the cosy club culture of the financial services operating environment by developing and implementing policies that facilitated the transition to a more competitive and innovative environment and one that would redress the apparent imbalance that existed between banks and their customers (Boyes & Stone, 2003).

With increased home computing in recent years, customers now have access to an almost limitless supply of information, an increased global perspective, the ability to compare suppliers at the touch of a button and an increased demand for speed and convenience. Financial products are ideally suited to the Internet in that it can dramatically reduce the cost of transactions and interactions yet facilitate a market on a global basis. On the supply side, the Internet has lowered the barriers to entry and reduced switching costs and therefore created more competitors and created a more astute, demanding, price-sensitive, fickle and remote customer. In this environment, political influence has led to new regulatory codes to protect the consumer, policies to support the growth of e-business, EU-wide regulations and more offshore tax havens around the globe.

[1] www.fsa.gov.uk

These trends have had a significant effect on the customer/provider relationship, underlining the importance of building strong long-term relationships with customers. In particular, the Internet will change the way financial services organisations will define their core business. Electronic business will create virtual relationships, and it is inconceivable that bank–customer relationships will become any more intimate in the future. However, most literature suggests that the Internet is also an important medium for communication between banks and their clients and does not pose a threat to close customer relationships (Mols, 2001; Lund, 2001). In spite of this, margins have contracted and customer acquisition and retention have become increasingly challenging. Financial service providers will therefore have to target their customer groups more specifically and find innovative ways to remain competitive in the acquisition of new customers and particularly in the retention of existing profitable customers whether they are in a business-to-business context or the more transaction-focused business-to-consumer market.

Structure and purpose of the book

Relationships not only are a tactical weapon but also represent a different approach to buyer–seller exchange that is strategic. Therefore, this new order suggests you must firstly select those with whom you have a relationship, secondly manage and sustain these relationships and finally plan, organise, deploy and lead in relationship-based solutions across your business and its stakeholders. This implies:

- reconfiguring the business in terms of philosophy, organisation and management;
- developing and maintaining partnerships with a range of stakeholders;
- finding ways to secure cooperative advantage and deliver superior added value.

This is a different view of business. It is not appropriate for everyone in every product/market situation, but it is a vital way to operate and compete for many and will produce superior business performance. Strategic market relationships involve analysis and formulation of a relationship strategy for a firm. Relationship management is the process of implementing it. Considering relationships as a strategic asset and as a basis for competition is central to this book. Strategic issues concern all in an organisation, but these decisions are often seen as ones top management must ultimately make. Relationship decisions introduce a codependence on others and a coinvolvement with them (managing partnership). A strategic market relationship approach is a risky strategy for organisations without the managerial capability to manage relationships. Therefore, a relationship orientation is a vital component to strategic success, and a relationship strategy cannot be easily 'bolted on' to existing methods. This is the first text to pursue a comprehensive assessment of relationships as strategy – from analysis to implementation. Many previous texts see relationships as a functional issue, but we view them as an imperative for all functions, and especially as strategic.

We argue that relationships are a strategic management issue and that the management of relationships is a core managerial task. Often relationships are seen as something the purchasing, customer service or salespeople do, and relationship tactics are described for this level of implementation. However, if relationships are seen as a distinctive capability of a firm and can lead to its success, then active strategies should be pursued for a firm's key relationships with its suppliers, customers and employees. Although we start from a marketing perspective, we develop ideas on relationship strategy and move on to specific implementation issues. We primarily concentrate on relationships between a company, its customers and the supply and distribution chain. Strategic market relationships are about analysis and planning for relationships in a codependent way – seeing relationships as a core organisational asset and being active in their management. We argue that managers need to put effort into relationships.

This book is divided into two parts to help the reader plan and implement relationship strategies. Part 1 addresses issues relating to the formulation of a relationship strategy and is devoted to the provision of tools and techniques to achieve this objective. Part 2 focuses on implementation. In Chapter 1 we argue that relationships are strategic. Several different relationship domains are considered, and we compare cooperation as a means of competing with traditional management approaches. We examine the trends driving a relationship agenda.

In Chapter 2 we introduce theories underpinning relationships, making the distinction between economic and behavioural-based theories. Further work by scholars should develop our understanding of specific relationship types. Although students should study these theories in some detail, this chapter can be omitted by those keen to explore more pragmatic issues in relationships. Chapter 3 then applies the strategic planning process to relationships. In this chapter we consider the core dimensions of relationship planning and examine relationship development and portfolios and issues concerned with the selection, positioning and competitive advantage opportunities afforded through relationships. Chapter 4 introduces the concept of relationship archetypes and maps out how to classify and develop strategies around different types of relationship. Chapter 5 on networks considers the connections, both strong and weak, between a range of companies and individuals, providing insights into interactions between all actors in a network.

In Part 2, Chapter 6 examines organisational implications for relationships, including key account management and new virtual relationship structures. This is followed by a key chapter on people and relationships. The social structure of a close relationship is central to its management and to ongoing trust. Chapter 8 considers customer relationship management (CRM) and some of the schemes to improve tactical relationship building, including loyalty schemes. Subsequently, in Chapter 9, relationship communication is presented with a special focus on building relationships through brands and on electronic relationships. Chapter 10 on channel relationships is one of the most researched areas in the relationship literature concerned with logistics, supply chain management and outsourcing. Chapter 11 considers how relationships and the relationship-based approach impact on innovation and, in particular, the new product development process in both business and consumer markets. In Chapter 12 we consider how firms gain from relationships in their international activities. Chapter 13 assesses relationship performance by focusing on relationship costs and value. Chapter 14 considers ethics and research in relationships and offers some conclusions and further reflections on strategic market relationships.

The need to assess relationships from a strategic perspective was never greater. Perhaps this development simply parallels a trend towards a knowledge economy where no individual can supply all the knowledge needed to deliver services and products? This implies that combinations of unique assets of many participants may be needed. This type of economy requires a shift from the traditional hierarchical management and control systems to relationship management. Relationships are not a panacea to solve all organisational problems, but not to consider strategic market relationships and to decide how far an organisation wishes to go may leave significant opportunities to others. We believe that relationships can be unique resources and deliver cooperative advantage in some situations.

The emergence of strategic market relationships

The origins of a relationship-based approach to the management of a firm emerge from academics and practitioners in the fields of strategy, marketing and supply chain management, sociology and psychology. In order to attract and retain customers, firms have realised in today's competitive, global marketplace that they must put the customer at the heart of the business and seek to build long-term, mutually beneficial and profitable relationships with their customers. As a result, the nature of exchange between buyer and seller and other role partners has changed. These exchanges, their co-creation, maintenance and termination, are of crucial importance to the understanding of strategic market relationships. We consider two major streams of research activity that aid our understanding of the emergence of strategic market relationships:

Transactions versus relationships

Most market exchanges can be considered a transaction between interested parties, all else being equal. Interactions between parties over time are considered relationships. The debate between managing transactions as the only efficient market approach and developing relationships is still a major theory debate. Suppliers can classify different types of customer relationship and must identify and manage their position on a spectrum between one-off sales and their important long-term relationships. This is shown in Figure 1.1.

At one end of the spectrum is the transaction-based approach where little or no joint involvement is necessary or desirable. Purchasing petrol for cash in a distant location one is unlikely to visit again is an example of a one-off transaction. Products normally associated with the 'hard sell' approach are more likely to be considered transactions or, if a relationship exists, of little importance. Transaction-based marketing appeals

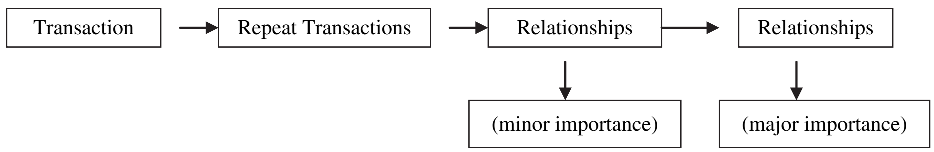

Figure 1.1 Behavioural spectrum of relationships (Source: adapted from Jackson, 1985).

for products that are to a standard specification, of low value and available under market-type conditions. These transactions command little customer integration between organisations, and a buyer should scout around between different suppliers to obtain the best price and availability. Suppliers may try to offer incentives, but these are unlikely to sustain a differentiation and can be copied by competitors, and hence they must expect to win and lose business mainly on price.

However, for most purchases, it would be normal for some form of relationship to develop such as buying your daily newspaper from the same retail outlet or visiting a local petrol station on a regular basis. Although this is a repeated transaction, in some cases the relationship between buyer and supplier is of minor importance, while in other cases the relationship and its longevity, quality and benefits are of major importance. Increasingly, we can observe businesses that fall into the latter category, with both buyer and seller finding it to their mutual benefit to cooperate.

Industrial products and services, trade marketing and business-to-business selling are more typical of a relationship-based approach. Mutual success may depend on establishing and maintaining a sound relationship between supplier and customer. It is incumbent upon both parties in the relationship to assess the costs and benefits that are likely to accrue from a relationship-based approach rather than one based on single discrete transactions. At the extreme right of the spectrum, relationships of major importance may formalise into partnerships, joint ventures or strategic alliances where significant cooperation and joint involvement are advocated and deemed necessary. The position on the spectrum will depend on a number of factors. Firstly, there are switching costs. If both parties have investments in the relationship in the form of stock, stock control systems, pricing and payment arrangements, then there are likely to be substantial costs involved in transferring to other parties. Secondly, it is important to identify the position that is most appropriate along the behaviour spectrum. Excessive costs in relationship building that may not be warranted by the volume of business between the parties can be avoided. Thirdly, arising from this is the importance of identifying those partners with whom a relationship should be built and developed. Not all suppliers from a buyer perspective nor all customers from a supplier perspective are worth investing heavily in relationship building. Finally, both parties should consider how the relationship would develop or possibly decrease and even terminate over time as market conditions and other circumstances change.

Table 1.1 highlights some of the key differences between the transaction and relationship view of business. The relationship model is more appropriate where there is a high degree of interaction, exchange of information, investments in stock and a resultant high cost to the buyer in switching suppliers. Where the buyer and seller are interdependent, very often satisfied with each other, a degree of inertia builds up. However, should the supplier fail to deliver and perform as expected, the buyer may seek alternatives. In such a situation it will be difficult, if not impossible, to win the buyer back as high switching costs may have been incurred. Having decided to terminate the relationship, the buyer will have no appetite for reviving it. The touchstone is whether the customer continues to do a single transaction at a time and needs short-term inducements to remain loyal or whether buyer and seller acknowledge their interdependent status. From a supplier's perspective, companies faced with both types of customer face great difficulty in a consistent strategy as they attempt to make optimum decisions over

Table 1.1 A comparison between the traditional (transaction) and the strategic relationship approach

Traditional approach (transaction)	*Strategic market relationship*
Transaction focus	Partnership focus
Competition	Collaboration
Firm induced	Cooperation
Value to the firm	Value in partnership
Buyer passive	Buyer as active participant
Firm as focus for control	Firm as part of the process
Firm as boundary	Boundary-less
Short-term focus	Long-term focus
Independent	Dependence and network led

short-term (transaction) and long-term (relationship) horizons simultaneously. We will later consider how information technology and branding has helped narrow the gap and make relationship building possible in even the most basic and impersonal of transactions.

As Figure 1.1 demonstrated, it is appropriate to view the transaction/relationship approach as a continuum with a variety of positions being tenable and even desirable. This means there are different types of relationship, and we return to this issue throughout the book. In some cases, for example where there is integrated design or joint development activity in a project, suppliers must develop a closer relationship with the customer, adopt a long-term perspective and be strategic and tactical and highly account specific (Wilkström, 1996). This will involve significant up-front investment and consistently good performance. Other research has shown that those firms that have close relationships with their suppliers are subject to more frequent and detailed analyses than firms that may maintain a more distant transaction-based exchange (Donaldson, 1996). The challenge is clear – only invest in relationships for which you are prepared to work, invest and promote continuing improvement, or the business may be lost for good.

Relational exchange as strategic

To illustrate the application of relationships as strategic, we take two classic theorists who have illustrated this point – Morgan and Hunt (1994) with exchange categories and Gummesson (2002) on the 30Rs of relationship marketing. Both frameworks demonstrate the application of relationships at many levels and thus their strategic potential. Morgan and Hunt define relationship marketing as '… all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges' (Morgan & Hunt, 1994, p. 22). Their model of 10 discrete relationships is presented in Table 1.2. It describes relationships from a focal firm perspective and divides them into 10 types which are further grouped into four generic categories: supplier partnerships, lateral partnerships, internal partnerships and buyer relationships. In Table 1.2 each of the 10 relationships are explained, from which it can be easily seen that decisions about these are the realm of top managers and are therefore strategic.

Table 1.2 Relational exchange categories

Category	*Description*
Supplier partnerships	
1. Goods suppliers	Partnerships between manufacturers and their goods suppliers
2. Services suppliers	Relational exchanges between service providers and their respective clients, for example, the advertising agency–client relationship
Lateral partnerships	
3. Competitors	Strategic alliances between firms and their competitors
4. Non-profit organisations	Alliances between a firm and non-profit organisations, for example, a public–private partnership
5. Governments	Partnerships for joint research and development between the state and private organisations
Buyer partnerships	
6. Ultimate customers	Long-term relationships between firms and ultimate customers
7. Intermediate customers	Relational exchanges of working partnerships in distribution
Internal partnerships	
8. Functional departments	Exchanges involving functional departments
9. Employees	Exchanges between a firm and its employees, as in internal marketing
10. Business units	Within firm relational exchanges involving such business units as subsidiaries, divisions or strategic business units

Source: Adapted from Morgan, RM and Hunt, SD, 1994. The Commitment Trust Theory of Relationship Marketing, Journal of Marketing*,* ***58****(3), July, pp.20–38. Table from p.21. Reproduced by permission of the American Marketing Association.*

Gummesson (2002) takes a macro view of potential relationship categories. While some of his 30Rs may be beyond the planning needs of an individual firm, they show the potential domain of relationship strategy application. Implicitly, his model has parallels with the concept of a stakeholder partnership of strategic management (Freeman & Reed, 1983; Kay, 1993). Recognition of key organisational interest groups (employees, shareholders, customers, suppliers, community), how these interests should be balanced and what happens if an interest group becomes dominant are all core strategic issues. Gummesson's 30Rs of relationships, reproduced in Table 1.3, show the potential domain of relationships but also the multilayered, overlapping nature of relationships. For example, a company can be a supplier, customer, competitor and part owner of another firm. By now the strategic domain of relationships should be obvious. This text provides a generic set of tools and principles for the study of a range of different relationships, rather than focusing on any particular categories.

Table 1.3 30Rs of relationship marketing

Classic market relationships	
R1	The classic dyad – the relationship between supplier and customer
R2	The classic triad – the drama of the customer–supplier–competitor triangle
R3	The classic network – distribution channels
Special market relationships	
R4	Relationships via full-time and part-time marketers – marketing and sales department – and all others who influence the customer relationship directly or indirectly
R5	The service encounter – interaction between the customer and service provider
R6	The many-headed customer and the many-headed supplier – all contact personnel involved in the relationship
R7	The relationship to the customer's customer – help your customer sell more through an understanding of its customer
R8	The close versus the distant relationship
R9	The relationship to the dissatisfied customer
R10	The monopoly relationship: the customer or supplier as prisoners
R11	The customer as 'member' – enlisted as a member through a loyalty programme
R12	The electronic relationship
R13	Parasocial relationships – relationships to mental images and symbols, for example, to brand names and corporate identities
R14	The non-commercial relationship – the non-commercial sector
R15	The green relationship – environment and health issues
R16	The law-based relationship – relationship based on legal contracts
R17	The criminal network
Mega relationship	
R18	Personal and social networks – often influence business
R19	Mega marketing – seeking relationships with governments and legislators, influences individuals and others to make operations feasible
R20	Alliances change the market mechanism – sometimes alliances are necessary to make the market work
R21	The knowledge relationship – knowledge acquisition drives many alliances
R22	Mega alliances change the basic conditions for marketing – for example, the European Union (EU) or the North American Free Trade Organisation (NAFTA) or the World Trade Organisation (WTO)
R23	The mass media relationship
Nano relationships	
R24	Market mechanisms are brought inside a company – for example, profit centres inside a company
R25	Internal customer – relationships between internal customers and suppliers
R26	Quality provides a bridge between operations management and marketing
R27	Internal marketing – relationships with the 'employee market'
R28	The two-dimensional matrix relationship – interrelationships caused by new ways of organising, for example, product management and sales will have overlapping reporting responsibilities
R29	The relationship to external providers of marketing services
R30	The owner and financier relationship

Source: Reprinted from Total Relationship Marketing*, 2nd edn; Gummesson, E., 2002, Butterworth-Heinemann, Oxford, with permission from Elsevier.*

Trends driving relationships

The important trends driving a relationship agenda include the following.

Globalisation of markets and organisations that span them

Mass marketing has given way to mass customisation, and organisations must be customer-centric on the one hand and have a global presence on the other. Firms must adapt and change to reflect this global imperative. They have to operate across geographical boundaries and thus manage multinational intraorganisational relationships. The quickening pace of competition on a global basis creates new market opportunities but also threatens existing market structures. To learn to be global is a smart move for independent companies but can only be achieved, in most situations, by cross-organisational learning which reduces risk and overcomes cultural barriers. Many markets are consolidating, and the players who operate in these markets find the size of the cake shrinking. This necessitates a refocus on delivering value and building up entrepreneurial skills as physical assets are less important. Yet the new global model is culturally diverse and organisationally complex. For example, in Europe, car manufacturing capacity has been operating at 75% utilisation in spite of sales growth year-on-year since 1995 (European Commission, 2004a,b). Today, six manufacturers account for 80% of global car production (KPMG, 2003). These manufacturers maintain a complex web of relationships both among themselves (shared platforms) and with their main supplier companies such as Bosch, Delphi, Siemens and Continental. In the UK grocery market, there were approximately 1 500 buying points for 60% of the market in 1970, an already concentrated market. By 1980 this had reduced to 625 buying points. In 1999, 60% of the market was represented by just seven buying points (IGD Research, 2000). Given the market scenarios of rationalisation, companies must cooperate to compete. At a very minimum, firms have to cooperate to protect their existing market share so as not to be under threat from new entrants but can also cooperate to take advantage of the sharing of resources, people and activities across their geographic boundaries.

Flexibility needed to respond to change

As many industries will testify, for example pharmaceuticals, financial services, electronics and telecommunications, in times of rapid environmental change and increasing uncertainty, firms take refuge, or seek protection from uncertainty, in mergers and acquisitions. Greater productivity can come from acquiring knowledge, skills and resources than from developing these internally. It is also more likely to be gained from activity between organisations than from within organisations. Therefore, coupled with increased mergers and acquisitions, we can observe a greater readiness to outsource. Whatever the reason, companies need to collaborate more widely and more deeply with other organisations to deliver superior customer value. Skoda is a good example of a company with limited routes to market, yet in combination with Volkswagen they have gained considerable market share and reputation. In other industries, such as retailing, the ability to reduce transaction costs through efficient supply relationships has been a major factor in the success of Tesco to emerge as market leader. In most markets, business-to-business markets in particular, firms are aware of the need to improve efficiency in their exchange relationships. Many firms are limiting the number of suppliers with which they do business while working more closely with those they can retain. This trend has been led by the Japanese, such as Toyota who introduced lean manufacturing, a process by which they work very closely with a very limited number of suppliers. In other cases, firms are seeking to develop markets in collaboration with suppliers and customers rather than in conflict, which existed hitherto. Such arrangements, whether formalised in joint ventures or operating informally, are characterised by increased levels of customer support and closer collaboration. The role of management in the establishment, maintenance and adaptation of relationships between seller and buyer is therefore important.

Organisational complexity and the emergence of the knowledge economy

In traditional business markets, high collaboration and interaction costs drove high levels of vertical integration. Therefore, organisations found it easier and more cost effective to own many pieces of the value chain. In the knowledge economy, communication and IT have made the virtual organisation possible. By assembling a network of best-in-class partners that specialise and excel at various links in the value chain, new levels of quality, cost savings and service can be achieved. In this situation, niche players can coexist with industry leaders. Yet it is not only the technology that drives a relationship agenda. The importance of human capital and knowledge is being recognised as an important strategic resource. The increasing specialisation of knowledge means that firms have to coordinate activities to gain access to each other's unique human capital.

What do strategic relationships imply for management?

Managing various relationship types, as in Figure 1.1, may place emphasis on managerial style and associated organisational culture. Companies using adversarial methods in dealing with one supplier might find it a challenge to change to a relationship approach. Organisations that pride themselves on their independence may find it difficult to pursue a strategy of coinvolvement. The conventional approach, in an independent mode, involves adopting a proactive stance where the emphasis is placed on:

- identifying customer needs and requirements;
- anticipating future trends and monitoring environmental forces;
- satisfying customers' existing and future requirements through managing the product or service package, optimising value-for-money pricing and maximising availability and delivery while promoting and selling benefits in the most effective way;
- profit, ensuring that the company will be able to provide this process in the future.

We do not claim that this independent model of the way the world works is redundant but we do consider it will work only in certain situations and contexts. In other contexts, the process can be too simple and too restrictive. Usually, a buying organisation will have an overall style that affects all relationships. One of the critical issues of managerial style is the need to match styles across organisations. Considerable pains need to be taken to select a partner that would be culturally compatible with one's own approach. Cultural compatibility should not be underestimated as many firms try to impose their culture on the partner firm. Indeed, the social structure of a relationship has been the focus of early social exchange theorists (Blau, 1964) and of the Industrial Marketing and Purchasing Group's research (Håkansson, 1982), especially the concept of relationship atmosphere. We have added a chapter to this edition on people and relationships to highlight the important role of the social structure in relationships.

Definitions of relationship management and marketing reflect these changes in management and strategy. These definitions embrace a variety of partners, not just customers, and the term 'relationship' can mean a variety of things depending on how it is applied. It can be taken to mean any type of cooperation, from a coercive supply relationship to strategic alliances (Webster, 1992). On the other hand, a more practical-based definition is that relationship marketing is how a company finds you; gets to know you; keeps in touch with you; tries to ensure you get what you want from them, not just in the product but in every aspect of their dealings with you; checks that you are getting what they promised you – all subject, of course, to it being mutually worthwhile to both parties (Stone & Woodcock, 1995). Be aware that strategic market relationships are not biological but part of a management process, whether buyer initiated, seller initiated or both. Our focus in this book is from a marketing perspective, but we confess to seeing relationships as a management issue where functions become subservient to an integrated, holistic managerial perspective of the way a firm conducts its business. As noted, definitions focus on relationship marketing rather than relationship management, but the need for the organisation to satisfy a number of stakeholders renders such definitions obsolete. To explore this, we consider stakeholders in the firm, assess what they are looking for in the relationship they have with the firm and compare this with the limited approach of some of the definitions of relationship marketing. A range of stakeholders is shown in Figure 1.2.

We consider relationships with stakeholders in different ways. Firstly, on the left of the diagram are those upstream – suppliers/subcontractors and producers. The need to reduce transaction costs and enhance value for customers encourages, even necessitates, firms within a supply chain working together to achieve competitive advantage. A second group comprises the shareholders, directors and employees of the firm. A third group are those downstream in the supply chain, who may be distributors, intermediaries and, we would argue most important of all, customers. Much of this book is concerned with these types of relationship. A fourth group comprises relationships with financial partners, not only shareholders in the firm but banks and other investors, perhaps credit brokers and other financial facilitators. Finally, there are the relationships involving legal obligations or contracts, such as with local and national government authorities and with the media and public at large. The consequences of this difference in approach to strategic market relationships manifests itself in the degree of adaptability by the seller to the particular needs of individual customers. In industrial markets, where the buyers are relatively few, and where some buyers will be crucially important to the well-being of suppliers, the idea of relationship management has existed for some time. For example, Unilever (customer) and ICI (supplier) work together to compete more effectively in the European market. In some instances, closer relationships are instigated

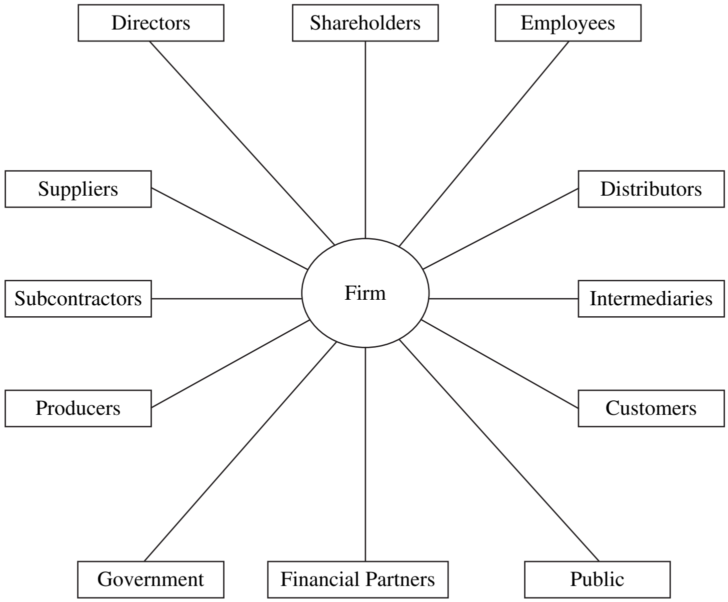

Figure 1.2 Stakeholding in the firm.

by suppliers in an effort to protect their interests and defend their position in competitive markets.

In other situations, closer working relationships may develop from buyer initiatives where the need for continuity of supply, just-in-time operating programmes or economies of scale are likely to be vital in the supply chain. An example of this approach is Chungwa, a Taiwanese electronics manufacturer, where a number of suppliers built facilities around their European plant in Lanarkshire. Joint awareness or mutual dependence is important from both buyers' and suppliers' perspectives. This also means recognising mutual participation in areas of product design and modification, pricing, distribution and promotion. The focus therefore is on customer relationships where the supplier in the exchange process should be flexible, adaptable and interactive.

The characteristics of organisations operating in a relationship mode include:

- developing new opportunities via partnerships and strategic alliances;
- using product development teams with partners to turn ideas into winning products and services;
- open relationships with their employees;
- employing customer satisfaction measurement linked to the company's compensation and reward structure;
- a focus on being market driven and customer led and involving customers in decisions about them.

The relationship approach can be differentiated from any other business on the basis of certain criteria such as:

- its belief in not only satisfying or even delighting customers but also involving customers as the number one priority;
- by investing resources to research markets and customers on a one-to-one basis;
- by taking a planned and joint approach towards delivering customer satisfaction.

Firms must not only choose their partners carefully but structure and manage these partnerships, thereby allowing time for the relationship to grow and develop. It implies a corporate culture based on trust, open communication and a lack of opportunistic behaviour.

It is necessary for a firm to show its belief and commitment in its relationship with stakeholders. Action needs to be taken not only for change to occur but also for the development of a relationship with particular parties. For example, beliefs about the relationship can be signalled through long-term contracts, fair price dealings and, in short, developing the social structure of the relationship. Specific action can be taken to signal this change, such as helping in emergencies, being responsive and adaptable to requests and investing in the relationship. Managers should consider actions to demonstrate this investment, for instance in supplier training and provision of managerial assistance and financial support for their customers. Other ways to enhance relationships include providing information on production planning, preferred supply arrangements and specialised supply management structures. Such joint cost-reduction programmes confirm realisable benefits in relationship structures. The need to mobilise resources behind customer-based solutions in an appropriate context is central to relationship enhancement.

Developing a relationship orientation and implementing it in practice may place a strain on managerial style and associated organisational culture. Companies used to more adversarial methods of dealing with suppliers or customers may find it a challenge to change to a relationship approach. Organisations who pride themselves on their independence may find it difficult to pursue a strategy of coinvolvement. For managers there are opportunities in taking a closer look at relationships and dividing them into types. Potential gains and losses could be attributed to each type. A firm may be overcommitted to certain types of relationship and could improve productivity by a change in focus and mode of cooperation. We follow up on relationship types in Chapter 4.

Chapter summary

In an effort to anticipate, react and adapt to change, firms are being forced to move from the traditional management activity to a new relationship approach based upon new forms of exchange. This has been characterised by a movement away from seller-initiated effort focused on manipulating resources in an independent and prescribed fashion to one of increased understanding of the exchange process, where the buyer is more proactive. This exchange is based on the joint efforts of the various buyers and sellers in the supply chain. In this new order, exchange is characterised by collaboration and cooperation rather than conflict and confrontation, by joint involvement of participants rather than unilateral action and by interdependence rather than independence. This leads to a focus that takes as its unit of analysis the exchange process, with interaction as its focal point seeking both to understand and manage these relationships. This is in contrast to the traditional approach which focuses on self-interest and transactions, concepts and techniques more appropriate to the selling organisation, which at worst neglects the customer and at best treats the customer as a passive component in the exchange process.

CASE FOR DISCUSSION

FIRST DIRECT

First Direct was one of the first telephone banks in the UK. Midland Bank, after conducting market research, found that many customers did not use branches and the level of satisfaction among others was relatively poor. As a result, First Direct was launched as an independent bank by Midland in October 1989 and provided a phone-only service 24 hours per day, 7 days a week. When launched it had no direct competitors, and, with an improved speed and service for its customers, it rapidly expanded. In 2006 it employed 3400 people at two sites in Leeds and Hamilton. Its customer base currently stands at 1.2 million and 40% of sales are via e-channels. According to MORI and NOP research, it is the most remembered bank in the UK and has the most satisfied customers of any UK bank. It has won numerous awards for customer service and has been voted one of the top 100 UK companies to work for in a *Sunday Times* poll in 2006.

Its initial strategy was based on the following:

- *Service channel.* Conventional banks had very limited opening hours, especially for those people with non-flexible working hours. The any time, any place solution met a real customer need.
- *Brand name.* Owing to the absence of physical premises, the company invested heavily in its brand name to create the image and reliability necessary for this type of operation. Consequently, advertising was an essential aspect of its marketing strategy.
- *Service quality.* In 1989, long queues, slow service and poor communication between teller and customer was the standard for this industry. Constant personal, relevant communication, albeit a relationship on the telephone, established a rapport between company and customer.

A good database is an essential part of the process since it enables a dialogue between customer and company, and vice versa. The result was the creation of cross-selling opportunities for investment plans and other savings schemes. Most calls are handled without any need to transfer to a specialised department, and investment in training for call handlers paid off for the company.

At the time of launch, although First Direct did not disguise its connection to Midland, only 20% of its customers were from Midland; 70 per cent were aged 25–44 and 38% lived in households with an income greater than £35 000. These customers had higher average balances but tended to use services more often than the average bank customer. The company also used extensive marketing research through internal and external surveys and by feedback mechanisms through their call-handlers. Customer satisfaction levels are well above the industry average, and 36% of new customers join because of personal recommendation. However, the market continues to change. In 1994, fewer than 2 million people in the UK had telephone bank accounts, but within three years this had quadrupled to over 9 million. First Direct introduced a PC-based service in 1998 and Internet banking in 1999. Today, 40% of sales are done online. First Direct is now facing competition from high street banks, supermarkets, building societies, insurance companies and electronic delivery providers such as Virgin Direct, Egg.com and IF.com. New competitors seem to be entering the market on an almost daily basis.

Sources: authors and www.firstdirect.co.uk

Questions:

1. Use a SWOT analysis and collect new information to analyse the current position of the business.
2. What aspects of the service experience would you focus on to develop and grow the business?
3. How would you classify the nature of the relationship between an individual customer and the bank?
4. Although using the telephone, First Direct was very much a relationship-based operation. How can this relationship be sustained and developed in the face of increasing competition?
5. Visit the First Direct website and evaluate aspects of its relationship approach with different stakeholders.

Further reading

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Chapter questions

1. Identify a product or service where the relationship is of minor importance and one where it is of major importance. Select variables in the marketing of this product and explain how they can be used differently in each relationship context.
2. According to Webster (1992), customer relationships are a key strategic resource of the business. How can such a resource be exploited and managed from a supplier perspective?
3. The monadic paradigm views the buyer and seller as independent rather than interdependent, emphasises their separate analysis rather than appreciating the similarity of their task and assumes a single discrete purchase rather than purchases in the context of an ongoing relationship. Discuss the view that this paradigm is no longer an adequate representation of marketing exchange.
4. Explain how an understanding of the differences between transaction-based marketing and relationship-based marketing can assist the firm in its marketing strategy.
5. To what extent do you agree that the conditions in which customer relationships are more likely to develop and prosper or deteriorate reflect internal organisational factors or external market factors?
6. In this chapter, several trends have been identified as driving a relationship approach to business. Are there other trends/influences you feel should be included and, if so, why?
7. What characteristics and specific actions might represent high/low levels of trust between buyer and seller?
8. Selecting a business or organisation, elaborate on the relationship that the organisation has with either financial stakeholders or public/government stakeholders.