5 Customers

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Introduction

Why the concern about relationships in marketing?

The word 'relationship' is ubiquitous in modern society. Apart from the social relationships we have with family and friends (from distant to extremely intimate), there are a whole range of more spurious relationships which we have (or are told we have) with other focal objects. From politicians to firms to inanimate objects our relationships are central and, seemingly, essential to our modern lives. But it did not always seem this way. This chapter explores the birth, growth and metamorphosis of relationships in marketing. The notion that firms and customers can instigate, develop or break off socio-economic relationships with each other is of vital importance to marketers, but our understanding of the term is constantly evolving. This chapter explores the birth and development of relationship marketing in the latter half of the 20th century and early years of the 21st. In this period a range of new concepts such as customer relationship management, customer loyalty, customer lifetime value, customer equity and, more recently, customer engagement all suggest the growing importance of the customer to organisations and a growing need to understand how these relationships can be influenced and maintained.

The definition of marketing set down by the American Marketing Association (AMA) in 1985 gives no indication of the importance that relationships would have only a few decades later (Gundlach, 2007):

> *"The process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges that satisfy individual and organisational objectives"*

Here we see marketing's economic and transactional roots writ large. The purpose of marketing is to establish what to sell, who to sell it to, at what price and to ensure that customers buy it in order that the firm can make money (note that the customer is not included in the definition). By 2004 the definition had changed substantially:

> *"Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders"*

Here we see the impact of relationship marketing's evolution. Gone is the stricter exchange focus to be replaced by two references to the customer and the use of the word relationships. The next section will explore how this change occurred.

The roots of transactional marketing

The roots of marketing lie in economics, and it is in the development of macro and micro economic theory and the concepts of 'the market' and 'supply and demand' that we see the earliest shoots of marketing. In the early part of the 20th century a greater focus on the interaction between supply and demand allowed early marketers to create lists of variables which would inform the marketing process (Harker & Egan, 2006).

These lists of variables inspired Neil Borden to develop the *marketing mix*, which he referred to throughout his research in the 1940s and 50s (Borden, 1964). Originally a list of 12 variables which "the marketer would have to consider in any given situation….[and]…would blend the various ingredients or variables of the mix into an integrated marketing program." (Grönroos, 1994: 350). These 12 variables, in turn, were reduced down to the now familiar 'four Ps' (Price, Product, Promotion and Place) by McCarthy (1960). After World War 2, marketing management and the marketing mix, combined with growing economies in the western world and increases in disposable incomes, saw an exponential growth in marketing activity. The huge domestic US economy with its homogenous customer base, shared culture and media with a rise in standardised products and services meant that the simple approach associated with the four Ps had free rein (Harker & Egan, 2006).

Problems with the dominant model and birth of relationship marketing

The latter decades of the 20th century saw problems emerging with the traditional marketing mix model which had so successfully underpinned the boom years of the post WWII era. Increased competition (both national and international) and growing customer interest and involvement meant firms had to do more than simply apply the 4Ps to any given situation. Harker and Egan (2006: 220) note that "whereas the transactional marketing paradigm sought to 'bend' the customer to fit the product, what was required was theory and practice that would shape the product to the consumer". Additionally, the rise of both services and business to business (B2B) marketing in the late 1970s gave academics two settings where the relationship between a firm and its customers was central to its success. It was, seemingly, Berry (1983: 25) who first coined the phrase 'relationship marketing' and that this should involve "attracting, maintaining and – in multi-service organisations – enhancing customer relationships". The idea of balancing attraction and maintenance (more commonly known as retention) has become a dominant narrative in relationship marketing. This is perhaps best represented by the notion of marketing relationships being like a leaky bucket (Ehrenberg, 1988).

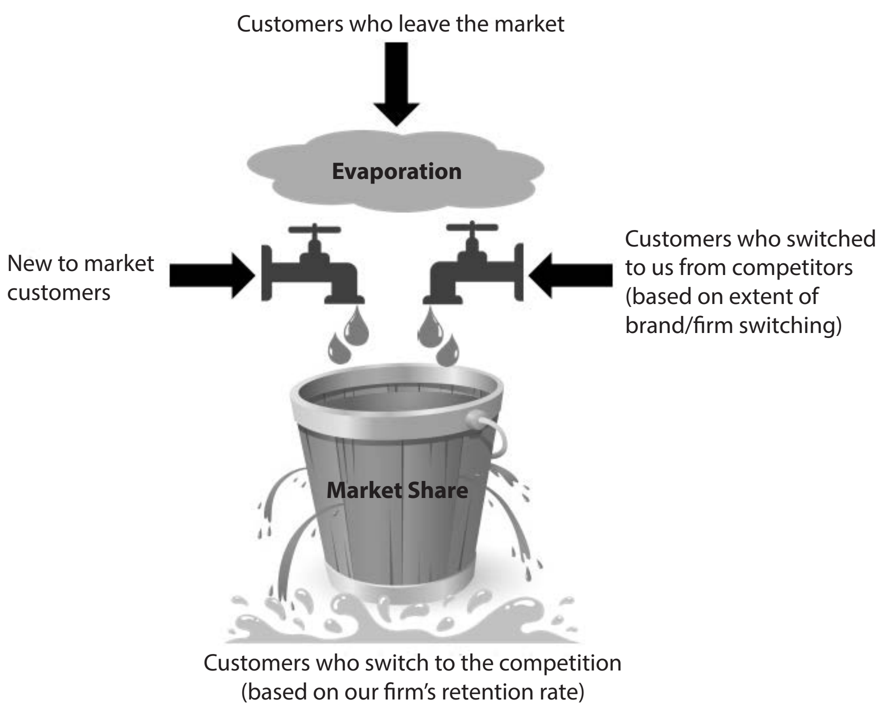

Figure 5.1: The leaky bucket (Ehrenberg, 1988)