



# Relationship marketing

Learning guide

# Relationship marketing

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## Introduction

The accelerating rate of change led by technology, globalisation and rising customer expectations has created a dramatic change in marketing priorities. The 'transaction' based age of mass production, mass marketing and monologue communication to win new customers, has been replaced by a 'relationship' based approach with intelligent production, focused marketing and dialogue communication. Thus we have seen the emergence of a new focus of marketing activity, where the priority is to create and build customer relationships.

### *A definition of relationship marketing*

"The consistent application of up-to-date knowledge on individual customers, to product and service design, which is communicated interactively, in order to develop a continuous and long term relationship which is mutually beneficial."

### *The value of relationship marketing*

Long term relationships with customers escape the increasing costs of acquiring new customers and provide opportunities to build business with customers over time. In addition it is possible to gain greater knowledge of customers and their needs over time so that the costs of serving them can be reduced. For the customers there are benefits of certainty which may mean they will reflect this in a price premium. Finally, satisfied customers will recommend and refer new customers, thus helping to expand the business base.

## Where to start?

If you have less than an hour, read the overview section, then browse through the development activities. The exercise on relationship mapping could be a useful introduction to the opportunities within your organisation.

If you have two or three hours, then read the two recommended articles below and the selected chapters of the two books.

- Stewart, Thomas A (1997), *A satisfied customer isn't enough*, Fortune, 21 July, p112-113
- Reichheld, F F (1993), *Loyalty based management*, Harvard Business Review, March/April Vol 71(2), p64-73
- Cram, Tony (1994), *The Power of Relationship Marketing*, chapters 1, 2, 3, 6, 9 and 11
- McKenna, Regis (1992), *Relationship Marketing: Own the Market through Strategic Partnerships*, chapters 2 to 7

For further study, the remaining articles and the recommended books will provide a variety of practical approaches for consideration and implementation.

## Resources

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### Videos

**Branding: The Marketing Advantage** (1995), BBC.

Video 1: *Threats to the Brand and Managing Brand Equity*, 32 mins.

Video 2: *Adding Value, Retailer Power and Globalisation*, 45 mins.

Video 3: *Relationship Marketing, Future of Marketing*, 28 mins.

The increase in brands, a demanding global marketplace and the increasing power of retailers are some of the challenges that have faced branded goods in the 1990s. This video package suggests how a company should approach globalisation, build new relationships with retailers and investigate the role of service and relationship marketing within the organisation. The overall aim is to help develop branding and marketing strategies that work. Companies featured as case studies are: Haagen-Dazs, Singapore Airlines, 3M, American Express and Club Med.

**Building Tomorrow's Company: The Customer Relationship** (1996) BBC for Business, 15 mins

The programme highlights the need for companies to discover just what customers need and to address how best to deliver this. In other words, customers should be treated as partners. Two very different businesses are featured as case studies : the Co-operative Bank, famed for its ethical approach, and the UK's largest clothing retailer Marks & Spencer Plc. Joining Paul Burden for a spirited debate are the business author David Clutterbuck and Andrew Geddes, manager of the Inland Revenue's Cumberland Account office, recently adjusted to be one of Europe's top quality business operations.

### Journal articles

Cram, Tony and Stilliard, Bob (1996), *Securing relationships*, Financial Times, 23 August.

Fournier, S et al (1998), *Preventing the premature death of Relationship Marketing*, Harvard Business Review, January/February, Vol 76 (1), p42-51.

Jacob, Rahul (1994), *Why some customers are more equal than others*, Fortune, 19 September, Vol 130 (6), p141-146.

Lester, Tom (1998), *Getting Close*, Information Strategy, Vol 3, No 8, October , p46-49.

Reichheld, F F and Sasser, W E (1990), *Zero defections*, Harvard Business Review, September/October, Vol 68 (5), p105-111.

Reichheld, F F (1993), *Loyalty based management*, Harvard Business Review, March/April, Vol 71 (2), p64-73.

Stewart, Thomas A (1997), *A satisfied customer isn't enough*, Fortune, 21 July, Vol 136 (2), p70-71.

## Information files

There are information files containing a number of newspaper and journal articles on the following areas:-

- Relationship marketing
- Customer care

## Books

\*\* Books marked with asterisks are available for sale from the LRC bookshop.

Mail order service: Tel: +44 (0)1442 841159. Fax: +44 (0)1442 841211.

Email: [celia.tucker@ashridge.org.uk](mailto:celia.tucker@ashridge.org.uk).

Burnett, Ken (1994), *Strategic Customer Alliances: How To Win, Manage and Develop Key Account Business in the 1990s*, Pitman Publishing.

Ashridge shelf reference: **JU (BUR)**.

Successful business development is not just about sales but about maintaining and expanding profitable customer relationships. Successful business development is not just about sales but about maintaining and expanding profitable customer relationships. Successful selling can only be effective if key accounts are pinpointed and nurtured in an organised way.

Buttle, Francis (1996), *Relationship Marketing: Theory and Practice*, Paul Chapman Publishing.  
Ashridge shelf reference: **JUT (BUT)**.

Relationship marketing, the development of mutually beneficial long term relationships between suppliers & customers, is being widely accepted as the future of marketing. By examining the relationship between theory & practice, this book appears at an important stage in the development of relationship marketing.

Cram, Tony (1994), *The Power of Relationship Marketing: Keeping Customers for Life*, FT Pitman.  
Ashridge shelf reference: **JUT (CRA) \*\***

Seeing the importance of long-term customer retention is easy but putting in to practice is more difficult. This book meets the need for a practical guide to the implementation of relationship marketing.

Daffy, Chris (1999), *Once a Customer Always a Customer*, Oak Tree Press.  
Ashridge shelf reference: **JUT (DAF)\*\***

Discover the secret of creating customers for life by delivering exceptional customer service, and create success beyond your wildest dreams using the author's tried-and-tested and widely acclaimed methods. Using simple, straight-forward language, real-life examples and humorous anecdotes, with graphs and checklists throughout, the book explains how easy it can be to deliver excellent customer service. The text is a truly motivational tool which encourages the whole organisation to look at the ongoing improvement of customer care in a new light.

Ford, David et al (1998), *Managing Business Relationships*, Wiley.

Ashridge shelf reference: JUT (FOR).

This book aims to provide the reader with a better understanding of the reality of business markets and the nature of the strategy within them. It examines the different types of business relationships, such as those between a company and its suppliers, customers and distributors.

Hallberg, Garth (1995), *All Customers are not Created Equal: The Differential Marketing Strategy for Brand Loyalty and Profits*, Wiley.

Ashridge shelf reference: JUGA (HAL).

Differential Marketing communicates more directly & persuasively with a brand's valuable customers, across all disciplines: advertising, sales promotion & direct marketing.

Levesque, Paul (1995) *The Wow Factory: Creating a Customer Focus Revolution in Your Business*, Irwin

Ashridge shelf reference: JUT (LEV) currently out of print.

This book is not a set of guidelines or behaviours that some employees are expected to adhere to some of the time (only with customers.) Instead, this book introduces customer focus as a corporate state of mind that has a direct bearing on the decisions that every person in the organisation will make, every day.

McKenna, Regis (1991), *Relationship Marketing - Own the Market Through Strategic Customer Relationships*, Century Business.

Ashridge shelf reference: JUA (MCK) \*\*

As one of the worlds leading marketing consultants, Regis McKenna has helped to launch many of the products that have dramatically transformed the world into the information age. In 'relationship marketing' he shows managers how to focus on building crucial relationship that help companies to dominate the market in the age of customer.

Treacy, M & Wiersema, F (1995), *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market*, Harper Collins.

Ashridge shelf reference: **JV (TRE)**.

This book presents the view that successful companies, the market leaders, excel at delivering one type of value to their chosen customers. The key is to focus on a single value discipline & build the organisation around it.

Wayland, Robert E (1997) *Customer Connections; New Strategies for Growth*, Harvard Business School Press.

Ashridge shelf reference: **JUT (WAY)**.

This book is full of fresh, practical examples of companies that have creatively used information and knowledge management technologies to connect with their customers in new ways. It explores the tools for building a strategy based on the four key drivers of customer portfolio value: choosing the customers you want, selecting what you want to offer, deciding what role you should play in meeting their needs, and working together to create mutual value.

## Useful websites

*CRM-Forum* [www.crm-forum.com](http://www.crm-forum.com)

The CRM Forum describes itself as an "independent resource centre for customer relationship management". It aims to provide CRM professionals with access to news about the latest developments in CRM and also offers an electronic discussion area where they can exchange ideas and information. You have to register as a member to access the site's resources, but there is no charge for this.

## Working papers

Bensaou, B and Venkatraman, N (1996), *Not by Partnership Alone: Managing a Portfolio of Relationships*, INSEAD.

Ashridge shelf reference: **Working Papers Box WI 44**

## Overview

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### What is relationship marketing?

*Relationship marketing* is the successor to mass marketing. The monologue of mass communication has given way to the dialogue of relationship marketing. The stages of the journey have been flagged by marketing labels of the past decade and a half.

*Database marketing* was a key stage. This has been summarised as the ability of a direct marketer to address audiences as individuals despite large numbers.

The concept of *maxi-marketing* has been described lucidly by Stan Rapp and Tom Collins in their book *Maxi-marketing: The New Direction in Advertising, Promotion and Marketing Strategy* (1987, McGraw-Hill). This is the direct contact, dialogue and involvement with an individual prospect or customer leading to increased sales and brand loyalty.

In summer 1990 Jonathon Copulsky and Michael J Wolf of Booz Allen and Hamilton published their seminal article in the *Journal of Business Strategy* entitled *Relationship Marketing: Positioning for the Future*. In their view, relationship marketing combines elements of general advertising, sales promotion, public relations and direct marketing to create more effective and efficient ways of reaching consumers across a family of related products and services. Their philosophy develops database marketing in consumer markets into share growth through technological skills.

Regis McKenna explored the concept further in his book *Relationship Marketing* (1991, Century Business). He seeks to find a way to integrate the customer into the company, to create and sustain a relationship between the company and the customer.

Martin Christopher, Adrian Payne and David Ballantyne have focused on the dual task of getting and keeping customers in their book *Relationship Marketing: Bringing Quality, Customer Service and Marketing Together* (1993, Butterworth-Heinemann). Typically, the mass approach has concentrated on

bringing in customers, but has paid insufficient attention to retaining customers subsequently.

Tony Cram's book *The Power of Relationship Marketing* (1994, Financial Times/Pitman, reprinted 1996) developed the theme to focus on seven steps to implement relationship marketing. This integrated factors such as staff loyalty, service excellence, and learning and improving with customers. A key concept is that you cannot build relationships indiscriminately with anyone and thus focus on key customers is required.

The book, *All Consumers are not Created Equal* by Garth Hallberg (1995, John Wiley) took the concept a stage further and carefully applied Pareto's Law to customer relationships. He demonstrated the commercial imperative of focus on particular customers and customer groups.

Fortune magazine included an article called *A satisfied customer is not enough* by Thomas A Stewart (21 July 1997), which distinguished between a satisfied customer and one who has a relationship with an organisation. Relationship marketing is actively engaging, and requires constant learning and improving with customers.

Hugh Davidson weaves the theme of relationship marketing throughout his book *Even More Offensive Marketing* (1998, Penguin). He stresses that there is a benefit to customers, through the increasing capacity of manufacturing, to tailor precisely to the requirements of individual customers by mass customisation.

In January 1998, the Harvard Business Review article, *Preventing the premature death of Relationship Marketing* by Fournier, Dobsca and Mick attracted abuse from database marketers. Trading details of high value customers is breaking faith with your best customers who resent the breach in confidentiality. Customers were not being provided the mutual benefit which is intrinsic in a relationship. Hence, the confirmation of the definition of relationship marketing:

“Relationship marketing is the consistent application of up-to-date knowledge on individual customers, to product and service design, which is communicated interactively, in order to develop a continuous and long-term relationship which is mutually beneficial.”

## **Why is it important to customers?**

Relationship marketing offers a number of specific benefits to customers, and it is valuable to understand which of these apply in any given product or service market. These benefits can then be developed and increased over time to add value to the relationship. Typically these would include:

- Time saving - when a supplier understands a customer well, the requirements do not need to be spelled out on each purchase occasion. Recognised patterns, simple procedures, and process familiarity can save time and provide the customer with increased speed of service.
- Prioritisation - best customers may receive priority attention, dedicated service.
- Recognition - certain customers seek and appreciate recognition of their individuality.
- Certainty - for risk averse customers, the dangers of experimentation are avoided by working with accepted and known suppliers.
- Learning - customers can find that suppliers who know them well can demonstrate new solutions to current problems and issues.
- Lower prices - where the relationship involves simplifying transactions between the parties, costs saved can be shared and thus customers can obtain lower prices.
- Personal involvement - where customers desire interaction, this can be built into a relationship, such that they can receive social and psychological benefits. This might occur in user groups and customer panels.

## Why is it important to suppliers?

Naturally there are significant benefits to suppliers from long term loyal customers. Again these can provide a focus for attention, so that the benefits can be developed to increase customer profitability over time. These benefits include:

- Absence of acquisition costs. Winning new customers is an expensive process, which involves advertising, promotion, prospect research, direct mail, brochures, exhibitions, discounts, listing payments, setting up costs and all the penalties of errors in unfamiliar circumstances. With retained customers there are no acquisition costs.
- Potential to increase sales. Where there is trust and understanding between a supplier and a good long term customer, opportunities will be spotted for cross-selling. Product development may be undertaken to fill range gaps. Satisfied customers will move up-market with confidence. They may choose to increase their share of spend in the category to 100% of purchases placed with this supplier. With trade customers, there is the opportunity for the supplier's volumes to grow as the customer's own scale of business expands.
- Potential to reduce costs. Over time in a successful customer relationship, possibilities arise to refine product offering, simplify procedures and reduce administration. All these can generate cost savings which can boost margins. Progress down the experience curve with an individual customer creates more cost savings. Systems can be co-developed and shared. Forecasting can be improved with consequent reductions in inventory and waste.
- A price premium may be paid by customers placing a value on certainty. This does not apply to all groups of customers, but in many cases, price will be one issue among many. This is in contrast with a new sale negotiation where price is a primary criterion. It may be that there are real and psychological switching costs for long-term customers, which mean they may pay a premium.

- Referrals. Satisfied long-term customers will recommend good suppliers spontaneously. They may also be prompted to provide good sales leads, or participate in the selling process as a reference site, for example.

For all these reasons, a relationship marketing strategy makes strong commercial sense to organisations seeking to boost their long term profitability. In fact the process is self-reinforcing, because the norm is for certain of the profitability benefits to be returned to the customer in enhanced service levels or better prices. This in turn strengthens the relationship.

### **What are the requirements for relationship marketing to succeed in an organisation?**

There are three requirements for relationship marketing to operate successfully as a strategy. These are a commitment on the part of senior management and employees, plus a clear understanding of which customers are the primary focus for relationship building. These are amplified below.

1. Senior management commitment. For success, the visible and sustained support of senior management is essential.

This must be based on an understanding of the market conditions, such that the senior management believe that they have the organisational competence to offer superior value relative to competitors and that there will be customers who will respond to this proposition.

It requires a new mind-set towards customers. Instead of the priority to today's profit target, the priority is the relationship with customers. Conflict may arise, where short run expenses are incurred which invest in a relationship but penalise the quarter's profit performance. Thus the senior management must demonstrate in their actions and decisions that the business imperative is the customer relationship. They must enunciate that relationship marketing has the long-term ability to enhance profits dramatically and also to provide a greater

certainty of profits because low customer turnover makes next year's sales targets more likely to be achieved. Without this there is the possibility of a default to short-run thinking which sees customers as a cost.

2. Staff motivation. The second requirement is a well motivated staff with the briefing and training to equip them to meet customer needs. This has implications for staff recruitment, so that new team members are selected for their service orientation. It also demands effective induction and training of what is expected of staff members in their customer interaction (both internal and external customers), so that they clearly understand the vision of successful customer relationships. Staff retention strategies are also required, so that a consistent team provides service continuity to customers, as well as the personal benefits of familiar social interaction. Motivation can be enhanced by the exercise suggested above.
3. Customer selection. It is obvious that customers are not equally attractive as far as an organisation is concerned. For relationships to be built effectively, organisations must identify realistically the customers or customer groups they wish to attract and retain. Yet the approach of the majority of organisations is 'If it moves, shoot it!' and every potential customer is treated as equally attractive.

The essence of relationship marketing is a careful assessment of the characteristics of an ideal customer. This is based on evaluation of existing customers and their profitability/value to the organisation. Thus there is a clearly defined priority group of customers with whom retention strategies are applied. Similar criteria are applied to prospective customers, so that those new customers who are acquired will form future loyal long term customers. This means that resources are focused to provide the greatest benefit to the customers who will in turn, provide the greatest reciprocal benefit to the supplier.

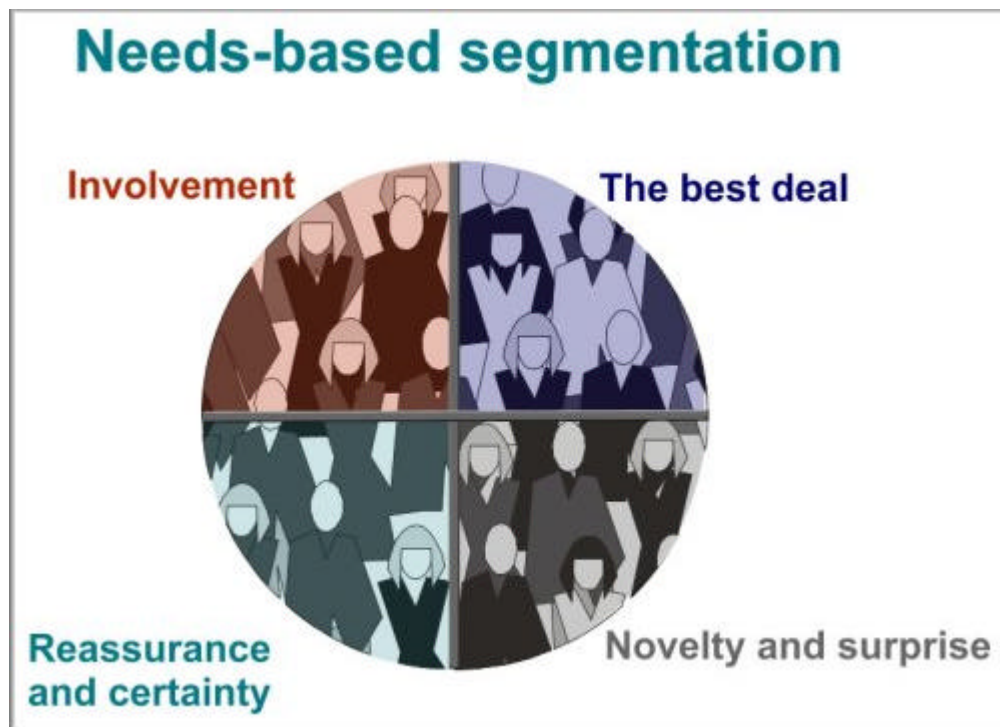
This does not preclude doing business with other groups of customers, but it mandates that this is not at a cost to the priority group. For example 'Tier

2' customers could provide economies of scale which generate commercial benefits to the priority group.

A customer typology is an effective way of progressing understanding in this area. The approach recommended is an assessment of customer needs and a categorisation by need priority. This can be clarified with examples (see illustration below). While all customers will seek good value, for one group of customers their number one priority is paying the lowest price in the market. This group would be described as 'best deal' customers. They are interesting because price is their key discriminator. Thus loyal behaviour is not one of their displayed characteristics. An organisation may or may not choose to serve these customers. The advantage they bring is volume. The disadvantage is that they are volatile, switching to another supplier for a lower price.

A more valuable group comprises those customers seeking reassurance and certainty. They too expect good value, but for them consistency and ease of doing business outweigh the lowest price in the market. Identifying the detailed needs of members of this group can provide real learning and the opportunity to build strong relationships.

Customers whose priority is recognition and involvement are also a valuable group, and meeting their needs with particular strategies builds good relationships.



In most markets there will be another group whose need priority is for surprise and novelty. These are the mirror image of the group looking for certainty and they seek variety instead. Naturally they would not display the same loyalty characteristics of the customers who value certainty.

The conclusion is that successful organisations are required to understand which customer needs they have a particular competence for meeting. If the intention is to operate a relationship marketing strategy then a priority would be placed on meeting the needs of customer groups who are likely to respond with loyalty.

### **How do organisations implement strategies to build customer intimacy?**

Customer intimacy is a term used by Treacy and Wiersema in their book *The Discipline of Market Leaders* (1995, Harper Collins). It describes a close relationship with customers, which is reached by mutual agreement and is the objective of relationship marketing. Having met the three requirements above, there are four strategies which together deliver the qualities customers seek from their closest suppliers.

These are:

1. an understanding of today's needs plus perceptive anticipation of tomorrow's needs
2. interactive communications
3. a determination to provide excellent service
4. a relationship pricing model.

### *1. Understanding and anticipating needs*

Conventional marketing implies a close understanding of customer needs, and this will use customer research and customer contact to refine the comprehension of changing needs. A great deal of emphasis is being placed on responding to customer demands with an approach based on the 'customer is king' concept. This is a reactive strategy and is an appropriate model for refining products, services, communications and so on. The shortcoming is that this assumes that the customer is always well informed and aware of their own best interests in the long run. This is not necessarily the case.

Relationship marketing goes beyond reactive marketing. The concept is that in an intimate relationship you should strive to foresee what is in the best interest of your partner or close customer. This means that you can guide and protect them from some of the uncertainties of the coming years. The focus is on what they need for the future, rather than literally what they are asking for today. This implies a commitment to understanding trends in their business, applying knowledge of supply chain developments and contributing to a dialogue with the customer over the impacts and actions.

For example, SAP and other leading IT software businesses were working with intimate customers on the impact of two-digit year data many years before the year 2000 issue surfaced in the public domain.

In effect the supplier relationship has moved beyond the simple provision of goods and services to a commercial alliance which has real elements of business consultancy. The good supplier will offer alternative insights and

provide stimulation and challenge. A measurement criterion is that customers would not choose to face the future without the support of this particular supplier.

There are many techniques for creating potential scenarios of the future for your customers. A selection of methods is described in the article *High fliers - What do successful innovators do differently?* by Tony Cram, published in the Ashridge magazine *Directions* November 1997.

## ***2. Interactive communication***

Communication is a critical aspect of a relationship, whether between two individuals or two organisations. As stated in the definition of relationship marketing, interactive communications or customer dialogue is an essential element.

The interaction process is described in the article *Marketing one to one* by Tony Cram, published in the Ashridge magazine *Directions* in July 1994. In essence it comprises a flow of information about the customer to the supplier; product/service information to (potential) customer; an exchange of money for goods or services; feedback to the supplier; revised communications to the customer and further purchase transactions. This interaction has a number of benefits for the organisation:

- product improvement
- service enhancement
- communication refinement
- relationship development.

The importance of effective two way communication is enormous. In relationship marketing quality surveys, communication will normally be the first issue raised. It is a very conspicuous element of the relationship, and customers tend to have long memories, particularly for bad examples. Interestingly different customers will have different preferences for their communication. Some customers seek personal contact, others turn first to the telephone or prefer written communications. Additionally, their preferences

may vary by circumstance, so they deploy fax messages for bad news and deliver congratulations in person.

The complicating factor is that there is a strong tendency for customers to amplify the verdict on a piece of communication. If it fell short in one respect it is dismissed as disastrous, and good communication is described as wonderful. For some reason, there rarely appears to be middle ground in the customer's perception. Thus it is vital that communication is accorded a high priority in a relationship marketing strategy.

Areas for special attention are:

- Data quality checks. Have the contact names, addresses, job titles, departmental names, holding companies changed? Are phone, fax and email numbers correctly recorded?
- Is the communication identity, style and approach consistent across all departments and divisions?
- What is the frequency of communication with key contacts?
- How many contact people are there in your file? Who are the rising stars in the customer's succession plan?
- How many listening points are there to interpret the voice of the customer?
- How diverse are your methods of regular communication? Are customers aware of the choices available to them?
- What new and creative forms of communication could add interest to the relationship?
- What is the customer's assessment of your effectiveness?

Effective external communications depends entirely on excellent internal communications.

### ***3. Service marketing***

Determination to provide excellent service is a distinguishing characteristic of companies achieving high level customer intimacy. There is a strong positive correlation between satisfaction with customer service and high loyalty. Yet it

is the perception of service which is crucial. Thus service provision is partly about absolute service levels, and partly about setting expectations.

Different customers will define 'good service' in diverse ways. For some customers, good service must be serious and deferential. For others it must set them at their ease by being friendly and informal. The circumstances can also alter perceptions, so that on some occasions the customer will expect haste. At other times he/she may seek unhurried service. The business customer for a weekday breakfast in a hotel might demand a speedy table service, and the same person could relish a leisurely approach on a week-end break. There is no standard form of good service, rather the customer and the circumstances define it.

To deliver consistently good service the skills are in the interpretation/clarification of the customers expectations, systematic operations and a superb recovery system in the event of problems.

1. Reading the customer - requirements here are training in empathy, customer observation and building rapport with customers.
2. Systematic operations and continuous improvement - the recommended approach is the customer focus process as described in the book, *The Wow Factory* by Paul Levesque. This manual on service improvement strategies breaks customer service into stages customers go through and uses a triple brainstorming technique to develop and extend each stage. Throughout the process Levesque recalls the variety of customers going through the process. He also gives advice on how best to gain the commitment of the providers of service.
3. Recovery after service problems - inevitably service failures or shortfalls will occur or be perceived by the customer. Research has shown that a strong recovery can create a greater loyalty than existed before the problem. The rationale is that customers expect all organisations to suffer problems at some point and the desired capability is the ability to fix failures fast. This is not a recommendation to create artificial problems which enable you to shine in the correction!

Role-playing failure scenarios can yield excellent strategies for rectification, and also act as a form of training in handling unusual situations.

A world-class service recovery plan might well include the following steps:

- establish the immediate difficulty facing the customer
- ask what will put it right
- provide a jargon-free explanation
- offer further information if the customer wants it
- prevent recurrence
- test new method (perhaps involving customers)
- determine how best to restore confidence.

#### ***4. Relationship pricing***

Setting prices is one of the most challenging aspects of relationship marketing. It is an area of potential friction between supplier and customer. Yet there are five clear strategies which can reduce the dangers and create opportunities to build long term loyalty with customers. An article published in the *Financial Times*, 23 August 1996 *Securing Relationships* by Bob Stilliard and Tony Cram explored these opportunities:

- Let price follow specification. Pricing standardisation minimises creativity in pricing. Customers differ and therefore may have varying requirements for product and service refinement. A menu-based approach permits tailoring of product and service support, and also the creation of a price per customer. Those who seek low price levels can have stripped-out product offers. Those who seek total support will be required to contribute fully to the cost of provision.
- Beware promotional price traps. New customers have acquisition costs, which may include discounts, incentives and special offers. When these become visible to existing customers (through people transfer and data transparency), they react tangibly, demanding equal favours. Intangibly there is a loss of loyalty, leading to loss of future

business. Relationship pricing requires control over customer recruitment incentives to ensure best customers receive best terms.

- Share the benefits of loyalty. Loyal customers are the most profitable for the specific reasons identified under the section 'value of loyalty.' They will be aware of this. Thus, as a deliberate strategy, share the benefits of long term loyalty with these customers. Deliver unsought but valued benefits. These may be financial, such as guaranteed lower prices or non-financial, like new line previews, dedicated information provision.
- Increase trust - open books. Customers suspect that long term contracts work against the buyer. In certain industries, sudden raw material price hikes can jeopardise relationships. In these circumstances, identify materials and include them at 'purchased price', separating them from the contract price. In partnerships it is possible to move to full open book pricing with labour, materials and a contracted management charge.
- In industrial markets, create customer-based prices. Understanding the nature and essence of a customer's business permits a tailored price structure. For example this might mean invoicing fortnightly in \$ via EDI. This can progress to expressing prices in relation to the business, where a transport haulier could change from buying tyres individually. Instead he would buy a truck tyre service on the basis of the number of kilometres driven and thereby understand the cost structure better.
- In consumer markets, create customer specific prices. IT developments permit an understanding of individual customer purchasing patterns. Companies can reward customers with different price and benefit levels. British Airways already differentiate between gold, silver and blue executive club members.

In conclusion, there are no easy answers to pricing but new tools and techniques can give real advantage to the prime movers. When 80% of your

profits can come from 20% of your customers, it is essential to deploy all the tools of relationship pricing to secure their loyalty.

### **Finally, how do organisations measure and monitor and manage relationships?**

Measuring the critical variables in the relationship with the customer is an important signalling device to staff, and also identifies areas for recognition and correction. It is clear that in the complexity of customer relationships, no single measure will serve to keep track of progress. The recommendation is therefore to create a suite of measures which spotlight the dynamic factors which have greatest impact on customer loyalty.

A typical relationship marketing scorecard is shown, and it must be stressed that in each company and industry, the dimensions will vary. They should therefore be established through research and careful testing.

### A relationship marketing scorecard



The assumption behind this scorecard is that staff who are satisfied and motivated will lead to customers who are satisfied and loyal, and that this will drive shareholder returns.

- Staff measures - one of three key indicators should be used. Performance of staff against defined service competences can be tracked over time. Relative staff turnover compared with industry benchmarks is a useful measure of staff satisfaction. Finally staff satisfaction can be monitored directly through regular surveys.
- Customer measures - one of four key indicators should be used. Customer satisfaction can be monitored in regular surveys. These may additionally be bench-marked against providers of other services to your customers to get a best in class dimension. In some businesses, it is easy and relevant to record the number of last year's customers buying this year and show customer retention. In other businesses, a better guide is provided by monitoring your share of customer purchases, as a percentage of their purchases, from all suppliers in your industry.

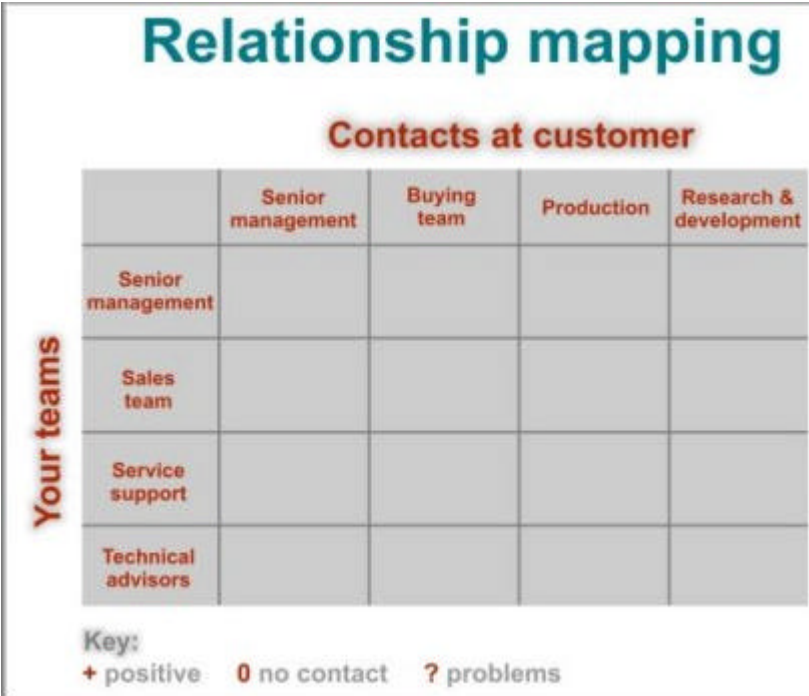
- Financial measures - these might include the cost of acquiring a new customer and the pay-back period during which their contribution to profits covers the outlay in winning them. An alternative measure used by brand leaders is the price premium they are able to command over own brands and commodity brands
- Process measures - each industry has its key processes. Often these measures may be time based.

Taken together a raft of measures such as these can indicate over time what progress is being made in the relationship marketing strategy, and how close competitors are at replicating the observable aspects. Ultimately the true test of a relationship is that it provides higher than industry average profitability to both supplier and customer. Set this as a target and the relationship can deliver long term sustainable advantage.

# Development activities

## 1 Relationship mapping

This exercise is an introduction to relationship marketing and applies particularly to business to business relationships, for example between manufacturer and retailer.



The diagram is a matrix titled "Relationship mapping" with a subtitle "Contacts at customer". The vertical axis is labeled "Your teams" and the horizontal axis is labeled "Contacts at customer". The matrix is a 5x5 grid. The columns are labeled "Senior management", "Buying team", "Production", and "Research & development". The rows are labeled "Senior management", "Sales team", "Service support", and "Technical advisors". Below the matrix is a key: "+ positive", "0 no contact", and "? problems".

		Contacts at customer			
		Senior management	Buying team	Production	Research & development
Your teams	Senior management				
	Sales team				
	Service support				
	Technical advisors				

Key:  
+ positive   0 no contact   ? problems

Identify all the contacts in your customer organisation with whom your company will have dealings during the year. This may be by name or by departmental function. These names form one axis of a matrix. The names of the people or departments in your organisation who would have any contact with this customer form the other axis of the matrix. Entered into the matrix below, a grid is formed. You are then able to establish where there is contact and to evaluate its frequency and quality - by consultation with both parties. Finally you can determine what opportunities exist to extend the scale, scope and effectiveness of the relationship.

## **2 Staff motivation**

The motivation of staff - both customer facing and support teams - is critical in developing strong relationships with customers. Without a positive attitude to their roles, staff will not add the value of personal commitment and enthusiasm.

A key question to staff is: 'What can be done to make it easier for you to serve customers?' Therefore the exercise recommended is to conduct team discussions around this question. In order to build confidence in the organisation, it is essential that actions are implemented as a result of each of these team meetings.

## **3 Satisfaction monitoring with product and service convenience**

Tracking of customer satisfaction is vital for the ongoing health of the customer relationship. The most loyal customers may well be the most forgiving and therefore may fail to alert you to problems until they become critical.

Research is necessary to understand the pivotal factors from the customer's viewpoint, and focus groups may be the most effective approach.

One of the most illuminating questions is: 'Would you recommend our product to a friend in a business with similar needs?' This can be more revealing than the simple satisfaction question.

The best measures of satisfaction are benchmarks against the best suppliers (of any product or service) they use. This will normally be a more demanding measure than comparisons with rivals in your own industry.

## **4 Communications**

The recommended exercise in this crucial area is to identify all the forms of communication currently flowing between the two organisations, and to brainstorm additional means of keeping in contact.

## 5 Defector analysis

The action recommended here is to conduct an exit interview with a lost customer, in the same way as a boss would hold an exit interview with a departing employee. This should be conducted by a senior person, who was not directly involved in the client contact during the relationship. They need to be senior in order to put changes into effect. Normally you receive an honest assessment of the factors leading to the fracture of the relationship. This can provide an action list of remedial activity needed to stem the loss of future customers.

*This learning guide was written by Tony Cram, a client and programme director at Ashridge.*