RELATIONAL MARKETING IN MASS MARKETING. THEORY OR ACTUAL PRACTICE?

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ABSTRACT

The relational marketing paradigm, as well as its predecessors, has been rapidly added to marketing management’s lexicon and tool kit. In conjunction with this concept, theoreticians have devised techniques that are essential to make it operative. Paramount among them is the development of the client management process and within it, the use and application of the Customer Lifetime Value concept which is the relational approach’s corner stone, and the present value of future growth is generated by clients In working with clients, this is essential to determine the strategy that will allow the company to reach and/or preserve its competitive advantage. Evidence so far suggests that although companies are prone to adopt the relational marketing paradigm, they still enforce transactional marketing concepts. This may be the consequence of the emerging use of that concept and the Customer Lifetime Value technique in Latin American countries as part of the client management process. The failure to use this concept in dynamic industries, as in mass retail, is a topic of interest for administration sciences and in particular, marketing and this article seeks to draw attention to this fact.

Keywords: Relational Marketing; Mass Consumption Intermediate Customers; Customer Lifetime Value – CLV; Management Process

RESUMO

O paradigma do marketing relacional, assim como seus precedentes, foi rapidamente incorporado no léxico e caixa de ferramentas da gerência de marketing. Junto com o conceito, os teóricos também elaboraram técnicas que são essenciais para tornar operativo o emprego do mesmo, sendo a mais importante, o desenvolvimento de um processo de gestão do cliente, e dentro deste o uso e a aplicação da pedra angular do enfoque relacional, o conceito do Valor do Ciclo de Vida do Cliente (Customer Lifetime Vale – CLV), e da ferramenta do valor presente dos fluxos futuros gerados (VAN) por um cliente durante o período em que este conserve tal condição, que resulta essencial para tomar decisões sobre a estratégia de trabalho com os clientes que permite à empresa alcançar e/ou manter vantagem competitiva.

A evidência encontrada leva a sugerir que, não obstante as empresas do setor são proclives a adotar o paradigma do marketing relacional, ainda coexistem com enfoques de conceitos de marketing transacional, isto pela incipiente aplicação do conceito e a técnica do Valor do Ciclo de Vida do Cliente (CLV) em países da América Latina como parte do processo de gestão de clientes. A falta de aplicação do mesmo em setores dinâmicos como o consumo massivo constitui, em consequência, um tópico de interesse para a ciência administrativa e particularmente, para a disciplina do marketing; daí a intenção do artigo de chamar a atenção sobre este fato.

Palavras chave: Marketing Relacional; Clientes Intermediários Consumo Massivo; Valor do Ciclo de Vida do Cliente – CLV; Processo de Gestão.
1 INTRODUCTION

Changes in marketing in recent decades have resulted in a new approach called Relational Marketing (RM) that has gradually spread to various areas of economic activity worldwide, as judged from recent observed phenomena (Rivera-Camino, 2009). In theory it may seem this is the answer experts have been looking for.

A look at the history of relational marketing shows the initial work under this new approach was conducted by the Nordic School (1985) and the Industrial Marketing and Purchasing Group (1982). The term itself was coined for the first time by Berry in 1983 who proposed RM consisted in attracting, maintaining, and intensifying relations with clients. Years later, Evans and Laskin (1994) presented it as a “continuous integrated process in a company’s strategic planning to promote constant communication with clients as a mean to accomplish given goals.” Consequently, the emphasis and guarantee for success of this new approach should be found in maintaining lasting relations with clients, rather than the successful traditional approach of focusing on sales without adopting a longer term perspective.

2 THEORETICAL REVIEW: PRIOR CONDITIONS, DEFINITION, KEY ELEMENTS AND STAGES OF RELATIONAL MARKETING

The obvious question then arises: why was a new approach to marketing born if so far results had been optimal? As shown in our review of the theory, among other factors and according to Sánchez, Gil and Mollá (2000), four conditions led to the emergence of this new concept: a) more intense competition; b) the need to build customer loyalty and create the economics of that relationship; c) understanding markets as networks, as a consequence of strong competition, and, consequently, the appearance of cooperation agreements among companies to face demand in a more convincing way, and, finally, d) the insufficiency of the Marketing Mix to respond to these situations. In the final instance, as sales and distribution systems evolved, the Marketing Mix approach was unable to confront the power of distributors. This led to the need of partnering up with manufacturers to manage client data, to which manufacturers had no access, while competition with distributors forced excessive and unprofitable merchandising and increasingly local commercial programs.
As discussed and according to theoreticians, direct marketing campaigns were needed to reach out to consumers. Additionally, special deals were needed to build synergies and position products (Kracklauer, Passenheim, & Seifert; 2001). Specialists also focused on other important players, such as the Key Account Manager (KAM) and the Trade Marketing Manager, who were charged with managing the companies’ key accounts and eventually adopted more relevant functions, as we will see below.

Figure 1 provides a clearer view of the theoretical approach to the many factors and synergies involved in the emergence of Relational Marketing:

**Figure 1 -** Empirical and theoretical conditions for the emergence of Relational Marketing.


Against this backdrop, it is now relevant to define the concept of Relational Marketing itself, as discussed so far. In concrete terms, it implies a process that creates and develops relations with clients and other actors (suppliers, distribution channels, employees, and others, altogether known
as *stakeholders*), throughout their respective life cycles (Jobber & Fahy, 2006; Boone & Kurtz, 2007). At the end of the day, the emphasis on capturing new clients gave way to the retention of existing clients through lasting relations. This process would benefit from synergies between clients and companies to create value for both parties, in addition to long term profitability.

Understandably, companies came up with different answers than Relational Marketing such as classical Transactional Marketing. The latter adopted a short term focus in its understanding of exchanges, even if the management process was directed to satisfying customers. Exchanges were examined from a discrete standpoint where the interest was in satisfying the client in a concrete transaction. This viewpoint implied considering clients as an object that could be treated as a passive entity while the organization played the active role in the exchange relationship. In addition, this approach was directed at capturing new clients, without concern for their subsequent treatment. This is a major difference from Relational Marketing where the client and the seller build a relationship over a longer period and engage in transactions of greater scope. In addition, contacts with clients are more frequent, while the company’s focus on the client contributes to the latter’s satisfaction and is self-rewarding (Armstrong & Kotler, 2007). Other comparative criteria also bring forth differences in approach, objectives, quality, key factors, functions, sales behavior, and organization of the marketing department.

What has been described so far makes evident that the efficiency of the relational approach is not the exclusive responsibility of the Marketing functional area but also involves all decision making levels within the organization, starting with senior management (strategic decision making level) and nurturing from the functional and operational instances where strategies are implemented to accomplish expected business goals and results. This idea has been confirmed by the literature. For example, in 1987, Ruekert and Walker asserted that with smooth and coordinated flow of information among various departments, response from the organization’s departments would be stronger, thus facilitating the dissemination of market intelligence and the company’s response to its environment. Then, Kohli and Jaworski (1990) confirmed the importance of taking into account the dynamics of interaction and formal and informal relationships among various departments or units within a company because the degree of conflict, tension, communication, and coordination among areas may hamper the implementation of the marketing concept.

Bolton, Lemon, and Verhoef (2008) point out that for account executives, accomplishing synergies with clients to grow their relations is hampered in environments where there is not a management commitment, despite the importance of involving all areas and levels in second stage or loyalty management. This also demonstrates the importance for companies to recruit specialized
account managers. Sorce (2002) points to the existence of a functional responsibility among brand or product line managers within the commercial area and/or marketing management department. He holds they provide unilateral relevant information concerning market share by brand and type of client, brand and/or product image perceptions, relative prices, perceived degrees of differentiation, and others. They complement the broader range information shared bilaterally by senior management and intermediate management departments within an organization during the decision making process, both at company and functional area levels.

Consequently, critical decision making on the direction to be adopted and the efforts of a company to adapt to the business environment, including a bet on a given paradigm, is needed in marketing managers who shall be involved in defining a comprehensive corporate-wide response to the company’s markets, clients (present and prospective) and environment. They will not only report information but will also understand it within its actual context and dimension, which is paramount in the decision making process.

Some authors have proposed that the relation should be managed or handled as an individual contract. In a B2B context, clients hold many and often complex contracts posing a significant management challenge. In consequence, suppliers should measure and manage service operations metrics and price levels for each contract so that account managers are aware of the actual (not the promised) levels of service quality for all contracts negotiated by the client and ongoing prices paid for each contract (Bolton et al., 2008). Such knowledge would ensure allocating appropriate service levels throughout all contracts. More important still, such knowledge would train suppliers in proactively identifying contracts through which poor quality service is being provided, because those contracts represent both a risk and an opportunity. Supplier companies need to understand the nature and history of the clients’ experiences over time, both at contract and account levels. Both account management at the higher echelons and delivery (through technology and people) are required to grow relations through improved service contracts.

The functions described above are those which at present are attributed under the Key Account Manager or client manager. Their importance has already been mentioned. The following table shows additional functions for KAMs graded by development stage within the company, and their usefulness in the relational approach.
Table 1 - *The functions of Key Account Managers*

<table>
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<tr>
<th>STATE</th>
<th>OBJECTIVES</th>
<th>STRATEGIES</th>
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<tbody>
<tr>
<td>Pre – KAM</td>
<td>▪ Defining and determining key accounts</td>
<td>▪ Defining and determining key accounts</td>
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<td></td>
<td>▪ Ensuring initial contact</td>
<td>▪ Ensuring initial contact</td>
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<tr>
<td>KAM - starter</td>
<td>▪ Starting cooperation with client</td>
<td>▪ Building the contact network between the supplier and client companies</td>
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<td></td>
<td>▪ Increasing client volume</td>
<td>▪ Identifying signals of willingness to work as a team</td>
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<td></td>
<td>▪ Reaching “preferred supplier” status</td>
<td>▪ Building trust-based relations</td>
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<tr>
<td>KAM-intermediate</td>
<td>▪ Consolidating “preferred supplier” status</td>
<td>▪ Creating work teams</td>
</tr>
<tr>
<td></td>
<td>▪ Getting clients to perceive their supplier as a partner</td>
<td>▪ Effectively managing solutions provided</td>
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<tr>
<td>KAM-partner</td>
<td>▪ Developing the partner spirit</td>
<td>▪ Integrating processes</td>
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<td></td>
<td>▪ Building a shared work culture</td>
<td>▪ Focusing on cost reduction and proposals for value creation</td>
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<tr>
<td>KAM-synergy</td>
<td>▪ Capturing clients through the supplier relationship</td>
<td>▪ Addressing strategic problems with clients</td>
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<tr>
<td></td>
<td>▪ Contributing improvements on a continued basis</td>
<td>▪ Focusing on shared value creation</td>
</tr>
<tr>
<td></td>
<td>▪ Creating projects with clearly identified benefits</td>
<td>▪ Accessing the client’s strategy and jointly developing strategic projects</td>
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<td></td>
<td>▪ Reaching quasi-integration</td>
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Fonte: Blyte (2001)

Once we understand the need for complex work within the company, it seems pertinent to ask if such types of functioning differ significantly from Transactional Marketing and if Transactional Marketing opposes Relational Marketing. It is also pertinent to ask ourselves if Gronroos (1985) is right in stating that we need to consider the marketing strategy as a continuum with one type of marketing located at one end, and the other type at the opposite end. Efforts are directed at creating and managing long-term relationships with clients and other market agents, where the marketing strategy for various types of goods and services may be located at some point along this continuum, although it might be difficult to pinpoint an exact location.

Having arrived at this point, it was necessary to determine from a theoretical standpoint whether both paradigms actually oppose each other or not. It is appropriate to point out that Relational Marketing management can be understood as a process (Rust, Zeithaml, & Lemon, 2000; Sheth & Parvatiyar, 2000) in which each of the stages includes: a) strategic elements, where client information is subject to thorough systematic analysis and used to build a marketing and management platform, with the objective of creating a stable and loyal client; b) analytical elements consisting of the conscientious analysis of previously gathered client information to be analyzed.
using the best available information technology tools; c) operational elements, because client service should not be overlooked to meet any arising client needs; and d) collaborative elements, through efforts to communicate with repeat clients supported by various communication channels made available by present day technology.

Several authors have proposed the following stages or steps to be followed in Relational Marketing when the goal is building a lasting relationship with clients: a) preparing a data base, b) managing loyalties and developing organizations; and c) managing relations and communications.

It is important to introduce a key concept in relational theory, i.e. the Client’s Life Value (CLV). This concept has generally been defined as the present value of future earnings provided by clients along the entire life of their relationships with the company or brand (Gupta & Lehmann, 2003; Jain & Sign, 2002; Reinartz & Kumar 2000; Rust, Lemon, & Zeithaml 2004). In other words, CLV allows managers to understand the value of the individual client and allocate appropriate resources to that subject so that financial returns will be earned, or conversely, so that satisfying the client’s needs will provide an appropriate financial return. CLV also allows discriminating between clients who are truly profitable and those who are not (always from a long-term perspective).

This concept seeks to influence clients throughout their life cycles to ensure adequate recruitment, growth, and retention strategies (Meyer-Waarden, 2008). Many authors confirm the success of client relationship management to contribute significant value. For instance, Boulding, Staelin, Ehret, and Johnston (2005) found this type of management has the potential to increase both the performance and the benefits from clients by creating value both for the company and the client. From this standpoint, management allows companies to increase the value extracted from clients, while simultaneously clients get greater value because companies are aware of their specific needs. This is the way in which the CLV becomes a fundamental component of each stage in relational management, as shown in Figure 2.
Once pertinent information (strategic element) is gathered concerning the clients’ needs, the company organizes that information in a database, taking into account the value of each of the clients from the viewpoint of their return to the company (the stage where management’s analytical element is located). This will finally result in market segmentation by, for instance, levels of investment in individual clients, since not all clients are strategically convenient as relational clients, but may be so as transactional clients.
EMPIRICAL REVIEW: BUT WHAT IS ACTUALLY HAPPENING IN MARKETS? IS IT POSSIBLE TO APPLY PURE RELATIONAL MARKETING IN THE REAL WORLD?

After a theoretical review of the Relational Marketing concept, we may wonder whether it is possible to use it for all types of markets. Several authors think so. In this paper the aim was to determine how many research pieces actually demonstrated that such application is possible. Our review identified the articles concerning the relationship with final clients (Berry, 1983; Jackson 1985), the role of intermediate actors in the relationship with clients (Cristopher, Payne, & Ballantyne, 1991; Kotler, 2001; Gummesson, 1994; Moller & Halinen, 2000), and, finally, the relations with alliances (Hunt & Morgan, 1994). In addition, with regard to its use in several types of markets, various authors state that Relational Marketing is used: in companies providing services and industrial goods (Grönroos, 1997); in consumer, industrial and social markets (Lambin, 2003 & Alet, 2004); in consumer, business, global, non-profit and government markets (Kotler, 2001); and in consumer, producer or industrial, reseller, government, and international markets (Fisher & Espejo, 2004). Clearly, the range of applications is broad.

Specifically, with regard to Relational Marketing research in distribution channels, we found the topic of management and its metrics are found frequently in the most renowned journals, although generally from various perspectives that do not take into account relations with distributors. Before 2000, Relational Marketing management in distribution channels was studied in terms of its constructs, standards, instruments, and importance of relations with stakeholders (Weitz & Jap, 1985; Anderson & Weitz, 1992; Kumar et al., 1995; Baker, Simpson, & Siguaw, 1999). At present, research on Relational Marketing management in distribution channels is scant. Studies have focused on the supermarket environment. In this respect, it is not surprising that, more recently, Gajanan, Basuro, & Beldona (2007) explored the new Category Management approach, through which manufacturers provide direct support to large retailers taking into account consumer references.

We therefore think it is paramount to conduct an exhaustive cross-search of the most relevant papers in prestigious journals addressing Relational Marketing issues and their links to CLV, Net Present Value (NPV, a metric to determine the customer’s life value), and distributor staff charged with managing relational clients’ accounts, the so-called Key Account Managers. The search was restricted to the best known international marketing journals between 2007 and 2010. We found 31 papers addressed the CLV issue but only six articles dealt with distribution channels when addressing the issue of Relational Marketing management. Moreover, these channels never
were distributors in the classical channel. Recently, a major contribution to specialized journals was published (Das, 2009) concerning Relational Marketing as applied to exclusive banking and finance services. In regards to all other sectors, our review did not identify any bias towards a particular industry (each one of them had been addressed between one and thirteen times). We also found that the sectors less studied included the mass consumer industry, for which only three studies had been done since 1994. However, since Das (2009) does not include among his criteria Relational Marketing by type of relation, it cannot be determined whether those three studies fall within or outside the field of distribution channels and, more specifically, the distributor channel.

With regard to the use of Relational Marketing by country, Das (2009) found that 50% of the existing literature addresses research in United States and British markets, and 20% focuses on markets in China, New Zealand, Australia, and Finland. This author found only one study in Latin America in Argentina, which, because of its peculiarities, differs significantly from most regional countries. This difference results from only 22% of sales flowing through the retail channel in Argentina, whereas, in the remaining countries, including Peru, distributor channels (also called the traditional channel) are more important (in Peru, the retail channel accounts for 82% of sales, CCR 2009). Because of Latin American peculiarities, the traditional channel should be researched more in depth. However, existing evidence shows this is not happening.

4 RELATIONAL MARKETING TODAY: SUGGESTIONS AND PROPOSALS FOR FUTURE RESEARCH

In sum, and bearing in mind what has been reviewed both in the theoretical and research fields, we may hold that, despite the large number of studies based on CE, companies will hardly be able to enforce Relational Marketing strategies because of its complexities and its components. Even more so, we have found indications that CLV, despite being the least complex of all, is not easy to use, either, and has only recently started to be used, but only in countries where sales are concentrated by large companies (Kracklauer, 2001; Berger et al., 2006). In regions where retail sales prevail, as in Latin America, one of the more underestimated markets is that of prepackaged mass consumer products. This, in addition to the lack of research, evidently points to a gap in present day Relational Marketing theory.

For the above reasons, and particularly because of our condition as researchers working in Latin America, it seems appropriate to pose the following questions: how is CLV applied in
relational management to meet intermediate key clients’ needs in consumer market prepackaged products in Latin American countries?, What is the nature of the relationship management process with key intermediate clients in those companies?, During what stage of the process of managing relationships with key intermediate clients in these companies should CLV be included?, And, how is CLV included in the process to manage relations with key intermediate clients in those companies?

After posing these questions, we concluded the best way to address them is by conducting research that will fill the gap between the empirical and theoretical fields of Relational Marketing issues. This will allow us to clearly establish how all the involved concepts are applied in the field, especially in Latin American countries where so little research is done in mass consumer product companies, and which may open interesting fields of action. The challenge is posed and we are willing to take it.

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