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New Economic Perspective on Relationship Marketing

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Abstract

This study offers insights into the economic side of relationship marketing. The paper aims to present the view by placing Relationship Marketing and Service-Dominant Logic under the relational marketing economic side. This study also discusses the economic perspective focuses on financial outcomes. The non-economical perspective emphasizes building strong relationships with the customers that can help the firm increase customer loyalty and commitment to the firm as the non-financial perspective. Our paper discusses that the application of relationship marketing and service-dominant logic has these financial outcomes. We discussed the service-dominant logic mentality, which proposes everything to be service; relations happen to be the most critical success factors in today's marketing practices that impact all firms and stakeholders.

Keywords: Relationship marketing, service dominant logic, marketing school of thought

Introduction

Fullerton (1988) defined three significant eras in Marketing. In the late 1880's *Production Era* in marketing history started (Keith,1960). Until the Great Depression, all the marketing issues were bounded by the companies' production activities. Although there is controversy about its existence, by the early 1930's a new era called *Sales Era* started (Fullerton, 1988). Moving from the general concentration on production, companies realized the importance of utilizing the selling channels, which was the main ingredient of success back in those years. As the U.S. economy boomed after the Second World War, the concentration shifted from selling to marketing. In this *Marketing Concept Era* (Hollander, 1986), which lasted till the late 1980s, promotional activities started to gain importance. The impact of marketing on the whole economy became recognized by both professionals and academicians. There were three main elements in this era, customer, market, and product, and it continued to be that way until the early 1990s. By the 1990s, a new concept called *Customer Relationship Marketing* started to gain interest (El-Ansary, 2005). Relationship Marketing (RM), customer relationship management (CRM) and one-to-one marketing were introduced, and started the discussion about relationship, network, and interaction concepts in marketing literature during 1990's (Gummerson, 2017).

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The focal concept that frames this paper is Relationship Marketing. Sheth, Gardner, & Garrett (1988) provides a framework of various thoughts in marketing schools. Lagrosen & Svensson (2006) added a relational column and places Relationship Marketing under non-economic relational marketing sub-topic as shown in Figure 1. They also discussed the need for further research on the economic side of relational marketing. This paper aims to extend that view by placing Relationship Marketing and Service-Dominant Logic under relational marketing economic side.. The argument is that economic outcomes are related to the boom of relationship marketing because it helps to build part of the comparative advantage as in Resource Advantage Theory (Hunt, 2002). Although it is not easy to illustrate the economic outcomes attributed to relationship marketing and particularly service-dominant logic, conceptually, relationship marketing brings long-term impacts such as customer loyalty and immediate economic consequences arising from value creation (LaPointe, 2008).

Figure 2 exhibits the economic and non-economic outcomes. The figure illustrates that although costs associated with retaining existing customers are low, the activity is also considered to be a low value-creating resource (Low Cost-Low Resource). If a company does not build long-term relationships with customers and is always looking for new ones, costs go up while value creation is at low levels (High Cost-Low Resource). On the other hand, if the company is looking for new customers and retaining existing customers through a service mentality and relationship marketing, higher value is likely to be created (High Cost-High Resource). However, the associated costs increase which might be critical for firms with limited resources. Finally, suppose the company aims to retain the existing customers without paying attention to finding new customers due to lack of financial resources. In that case, the value creation is still high while the associated costs are low (Low Cost-High Resource).

In a way, the focal firm does its best with whatever it has in hand. This study proposes the importance of high value creation withholding the costs at low levels. That's why we suggest placing Relationship Marketing at the intersection of the relation column and the economic row as respresented in Figure 1.

Figure 1

	Non-interactive	Transactional	Relational
Economic	Commodity	Institutional	Further research needed!
	Functional	Functionalist	
	Regional	Managerial	
Non-economic	Buyer behaviour	Systems	Services marketing
	Activist	Social exchange	Industrial marketing
	Macromarketing	Organisational	Relationship
		Dynamics	Marketing

Source : Lagrosen & Svensson (2006-p:379)

Figure 2

RESOURCES

COSTS	LOW	HIGH
LOW	Weak relationship existing customers	Building relationships with existing customers through services
HIGH	Having to attract new customers	Building relationship with existing customers and attracting new customers

Conceptual Development

As mentioned above, the economic impact of Relationship Marketing is the focal point in this study. According to Professor Hunt's Resource Advantage Theory, for firms to develop a superior financial position in the market, there should be a focus on developing and maintaining relationships with customers. Relationship marketing is a broad concept and has many different perspectives. Financially, morally, and socially, it directs firms to a strategically significant position in the market. If a firm can create a relative position in the market through relationship marketing, the payoff is in financial superiority. Moreover, to develop and maintain this relationship, the firms must build commitment and trust on the customer's side (Morgan & Hunt, 1994), which would result in customer retention (Eisingerich & Bell, 2008). By retaining their existing customers, they also have cost reduced because they are not trying to attract new customers by using organizational resources. Still, they are instead trying to retain what they already have in hand.

This new school of thought has allowed the marketing field to reach a more concise definition and concept. The efforts should be to implement the right strategy with relationship marketing; firms will be in good standing at various business levels. Marketing scholars agree that relationship marketing is a new school of thought. It needs multiple components to fulfill its place both in the literature and the business world (El-Ansary, 2005). Relationship marketing has both social and economic elements, and scholars should examine it from both the perspectives.

The Resource Advantage Theory states that if a firm can develop a comparative advantage in the market, it leads to financial superiority (Hunt, 2002). Building established relationships creates long-term commitment on the customer side, which becomes a resource that's an advantage. Furthermore, that resource should provide the firm with better financial outcomes. Hence, relationship building as a value-creating resource gives a comparative advantage to the focal firm. The firm needs to create an innovative, challenging to imitate, and more cost-effective position in the marketplace than others or create a new segment in the market that rivals have not recognized yet. As the theoretical framework of Service-Dominant Logic (Vargo & Lusch, 2008) acknowledges, we exist to serve. The relationship building in this service orientated mentality may be innovative and hard to imitate the way of doing business. Hence, relationship marketing is the key in creating a comparative advantage, or as Hunt & Arnett (2006) say, it provides market success through marketing success.

The ultimate purpose of relationship building is value creation (LaPointe, 2008). Once again, through differentiated service development, companies build good relationships with their customers and do not have to spend their resources attracting new ones in a brief period. Saving these resources for other essential requirements of the business ultimately creates value. Relationship marketing pushes the firm to use organizational resources most effectively and efficiently. Lagrosen & Svensson (2006) suggest a new school of thought in marketing, i.e., relational school of thought. The authors develop a new school of thought with new elements in the existing subclasses. They developed the new thought by classifying relationship marketing under the non-economic school of thought and not under the economic school of thought. They placed services marketing, or as Vargo & Lusch (2008) state, service dominant-logic, industrial marketing, relationship marketing under the non-economic school of thought. They concluded that under the economic school of thought, there needs to be further research. The authors suggested that relational marketing has social contributions to the field but not economical. The authors asserted that the various applications of relationship marketing throughout different industries and different values and beliefs among different consumer groups challenge the implementation of relationship marketing. However, through R-A theory, Relationship marketing is the key to creating a financial superiority in the marketplace.

There are challenges in implementing relationship marketing and getting successful outcomes. Still, when applied successfully, the concept brings comparative advantage to the firm, which is enough reason to classify it under the economic school of thought as well as non-economic. Relationship marketing naturally has various associations with the social side of marketing. We suggest that it is not enough to classify it as non-economical all together. Those social interactions have economic outcomes which need to be considered in detail as well. Muhaammad, Norizan, & Rosazanna, (2020) discussed that relationship marketing orientation partially mediates between local community-oriented CSR and customer participation behavior and customer citizenship behavior confirming relationship marketing orientation is essential for value co-creation.

These are the main reasons this study suggests classifying relationship marketing under the economic school of thought and non-economic school of thought. The other main area that requires further discussion here is service-dominant logic or service marketing. To develop a comparative advantage through relationship marketing, the firm needs to come up with the best possible service. Service-dominant logic accepts that the market is not competing with tangible goods but with service attached to those goods (Vargo & Lusch, 2008).

Literature Review

Different industries may find themselves in competition based on service-dominant logic. This fact creates a challenge for implementing relationship marketing. Lagrosen and Svensson's (2006) reasoning may find the basis behind this fact. Even though the implementation of relationship marketing throughout different industries or different cultures may be challenging, its contribution in creating comparative advantage oversees its challenges. It undoubtedly merits that globalization, and the development of strategic alliances are challenging for the business environment making it more dynamic and complex, thus even harder for certain bonds to be developed and maintained (Morgan and Hunt, 1994).

The relationship marketing concept is not restricted to the consumer market, but the concept extends to all industrial markets and the stakeholders. Developing and maintaining successful interrelations among various stakeholders will also significantly contribute to differentiating the firm's position in the market (Arnett, German, & Hunt, 2003). Several scholars highlighted the importance of building relationships with the suppliers (McIntyre, Thomas, Tullis, & Young, 2004). The relational context is essential and worthy of attention when looking at the relationships with stakeholders (Nevin & Spriggs, 1995). Thus, all the stakeholders of the firm are affected by this service orientation and face the related financial outcomes. For instance, the firm's investors enjoy a high return on investment if the firm is successful due to service orientation. The suppliers will be happy because the focal firm will keep asking for their services. The employers will enjoy the benefits of working in an innovative service-oriented company.

Moreover, as the company becomes more successful in its business practices, there would be value-added to society. Eventually, that success will start showing in the financials of the company hence enhance society's prosperity. In a way, relationship marketing, or service-dominant logic orientation with that manner, provide financial outcomes for all of the stakeholders. As a result, the placement of relationship or service marketing under economic classification is more important. Therefore, researchers should consider extending the relationship marketing to different industries also. Below are some of the applications of relationship marketing in other areas, which might also support economic outcomes related to relationship marketing.

Arnett et al. (2003), talk about the application of relationship marketing orientation in non-profit organizations. Developing successful bonds with stakeholders in non-profit organizations and profit organizations will help non-profit entities do their job well. Stakeholders of a non-profit organization differ from those of profit organizations. For example, the hurricane victims waiting for rapid deployment of emergency services are affected by the relationship marketing orientation of Red-Cross. Their well-being, including the basic need of survival, depends on the efficiency and effectiveness of these services. If Red-Cross or other non-profit institutions had acted properly during Hurricane Katrina, they could have returned to their homes fast enough to rebuild the economy in New Orleans. This lack of relationship marketing orientation certainly had a detrimental impact on economic outcomes.

Another interesting implementation of relationship marketing is the study of Clark & Maher (2007) in ski resorts. They analyze relationship marketing based on trust and loyalty, and associate relationship marketing with the loyalty cards and commitment of repurchases. They propose that any positive relationship between the customer and the business would form a mutual basis for trust and result in a number of consumption episodes. The study looks at value co-creation as the step before loyalty and an influential factor in a customer's decision-making process. The authors suggest that if the customers perceive value in the service offered, they will be satisfied and return to the same business. Value creation in this context results in loyalty. In sum, they found that, for ski resorts, this value creation due to relationship marketing can provide positive financial outcomes.

Leverin & Liljander (2006) studied relationship marketing in retail banks. They examined whether the implementation of relationship marketing would strengthen the relationships with the customer when customers perceive improvements in the banking relationship and, as a result, whether they would develop consequent loyalty towards the banks. The authors conducted an empirical study in 2003 to measure the effects of implementing the RM strategy and whether it has led to customer-perceived improvements in the banking relationship and increased loyalty in the targeted segment. They found out that what matters most is how customers perceive the improvements. To successfully implement relationship marketing and positively affect the customer, the banks needed to choose the exemplary service. The surveys and the customer responses varied based on different segments, which suggests the hardship of the implementation of RM. However, results show that it is doable and has a positive economic impact on customers' profitability.

In another study, Williams & Attaway (1996) evaluate the relationship among three significant variables: organizational culture, customer orientation, and buyer-seller relationship development. When the shared values, beliefs, and norms are perceived to be valuable within the organization and outside towards the stakeholders, including the customers, developing relationships will be more straightforward. That way, firms could easily build up relationship marketing on corporate culture.

Lopez, Rodendo, & Olivan (2006) studied the impacts of customer relationship characteristics on customer switching behavior. They analyzed the depth, length, and breadth characteristics of customer switching behavior due to relationship aspect in the United Kingdom. The study looks at the difference between switchers and stayers, and reports that the customers who maintain a long-lasting relationship with the firm (length), use the service more (depth), and invest in complementary services (breadth) will be less predisposed to switch and therefore become a resource.

One other study investigated the impact of relationship marketing on CPA firms (Iyer & Day, 1998). In this study, the authors examined the effects of relationship marketing in CPA firms and approached relationship marketing from a different perspective in another industry and showed how relationship marketing differs based on the type of the firm and the industry in this study. The CPA firm's most important resource is their previous employees because of the kind of business. Customers look for a reliable reference before they usually choose their CPA firm. Therefore, CPA firms need to maintain their relationships with their previous alumni and employees to receive further business. The relationship marketing logic here is that previous employees already have specific relationships with the firm and associate themselves with their previous employers. These employees recommend their previous work to customer, which sets them the necessary resources, thereby adding value to the firm. Thinking about previous workers, as stakeholders, adding value to the firm by referring customers is considered another support for classifying relationship marketing under an economic school of thought.

Hong Kong is one of the most-service oriented economies in the world. Studies originating from such an economy may also serve as illustrations of well-established implementation of relationship marketing. Sin, Alan, Yau, Lee, & Chow (2002) addresses conceptual and measurement issues related to the study of relationship marketing orientation and its impact on firm performance in Hong Kong. They found that building strong relationships with the customer can help the firm to increase customer loyalty and commitment to the firm. Therefore, adapting Relationship Marketing Orientation can help service providers to design a service mix that is perceived to be superior while making a profit by building comparative advantage.

Ndubisi (2006) looks at the effect of gender on customer loyalty and relationship marketing. There are many studies on relationship marketing and customer loyalty; however, studies on the impact of gender have been very limited. The paper looks at the banks in Malaysia and finds out that females perceive higher value on loyalty and trust issues compared to males. The study found out that females are significantly more loyal when the bank is deemed trustworthy than their male counterparts.

General Discussion

The studies generally show that implementing relationship marketing does bring comparative advantage to the company, and because of that, there comes financial superiority. The relationship marketing concept through service-dominant logic is the key to a competitive market strategy in today's dynamic market environment. Different industries or different cultures may have a wide array of implementation strategies; however, the concept is generally restrictive to buyer and seller relationships. The RM strategy will reach its full accomplishment when implemented throughout all the parties potentially affected by the firm's decisions. To expect full performance financially and socially from the relationship marketing concept, the firms need to establish trustworthy and loyal relationships with their suppliers, with the policymakers, financial institutions, competitors, politicians, in short, with society in general. That is when the firm can establish its competitive position in the market and contribute to the economy in general.

Producing high-quality service among these interest groups will help firms create a hard to imitate and unique competitive advantage. Relationship marketing is not even limited to that. When relationship marketing is applied to internal functions of the firm, it will also result in higher productivity and performance, which will also contribute to the firm's market positioning. Human resources, departmental performances, quality of service, and trust would facilitate higher performance and faster delivery and production.

The main issue is that relationship marketing is implemented as a restrictive strategy. In the above studies reported, the economic impact of relationship marketing and service-dominant logic will find empirical support. This study does not negate the classification of the RM concept under the non-economic school, but is suggesting to include it under the economic school instead.

Conclusion

This study proposes that the classification of relationship marketing only under non-economic school of thought is not sufficient. Although the concept of economic and non-economic differs according to marketing researchers, our study considers economic to be associated with financial outcomes. Application of relationship marketing and service-dominant logic has these financial outcomes. Several studies discussed in this paper empirically showed the economic outcomes associated with the implementation of relationship orientation. We believe that a very basic product has relationship marketing embedded in its travel through distribution channels in today's world. Considering the service-dominant logic mentality, which proposes everything to be service, relations happen to be the most critical success factors in today's marketing practices. Whatever the focal firm does, it impacts all the stakeholders. The financial crises of 2008 showed the importance of organizations in enhancing society's prosperity. In capitalist economies, everything has value. Our study proposes that relationships have value as well. It will be interesting to test this proposal. To measure the outcomes related to relationship marketing and service-dominant logic will provide the basis for our argument. Empirical study should be conducted to analyze the impact of relationship marketing from both non-economical and economic perspectives for the practitioners.

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