Chapter 12

RELATIONSHIP MARKETING AND CUSTOMER SERVICE MANAGEMENT

-- SOLVED QUESTIONS --

1. **What is relationship marketing?**

   The relationship marketing concept goes beyond the business exchanges of any organization and includes its employees, suppliers and distributors. In fact, some authors (Alcaide, 2002) consider that relationship marketing is a strategic approach focused on keeping and enhancing current customers instead of aiming efforts to the gaining of new customers. This philosophy is based on the assumption that customers would prefer to long-term relationships with a company rather than continuously change suppliers in the search for added value.

2. **Differences between transaction marketing and relationship marketing.**

Transaction marketing	Relationship marketing
Short term perspective.	Long term perspective.
Goal: Gain customers (Obtain short term benefits).	Goal: Keeping customers rather than gaining new ones. Generating long term benefits.
Search for individual transactions.	Developing and maintaining continuing relationships for both parties.
Emphasis on product. Slight differentiation	True market approach
A philosophy of rivalry regarding suppliers, competitors and distributors.	A relations and mutual cooperation among organizations philosophy.
The marketing function only takes place in the Marketing Department	The marketing function takes place throughout all of the organization.
Weak emphasis on customer service	Strong emphasis on customer service

3. Types of customer relationship.

Type of relationship	Description
BASIC	There is no company-customer relationship. The relationship is limited to specific times although new transactions may take place in the future
REACTIVE	The company promises to react in case of any problem the customer may have.
FOLLOW-UP	The company contacts the customer following the transaction so as to determine the satisfactory delivery of product or service.
PROACTIVE	The company periodically contacts the customer for product or service updates, to improve its services and offer support services to enhance customer satisfaction
ASSOCIATIVE	The company and the customer work together so as to find solutions to problems and jointly seek opportunities.

4. Advantages of one to one marketing, according to Peppers.

- Customer loyalty to the company, because the company knows him, supplies products he is interested in, and saves him time and effort.
- It is not necessary to offer discounts to keep the customer. He is interested in continuing the relationship due to the level of satisfaction it affords him.
- Costs of acquiring customers are drastically reduced as more effort is aimed at keeping existing customers than to the finding of new ones.
- Inventory costs go down, since there is almost no storage. The product is sought at the time the customer orders it.
- Service costs decrease, because the client is known and it is easier to satisfy him.
- Benefit increase through cost reduction has been estimated to be up to 42%.

5. Applying business-to-business relationship marketing.

The philosophy of a company's management can be summarized in the following sentence: "What is what customers need and/or desire and which we can offer at a profit for all in the company?"

In order to implement modern marketing in an industry, three steps are necessary in a company:

1. *Implementing customer orientation.* It is imperative to change product orientation to a customer orientation. As a consequence there is a need to develop a company culture where the customer is, truly, first and foremost.

2. *Relationships with customers are structured with a long-term view*; one of the key tools of the management function is relationship management.

3. Companies tend to have an *organization structured on the basis of its customers*, and not on organization models focused on operations. The needs, wishes, and expectations of customers condition all thoughts and guide all the *organization's planning projects.* Culture, strategies, basic competencies, structure, personnel, processes and procedures and management style are clearly based on the *customer interests.*

6. Benefits to be gained through high quality services.

- Increasing customer loyalty (in general 85% of sales by most companies are to current customers.)
- Increasing market share.
- Ensuring a growing flow of additional income (it has been proven that loyal customers buy more frequently, continue buying from the same company for longer periods and are more willing to acquire the new products or services of the company).
- Taking advantage of the possibility of setting higher prices without fearing negative responses by customers.
- Attracting more new customers as a result of the positive viral communication transmitted by satisfied customers.
- Saving on marketing costs (sales, advertising, promotions, etc.): a company which constantly loses customers must invest more to try and recover them.
- Attain a reduction of operating costs as a result of scale economies generated by a greater market share.
- Conveying a better image and reputation (greater power of attraction for new customers).
- Improving personnel productivity.
- Reducing employee turnover.
- Initiating fewer incorrect strategic actions (non-productive expenditures) since excellence in services implies a deep knowledge of customers.
- Receiving fewer complaints, which reinforces customer loyalty.

7. Factors the customer takes into account when evaluating the service received.

Parasuraman, Zeithaml and Berry (1988) carried out research and reached the conclusion that the dimensions or elements valued by the customers are the following:

- *Tangibility:* appearance of physical facilities, equipment, personnel, and communications material.

- *Reliability:* ability to perform the promised service dependably and accurately.

- *Responsiveness*: Willingness by the employees to help customers and provide prompt service.

- *Assurance*: Knowledge and courtesy of employees towards customers and their ability to convey trust and confidence to the client.

- *Empathy:* The services provider offers care and individualized attention to these customers.

8. Measuring scales for service quality.

The Servqual and Servpref scales are the best known and most widely used measuring systems.

The Servqual scale attempts to measure the quality of service as the difference between expectations and perceptions of the customers. This method contains 22 items grouped into five dimensions: reliability, tangibles, responsiveness, assurance and empathy, mentioned above. This scale has received some criticism of an operative nature, centred on the use of negative sentences, number, type, and drafting of the items, but it remains one of the most frequently used instruments for measuring service quality (Setó, 2004).

With regards to the Servpref scale, it is a criticism of Servqual scale, developed by Cronin and Taylor (1992 and 1994). These authors do not include the concept of expectations and state that a measurement of quality of service based on perceptions is the most adequate. It has 22 items which act as indicators of the different dimensions or criteria considered by the customers when evaluating the product. The different items of the scale are evaluated through a 7 point Likert scale, from 1 (totally in disagreement) to 7 (totally in agreement).

9. The BGC model on the hierarchy of customer expectations.

The Boston Consulting Group (BCG) has developed, based on empiric surveys and direct observations, a pattern for representing what they call a "hierarchy of customer expectations".

The purpose is for those companies which provide services to identify, within their respective customer segments, those expectations; so as to be able to efficiently respond to such expectations in a progressive way and increasingly.

BCG model is structured in a scale consisting of four levels, rising and accumulative; that is, demands presented at each level are "added" to those of previous levels so as to attain total customer satisfaction.

10. Basis for good customer service management.

- Identifying customer expectations. What is it they want and how do they want it.
- Comparing the provision and features of the current service with received expectations and determining what aspects are not being met.
- Communication with customers: it must be permanent, multidimensional, and constantly fostered.
- Information on the customer must be accessible to the entire organization, although in a special manner to the employees which have a closer relationship with the clients.
- Customer satisfaction is the responsibility of the company as a whole.
- Customer problems are solved by granting authority to employees to act in the customer's benefit, within certain limitations.
- Customer needs must be interpreted by the entire organization using permanent and dynamic feed-back mechanisms along with a good interfunctional coordination which enables response capacity.