Relationship Marketing in the Internet Age

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Abstract

Relationship marketing emerged from a shift to a market orientated business climate focusing on long-term relationships with customers, competitors, and other important influence markets. In this perspective, many organisations are faced with new dilemmas since the conduct of business on the Internet. Is Internet really supporting relationship marketing, or on the contrary hindering it? In order to find some empirical support, we lead an interview with a winery which has, both, online and offline activities. Indeed, the case study method is adequate in order to extract key variables from real-life situations. The results testify of Internet's support activity to the development of relationships but its impossibility to create credibility, trust and commitment without an offline organisation.

Introduction

Relationship marketing emerged from a shift to a market-oriented business climate that takes a long-term focus internally on employees and externally on customers, suppliers, and other important influence markets. By creating these relationships, companies are broadening their views into the different influence market's needs and wants and, as a result, achieve deeper understanding so that they can service these markets better and, ultimately, retain them. In this perspective, marketing is no longer simply about product or service development, selling, and delivering (Buttle, 1996). Moreover, the exclusive bonds between the parties involved in the relationships can provide unique advantages to all the parties and have the potential of leading to a sustained competitive advantage for the company. This has been characterised as a win-win paradigm (Dowling and Uncles, 1997; Gummesson, 1999).

After an initial emphasis on the buyer-seller dyad, relationship marketing moved to include employees and investors (Reichheld, 1994). According to Christopher, Payne and Ballantyne (1991), a company should, in fact, build relationships with six equally important markets. That is, the key market is the customer market, which is supported by five other markets: the employee recruitment market, the supplier market, the referral market[1], the internal market,[2] and the influence market[3]. This model will shortly be exposed further. All the parties involved in this network enter into active contact with each other (Egan, 2001). That is what Gummesson (1999) calls ‘interaction’.

[1] The referral market includes customers, intermediaries, and connectors, among others, who talk about the company (word-of-mouth).
[2] The internal market constitutes of the company's employees who are both internal suppliers and customers of the products and services that the company is offering to the market.
[3] The influence market includes the people, organisations, and regulatory bodies who have an influence over the company.

Relationship marketing was originially introduced almost 20 years ago (Berry, 1983). Since then, the Internet has changed how companies perform their marketing activities (Rayport and Jaworski, 2001). By the end of 2002, it is estimated that there will be approximately 320 million web users in the world (Basu and Muylle, 2002). This massive figure implies new business opportunities for companies, as well as new purchase opportunities for customers. Market changes contribute to "the textbook of perfect competition" (The Economist, 2000: p. 64; see also Kuttner, 1998; Lambin, 2000). It is generally argued that in the Internet market the competitive environment is close to pure competition, and that the seller has no market power, which means that his potential for profit is non-existent in the long term – in particular because the behaviour of buyers is volatile since they, with a few mouse clicks, can compare different sellers' offerings. As a result of this, numerous clicks firms have experienced only limited success (Kjærsdam, 2001). More than ever, the customer is therefore the natural focus of attention in a business process that aims at customer satisfaction and repurchase. These new opportunities may lead to major changes within existing industries, and create new challenges and business possibilities for innovators. This research problem will focus on the Internet's supportive or hindering affect on the practice of relationship marketing within companies.

Research Problem

The evolution of technologies and management styles within the society, and thus the business world, are multiple and need to be understood and analysed in regards with each other to fully comprehend their extend, and the possibilities they offer. E-commerce has brought rapid growth to some companies, but is causing great disturbances to others (Rayport and Jaworski, 2001). For example, the bankruptcies of many brick-and-mortar companies have brought doubt and unanswered questions regarding the use of e-activities and e-based companies. Academics and practitioners alike have speculated whether or not existing marketing tools are appropriate for e-commerce (Rayport and Jaworski, 2001). Could it perhaps be that current marketing principles, basic or elaborated, do not refer to, or represent, the right e-issues? This could eventually lead to wrong e-decisions.

The aim of the research is to identify and analyse the changes in the business climate caused by the Internet, focussing on relationships, networks, and interactions, in order to evaluate how, if at all, the Internet is supporting or hindering relationship marketing. The idea is to understand possible links between e-variables of interest, according to the actors, the sector, and the environment, and the outcome and effect they have on relationship marketing's performance.

Literature Review

One of the major developments within marketing has been the evolution from transaction to relationship marketing. Rather than solely focussing on the 4Ps - product, price, promotion, and place – numerous companies have changed their business processes so that they focus on the most important asset of their economical viability: their current and potential new clients. In other words, today's companies are seeking to acquire, develop, and retain profitable customer relationships (Wyner, 1999).

In traditional marketing, each sale and purchase follow an action flow that could be characterised as an 'attract – exchange – separate' process so that business growth and success is formed of a continuum of independent profitable sales events (Egan, 2001). In contrast, relationship marketing is about building long-term relationships with a network of influence markets in order to understand and, if possible, anticipate their needs and wants to better satisfy and retain them. It has been argued that this ultimately leads to increased market share and profit (Buttle, 1996; Fornell, 1992; Hiller 1999; Rust, Zahorik, and Keiningham 1996). Moreover, the probability of a satisfied customer to repurchase is higher than the one of a dissatisfied one (Reichheld, 1994). Indeed, relationships, networks, and interactions enable companies to create a more appropriate business climate and to better satisfy the influence markets.

According to Brodie, Coviello, Brookes and Little (1997), there are four marketing types, one being traditional transaction marketing (TM) and the others being relationship marketing broken down into three different types: database marketing (DB), interaction marketing (IM), and network marketing (NM). These different types of relationship marketing may be seen as approximately equivalent to direct marketing, consumer relationship marketing, and business-to-business relationship marketing (Egan, 2001).

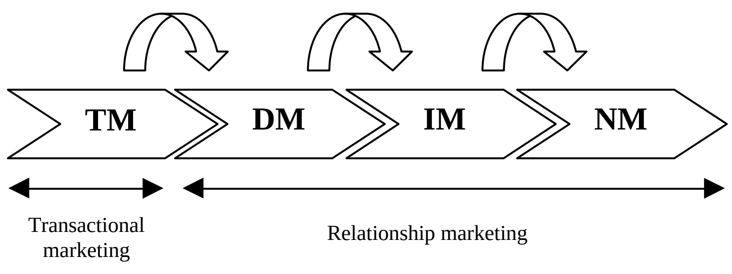

Figure 1. The four marketing types

Brodie and his colleagues (1997) argue that both transaction and relationship marketing can, and often do, co-exist (i.e., pluralism in marketing), and suggest that some buyer-seller exchange situations require a particular type of marketing (Figure 1). Egan (2001), Möller and Halinen (2000), and Pressey and Mathews (1998) echo this belief. It should be appreciated that the scheme does not place distinct boundaries between the four types of marketing, and the different types of marketing are not necessarily independent and mutually exclusive.

One of relationship marketing's features is that it recognises a diversity of key markets, which are to be considered and addressed by companies to successfully achieve their goals. According to Christopher, Payne and Ballantyne (1991) the central market, the customer market, is supported by five equally important markets (Figure 2) and to be effective and provide value, marketers must consider all six markets. Many organisations have adopted the six markets model to develop plans for each of their influence markets (Meldrum, 1999).

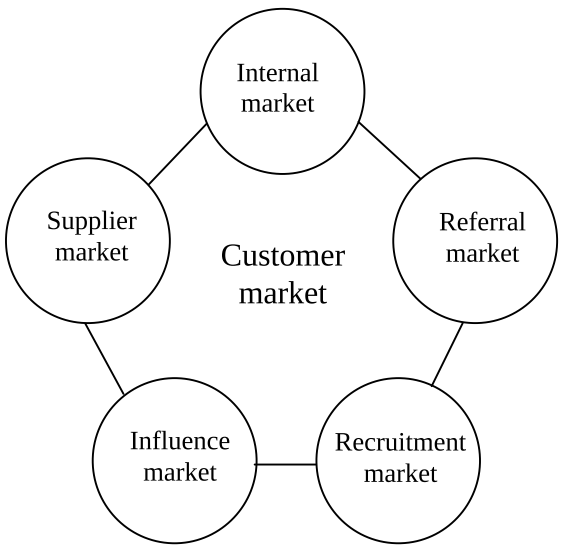

Figure 2. The six markets model

Source: Christopher, Payne and Ballantyne (1991: p. 21)

No more than any other business tool, the aim of relationship marketing is to gain from its implementation, achieving the bottom line. However, the philosophy has changed in order to achieve this goal. Indeed, independently from all the different definitions of relationship marketing, its principle aim can be characterised as bringing closer anyone or any market in contact with the organisation, installing trust and commitment, in order to profit all the parties involved. This continuous co-operation and all-round value creation process is at the centre of attention for the companies. By reducing distance between all the intervening parties and thus being able to provide them with better service, the company is also gathering 'turn to profit' information. Turn-to-profit clients will be those whose lifetime value is superior to the costs encountered by the company to retain them. This means keeping clients who will repurchase, or who could be pushed into repurchasing.

The company must discriminate its customers in order to invest only in those relationships, which will be worthwhile in terms of customer lifetime value. The evaluation of potential customers is an important process as well as managing the costs at each level within the organisation (Carroll, 1991). If a mistake has been made in the evaluation of a client’s potential, the company must not hesitate to move the customer to a lower service level (Carroll, 1991), or simply not provide him any longer with the costly relationship.

Gummesson (1999) discusses the need for research on return-on-relationships (ROR), but notes that at this moment only little such research has been published. Christopher, Payne and Ballantyne (1991) state a five-to-ten times more expensive acquisition costs than retention costs. In the same perspective, but in a different manner, Reichheld (1996) suggests that the benefits are cumulative and that the longer the cycle continues, the greater the company’s financial strength. Higher customer retention means a customer base to whom the company can easily submit new offerings (Sindell, 2001). As profits may be negative the first year(s), it is essential to calculate customer value in terms of net present value (Anderson and Mittal, 2000). Not all authors agree on this principle, though (Carroll, 1991). For example, even if socio-demographics and cross-selling opportunities may rise the probability of increased customer spendings over the years, it is crucial to bear in mind that some sectors such as the banking or the insurance sector follow this trend more closely (Landberg, 2001) than for example the dry cleaning sector where customers do not bring more and more clothes over time (Reinartz and Kumar, 2000). However, if a company keeps on acquiring customers, the quality of the customers acquired may decline resulting in higher costs and lower revenues. There is thus a diminishing return on acquired customers (Anderson and Mittal, 2000). Bearing this in mind, companies should focus on their most profitable customers and keep relationship marketing a relatively discriminated practice.

It therefore becomes key for companies to evaluate clients' relationship stage (Figure 3) in order to assess the investment needs to make them climb up the relationship ladder (Dwyer, Schurr and Oh, 1987; Kotler and Dubois, 2000; Payne, Christopher and Peck, 1995) and become more profitable, or at least better understood for cross-selling, and provide them with customised services creating higher attachment and switching costs. Switching costs are, for instance, search, learning, and financial costs, as well as emotional costs and the risk factor linked to the change of business partner.

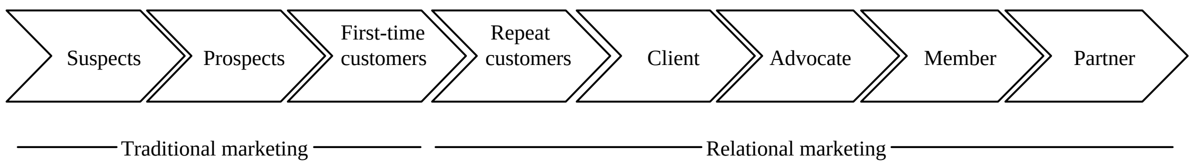

Figure 3. The relationship ladder

Source: Egan (2001: p. 59)

It is important not to forget that a customer might become 'inactive' (Kotler and Dubois, 2000) and break the relationship flow. It is also probable that companies will themselves part with some customers, who turn out not being profitable enough to enjoy the relational benefits (Buttle, 1996).

In fact, even if the old economy’s concerns regarding product and services purchase are still present, e-business is drastically changing the solutions available to e-partners, as well as the expectations they have – something that would have been unimaginable three years ago (Fahey, Srivastava, Sharon and Smith, 2001). Despite the reluctance of traditional retailers to go online, some have been forced to do so due to the e-competition shrinking their customer base (Walsh and Godfrey, 2000).

In business-to-business marketing, the aim of going online is to exchange goods, services, and information through what is called a virtual private network (VPN) (Wilson and Abel, 2002). Defined by the same authors, a VPN is "a special combination of encryption, authentication and protocol tunnelling technologies that provide transport of private communications over the public Internet" (Wilson and Abel, 2002: p. 87).

According to Sharma, Krishnan and Grewal (2001), the Internet is considered to be a flexible information platform used by companies for five major purposes. Initially – and as state previously – it is used in order to provide business partners as well as employees with specific and detailed information. Secondly, it provides the business partners with a 24/7 instant and constant connectivity, as well as – thirdly – creating a virtual community, which will enable exchange of specific information and develop a sense of attachment to the site (Rayport and Jaworski, 2001). Fourthly, it reduces time and error in order taking while being 'open' on a 24/7 basis. Finally, it also offers a shared cost reduction to the parties involved, who can either gather or offer services, products, or information in a more effective and cheaper way. While the previous advantages are stated by Sharma (2002), other authors, like Wilson and Abel (2002) and Dou and Chou (2002) enlighten the Internet's improvement to product quality, productivity, and development, as well as new payment systems.

Generally speaking, Sharma (2002) exposes five domains that are subject to being affected by the Internet. Three of those five domains are relevant in this exploratory paper. The first domain concerns mass versus customer-centric markets. There is a shift from Ford's product-orientated marketing to customer-orientated marketing. However – and on account of the Internet – companies can today mass-customise using advertising and web site personalisation. The second domain, time, is a crucial element to consider in marketing planning. The new economy is drastically accelerating the pace of change in the sense that technology has created very rapid replacement cycles due to constant innovation. The third domain affected by the Internet is competition. More authors tend to speak, nowadays, about something they call coopetition, which is the simultaneous cooperation and competition between the different organisations (Sheth, Sisodia and Sharma, 2000). They cooperate by sharing information and compete by individually deploying resources.

The next step of our considerations lies in the relational aspect of business on the Internet. An exploratory research has been lead by Bauer, Grether and Leach (2002), and the following paragraphs will be based on their exploratory results. Having gone this far, it is now essential to further expose three variables taken from psycho sociology theories, which seem to be a way of measuring relationship marketing. At this level of the literature review, we will limit ourselves by considering these three variables. However, new variables may be identified in order to make more accurate measurements of relationship marketing before taking into account Internet and its properties. In any case, the variables that will provide us with these measurements must always be linked to the strategy the company has decided to implement.

The first variable of importance, commitment, is regarded as being a result of good relational interactions (Dwyer, Schurr and Oh 1987). Commitment is defined as "a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship and a confidence in the stability of the relationship" (Anderson and Weitz, 1992: p. 107). The second variable of importance is identified as trust. It is "the ability to reliably predict the actions of the other party in the relationship and the belief that the other partner will not act opportunistically if given the chance to do so" (Jap and Weitz, 1995: p. 2). Finally, the third and last variable taken to account in order to measure relationship marketing's effectiveness is satisfaction. It is reached when the perceived benefits are equal – or higher for some – than the expected ones. The primary findings of Bauer, Grether and Leach's (2002) exploratory research show the following associations between the tree variables (Figure 4):

- Trust in a business relationships has a positive effect on commitment;
- Satisfaction has an even greater effect on commitment; and
- An indirect effect of satisfaction on commitment linked to its dependency to trust.

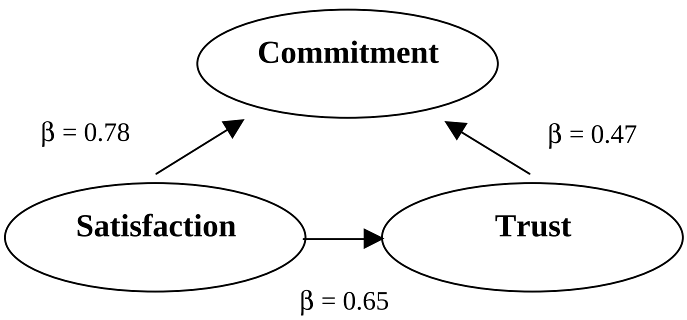

Figure 4. The relationships between trust, commitment, and satisfaction

Taking into account the direct and indirect effect, the authors conclude that satisfaction has the strongest influence on commitment ($\beta = .91$). Their results mainly show that the Internet capabilities and properties to facilitate commerce have variable – positive or negative – influence on trust, commitment, and satisfaction. The most significant influences are stated below in order to inform the reader with the preliminary results in the field of interest:

- High availability primarily has a positive effect on the trust that customers have in a business relationship.
- Efficient information transfers can increase customer commitment to a business.
- The opportunity to interact primarily increases commitment.
- The opportunity to make a purchase on the net has build up trust in a corporation. However, it has a negative effect on satisfaction. The authors make a hypothesis about the negative perception that customers could experience linked to the fact that they might feel they are forced into buying.

There are also potential barriers to building relationships on the Internet. For example, the impersonal relationship called 'face-to-screen' could be seen as an impediment to further development. In fact, the interface becomes a major element in holding the customer and building loyalty (Rayport and Jaworski, 2001). Secondly, the transparency brought to business relationships by the Internet may become an important problem for companies that base their business model on high pricing by positioning their products as exclusive ones. It is probable that the increased transparency will bring customers to consciously acknowledge these facts. Moreover, this transparency can be tricky in the sense that it enables all parties to get valuable information on each other, as well as from each other. The focus of the company is not just a client, but an aware client. Finally, designing business-to-business connection can be very complex process because it requires legacy systems, automated supply chain management, real time inventory control software, etc.

Research Methodology

In order to analyse e-commerce's possible implications on relationship marketing, the case study method was chosen for the preliminary part of the research. It is not possible to distinguish the phenomenon of relationship marketing from the context in which they are being studied, i.e. e-commerce (Lewin and Johnston, 1997). That is, relationship marketing is determined by the marketing context, and relationship marketing and context influence each other to such an extent that it is difficult to distinguish them from each other. This meant that a holistic perspective on relationship marketing was taken so that all of the potentially rich and meaningful characteristics of a marketing programme could be kept intact (Yin, 1994). There was also strong epistemological justification for using the case study method since the aim was to gain an understanding of a contemporary phenomenon that is both complex and dynamic (Lewin and Johnston, 1997).

The development of theory from the individual case studies can conveniently by thought of going through eight steps, from the elaboration of the overall research problem to the reaching of the closure (Eisenhardt, 1989). Each case examined will provide the researcher with pertinent insight of the marketing activities in order to create, when all the information is gathered and sorted, an integrated model that represents best the reality and helps companies and their clients make future e-decisions to maximise profit and mutual satisfaction within the relationship marketing paradigm.

For each of the case studies, interviews are lead in order to extract key variables influencing e-processes and their impact on what will previously be defined as a good measure of relationship marketing. Cross-analysis will then be made as to compare the gathered information and to create a general integrated model, which would be a representation of reality (Miles and Huberman 1994).

At this stage, one interview has been carried out with an online wine seller. The main topic of the interview was to get an initial comprehension of why this company is seeking to build relationships using the Internet, and to extract those factors that could explain how this particular marketing strategy is being implemented. Data stem from a two-hour in-depth interview with the owner of the company; the interview was taped and later transcribed for a thorough analysis. The interview data were cross-validated with secondary sources of information such as company reports and the Internet site.

Preliminary Findings: Best Wines[4]

Best Wines was launched 1997 by an entrepreneur who had substantial experience from having worked in the wine industry for a long period, and who was surprised to note upon returning to his native country that the wine market had changed to include many new wine producers of better-quality wines. The standards that the entrepreneur set for his new venture were high, and it was decided not to compete against department stores that are selling predominantly lower-quality wines, as competition in this market is tough. Instead, the entrepreneur would focus on better-quality wines.

> We don't sell lots of wine under $15. The supermarkets are obviously very strong in that area. We can compete against them, and we do have a reasonably strong range in $10-15 because we have customers who like to drink $20-25 wine, but want a good $10-15 wine for a business function, family member's 21st, or something like that where, but they still want quality.

[4] The name of the company has been withheld for reasons of confidentiality.

The driving objective of the company was to build long-lasting, personalised relationships with customers, on a large scale. That is still the objective that drives the company today, and is what makes the company a key player in the wine sector. To achieve this objective, Best Wines reasoned that it was necessary to build a thoroughly elaborated database as to hold information about customers, for example their wine tastes and most preferred communication channel (e.g., facsimile, e-mail, or telephone, among others), as well as their knowledge on wine making and different wines.

> We would have a database of customers. We had customer relationship management facilities, but we would design and build this thing that would help us because the vision was to grow to a large size and, therefore, what we needed to do was to be able to personalise our relationship with our customers on a large scale.

Database marketing was identified as the second marketing type of marketing on the continuum presented in the literature review. Customers are provided via their most preferred channel with monthly wine buying guides, as well as weekly information about new wines or wine tasting events.

The interview respondent argued that Best Wines has sought to seek and maintain "credibility" in order to support its wine sales. That is what the company is aiming at for every customer they are working and treating with. Therefore, according to the company owner, the company must continue working as a brick-and-mortar company supported by an Internet web site, as the brick-and-mortar part of the company provides this credibility.

> Internet is not a diversion of some of our customers to the Internet. It has added a lot of new business.

In other words, the Internet is supporting the existing brick-and-mortar market, as well as creating a new one (Figure 5).

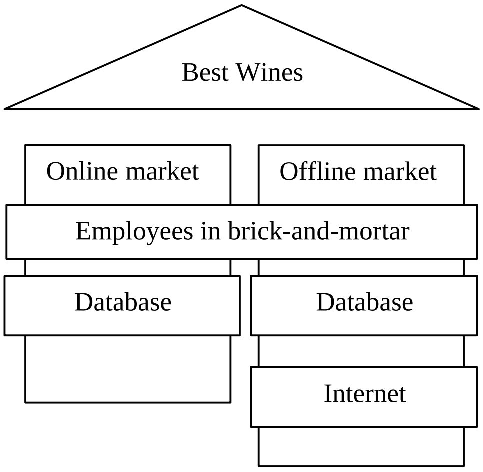

Figure 5. Best Wines' structure

Best Wines went online to help existing customers gather information, read wine articles, and order their wine. However, the company noticed that none of the offline customers were online shoppers. The launch of the Internet site had thus created a whole new profitable online market. Indeed, as represented in the above figure, the Internet is a market in itself and a support to the offline market. Data is collected from both markets separately and contain roughly 600 online customers and 1000 offline ones.

The Internet alone seems to be insufficient to create credibility and trust in the company. The advantages of an offline company are multiple for Best Wines and they cannot see the company becoming solely an online company.

Indeed, they can carry stock and have better and more credible relationships with their suppliers, as well as with their employees and bring the company to life in the eyes of the customers. It thus helps the company with the contact it has with the supporting markets.

> The physical side of our business … gives us a physical presence that we can show on the Internet … That gives them [customers] a lot of credibility in terms of wanting to deal with us. If they're in a remote location ordering wine from us, they know that if something goes wrong with the wine we will stand behind that wine. They also know that they haven't tasted that wine, but we have, and we are telling them what it tastes like, and they trust in our credibility because we don't compromise that. So that's an important issue for us.

Several customers actually go online to check if their order can be delivered directly, and then contact the brick-and-mortar to place their orders. Best Wines asks for feedback and comment on their web interface in order to constantly meet customers' expectations. They have given a 'magazine feel' to their web site, which is much appreciated by the e-visitors. In regards with data collection on the Internet, they are facing a few technical limitations but want – in the long run – to integrate online and offline databases. It has not been done before as the information quality as well as the customers from the two markets are different. On top of the technical problem for information gathering online, Best Wines is also facing customer fear that the web site is not adequate in regards with payment security.

As part of their development plan, Best Wines is also planning on building wine cellars where customers can store their wine at the right temperature and in the right environment. Again, it is beneficial in order to create relationships with the good spending customers who value their wine. Best Wines also expects to attract new customers, as wine owners will be able to invite people round for wine tasting in a relaxed and executive environment next to the cellars. Moreover, the Internet will enable customers to view the cellars' temperature in real time and trade their wine online. That is an important dimension in regards with the credibility Best Wines wants to install. Indeed, online buyers need to be well informed and sure that the sellers they are dealing with have actually placed their wines in the company's cellars.

> Part of the whole cellar concept for us is about the relationship … Obviously … it is a service … that is charged for, but it's a good service, and they [customers] will get value out of it. But it's about offering a service to our customers and also drawing in other customers, good spending customers, who value their wine and want to look after it.

Best Wines does not want commitment or exclusive agreements with suppliers, which means that it can keep the right to refuse wines that do not match the quality required in order to fully satisfy the customers. In offering credibility to acquire trust, which leads to purchases and repurchases, the company does not want to be under pressure by the wine suppliers, which could lead to manipulating their customers.

> We don't need to be committed on a supplier for a range of wines and a certain quantity of the vintage because what it means is that we end up then compromising our selling decision to our customers because we have existing commitments, and we're trying to manipulate those commitments and, therefore, we are manipulating our customers to meet our commitments.

In fact, the product quality as well as the conflict resolution system encourage customers to stay loyal to Best Wines. The company will match competitors prices; in this regard it is interesting to note that the company does not pay much attention to competitors in the wine industry.

> One thing that we don't do, rightly or wrongly, is [that] we don't focus on our competitors, we don't target our competitors, we don't even look really at what they are doing, we don't think too much about what they are doing … I think what is important is the fact that you will match the price of a competitor.

Figure 6 is a representation of the business flow including suppliers, customers, and delivery services, as well as the trust, satisfaction, and commitment dimensions.

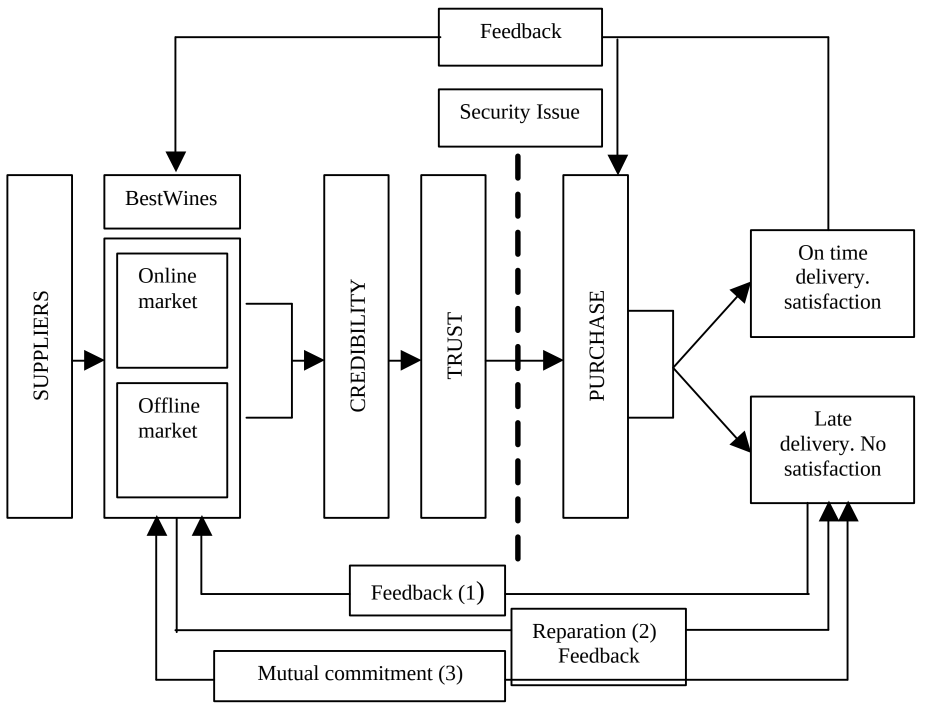

Figure 6. Best Wines' business flow

It is perceivable that for Best Wines credibility is required as to achieve trust, commitment, and satisfaction. Indeed, the dimension of trust is not directly linked to the satisfaction but refers to the 'true offline existence" of the company. It could be suggested that the consumption experience only infers on satisfaction and commitment.

> We have a physical presence so that gives them [customers] a lot of credibility in terms of wanting to deal with us … They trust in our credibility.

To conclude this exploratory research, it could be suggested that offline support to online shopping sites is needed to establish credibility and trust required to take the decision to buy online. Even if the web site is profitable, it is far from being a major part of the business turnover. Once customers know that online purchasing is possible with a firm they know exists, they are confronted with a security issue. Nor satisfaction, nor commitment seem to be breaking the security barrier.

Research Limitations

This qualitative exploratory research is naturally a first approach to the role of Internet in supporting or hindering relationship marketing practices. On top of the possibilities offered by the Internet, there seems to be quite a few impediments to the development of online purchasing and relationships building in the wine Industry. Further research will be made in order enquire on the importance of online company authentication and payment systems.

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