The Evolution of Relationship Marketing

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ABSTRACT

Relationship Marketing is emerging as a new phenomenon however, relationship oriented marketing practices date back to the pre-Industrial era. In this article, we trace the history of marketing practices and illustrate how the advent of mass production, the emergence of middlemen, and the separation of the producer from the consumer in the Industrial era led to a transactional focus of marketing. Now, due to technological advances, direct marketing is staging a comeback, leading to a relationship orientation. The authors contend that with the evolution of Relationship Marketing, the hitherto prominent exchange paradigm of marketing will be insufficient to explain the growing marketing phenomena of collaborative involvement of customers in the production process. An alternate paradigm of marketing needs to be developed that is more process rather than outcome oriented, and emphasizes value creation rather than value distribution.

INTRODUCTION

Although marketing practices can be traced back as far as 7000 B.C. (Carratu 1987), marketing thought as a distinct discipline was borne out of economics around the beginning of this century. As the discipline gained momentum, and developed through the first three quarters of the twentieth century, the primary focus was on transactions and exchanges. However, the development of marketing as a field of study and practice is undergoing a reconceptualization in its orientation from transactions to relationships (Kotler 1990; Webster 1992). The emphasis on relationships as opposed to transaction based exchanges is very likely to redefine the domain of marketing (Sheth, Gardener and Garett 1988). Indeed, the emergence of a relationship marketing school of thought is imminent given the growing interest of marketing scholars in the relational paradigm.

In this paper, we observe, that the paradigm shift from transactions to relationships is associated with the return of direct marketing both in business-to-business and business-to-consumer markets. As in the pre-industrial era (characterized by direct marketing practices of agricultural and artifact producers) once again direct marketing, albeit in a different form, is becoming popular, and consequently so is the relationship orientation of marketers. When producers and consumers directly deal with each other, there is a greater potential for emotional bonding that transcends economic exchange. They can understand and appreciate each others' needs and constraints better, are more inclined to cooperate with one another, and thus, become more relationship oriented. This is in contrast to the exchange orientation of the middlemen (sellers and buyers). To the middlemen, especially the wholesalers, the economics of transactions are more important, and therefore, they are less emotionally attached to products. Indeed, many middlemen do not physically see, feel, touch products but simply act as agents and take title to the goods for financing and risk sharing.

The separation of the producers from the users was a natural outgrowth of the industrial era. On the one hand, mass production forced producers to sell through middlemen, and on the other, industrial organizations, due to specialization of corporate functions, created specialist purchasing departments and buyer professionals, thus separating the users from the producers. However, today's technological advancements that permit producers to interact directly with large numbers of users (for example, Levi's making custom directly for the users), and because of a variety of organizational development processes, such as empowerment and total quality programs, direct interface between producers and users has returned in both consumer and industrial markets, leading to a greater relational orientation among marketers. Academic researchers are reflecting these trends in marketing practice, and searching for a new paradigm of the discipline that can better describe and explain it.

As with each new shift in the focus of marketing, there are advocates and critics of the relationship focus in marketing. However, in the same way as Kotler (1972, p. 46) observed about other shifts in marketing, we believe that the emergence of a relationship focus will provide a "refreshed and expanded self concept" to marketing. Our optimism stems from at least four observations: (i) relationship marketing has caught the fancy of scholars in many parts of the world, including North America, Europe, Australia and Asia, as is evident from the participation in some of the recent conferences held on this subject (Sheth and Parvatiyar 1994); (ii) its scope is wide enough to cover the entire spectrum of marketing's subdisciplines, including channels, business-to-business marketing, services marketing, marketing research, customer behavior, marketing communication, marketing strategy, international marketing and direct marketing; (iii) like other sciences, marketing is an evolving discipline, and has developed a system of extension, revision and updating its fundamental knowledge (Bass 1993); and (iv) scholars who at one time were leading proponents of the exchange paradigm, such as Bagozzi (1974), Kotler (1972), and Hunt (1983), are now intrigued by the relational aspects of marketing (Bagozzi 1994; Kotler 1994; Morgan and Hunt 1994).

In the context of these developments, the purpose of this paper is to trace the evolution of relationship marketing and to identify its antecedents. We plan to demonstrate that while relationship focus in the post-industrial era is a clear paradigm shift from the exchange focus of the industrial era, it is really a rebirth of marketing practices of the pre-industrial age when the producers and users were also sellers and buyers and engaged in market behaviors that reduced the uncertainty of future supply and demand assurances which could not be otherwise guaranteed due to the unpredictability of weather, raw materials, and customers' buying power. Our approach mirrors the activities recommended by Savitt (1980) as the appropriate methodology for conducting historical research.

AXIOMS AND PURPOSE OF RELATIONSHIP MARKETING

Relationship marketing attempts to involve and integrate customers, suppliers and other infrastructural partners into a firm's developmental and marketing activities (McKenna 1991; Shani and Chalasani 1991). Such involvement results in close interactive relationships with suppliers, customers or other value chain partners of the firm. Interactive relationships between marketing actors are inherent as compared to the arm's length relationships implied under the transactional orientation (Parvatiyar, Sheth and Whittington 1992). An integrative relationship assumes overlap in the plans and processes of the interacting parties and suggests close economic, emotional and structural bonds among them. It reflects interdependence rather than independence of choice among the parties; and it emphasizes cooperation rather than competition and consequent conflict among the marketing actors. Thus, development of relationship marketing points to a significant shift in the axioms of marketing: *competition and conflict* to *mutual cooperation*, and *choice independence* to *mutual interdependence*, as illustrated in figure 1.

Insert figure 1 here

One axiom of transactional marketing is the belief that competition and self-interest are the drivers of value creation. Through competition, buyers can be offered a choice, and this choice of suppliers motivates marketers to create a higher value offering for their self-interest. This axiom of competition is now challenged by the proponents of relationship marketing who believe that mutual cooperation, as opposed to competition and conflict, leads to higher value creation (Morgan and Hunt 1994). In fact, some social psychologists have gone so far as to suggest that competition is inherently destructive and mutual cooperation inherently more productive (Kohn 1986).

The second axiom of transactions marketing is the belief that independence of choice among marketing actors creates a more efficient system for creating and distributing marketing value. Maintaining an 'arm's length relationship' is considered vital for marketing efficiency. Industrial organizations and government policy makers believe that independence of marketing actors provide each actor freedom to choose his/her transactional partners on the basis of preserving their own self-interests at each decision point. This results in the efficiency of lowest cost purchases through bargaining and bidding. However, this belief is also challenged recently in economics (Williamson 1975). It argues that every transaction involves transaction costs in search, negotiation and other associated activities, which add to, rather than reduce the cost, and thus lead to inefficiencies instead of efficiencies for the firms engaged in exchange transactions. Relationship marketers, therefore, believe that interdependencies reduce transaction costs and generate higher quality while keeping governance costs lower than exchange marketing (Heide and John 1992; Williamson 1985). In short, better quality at a lower cost is achieved through interdependence and partnering among the value chain actors.

The purpose of relationship marketing is, therefore, to enhance marketing productivity by achieving efficiency and effectiveness (Sheth and Sisodia 1995). Several relationship marketing practices can help achieve efficiency, such as customer retention, efficient consumer response (ECR), and the sharing of resources between marketing partners. Each of these activities have the potential to reduce operating costs of the marketer. Similarly, greater marketing effectiveness can be achieved because it attempts to involve customers in the early stages of marketing program development, facilitating the future marketing efforts of the company. Also, through individualized marketing and adoption of mass customization processes, relationship marketers can better address the needs of each selected customer, making marketing more effective.

To what extent the above purpose of relationship marketing a totally new phenomenon? and, haven't these objectives always been important in marketing? If yes, how is relationship marketing different than exchange marketing? We will try to address these questions by first agreeing that marketing has indeed always been concerned with retaining profitable customers and with facilitating future marketing activities. However, marketing practices that were adopted to achieve these objectives have changed over a period of time. The reasons for this change can be attributed to the prevailing context and conditions of each time period and its influence on the marketing thought. We examine, in the subsequent sections of this paper, the causes of marketing practices during the pre-industrial, industrial and post-industrial eras.

SHIFTS IN MARKETING'S ORIENTATION

As is widely known, the discipline of marketing grew out of economics, and the growth was motivated by lack of interest among the economists in the details of market behavior, especially those related to the functions of the middlemen (Bartels 1976; Houston, Gassenheimer and Maskulka 1992; Hunt and Goolsby 1988). It coincided with the growth in the number of middlemen and the importance of distribution during the industrial era. The first courses offered on the subject area of marketing at University of Michigan in 1902 and at The Ohio State University in 1906, therefore, focused on the inter-relationships among marketing institutions and among various divisions of the firm in performing the distributive task (See Bartels 1976, pp. 22-23).

Unlike mainstream economists of the late nineteenth century, who were preoccupied with public policy and economic effects of market institutions, early marketing thinkers had operational interests (Bartels 1976). Most of this centered around efficiency of marketing channels and the services performed by them in transporting and transforming the goods from the producers to the consumers (Shaw 1912; Weld 1916, 1917). The process of marketing was thought to generate additional forms of utility including time, place and possession utilities to the consumer (Macklin 1924).

Thus, marketing as a discipline got organized around the institutional school of thought, and its main concerns centered around the functions performed by wholesalers and retailers as marketing institutions (Sheth, Gardener and Garrett 1988). The founders of the institutional marketing justified the need for independent middlemen role on the grounds of specialization and division of labor, although both producers and consumers believed that the middlemen received higher margins than what they deserved. Thus, middlemen were perceived as adding no value and creating economic inefficiencies by having location monopolies. Weld (1916) addressed this issue of marketing efficiency, thus:

> ìWhen the statement is made that there are too many middlemen, it may mean one of the two things: either that the process of subdivision already described has gone too far so that there are too many successive steps, or there are too many of each class, such as too many country buyers, too many wholesalers, or too many retailers.
>
> The discussion in the preceding paragraphs bears directly on the question as to whether there are too many successive steps, and this is what most people mean when they glibly state that there are too many middlemen. It was pointed out that such subdivision is merely an example of the well-known doctrine of division of labor, and that the economies result from specialization by functions.... Those who have really made firsthand studies of the marketing system in an impartial and unprejudiced way realize that on the whole the system of marketing that has developed is efficient, rather than ìextremely cumbersome and wasteful,î and that there are very good practical reasons for the form

> of organization that has developed. It is necessary to realize these fundamental facts before the reader can approach a study of the marketing problem with a sane point of view.î (pp. 21-22)

Other authors of that period belonging to the institutional school of marketing thought, such as Butler (1923), Breyer (1934), Converse and Huegy (1940), and Alderson (1954) also espoused the value and functions of middlemen in achieving marketing efficiency. They utilized economic theories to design effective and efficient institutional frameworks. Because of their grounding in economic theory, institutional marketing thinkers viewed the phenomena of value determination as fundamentally linked to exchange (Duddy and Revzan 1947). Alderson (1954) elaborated on this institutional thinking by placing the intermediaries at the center of exchange and marketing:

> ìThe justification for the middleman rests on specialized skill in a variety of activities and particularly in various aspects of sorting. The principle of the discrepancy of assortments explains why the successive stages in marketing are so commonly operated as independent agencies. While economists assume for certain purposes that exchange is costless, transactions occupy time and utilize resources in the real world. Intermediary traders are said to create time, place and possession utility because transactions can be carried out at lower cost through them than through direct exchange. In our modern economy, the distribution network makes possible specialized mass production on the one hand and the satisfaction of the differentiated tastes of consumers on the other.î (pp. 13-14)

Although the institutional thought of marketing was later modified by the organizational dynamics viewpoint, and marketing thinking was influenced by other social sciences, such as psychology, sociology and anthropology, exchange remained and still remains the central tenet of marketing (Alderson 1965; Bagozzi 1974, 1978, 1979; Houston 1994; Kotler 1972). Formal marketing theory developed around the idea of exchange and exchange relationships, placing considerable emphasis on outcomes, experiences and actions related to transactions (Bagozzi 1979).

Recently several scholars have begun to question the exchange paradigm, and its ability to explain the growing phenomena of relational engagement of firms (e.g. Grönroos 1990; Sheth, Gardener and Garrett 1988, Webster 1992). In the recent past, researchers have tried to develop frameworks for relational engagement of buyers and sellers, often contrasting it with the exchange mode inherent in transactions (Arndt 1979; Ganesan 1994; Lyons, Krachenberg, and Henke 1990).

Business practice exhorts both customer and supplier firms to seek close, collaborative relationships with each other (Copulsky and Wolf 1990; Goldberg 1988; Katz 1988). This change in focus from value exchanges to value-creation relationships have led companies to develop a more integrative approach in marketing, one in which other firms are not always competitors and rivals but, are considered partners in providing value to the consumer. This has resulted in the growth of many partnering relationships such as business alliances and cooperative marketing ventures (Anderson and Narus 1990; Johnston and Lawrence 1988). Close, cooperative and interdependent relationships are seen to be of greater value than purely transactions based relationship (Kalwani and Narayandas 1995).

However, the relationship orientation of marketing is not an entirely a new phenomena. If we look back to the practice of marketing before the 1900s, we find that relationship orientation to marketing was quite prevalent. Although history of marketing thought dates back to only the early 1900s (Bartels 1962), marketing practices existed in history, even to pre-history (Nevett and Nevett 1987; Pryor 1977; Walle 1987). During the agricultural era, the concept of ìdomesticated marketsî and relationship orientation were equally prevalent. In short, current popularity of relationship marketing is a reincarnation of the marketing practices of the pre-industrial era in which producers and consumers interacted directly with each other and developed emotional and structural bonds in their economic market behaviors.

Orientation Of Marketing Practice In The Pre-Industrial Era

Pre-industrial society was largely based on agricultural economy and the trade of art and artifacts. During the agricultural days, most farmers sold their produce directly in the bazaars. Similarly, artisans sold their arts and artifacts at these markets. Consumers and producers gathered together face-to-face for trading products. The role of the producer was not separated from that of the trader and the producer functioned as both 'manufacturer' and 'retailer' of its own products. Also, producers and consumers developed strong relationships that led to the production of customized products made by the artisans for each customer.

Similarly, relational bonding between traders was also quite prevalent, partly because of the need to do business with others you could trust. Thus, ongoing trade relationships were a critical element of business practices in the pre-industrial era where ownership was linked with the management of business. Most traders of Africa traded only with selected clans on a regular basis. So important was the element of trust in these clan-trade relationships that outsiders could rarely enter into the system (Mwamula-Lubandi 1992). The evidence of such clan based trading exists even today within the clan-oriented network of traders in diamonds and other precious metals. For example, the Palanpuri clan (from Gujurat, India) have dominated the trade of diamonds all over the world along with the Orthodox Jews (Rothermund 1988). Economic and anthropological studies indicate that the Jews were not really outcasts left to perform trading activities; rather, they chose to control trade amongst themselves as they could trust no others (Sombart 1951). Such clan-oriented trading developed a network of partnerships as their trading activities extended internationally, with the network partners often coming from the same or related clan with whom ongoing business could be conducted.

Similar evidence of the ongoing business relationships can be found in the economic history of the old ‘silk route' that flourished during pre-colonial times between China, India and Afghanistan. Economic history books narrate the vigorous efforts of Chinese silk producers toward market development and promotion of ongoing trade activity along the 'silk trade route' (Feltwell 1991; Li 1981). Relationships between customers and suppliers of silk were vital because Indian weavers and silk craftsmen heavily depended on the supply of Chinese silk to produce garments and artifacts required by local kings and nobles. Such relationships once again reflect interdependencies of these marketing actors. In order to facilitate future trade, some traders cooperated with weavers and designers in India, providing them with contemporary designs from China. The influence of Chinese designs in the earlier arts of India bears clear evidence of the cultural exchange in the interest of promoting future trade of the Chinese silk.

Retaining customers, influencing repeat purchases, fostering trust and facilitating future marketing were also concerns of marketers in the pre-industrial era. The development of 'branding' as a marketing practice could be cited as the best evidence of this concern. Although the history of branding can be traced back for many centuries, the term was derived from the marking of livestock (Carratu 1987). Owners of livestock started branding their cattle in order to distinguish theirs from other cattle when they brought them to the market for sale. As this system evolved, family names were used as brands, not only to identify the product, but also to give the consumer the satisfaction of knowing the products depicting the name carried a certain “warranty” of quality because the producers were willing to ascribe their family name to the product (Room 1987). It became a method of providing quality assurance to the buyer, a system to promote repeat purchase, and a method to facilitate future marketing (Crone 1989).

Even the development of open-air markets or bazaars in the pre-industrial period was aimed at facilitating on-going business and trading. Not only did such marketing venues provide a common arena for buyers and sellers to meet, they also aimed at minimizing nomadic trade whereby traders could swindle their customers and escape any form of retribution. Urban trade privileges and guild regulations (De Vries 1976) in Europe restricted the 'hit and run' sellers from becoming a part of the market system. Those who participated in the market knew and trusted each other (Mackenney 1987), once again providing continuity and security for the repeat purchaser. Producers established permanent retail shops at the marketplace where they could make and sell these goods on a daily basis (Cundiff 1988). As a consequence, consumers and producers had direct relationship with each other.

We can see that relationship orientation in marketing was evident during the pre-industrial era. Direct interaction between the producers and consumers necessitated cooperation, reliance, and trust among marketing actors. Evidence suggests that these relationships sometimes continued for generations as producers and consumers trusted each other's family and clans (Kingson, Hirshorn and Cornman 1986).

The relationship orientation in marketing and trade continued into the early years of the Industrial Revolution and the emergence of capitalism. Fullerton (1988) describes some of the efforts adopted by marketers during this period to build and maintain relationships with buyers. Market development efforts were complemented by close cooperation between business and government which helped develop markets among the nobility, the high clergy, and the growing urban bourgeoisie (Fullerton 1988). Merchants of this period established fixed-location retail shops in cities throughout Europe. This represented their desire to build and retain customers. Fixed location retail outlets meant local buyers could come back time and again allowing the producer and the consumer to establish long-term relationships for repeat purchases over the long-term. It also meant direct accountability of each other's actions.

Marketing practices during early industrialization were also highly individualized, relationship oriented and customized. Many products were manufactured on a custom basis for rich individuals or industrial customers. The design and tailoring of clothes, the creation of jewelry, watches, home furnishings and other consumer products were customized. Marketers rarely had to consider inventories of finished products, and publishers sold textbooks for which a demand already existed (Febvre and Martin 1976). Such production, based primarily on customer request and demand, did not require marketing activities such as advertising or price competition. Relationships between customers and suppliers were critical, since the customer depended on the manufacturer or trader to make goods available to him or her as per specifications and expectations. Consumers making a commitment to buy based on the trustworthiness and commitment of the marketers was critical. Reciprocally, the producer relied on the credit worthiness of the consumer and took the risk of making custom products.

Branding became even more popular during this period, as producers and merchants began to attach their own family names to the products they offered, in great symbolic gestures, assuring their personal commitment to a product's quality. This practice of branding based on family names continued in the early years of the industrial era in Europe (Philips, Fiat, Daimler-Benz), North America (Eli Lily, Ford, Johnson & Johnson, Kellogg's, Procter & Gamble) and also in Japan (Toyota, Honda, Matsushita).

Orientation Of Marketing Practice In The Industrial Era

It was with the advent of mass production and mass consumption that marketers began to adopt a more transactional approach. Emergence of mass production and mass consumption resulted in key consequences. First, people moved away from small subsistence farms to jobs in industrial towns, and needed retailers to supply assortment of basic conveniences of food, shelter and clothing (Cundiff 1988). Secondly, manufacturers were motivated to produce in mass quantities given the associated economies of scale. On the one hand, economies of scale helped these manufacturers to lower the cost of goods, and hence prices of the products they sold, and on the other hand, it increased the need to find markets for their products. Unable to sell the entire stock of produced goods, producers were confronted with an increased inventory of finished products. These market conditions gave rise to aggressive selling and the development of marketing institutions that were willing to bear the risks and costs of inventory ownership and storage. Wholesalers, distributors and other marketing intermediaries assumed the role of middlemen who, on the one hand, stored the excess production of manufacturers, and, on the other hand, helped in locating and persuading more buyers to purchase goods and services. So crucial became this function that early marketing thought was developed on the concept of distribution and the creation of time and place utilities. Early marketing thinkers, such as E.D. James, Simon Lifman, and James Hagerty, concentrated on these distributive elements of marketing (Bartels 1965). This period also gave rise to modern marketing practices, such as sales, advertising and promotion, for the purpose of creating new demand to absorb the oversupply of goods that were being produced. Scholars, such as Ralph Butler, were among the first to articulate this promotional concept of marketing (Bartels 1965).

Thus emerged the transactions orientation of marketing whereby marketers became more concerned with sales and promotion of goods and less with building ongoing relationships. This shift was further accentuated during the Great Depression of 1929, when the oversupply of goods in the system heightened the pressure on marketers to find and persuade customers to buy their products. Thus the transaction orientation has been a major influence in marketing thought and academic research throughout the industrial era.

During the height of the industrial period, marketing practices were aimed at promoting mass consumption. Developed out of the need to support the mass production machinery, the emphasis was directed at increasing the sale of products. Both personal and impersonal manifestations of the selling 'force' were found increasingly in business, supported by other activities, such as advertising and promotion. Marketing was considered successful only when it resulted in a sale. Measures of marketing performance were linked, as is still the practice today in many companies, to sales and market share. Some marketers resorted to extreme practices of persuasive selling including deceptive advertising and false claims.

As competition intensified with excess capacity, sales transactions further increased. Many engaged in aggressive selling and competitive warfare. Short-term orientations dominated marketing practices; the desire to maximize profit in the short run was accentuated as the uncertainties of the future market appeared perilous, given the rise in competition and its consequent effect on industry mortality. Some marketers relented and looked for innovative ways to protect their markets. Aided by the managerial school of marketing thought, two important developments occurred in the later period of the industrial era.

The first development was the marketer's realization that repeat purchase by customers was critical, making it necessary to foster brand loyalty. Several marketing scholars also became interested in repeat purchase and brand loyalty behavior as early as World War II (Churchill 1942; Womer 1944; Barton 1946; Patterson and McAnally 1947). This research was further advanced in the buyer behavior theory of Howard and Sheth (1969), wherein they closely examined repeat purchase behavior and brand loyalty. In order to achieve a brand image, brand differentiation and effective advertising, certain marketing techniques emerged. The development of market segmentation and targeting became important tools for marketing planning. In the face of competition, marketers realized the benefits of focusing on specific groups of customers for whom they could tailor their marketing programs and successfully differentiate themselves from their competitors (Peterson 1962). Brand marketing that grew during this period supported the philosophy that the retailer was not the salesman for the manufacturer but rather the buyer for the consumer. Some marketers read this change and shifted focus from discrete, one time sales to ongoing, repeat-purchase possibilities.

The second significant change was the development of administered vertical marketing systems (McCammon 1965), whereby marketers not only gained control over channels of distribution, but also developed effective means of blocking competitors from entering into these channels. Vertical marketing systems such as franchising and exclusive distribution rights permitted marketers to extend their representation beyond their own corporate limits to reach final customers (Little 1970). In many ways, the development of the vertical channels was a reversal of the practice of separating producers from the consumers

These developments represented the reemergence of direct marketing and in maintaining a long-term relationship with consumers. Yet, the orientation of the industrial era was largely transactional, as can be gauged by standard measures used to evaluate marketing performance: market shares, sales revenues, and profitability per brand, territory and segments (cf. PIMS database). Such measures reflect the concern for competition and its consequent effects on profits.

In industrial marketing, the transactional approach was further compounded by the practices of competitive bidding. On one hand, users of industrial products were separated from the purchasing function, given specialist procurement departments in most industrial and business organizations. On the other, competitive bidding processes forced industrial marketers to prepare bid documents for each transaction. Every transaction became important and it was necessary for them to outsmart other competitors in such bids so that they can win the customer order. Although 'reciprocity' was practiced to facilitate future sales, emphasis remained on discrete transactions.

However, not all firms were happy concentrating on discrete transactions. Several industrial buyers and sellers began to develop longer-term contracts for supplies and service, creating an on-going interactive relationships between themselves (Hakansson 1982). Some of them engaged in long-term partnerships and formed alliances with other companies. For example, a partnering type of relationship between Whirlpool and Sears and McDonalds and Coca-Cola have existed for more than fifty years. Similarly, Mitsubishi Electric and Westinghouse Electric are engaged in an alliance-type relationship for over 60 years, as are Philips and Matsushita (Business International Corporation 1987).

Orientation Of Marketing Practice In The Post-Industrial Era

Post-industrial era has seen substantial development toward relationship marketing, both in practice and in managerial thinking. Marketers started realizing the need to supplement a transaction-orientation with an orientation which showed more concern for customers. It began with the advent of complex products, which gave rise to the systems selling approach. This approach emphasized the integration of parts, supplies and the sale of services with the individual capital equipment. Customers liked the idea of systems integration and sellers were able to sell augmented products and services to customers. The popularity of system integration began to extend to consumer packaged goods, as well as services (Shapiro and Posner 1979).

At the same time, some companies started to insist upon new purchasing approaches such as national contracts and master purchasing agreements, forcing major vendors to develop key account management programs (Shapiro and Wyman 1981; Shapiro and Moriarty 1980). These measures forced intimacy and permanence in the buyer-seller relationships. Instead of purchasing a product or service, customers were more interested in buying a relationship with a vendor. The key (or national) account management program designates account managers and account teams that assess the customer's needs and then husband the selling company's resources for the customer's benefit. Still considered a boundary spanning sales activity, key account programs reflect higher commitment of selling organizations toward their major customers. Such programs, concurrently, led to the foundation of strategic partnering relationships that have emerged under relationship marketing (Anderson and Narus 1991; Shapiro 1988).

The growth of relationship orientation of marketing in post-industrial era is the rebirth of direct marketing between producers and consumers. Several environmental and organizational development factors are responsible for this rebirth of direct relationships between producers and consumers. At least five macro-environmental forces can be identified: (1) rapid technological advancements, especially in information technology; (ii) the adoption of total quality programs by companies; (iii) the growth of the service economy; (iv) organizational development processes leading to empowerment of individuals and teams; and (v) increase in competitive intensity leading to concern for customer retention. These forces are reducing the reliance of producers, as well as consumers, on middlemen for effecting the consummation and facilitation processes. We briefly discuss below how these forces are encouraging more direct interactions between producers and consumers of goods and services and is encouraging the growth of relationship marketing.

Insert Figure 2 here

The impact of technological revolution is changing the nature and activities of the marketing institutions. The current development and introduction of sophisticated electronic and computerized communication systems into our society is making it easier for consumers to interact directly with the producers. Producers are also becoming more knowledgeable about their consumers by maintaining and accessing sophisticated databases that capture information related to each interaction with individual consumers, at a very low cost. It gives them the means by which they can practice individual marketing. As a result, the functions formerly performed by the middlemen are now being undertaken by either the consumer or the producers. Producers are building such systems that allow them to undertake quick responses with regard to manufacturing, delivery and customer service, eliminating the need for inventory management, financing and order processing through middlemen. Also, consumers have less time and thus a reduced inclination to go to the store for every purchase. They are willing to undertake some of the responsibilities of direct ordering, personal merchandising, and product use related services with little help from the producers.

Hence, given the recent technological strides and consumer attitudes, some functions performed by middlemen may be entirely eliminated. For instance, the ìjust in timeî inventory system, made possible by the real time transportation and communication systems now available, allows a producer to eliminate the need for an intermediate inventory holding institutions between itself and the consumers or suppliers (Sheth, Gardener and Garrett 1988). Other technological systems, such as flexible manufacturing are being used by some to mass-customize their offerings to individual consumers.

Rapid technological developments have also increased the cost of research and development. The window of time in which it is possible to recover R&D costs has also shortened. This has forced companies to work together in joint research projects and joint product-development programs. Similarly, the rapid convergence of technologies, such as communication and computers or electronics and home appliances, mandates that companies in such industries work on joint projects to leverage their combined resources and to share risks. Thus, interfirm partnering and alliances is becoming popular.

Another major force driving the adoption of relationship marketing is the total quality movement that recently revolutionized industry's perspectives regarding quality and cost. Most companies saw the value of offering quality products and services to customers at the lowest possible prices. When companies embraced Total Quality Management (TQM) to improve quality and reduce costs, it became necessary to involve suppliers and customers in implementing the program at all levels of the value chain. This needed close working relationships with customers, suppliers and other members of the marketing infrastructure. Thus, several companies, such as Motorola, IBM, Xerox, Ford, AT&T, Toyota, etc., formed partnering relationships with suppliers and customers in order to practice TQM. Other programs such as Just-in Time (JIT) supply and Material-Resource Planning (MRP) also made use of the interdependent relationships between suppliers and customers (Frazier, Spekman, and O'Neal 1988).

The third force ushering in relationship marketing is the growth of the service economy, especially in the advanced countries. As more and more organizations depend upon revenues from the services sector, relationship marketing becomes prevalent. One reason being that services are typically produced and delivered by the same institution.

Service providers are usually involved in the production and delivery of their services. For instance, in the case of personal and professional services, such as haircut, maid services, consulting services, accounting services, and legal services, the individual producer of the service is also the service provider. In much the same way as the users of these services are directly engaged in obtaining and using the service thus, minimizing the role of the middlemen, if any. In such a situation, a greater emotional bond between the service provider and service user develops and the need for maintaining and enhancing the relationship. It is therefore evident that relationship marketing is important for scholars and practitioners of services marketing (Berry 1983; Crosby and Stephens 1987; Crosby, Evans and Cowles 1990).

Certain organizational changes have facilitated the growth of relationship marketing. Amongst these the most significant is the role definition of the members of the organization. Through a variety of changes in organizational processes, companies are now directly involving users of products and services in the purchase and acquisition decisions of the company. For a considerable time, these functions were managed by the procurement department as a specialized function, with little or no input from the actual users of these products and services. Thus the separation that existed between the producer and the user due to the existence of user middlemen, acting as gatekeepers, is potentially bridged in many cases. Wherever such changes are being made, direct interaction and cooperative relationship between producers and users develop.

Finally, in the post-industrialization period the increase in competitive intensity is forcing marketers to be concerned with customer retention. As several studies have indicated, retaining customers is less expensive and perhaps a more sustainable competitive advantage than acquiring new customers. Marketers are realizing that it costs less to retain customers than to compete for new ones (Rosenberg & Czepiel 1984). On the supply side it pays more to develop closer relationships with a few suppliers than to develop more vendors (Hayes, Wheelwright and Clark 1988; Spekman 1988). In addition, several marketers are also concerned with keeping customers for life, rather than merely making a one-time sale (Cannie and Caplin 1991).

In summary, relationship-orientation in marketing has staged a comeback. It was only during the peak of industrialization that marketing's orientation shifted toward a transactional approach. With the advent of middlemen, and the separation of producers and users, there was a greater transactions orientation. Industrialization led to a reversal in the relationship between supply and demand, when due to mass production efforts producers created excess supply of goods and services and were them selves preoccupied with achieving production efficiencies. Thus, they needed middlemen to service the customer. The middlemen in turn, adopted a transactional approach as they were more interested in the economic benefits of exchange than the value of production and/or consumption. Although efficiencies in product distribution were achieved through middlemen, effectiveness was not always accomplished as was evident from the literature on channel conflict.

Now with one-to-one connect between the producer and user, relationship orientation in marketing has returned. Figure 3 depicts the changes in the relationship-orientation during pre-industrial, industrial and post-industrial eras.

Insert Figure 3 here

CONSEQUENCE OF THE RELATIONAL PARADIGM ON THE DISCIPLINE OF MARKETING

The advent of the relational paradigm is likely to alter the basic foundations of marketing anchored on exchange theory. Several marketing scholars are questioning the sufficiency of the exchange paradigm in explaining the emerging relationship marketing practices (Cannon and Sheth 1994; Christopher, Payne and Ballantyne 1991; Grönroos 1994; O’Neal 1989). Some of these criticisms are based on the outcome orientation of the exchange paradigm, in which they argue that the concern for quality, customer service and customer retention are lacking.

Although the exchange paradigm has been very useful in the development of marketing theory, it has outlived its utility. Born out of the transactions focus, the exchange paradigm serves a useful purpose in explaining *value distribution* among marketing actors. In the industrial era, where only manufacturers created value through their developmental and production activities, and middlemen shared the risk of ownership and provided the time and place utility, exchange paradigm was a useful way to study value distribution among these marketing actors. Consumers derived a surplus and utility from this exchange, but they could not contribute as much in value creation.

However, where consumers are involved in co-production and have interdependent relationships with producers, the concern for *value creation* is paramount. For example, in home building, buyers get involved and emotionally attached with the home building process seeking to create value for themselves. The nature of interactions between the builder and the home buyer is not related to the exchange as much as it to create a dream home for the buyer. Exchange paradigm may explain the transaction in an existing home sale where value distribution is being undertaken, however, in the home building case or other situations where consumers are directly involved as co-producers, co-designers or co-marketers, there is a need for an alternative paradigm of marketing.

There is an implied assumption of the exchange theory that the seller and the buyer (marketing actors) have well defined roles, that they independently create values, and that there is a place and time of transaction that can be easily articulated for exchange. However, in the era of relationship marketing, the roles of producers, sellers, buyers and consumers are blurring. Consumers are increasingly becoming co-producers. Not only there is a less need for middlemen in the process, there is less of a boundary between producers and consumers. In many instances, market participants jointly participate in design, development, production and consummation of goods and services. They do not seek any particular exchange, but rather the creation of a greater market value for both through the relationship. Sometimes these relationships and activities become so enmeshed that it is difficult to separate the marketing actors from one another.

There is also a blurring of time and place boundaries between the producer and the consumer. For example, Procter & Gamble has assigned twenty of its employees to live and work at Wal-Mart's headquarters to improve the speed of delivery and reduce the cost of supplying P&G goods to Wal-Mart's branch stores (Kotler 1994). It is therefore hard to distinguish the elements as well as the time of occurrence of exchange. In relationship marketing, organizational boundaries are hard to distinguish as companies are more likely to be involved in shared relationship with their marketing partners. Some of these activities relate to joint planning, co-production, co-marketing, co-branding, etc. where the parties in the relationship bring their resources together for creating a greater market value. The boundaries of time place and transaction are unclear in many relational arrangements. For example, in the world of bits and bytes, where electronic data interchanges (EDI) is becoming common, payments transfers are not linked to the transaction any more. Payment flows, goods and services flows, and knowledge flows between marketing actors are becoming less anchored to exchange.

Although some authors still label this type of cooperation as a form of exchange, and call it 'relational exchange' (Dwyer, Schurr and Oh 1987; Gundlach & Murphy 1993; Morgan and Hunt 1994), the cooperative relationships amongst marketing actors are not always for the purpose of exchange. As several of these researchers show, the marketing actors cooperate to share resources and engage in joint value creation, such as co-production, research and development partnering, co-marketing, etc. In these arrangements, exchange, if any, is incidental. The primary activity relates to value creation through joint action by participants in a relational engagement (Heide and John 1990) . The outcome of this engagement is not necessarily an exchange of values; it is instead a process of value creation through cooperative and collaborative effort.

Therefore, an alternative paradigm of marketing is needed. A paradigm which can account for the continuous nature of relationship of marketing actors. It might be better for the continuous development of the discipline to give up the sacred cow of exchange theory, in search of some other paradigm. What would be the nature of this alternative paradigm is not clear, but as many scholars are trying to argue, that such a paradigm ought to be based on value creation instead of value distribution; and focus on the processes of relationship engagement and not on the outcome or consequence of the relationship (figure 3). In other words, we need to explain the conditions that encourage marketing actors to enter relationships; the purpose of engaging in such relationships; the processes of managing the relational engagement; process for evaluating the performance of such relational engagement; the process and conditions of terminating the relationship; and the process of the enhancement of the relationship.

Insert Figure 3 here

CONCLUSIONS

In this paper we have attempted to trace the evolution of relationship marketing. We observe that a relational orientation to marketing existed until the early years of industrial development. It was only when mass production led to an oversupply of goods that marketers became transaction oriented. However, this transaction orientation in marketing is giving way to the return of relationship orientation in marketing. Beginning with interests in repeat purchase and brand loyalty, there is an increasing group of scholars who are studying ongoing marketing relationships. This reemergence of relationship marketing has the potential for a new "General Theory of Marketing" (Sheth, Gardener, and Garrett, 1988), as its fundamental axioms better explain marketing practice.

The reemergence of the relational perspective in marketing is primarily caused by the return of direct producer to consumer marketing. This needs a change in the paradigm of marketing theory. The exchange paradigm is insufficient in explaining the continuous nature of relationship between marketing actors. It is anchored on value distribution and outcomes of exchange, hence, is an insufficient paradigm for explaining marketing relationships that focus on value creation and where the process of relationship engagement is equally, if not more, important than the outcomes of the exchange.

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