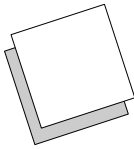


*An executive summary for managers and executive readers can be found at the end of this issue*



# The future of relationship marketing

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**Keywords** Relationship marketing, Trends

**Abstract** The purpose of this paper is to discover factors that led to the rise of relationship marketing in practice and academics, and what factors are likely to reshape the future direction of relationship marketing.

## Energy crisis

Three antecedents were responsible for the popularity of relationship marketing in the late 1980s and early 1990s. First, the energy crisis of the 1970s and the consequent economic stagflation resulted in excess capacity and high raw materials costs. Competition intensified on a global basis. In fact, many US industries became casualties of foreign competition. This included consumer electronics, textiles, steel, chemicals, machine tools and shipbuilding. It became necessary to defensively focus on retaining customers and defocus customer acquisition related marketing expenditures and activities. In other works, customer retention became the corporate focus and this resulted in the emergence of ongoing relational exchange in contrast with the one-time transactional exchange (Sheth *et al.*, 1988).

## Emergence of services marketing

At the same time, services marketing was emerging as a popular new domain of research and understanding. Many articles were written to strongly argue how services were fundamentally different from products: intangible, perishable, simultaneous and mostly interactive. Furthermore, services such as legal, accounting, medical and personal care were ongoing and over time. Lenard Berry was the first scholar in services marketing to coin the phrase “relationship marketing” as early as 1983 (Berry, 1983). It made eminent sense because services are generally direct offerings to the end users (telephone, utilities, banking, etc.) and we have a direct record of transactions over time with each individual customer, enabling researchers to analyze and theorize about customer loyalty and one-to-one marketing (Peppers and Rogers, 1993).

## Supplier partnering

Finally, in business to business marketing, most companies began to institute key account, national account and global account management processes and programs to consolidate and increase share of each account’s business to fewer suppliers preferably resulting in a sole source relationship. This was further stimulated by the quality drive in the 1980s (TQM philosophy) and a desire to reduce the number of suppliers in order to improve quality at a lower cost. The Japanese success in developing supplier partnering in the value chain especially in the automobile industry became the role model for the American industry. This collaborative as opposed to combative attitude toward the suppliers further resulted in treating business exchanges as relational and interactive. The emergence of IMP Group (Hakansson, 1982)



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## **Impact of information technology**

in Europe with a focus on interaction as opposed to transactions provided another impetus toward business-to-business relationship marketing.

Consequently, relationship marketing exploded as a field of marketing enquiry in the late 1980s (Sheth and Parvatiyar, 2000). However, three new antecedents are likely to change the course and even the definition of relationship marketing in the coming decade.

The first and probably the most significant antecedent is the impact of the Internet and information technology (IT), especially in all situations where there is a direct accounts receivable (customer) relationship. The automation of sales and marketing by Siebel Systems as well as cross-functional integration through enterprise resources planning (ERP) systems has shifted the focus to customer relationship management (CRM). As a consequence, marketing is once again not the driver. It is the IT function headed by chief information officer (CIO) who often reports directly to the CEO of a company. Marketing is once more getting marginalized as happened during the popularity of TQM philosophy, which diffused the focus on customers away from the marketing department. I believe CRM movement will continue to grow despite its early failures and shift the focus to tactical marketing such as loyalty programs, affinity marketing and campaign management.

## **Selective and targeted**

A second major factor has to do with the bottom line question: Does relationship marketing pay? The empirical evidence is inconclusive despite all of our beliefs in lifetime value of the customer, and share of customer wallet concepts especially in business-to-business marketing. The largest revenue accounts are often found not to be the most profitable accounts. Consequently, there is emergence of a strong belief that a company must be selective in its use of relationship marketing; indeed it must consider segmenting the market into relational and transactional markets. In other words, relationship marketing is not nor should be a universal philosophy, but just one of several marketing relationships (El-Ansary, 1997). Therefore, unlike the TQM movement, relationship marketing is likely to remain more selective and targeted.

## **Outsourcing customers**

Finally, although we all believe that the purpose of marketing (or business for that matter) is to create and retain customers, it is ironic that many companies are permanently outsourcing their customers. While this phenomenon began primarily for internal customers (employees) for such services as payroll and employee benefits, travel and data processing, it is now spreading to external customers (Sheth *et al.*, 2000). Many companies are recognizing that as much as one-third of their customers will be unprofitable even in the long run. At the same time, they are unable to reduce the cost of serving these accounts. This is especially true in services industries such as banking, telephone and utility industries. Most customers do not provide enough purchasing power on an ongoing basis to justify the fixed cost of serving them. I believe we must now develop hypotheses and theories of outsourcing customers just as we have developed theories and hypotheses of customer acquisition and customer retention.

To conclude, relationship marketing emerged as a popular new paradigm in the 1980s due to shift in focus from customer acquisition to customer retention. It is likely to shift once again and will transform into customer relationship management (CRM) with a hybrid of marketing relationship programs that range from relational to transactional to outsourcing market exchanges and customer interactions.

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