Revitalizing relationship marketing

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Abstract
Purpose – The aim of this paper is to review the forces that led to the rise of relationship marketing (RM) and to provide suggestions for how it can overcome its midlife crisis and be revitalized.
Design/methodology/approach – Personal reflections.
Findings – A shift in two dimensions is needed to revitalize RM: from "share of wallet" to "share of heart" as the RM objective and from "managing customer relationships" to "managing contractual or virtual joint ventures with customers" as the process of RM.
Research limitations/implications – The shift to "share of heart" will generate three new RM areas for researchers and practitioners: emotive feedback, purpose-driven RM and the use of social media for developing and nurturing brand communities. For the process shift to take place, companies and customers need to co-create value, collaborate cross functionally and share value.
Originality/value – Going from "share of wallet" to "share of heart" as the objective of RM and from managing customer relationship to joint venturing with customers as a process will revitalize the RM discipline.

Keywords Relationship marketing, Share of wallet, Joint venture, Share of heart

Paper type Viewpoint

Introduction

Like several schools of marketing thought (for example, international marketing), relationship marketing (RM) after a spectacular growth over three decades is experiencing a midlife crisis. I will review the forces that led to the spectacular rise of RM both as a marketing practice and as a discipline. Then, I will suggest how RM can be revitalized and overcome its midlife crisis.

The fundamental force behind the rise of RM was the economic recession of the early 1980s caused by the first energy crisis of the 1970s (1974-1978). This is often referred as stagflation (inflation without economic growth). Both the monetary policy of high interest rates to curb inflation and the fiscal policy of wholesale deregulation of infrastructure industries such as airlines and trucking to stimulate growth during the Carter Administration failed.

This was followed by Reagan Administration's focus on global competitiveness of US industries. It led to lowering corporate tax rate and establishing Malcolm Baldridge Quality Awards in manufacturing and services industries. The Reagan Administration also allowed megamergers of directly competitive businesses. For example, General Electric was allowed to buy RCA in the consumer electronics industry, and similar mergers and acquisitions were allowed in the beer, soft drinks, aviation and defense industries. The fundamental impact of this exogenous macro-economic reality was to shift the marketing objective from organically gaining market share to acquiring market share through mergers and acquisitions. Vast amount of prior research which empirically validated the prevailing view (on what was referred to as PIMS database research) that financial performance of a product or a company is directly related to its marketing plans including segmentation, positioning and targeting to gain market share was now questioned. Return on marketing investment could not be justified especially based on economic value added and activity-based costing.

The best ways, therefore, to gain market share were inorganic growth such as mergers, acquisitions and alliances. This was further reinforced with the growth of private equity companies such as KKR and Berkshire Hathaway. Hostile takeovers became more prevalent including the famous takeover of RJR Nabisco by KKR as well as more long-term investment by Berkshire Hathaway in Coca-Cola company. Similarly, massive wholesale deregulation of the airline industry also resulted in megamergers as airlines raced to survive from regional regulated monopolies to nationally deregulated competitive businesses.

A final factor responsible for the growth of RM was computerization in the services sectors such as airlines, banks, utilities and telephone services, all directly marketed to end users, unlike the consumer packaged goods (CPG) companies and industries. This generated enormous data on usage at the individual customer level providing significant opportunity for analytic research including data mining and consumer insights.

Airlines such as United, American and Delta survived the wholesale deregulation by massively investing in computerized reservation systems which provided them with the opportunity to develop and successfully promote loyalty programs such as frequent flyer miles. Industry after industry went into a defensive posture of protecting their existing customers by establishing key account management (KAM) (Shapiro and Moriarty, 1980; Shapiro, 1988; Anderson and Narus, 1991)

The current issue and full text archive of this journal is available on Emerald Insight at: **www.emeraldinsight.com/0887-6045.htm**

Journal of Services Marketing
31/1 (2017) 000
© Emerald Publishing Limited [ISSN 0887-6045]
[DOI 10.1108/JSM-11-2016-0397]

Received 15 November 2016
Accepted 18 November 2016

and, at the same time, reducing the number of suppliers using transaction cost economics (TCE) (Williamson, 1979). Also, as part of total quality management (Deming, 1986; Crosby, 1979), industrial customers began to reduce the number of suppliers and establish partnership with their strategic suppliers.

RM changed the marketing paradigm from a transactional to a relational perspective and from a market share to share of wallet objective in marketing. This led to understanding the life time value (LTV) of customers; bundling of offerings; customer profitability analysis; and strategic partnering with customers (Sheth and Parvatiyar, 2000). The discipline began to shift from theories of competition and competitive advantage to theories of cooperation and TCE. Instead of empirically testing low cost or differentiation strategies, scholars began to examine the role of trust, commitment and inter organizational alignment (Morgan and Hunt, 1994; Sheth and Parvatiyar, 2000).

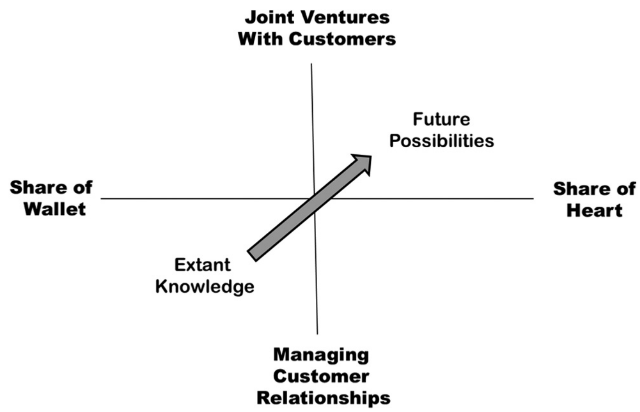
In contrast to other schools of marketing thought, RM became a global phenomenon all at once. Scholars from Scandinavia, UK and Australia began to offer their perspectives and conduct empirical research at about the same time as scholars from North America (Gronroos, 2000, 1995; Hakansson, 1982; Hakansson and Snehota, 2000; Payne, 1995, 2000). The diffusion of RM school of thought was more exponential than the traditional *S*-shaped curve.

The identity crisis

Over the years, RM began to diverge rather than converge into a cohesive marketing practice or a discipline. While there were several efforts to identify key constructs such as trust and commitment, it did not evolve into a theory with propositions to be empirically tested in contrast to market orientation perspective in managerial marketing. Unfortunately, research in RM currently resembles the proverbial five blind men and the elephant. It means different things to different scholars and practitioners. To some, it means customer relationship management (CRM), and it is a part of the CIO organization focused on database integration and management, for example, predictive modeling and yield management in the airline industry. To others, it means post sales marketing including customer support and what is referred to as "after marketing". To most practitioners and scholars, it still means managing loyalty programs and segmenting the market based on customer profitability analysis. In my view, it represents a great opportunity for someone to synthesize the divergent practices and perspective into a comprehensive theory of RM. The identity crisis resulting from diverse perspectives and practices is further compounded by the unprecedented impact of mobile computing and social media revolution.

To revitalize RM, I think it needs to shift on two dimensions as depicted below. It needs to shift from "share of wallet" to "share of heart" as the purpose of RM and from "managing relationships" with customers to "managing contractual or virtual joint ventures" with customers as the process of RM (Figure 1).

Figure 1



The future evolution of relationship marketing

From share of wallet to share of heart

As existing RM practices including loyalty programs, bundled offerings, personalized services, KAM and CRM efforts all become universal and, therefore, commoditized, marketing strategies and tactics designed to gain the share of wallet of customers as a key metric for RM must give way to what I refer to as winning the "share of heart" as the new metric.

Share of heart, as the name implies, is bonding with customers on an emotional plane and beyond offering just economic or functional value of the product or service. The relationship transcends from business to friendship with customers. It also transcends measuring strength of the relationship beyond numerical and financial outcomes both for the company and its customers. It, therefore, transcends beyond trust and commitment, the twin foundations of RM. It also transcends TCE as the basis of developing and maintaining relationship. Finally, it transcends from an explicit contractual relationship governed by contract laws to an implicit friendship governed by passion, purpose and mutual respect. This will result in at least three new areas of research and practice in RM.

Emotive feedback: the new listening post

Past practice and research in measuring RM such as customer satisfaction and LTV of customers has been numerical, mechanistic and impersonal. Even though we have databases on both attitudinal and behavioral dimensions of individual customers, especially in services industries, customers are still ID numbers to the company. We still do not know who is behind the ID number; what makes them tick; and what are their feelings, thoughts and prejudices about the company and its offerings.

This will require restoring emotive research techniques of the seventies such as motivation research (Zaltman, 2003; Zaltman and Zaltman, 2008; Levy, 1985), immersion into the life of customers and nonintrusive customer safaris – employees and executives visiting customers. It will also require use of brain research (Kenning *et al.*, 2007; Chamberlain and Broderick, 2007), storytelling (Brown *et al.*, 2005), metaphor elicitation (Zaltman, 1996) and science fiction, as depicted in movies such as Back to the Future and Minority Report.

Finally, it will require more holistic understanding of customers. Just as we went from analytics to odyssey research in consumer behavior, we will have to learn how to collect, analyze and interpret conversations and conscious (and unconscious) streams of thoughts. Unfortunately, so far, we neither have the expertise nor the training to analyze video and voice data for scientific research. Fortunately, we are also learning fast how to analyze text messages posted on social media through natural language processing.

Purpose-driven: adding meaning in consumption

A second major way to win the share of heart of customers is to make products and brands more meaningful to them above and beyond ingredients and benefits. In other words, how can we market the product or the brand that makes customers feel that they are serving a higher purpose in life when they procure, consume and dispose of products and brands.

Companies have often attempted to win the share of heart by sponsoring social causes such as breast cancer, diabetes awareness, obesity reduction and economic development. They have also encouraged their employees to volunteer their time and talent to serve local social issues. More recently, many companies are proactively engaging themselves in what is referred to as strategic philanthropy or corporate social responsibility (CSR). Retired Chairman of Coca-Cola, Neville Isdell, has even started a connected capitalism initiative.

Purpose-driven relationship, however, is much deeper and different. It is to enable customers to achieve meaningful life through consumption of a product or brand. In other words, how can customers achieve self-actualization through their consumption? This may mean encouraging reduced consumption as opposed to encouraging and enabling mindless consumption; it may mean informing and educating customers about the impact of their choices on society and community; it may mean linking the product or service to spirituality; it may mean informing and educating the consumer about moral and ethical dilemmas involved in choosing products and brands; and, finally, it may mean the brand itself acts as a moral compass.

Brand communities through social media

A third area of future research in RM is the use of social media in developing and nurturing brand communities. Brand communities are not new. In the business-to-business markets, companies often organized user groups by vertical market segments. Similarly, Harley Davidson has organized and nurtured the Harley Owners Group, and, most recently, Apple has developed very loyal brand cults. This is also true for some CPG companies and brands, for example, Betty Crocker in cake mixes and Bisquick for making biscuits. In most cases, it has been the users who have bonded with the brand at an emotional level, and, once the companies recognized it, they have organized and enabled them to form communities around the brand. The impact of social media in the development of brand communities has been dramatic even at a nascent stage (Kaplan and Haenlein, 2010; Muniz and O'Guinn, 2001). First, social media is interactive and allows users to be both consumers and producers of information about the brand or the company. This means not only user-generated reviews and comments about the brand or the company but also taking liberties with the brand asset or corporate reputation. The dark side of both the unintended and the intended consequences are so critical that the marketer must channel the emotive moods of the customer-company relationship.

Social media are analogous to a potent drug which not only has great efficacy but also significant side effects.

Second, social media have enormous reach with lightning speed. It can catch like wildfire. In a dry brittle season, an accidental fire (usually started by human mistake) can get out of hand and result in disastrous consequences. Therefore, it is best to prevent the fire. And if it does happen, the local community must have first responders who are ready for crisis management and allow others to provide resources and capabilities to mitigate the disaster. This analog is critical in managing customer relationship in the age of social media. Unfortunately, all of us are now a fish in a digital aquarium. Everyone is curious about everything we do, and they are constantly watching the company and the management practices through the glass.

Customers are becoming either vigilantes or ambassadors of brands, products and corporations. Often, the stakeholding transcends beyond their role as customers (users, payers and buyers).

Given this reality, traditional concepts and tactics of relationship management will be limiting similar to what the law enforcement agencies are learning: that it takes more than enforcement to be useful to the community. Developing and nurturing brand communities through social media will require a more holistic approach and developing the skill sets of sensing, intervention and mentoring the brand community.

From managing customers to joint venturing with customers

A second dimension of the shift in revitalizing RM is the formation and governance of what I refer to as joint venturing with customers. A joint venture is a collaborative co-creation of value by mutual commitment of resources and complementary capabilities by all parties to the venture. In a joint venture, the foundation of the relationship is anchored to mutual interdependence, mutual commitment and shared mission.

In traditional RM, it is usually the supplier who commits resources by investing in key accounts or in relationship managers. Customers are free to walk away from the relationship, almost at will, unless they are bound by contracts such as in the mobile phone services or unless there are non-contractual exit barriers such as in installed technology, machines, processes or people.

In joint venturing, customers must commit resources (time, money and capabilities). Also, both parties must accept interdependence instead of dependence in the relationship. Finally, joint venturing with customers does not require formation of a legal entity; it is often governed by contracts. In many traditional cultures, it is also governed by the silent languages of doing business or by social norms.

There are three ways to shift the process from managing relationship with customers to joint venturing with customers.

Co-creating value for end users: the ultimate process

Sheth *et al.* (2000) and Vargo and Lusch (2004) both have suggested why and how co creating value with customers will be both desirable and necessary as marketing becomes more customer centric. Prahalad and Rangaswamy (2004) even wrote a whole book on how to create a competitive advantage through co creation of value. From the perspective of joint venturing with customers, co-creation of value becomes the mission or the goal of the joint venture. Therefore, it requires formal metrics to measure the outcome of co-creation. For example, the co-creation's objective may be cost reduction, quality improvement or creating value for end users (both internal and external).

Alternatively, it can be financial such as greater revenues and profits. Finally, some goals of co-creation of value may be more intangible such as co- branding, co-marketing, co-learning and co-sharing of resources. No matter what, there is a need to define the goals and develop mission-driven outcomes for co-creation of value with mutual accountability.

One key perspective in co-creating value is to focus on customer's customers or the ultimate end users. End users have three different customer roles. They are users, payers and buyers. As users, they look for performance value; as payers, they look for price value; and as buyers they look for personalized service value. Mittal and Sheth (2001) have suggested a number of ways a company creates value for end users. For example, performance value is created by quality, innovation and customization. Price value is created by target costing and lean operations. Service value is created by easy access, rapid response and relational nurture. In my view, co-creating value for end users with respect to performance, price and personalization is a useful framework.

Cross functional collaboration: hardest to implement

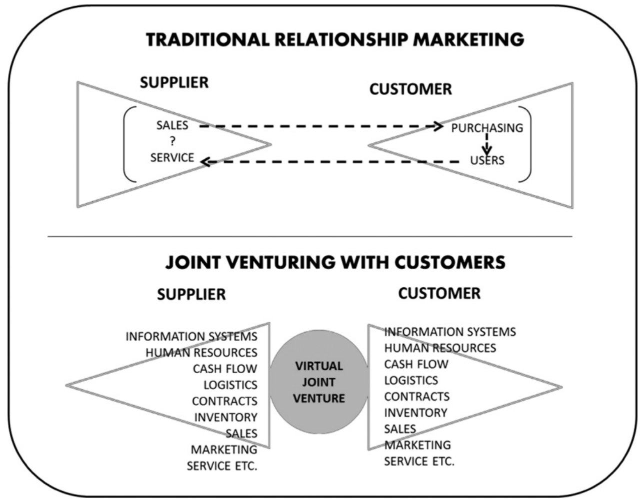
To co-create value for end users requires both internal and external cross-functional collaboration. Therefore, the traditional approach to RM (where the key account manager and customer support are the only two touch points with the customer) transcends to where all functions such as legal, finance, IT, operations, engineering, human resources, supply chain, etc., learn to collaborate with each other and across the customer and the supplier organizations. This was a key transformation in Procter & Gamble's relationship with its customers including Wal-Mart. More than 200 full time P&G employees and managers are embedded in Wal-Mart, and more than 100 full time Wal-Mart employees and managers are embedded in P&G. This is all glued together by the IT systems of both companies and operating in tandem on a global basis.

While P&G/Wal-Mart partnering is well known, it is not unique. This has been the key competitive advantage for Coca-Cola in its Foundation Division with customers such as McDonald's. It has also been the foundation of a long-term relationship between Whirlpool and Sears in manufacturing Kenmore brand of appliances.

The transformation from the traditional key account or management to joint venturing with customers is depicted below (Figure 2).

What it requires is coordination and communication by the joint venture leadership team of two dedicated executives, one from the supplier and the other from the customer. Their job is to act as relationship ombudsmen and streamline their company's bureaucracy and lead a team of dedicated functional employees from both organizations ranging from

Figure 2



front line factory workers to top engineering and corporate staff people.

The team's performance is measured by the objectives of the joint venture above and beyond performance appraisal by their functional supervisors. Like any joint venture, it requires long term commitment by both the supplier and the customer. As I mentioned before, in many cultures, the non-contractual relationship between a supplier and a customer often transcends several generations especially among family owned businesses.

Shared value: public private partnership

A third major way to joint venture with customers is focus on CSR and economic development (Porter and Kramer, 2006). Through public–private partnership, this ranges from sustainability to micro financing and from nutrition, education, public health to eradication of poverty and diseases. Large corporate and personal foundations such as the Bill and Melinda Gates Foundation, the McArthur Foundation and the Azim Premji Foundation are learning to partner with governments, and world agencies such as the World Bank and the IMF to contribute toward economic development especially in emerging markets such as India, Africa and Latin America. Customers and suppliers are learning to work together with the governments and NGOs to serve societal needs. CSR and public–private partnership will require understanding public policy and managing inherent differences in both the goals and the approaches between the capitalistic private sector and the political public sector in serving a common cause. It will require implementing a shared value mentality and measurements. The triple bottom-line (profit, people and planet) advocated by the United Nationals New Millennium goals are increasingly becoming mandates for both the corporations and the governments.

Concluding remarks

In the past 25 years, RM both as a practice and as a discipline grew spectacularly. It definitely became a major school of thought in marketing. Unfortunately, it has also become synonymous with CRM and database marketing. The focus on "relationship" in RM got relegated to "marketing". However, I strongly believe that RM can be revitalized if the discipline shifts from "share of wallet" to "share of heart" objective; and from "managing customer relationship" to "joint venturing with customers".

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