



# RELATIONSHIP MARKETING AS AN EFFECTIVE STRATEGY GUIDELINES AND A GUARANTEE OF SUCCESS IN THE BUSINESS OF A MODERN COMPANY

**Ratimir Jovičević**

Montenegro Business School, University Mediterranean, Podgorica, Montenegro

**Vladimir Ivanović**

CRE International, Belgrade, Serbia

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## **Abstract:**

*Starting from the limited management and marketing mix as a dominant previous practice, the emergence of relationship marketing presents distinctive paradigm of marketing evolution, moving towards development of integrated relationship management, with more or less well-known customers. Relationship marketing actually comprises all the marketing activities that are directed towards the establishment, development and maintenance of successful relations of trade. Indeed, traditional concept of marketing (4P + 3P) is becoming less efficient with new conditions of global economy and new competition conditions of cross-linked economy and markets. Therefore, the new concept of relationship marketing between companies, their customers and other stakeholders that are important for the overall marketing efficiency was born. That is a new approach not only to marketing, but also to management generally. Relationship marketing can be considered as an effective strategy leading company in the new millennium. There are two key innovations. The first one only touches the new approach to management and marketing, while the second one significantly goes into the detail about the organizational innovation and new structure of company, which is now not limited only to the marketing function, but affects all the other functions in the company.*

*Relationship marketing presents the activity of harmonization of business strategies, organizational structure and company culture, information about clients and information technologies, with the objective of continuous satisfaction of client's needs and achievement of business benefits and profits. The new marketing concept is concentrated on understanding of customers in all aspects. Here marketing focus moves from classical instruments and business orientation to customer orientation, value and service dimension, with strong backbone in long term customer relationships. The cycle of the marketing value of products and customers is reflected in the fact that the product value drops over time, while the customer value grows over time.*

The address of the corresponding author:

**Ratimir Jovicevic**

[✉ ratkojovicevic@t-com.me](mailto:ratkojovicevic@t-com.me)

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## **1. INTRODUCTION**

At the end of the 20th century, a series of new marketing concepts arises giving a new long-term dimension to the role and importance of consumers, and their interests are not only the loyalty of consumers but having long-term relations of cooperation and partnership with the key customers and consumers, with significant form of personalization of these relations.

Strong correlation between satisfaction, loyalty and profitability has been proven in practice. Main prerequisite to loyalty of consumers is satisfaction. Namely, despite great achievements that are related to the study of consumers, they still haven't, at least not completely, answered the question why consumers behave the way they do in the purchase and consumption of products and services. Scientists of different profiles find human brain mostly incomprehensible. Consumer behaviour as a discipline, aimed at broader range of issues related to the development and characteristics of man as a consumer is not concerned with defining strategies of establishing and maintaining relationships with customers.

These new trends in marketing have a completely new approach to relations with customers and other key stakeholders in the business. Their creation is a result of new information and understanding and so convergence of science and practical problems in the economy and society. Development of technology also had significant role, especially IT, which was a major precondition for the development of these concepts.

Modern tendencies of development of IT technologies besides marketing possibilities bring business innovations in way of communication with customers. These technologies do not concern only services and products offered to customers, but also the ways and communication techniques to them. In that sense, different tools called web 2.0 are used. The main idea of web 2.0 technology refers to the shift from classical web pages as relatively isolated information storages to computer platform with an architecture open to active user involvement. This technology provides additional features, such as: openness and freedom of users' participation (possibility both for upload and

download), dynamic content, scalability. By that, these technologies create possibility of not only listening customers' opinions, but also of making customers cooperate with each other, as well as with the company. Nowadays, there are many wonderful examples of companies using the appropriate web 2.0 tools. By that companies have succeeded in attracting many customers to comment, give suggestions, vote about products etc.

Recently, there has been developed a number of concepts that essentially more or less differ, but they all focus on developing long-term relations with customers as: Relationship marketing (marketing of relations), database marketing (marketing supported by databases), Customer Relationship marketing CRM (customer relationship management). In addition to the above mentioned, one can find the following expressions in the literature: Retention marketing, Interdependent Marketing, Loyalty Marketing, 1:1 (one-to-one), Partnership Marketing, Marketing with Permission, Frequency Marketing, Real-Time Marketing.

The most prevalent direction of analysing the development of long-term relationships with customers and other partners, is relationship – marketing. There is no generally accepted definition of this term. Usually, Gronroos's definition is taken as most complete, and it states the following: "Relationship marketing represents establishment, development and maintenance (and break if needed) of relationships with customers and other stakeholders, with gaining profits, and in the way that enables reaching the goals of all parties, which is achieved by common sharing and fulfilling of expectations." (Source: Michael John Harker, Relationship defined, Marketing Intelligence and Planning, 17/1, 1999, p. 13-20).

## **2. THE ESSENCE OF RELATIONSHIP MARKETING IN COMPARISON TO THE TRADITIONAL MARKETING**

The essence of the relationship marketing stands in making difference to the classical transactional marketing. That difference can be made on several grounds, as shown in the comparative review (Table 1).

Table 1. *Transactional vs. Relationship marketing*

TRANSACTIONAL MARKETING	RELATIONSHIP MARKETING
Focus on transaction and single sale	Focus on orientation towards customers and partnership
Company as a limit	No limits
Independence	Dependence guided by established network
Value for customer	Value for partnership
Competition	Cooperation
Passive customers	Active customers
Strong impression in the sales process is basis	Basis in sale and in gaining trust
Orientation on product characteristics	Orientation on benefits from product
Focus on services related to the product	Focus on the expectations and perception of people
"Pushing" prices	Promoting value
Searching for new customers	Keeping current customers
Short-term thinking and actions	Long-term thinking and actions
Building business on bargaining	Building business on relationships
Small market on client's service	Large market on client's service
Post-sales services as an additional expense	Post-sales services as an investment in relationships
Limited commitments to customers	Large commitments to customers
Moderately intensive contact with the customer	Highly intensive contact with the customer
Quality is important for production	Quality is important for everyone
Mass communication	Personal communication
Isolated market research	Improved dialog with customer
Mass markets or market segments	Markets narrowed to an individual
Market participation	Participation in consciousness (participation at buyers' etc.)
No structure for further business	Creating structure for supporting relationships
Awarding system for job performance	Awarding system for maintenance and development of relationships and revenues
Finished work is the end	Sales are only the start

There are many sources that define the differences between traditional and relationship marketing, which do not differ importantly in their fundamental elements. This comparative review was prepared by combining several sources.

The time dimension is one of the key differences between transactional marketing and relationship marketing. Relations cannot be built in a short period of time. Key determinants of marketing relationships: trust, promise, obligation, community and long-term common interests.

Intense changes in the environment of developed market economies that are getting more and more intensive encourage changes in transformation of traditional approach to management and marketing theory and practice. Changes in business mostly affect the changes in marketing, rigid and overly segregation between physical products and services is lost. In order to achieve a high degree of flexibility and innovation in product development and overall marketing, companies are forced to establish strong relationships with their customers, which caused the emergence of a new paradigm of marketing based on even stronger relationships with customers and other stakeholders. Market relations fully reflect all events in business and overall social environment.

Relationship marketing is used in all economic fields, and it is gaining more importance in the consumer goods and services. It is usually analysed on three basic levels:

- Tactical level (similar to the activities of sales promotion);
- Strategic level (emphasis on development of partner relations with customers);
- Philosophical level (it reflects the essence of the philosophy of marketing – the whole organization is focused on delivering total satisfaction to customers and maintenance and development of their business) Source: Veljkovic S, page 174.

It may be concluded, in general, that there has been a change in the overall logic of consideration at companies from different sectors of the economy. Modern age requires companies from various industries to behave in a way so that they fully respect their partners and develop long-term relationships with their major customers, which is the highest stage in the evolutionary development of business logic.

### **3. BUILDING LONG-TERM RELATIONS**

Correlation between satisfaction, loyalty, and profitability of customers has been empirically proven. (Source: International Journal of Service Industry Management, Vol.7 No. 4, 1996, p.27-42).

Satisfaction is the main prerequisite for consumer loyalty, but not the only one. One should, in this context, look for a deeper approach, which involves the intensity of satisfaction and the intensity (positive or negative) of the reaction of consumers to company's offer. For example, if you have two competing companies which came to same results of measuring satisfaction that 85% of consumers are satisfied with the products or services of the company, it is quite different position than of the company which has 55% extremely satisfied, 20% very satisfied and 10% satisfied, from another company in which the ratio is 10% extremely satisfied, 25 % very satisfied and 50% satisfied. The experience shows that it is 42% more likely that the loyal consumer will be the one who is "extremely satisfied" than that one who stated to be "satisfied". Consumer may be satisfied with a product/service until such time as he/she sees a brand that better meets his/her needs and expectations. Satisfaction may decrease in time, either because of the higher expectations or for the reasons of lower performances.

Extremely loyal and enthusiastic consumer is not only satisfied, but this is the person that buys the products and services of the company and expands positive oral propaganda and obtains new customers for the company.

Trust and commitment have major role in forming of loyalty of consumer to the brand and company.

We conclude that the loyal consumer is a precondition to a successful business.

The question is how to define loyalty. There are two approaches. One starts with consumer attitudes, that is their preferences, based primarily on satisfaction they had in the previous shopping. Alternative approach is behavioural approach, based on the actual situation and the actual purchase. This type of measuring satisfaction, having in mind the modern scanning systems and other types of sales that can

accurately determine the buying behaviour became more appealing to managers. Applying the two known methods of measurement, all consumers can be divided into four categories, depending on the degree of loyalty measured by purchases/visits to service companies:

- Absolute loyalty;
- Unsteady loyalty;
- Relative loyalty;
- Disloyalty.

Consideration of this matter is much more subtle, because loyalty of customers is different at particular segments of the market. This approach does not answer the question why a consumer buys certain brand. That is why one-dimensional observation of loyalty cannot give complete and accurate answers. Consumer's attitudes and preferences to some service companies must be monitored, as well as their real buying behaviour. It provides a framework that defines loyalty as the favoured attitude towards a particular brand, which results in constant purchases over time. (Source: Asael Henry, 1992).

It is possible to identify four types of loyalty, depending on the frequency of re-buying and intensity of attitudes towards a particular brand, such as: false loyalty, latent loyalty, stable loyalty, no loyalty. There are common cases and situations where loyalty does not exist. Customer simply does not see the difference between alternatives and does not prefer any of them, and the purchase is done mostly on a random choice. In practice, it is often assumed that profit is a measure of the importance of customers. The results show that each form of loyalty is not profitable for the company, i.e. a good part of the loyal customers is not profitable, and therefore there is a need for a strategic approach to loyalty. According to this principle, one should take into account not only profitability, but also estimation of the relationship between profitability and long term cooperation with some clients.

For the company to recognize the true benefits, it must accept the concept of value, which means that profitability is essential, but there are other benefits that can indirectly affect the business results of the company, but also the loyalty of the employees, competitive companies, etc.

#### **4. STRATEGY OF DEVELOPING LONG-TERM RELATIONSHIP WITH CONSUMERS**

Basis for the development of long-term relationship is strategic focus. The main goal is to, by delivering a quality product/service (by the standards set up by consumers), influence the long-term satisfaction of consumers, which is a prerequisite for full loyalty. When a company has motivated and satisfied employees, from the first line of serving to the managerial position, with the corporate culture, success is guaranteed. Loyalty of RELATIONSHIP to business practice is placed in a square: Satisfaction of consumers – quality of product/service – customers' loyalty and increased profit - satisfaction and loyalty of employees.

The basic elements of the long-term relationship derive from elements necessary for the proper functioning of marketing. Therefore we can say these elements are the following:

- Knowledge of consumers' needs and desires, characteristics, and effects of some factors on their behaviour;
- Real marketing i.e. marketing way of thinking;
- Achievement of modern concepts that address the development of long-term relationships with customers;
- Options and needs of companies;
- Understanding the role and importance of all those involved in the process of creating and delivery of products/services (value);
- Long-term way of thinking and behaviour; and
- Company working as a whole.

The very process of long-term relationships can be separated into the following steps:

- Interaction with consumers;
- Recognition (personification) of consumers - treating each customer as an individual through personal contact or automated process;
- Creating a loyalty program - rewards and added value;
- Continuous improvement of concepts (control, measurement and feedback of information);
- Corrective actions - management of consumer dissatisfaction.

By creating a dialogue with customers one can come up with valuable information, which is converted into knowledge, and knowledge is the basis for the adjustment of supply and taking

action on establishing long term relationships. Further, efficient and effective action leads to satisfaction of consumer, creating confidence and familiarity. Satisfaction, trust and commitment lead consumers to loyalty and loyalty leads to profit. Profitability of the company and satisfaction of consumers is initiated and supported by interaction with consumers (Source: 34 Nova Trgovina, year 54, no. 9-10.2001, p. 53-60).

Personalization and customization are different in the fact that the personalization often involves automatic adjustment until the adjustment is done automatically, but at the request of user. It usually refers to adjustment of: products, services, price and payment terms, distribution channels and adjustment of communications.

#### **5. CREATION OF SENSE OF CONFIDENCE – AN EXAMPLE OF BANKING SECTOR**

Priority of the management for customer relations (Customer Relationship Management-CRM) is creation of loyal customers. The key to creation of loyal customers is in creation of sense of confidence. Certain number of authors in the field of management (Rousseau, Sitkin, Cramerer, 1988) developed the model of confidence. This model has been successfully applied in corporate banking (Saparito, Chen, Sapinzena, 2004) and is applicable to other areas.

The next model makes the distinction between three modes of trust: calculated trust (calculus based trust), trust based on relations (relational trust) and trust based on identification (identification based trust).

Calculated trust is the basic form of establishing a relationship between the users of a company. The cooperation with the company is reduced to the exchange without creating social and emotional basis of relations. Calculated trust is established on the principle of mutual interest.

The key to achieving successful relationship of transactional trust is consistent behaviour. Fulfilling given promises motivates users to continue the cooperation with the company. The largest number of users base their relations with the company just on the feeling of calculated trust.

Developing a sense of mutual trust culminates by establishing feelings of trust based on identification. It is no longer enough to show a consistent behaviour and fulfil the promises. The trust based on identification is characterized by the existence of common goals, respect of the same system of values, and mutual ability to predict the reactions of the other party (Pearson, 2006).

Only a small number of users develop a sense of confidence based on the identification with the corporation. They are willing to continue to cooperate with the company even in the case they suffer discomfort, i.e. develop a sense of loyalty.

Establishing a relationship of relation trust or trust based on identification provides the following advantages (Saparito et al, 2004):

- Likelihood to switch users to a firm that offers more favourable conditions is smaller. Users are making no effort to finding companies that offer more favourable terms.
- Users are motivated to continue cooperation with the company, although suffering embarrassment, because they cannot easily transfer relations that are created to another company.
- Relational trust and trust through identification leads to the creation of loyal customers.

Intangible assets are among the most important sources of competitive advantage in the banking industry, for example. In order for it to be a source of competitive advantage, intangible property must offer (a) a unique value that is (b) relevant to users. Then, intangible assets enrich the offer because it points to the uniqueness of the company in comparison to the competition.

Marketing has a key role in the creation of elements of intangible assets as: corporate reputation (corporate reputation), the corporate ethos (corporate values), the intangible value of the brand (brand equity) and so on.

*Example:* Merging of Bank Intesa and Sanpaolo IMI Group, first one from Milan and the other one from Turin. Merging entered into force in January 2007 by which the Intesa Sanpaolo Group emerged as the largest banking group in Italy and the third one in Europe on the basis of total assets.

This merging represented a consolidation of several marketing challenges: (a) positioning the brand Intesa Sanpaolo in the same way in a larger number of markets, and (b) the creation of a common vision and corporate culture, which will be able to create a sense of belonging and commitment to the new group (Intesa Sanpaolo, 2008, October).

Positioning of brand Intesa Sanpaolo Group and the creation of a common vision and a corporate culture is based on corporate system of value as one of the most important elements of intangible assets. This system takes central position in all internal and external communications and makes a basis of all marketing activities.

In order to define the corporate value system, qualitative research by method of brainstorming was conducted with representatives of all local banks.

Brainstorming defined key insights of the users at the local level, after which they were crossed with the profile of brand Intesa Sanpaolo, which "leads to large values that transcend borders and unite people; they are close to people from all countries and at the same time belong to the group" (Intesa Sanpaolo, 2008, October).

Corporate system of values of Intesa Sanpaolo Group communicates: imagination, humanity, stability and hope. For example, for the practical application of this system of value, one of several of these, is the slogan: We think ahead with you. (Source: Intesa Sanpaolo. (2008, October). How to define global identity: Case history of Intesa Sanpaolo subsidiary international banks).

## 6. MULTIDIMENSIONAL RELATIONSHIP MARKETING

Without neglecting the emotional effects, the company must come up with what consumer wants and expects, in what way consumers want a company to treat them as well as products close to them: In order to incorporate demands in the corresponding profile of the product or service, marketing companies must understand the demands of consumers. Using and achieving mutual lasting business relationships with individual customers is priority and the pledge of successful business. That is why it can be argued that the value of the product declines over time, and customer value grows over time, in which the

consumer life cycle (CLC) is of utmost importance. CRM is a strategic framework for the rational marketing. CRM can be expressed as an umbrella that covers: Winning over → Taking over and expansion of the customer base → Retention.

CRM is a widely established approach that is primarily oriented to individual consumers and their individual demands. As company develops individual relationships with each of customers ETFS stage - Engage, Transact, Fulfil, Service – they imply that such a cycle refers to the stages through which a consumer passes with each purchase, and that such a cycle is repeated over again (their relationship is made up of a series of such cycles). Concept of customers' lifecycle is usually used by companies for CBM activities which include modelling of consumer behaviour (Customer behaviour modelling). Nowadays it is widely accepted the understanding that among the main indicators of modern marketing metrics are: 1) the total number of consumers, 2) revenue per customer, 3) customer satisfaction, 4) customer retention rate, 5) an increase in sales and 6) the cost of acquiring customers, 7) cost of sales, 8) costs of servicing customers and 9) the cost of retaining customers.

Therefore, there are two groups of specific indicators – one on the revenue and the other on the cost side – overlapping to certain extent with the information offered by traditionalists.

Experience shows that majority of companies is focused on the first five categories, while less to the others. CRM indicators are in direct connection with the profitability of consumers and the greatest attention should be given to them.

## **CONCLUSIONS**

Customer relationship management represents the activity of complying business strategies, organization structure and culture of the company, information on customers and IT with the aim in continuous satisfaction of customers' needs and, at the same time, gaining business benefit and profit. Stages of implementation of the strategy are as follows: operational

management that implies automation and optimization of sale – so called operational CRM, automation of marketing, measurement of marketing performance, monitoring contacts with customers, as well as automation of support to the users through call centres.

Segmentation represents the second stage of implementation of CRM which principles imply creation of the market map, where target segments may be distinguished according to the similar behaviour of customers.

The principle of targeting directs marketing towards efficient allocation of business resources. The principle implies adequate determination of the target group for certain package of the offer.

This is followed by the model of trust: calculated trust, relational trust, development of mutual trust that achieves its maximum by establishment of trust based on identification.

Today, competitive advantage may be provided only by user-oriented strategies (Customer-centric), which means that companies build their positions based on how well they serve their customers. The user-oriented strategy is not the aim that may be achieved or proclaimed, but it is a "moving target" and constant orientation and manner in which the company must operate. This is enabled by CRM, which secret lies in the fact that it is different to every company, that does not exclude to possibility that it may be learned from the experience of others. There are three key reasons due to which CRM is getting increasingly more important: competition is growing day by day, it is more profitable to keep the existing customers than to obtain the new one, and technology that enables this has reached the satisfying level.

It is clear, today, that the CRM is a business philosophy and related strategy of advanced management of relations with customers according to the principle of respect of individual importance of every consumer and this is where it's true perspective for development of marketing in the future at the global level.

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