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Relationship Marketing: the Retail Customer's Perspective

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Abstract

In recent years Relationship Marketing (RM) has been widely promoted as a means of retaining customers. The aim of this study was to gain retail customers' perspective on RM. Particularly, the study was designed to identify types of goods and services with whom retail customers see value in building relationship. Findings are based on results of structured interviews with 180 retail customers. The study reveals that retail customers see most value in building relationships with intangible service marketers, particularly, ones with high credence quality, such as medical and legal services. They see moderate value in such relationships with marketers of products with high experience quality, such as vacation and restaurant and low value in relationships with providers of tangible products with high search quality, such as clothing and furniture. However, retail customers do see value in building relationships with marketers of some tangible products with high search quality that has ongoing post sale service requirements, such as motor vehicles. Overall, the findings of the study show that retail customers see value of RM selectively and predictions can be made about relational value from customers' perspective on the basis of the type of service. The most commonly identified variables that determine relationship value are: importance of the good or service to the customer, i.e., whether it is of high involvement financially, physically and/or emotionally; frequency of purchase; urgent nature of the good or service, i.e., whether there is likelihood that from a time to time supply may be needed on an urgent basis without prior notice; and the perceived quality of the supplier.

Key words: relationship, marketing, credence, experience, search.

Introduction

During recent years, Relationship Marketing (RM) has been widely promoted both by academics and professional marketers as an alternative strategy to traditional transaction oriented approach. It has been promoted particularly, as a means of retaining customers. RM aims to create a long-term interactive relationship between marketers and customers, understanding that both customer and marketer are equal partners in a win-win relationship. In other words, both parties must see value in it. From marketers' perspective, RM is not recommended in all situations and with all customers (Palmer, 1996; Gummesson, 1994; Gronroos, 1994). It is only recommended where it would be profitable for marketer. But, what about customers' perspective? Do they see benefit in building relationships with all types of marketers? If not, with what type of marketers they will see benefit in building relationship? From their perspective, what factors will determine whether there is benefit in building such relations or not? In fact, most of the literature and research focuses on RM from marketers' perspective. Very few studies focused on the customers' perspective.

Accordingly, the aim of this research was to gain some understanding of the customers' perspective in RM. Specifically, this study addresses the following research questions: with what type of marketers customers see value in building relationship and what variables determine the value? These questions will be addressed from retail customers' perspective.

To address the research questions, in subsequent sections of this article current literature on RM has been evaluated; research methodology adopted for this research has been explained. Subsequently, findings of this research have been reported and analysed addressing the research question. Finally, specific conclusions have been drawn.

Current Literature

According to the traditional view, often labelled as *transaction marketing*, marketing is planned and implemented to facilitate the exchange of products, both tangible and intangible, for money. As a result, the focus of traditional marketing programs has been to attract new customers rather than retaining the existing ones. However, during the last few decades as markets are becoming intensely competitive, brand loyalty is becoming a thing of the past and customer churn a common and worrisome phenomenon, both the academics and the practitioners in the field are re-inventing the importance of a *relationship perspective* of marketing. The term RM was first used by Berry (1983), even though it has been part of what practitioners have done for centuries. Though there is still no universally agreed definition of RM, Gronroos's (1997) definition has been widely accepted as the best. According to him, RM is "to establish, maintain and enhance relationships with customers and other partners, at a profit so that the objectives of the parties involved are met. This is achieved by mutual exchange and fulfilment of promises" (p. 327). In other words, it can be said that a relationship has developed between the customer and the firm when there is a two-way commitment. This mutuality creates a win-win situation, where both the firm and the customer should gain something. Effective collaboration in a long-term relationship between a firm and a customer can only continue if the parties involved feel like winners.

RM has not been recommended in all situations with all customers. It may not always be a profitable strategy for a firm to be relationship-oriented with all the customers all the time. Also, not all customers will be interested in forming relationships with firms. According to Palmer (1996), "Although relationship marketing may be very attractive for many products and markets, its adoption may be inappropriate in others" (p. 18). Gummesson (1994) thinks that in some marketing situations transaction marketing may be most appropriate. Thus, in a given marketing situation the customer is either in a *relational mode* or in a *transactional mode*. Various types of goods and services can be placed along a continuum from industrial commodities to industrial services and according to Gronroos (1994), RM should be used differently according to where on the continuum a firm's product is placed. Gronroos (2000) also distinguishes between those customers who wish to have a transactional exchange with marketers and those seeking either an active or passive relationship with them. Application of RM may also depend on customers' perspective to a relationship (Garbarino & Johnson, 1999). Some customers may not want to have a relationship. According to Berry (1995) where there is a demand for services that are periodically delivered, personally important, variable in quality, and complex there is potential for RM. He believes that generally the intangibility of services and the heterogeneity of services encourage customer loyalty.

RM has a record of acceptance in the field of business-to-business marketing, where the number of customers involved in the interaction is smaller and their individual sizes are bigger. But, with consumer markets, where there are a large number of customers, the application is often recommended to be restricted to those customers with whom it would be profitable to have a relationship. It is generally accepted that, in consumer markets, RM will work better with intangible services (Bejou *et al.*, 1998) than tangible products.

Why customers enter into a relationship and react favourably to a relationship marketing efforts of a firm has not been researched well. According to Sheth and Parvatiyar (1995), primary reason could be to reduce choice. After having a reliable relationship partner other alternatives are less attractive for the customer in a relative sense and thus do not have to be considered on a regular basis. Another reason that has been mentioned is that by entering a relationship customers can more effectively fulfil goals such as profitability, cost reduction, comfort, health or self-esteem that they have earlier committed to. Further, some customers may sometimes feel that being involved in a relationship is an end in itself (Bagozzi, 1995). In one of the few studies that considered RM from customers' perspective its major focus of research, Gwinner *et al.* (1998) conclude that, consumers engaged in long-term relationships with service providers experience confidence, social and special treatment benefits. Bejou *et al.* (1998) add reduced perceived risk as a benefit for customers. According to them, where there is a reliance on credence qualities RM will be more appropriate.

Methodology

Lovelock *et al.* (2001) presented a selection of ten goods and services high in search, experience, or credence qualities along a continuum of evaluation ranging from easy to evaluate to difficult to evaluate. In order of difficulty level they are: clothing, furniture, motor vehicle (high on search qualities); restaurant meals, lawn fertiliser, vacation (high on experience qualities); computer repair, legal services, medical surgery, consultancy project (high in credence qualities). These ten goods and services were used in this research to address the research question in hand.

A total of 180 customers were interviewed using a structured questionnaire. All questions except one were closed-ended with seven-point Likert-type scale. In the absence of any comprehensive current list of items which may be further tested, the lone open-ended question asked the respondents to identify from their perspective the important variables that determine value in building relationship with a goods or service provider. A convenience sampling method was used. Respondents were randomly selected from the friends and work associates of this researcher. However, to minimise level of bias associated with such a method, special care was taken to have proportionate representation of male and female, different age groups, educated (degree and above) and less educated, and affluent (annual income A\$60,000 and above) and less affluent categories on the basis of actual population distribution between these categories in Australia. These categorisations are in line with similar marketing studies (Leonidou *et al.*, 1999). To assess internal consistency reliability, a popular approach, coefficient alpha was used.

Fieldwork for the study was carried out during February-March 2004. Collected data have been edited on a daily basis in order to verify completeness and consistency of answers given. Data have been analysed calculating frequencies, mean scores, t-tests. Factor analysis was applied using principal-axis factoring method, with eigenvalues set to 2.0. In most instances eigenvalues of 1.0 or greater represent the maximum number of factors that can be considered as stable (ie. replicable) (Diekhoff, 1992). Determining correct number of factors is a matter of balancing comprehensiveness against parsimony. In practice, one is usually happy with a factor solution that explains 50-70% of the variance in the original variables. In this case, the cut off point of eigenvalues 2.0 gave factor solution that explained 60% of the variance.

To capture and analyse the responses to the lone open-ended question in the interviews, five general storage and retrieval functions have been carried out as recommended by Levine (1985): Formatting, cross-referral, indexing, abstracting and pagination. Much of these storage, retrieval and analysis functions have been carried out using the rather hybrid software system, NUD.IST version 3.0.

Research Findings

The survey asked respondents whether they see value in maintaining relationship with all types of tangible and intangible marketers. Only 17.2% of the respondents said that they see such value, whereas an overwhelming majority (75.5%) said that they see value in maintaining such relationship only with some of those types of marketers. The rest 13.2% of the respondents said that they see no value in maintaining relationship with any of those marketers. There was no significant variation in findings among the different categories of respondents.

Results show that, respondents see most value in maintaining relationship with their medical service providers, followed by legal service providers, motor vehicle suppliers, restaurants, computer repairer, consultancy providers, vacation services, clothing suppliers, furniture suppliers, and lawn fertiliser providers. With a mean of 4.5 and below in a 7 point scale, last three items are not good candidates for building relationships from retail customers' perspective. Relatively lower standard deviations for those three items also indicate general agreement among respondents in this regard. Low standard deviation and high mean for medical services indicate that medical service providers, among the ten goods and service marketers studied, are most likely to succeed in developing and maintaining relationships with their customers. Table 1 shows the breakdown of the mean and standard deviation of the ten goods and services studied.

Table 1

Relationship benefits perceived by retail customers

Goods and Services	Mean	St. Deviation
1. Medical Service	6.0476	1.53905
2. Legal Service	5.5079	1.83050
3. Motor Vehicle	5.4286	1.86404
4. Restaurants	5.3968	1.47604
5. Computer Repair	5.0794	1.85178
6. Consultancy	4.7937	1.91899
7. Vacation Service	4.7143	1.89591
8. Clothing	4.5238	1.65449
9. Furniture	3.4603	1.70223
10. Lawn Fertiliser	2.1270	1.73663

The most commonly identified variables that determine relationship value with a marketer were: Importance of the good or service to the customer, i.e., whether it is of high involvement financially, physically and/or emotionally; frequency of purchase; urgent nature of the good or service, i.e., whether there is likelihood that from a time to time supply may be needed on an urgent basis without prior notice; and the perceived quality of the supplier.

Factor analysis was conducted on the data collected to see whether there was any pattern of underlying factors on the basis of the way the ten goods and services were rated by the respondents as candidates for relationship building. Table 2 shows the factors extracted with the variables (likelihood of each of the ten goods and services) that explain each of those factors.

Table 2

Factors, Variables and Factor Loadings

Variables (Goods and Services)	Factor 1 High on Credence Quality	Factor 2 High on Experience Quality	Factor 3 High on Search Quality	Coefficient Alpha
Medical Service	.766			.69
Legal Service	.745			
Motor Vehicle	.770			
Vacation	.419			
Lawn Fertiliser	.403			
Consultancy Project	.793			
Computer Repair		.638		.78
Restaurant		.604		
Clothing			.767	.86
Furniture			.729	

Among the items, four had significant cross loadings. This included lawn fertiliser with a cross factor loading of .244 with factor 2, vacations with a cross loading of .379 with factor 2, restaurant with a cross loading of .541 with factor 1, and computer repair with a cross loading of .496 with factor 1.

According to findings of this study, three of the four items identified by Lovelock *et al.* (2001) as high in credence quality are underlying variables of factor 1. The other one, computer repair, is an underlying variable of factor 2 with significant cross loading with factor 1, indicating that respondents see it somewhere in between of experience and credence quality types. Similarly, two of the items identified by Lovelock *et al.* (2001) as high in experience quality are underlying variables of factor 1 in this study with significant cross loading with factor 2. This leads to the similar conclusion that respondents saw these two items with both credence and experience quali-

ties. Two of the three items identified by Lovelock *et al.* (2001) as high in search quality, which are mostly tangibles, are underlying variables of factor 3 in this study. Overall, factor analysis has resulted into three factors based on ten goods and services studied as underlying variables, the way Lovelock *et al.* (2001) have grouped them. One major exception is the item, motor vehicle. Though they have identified it as high in search quality, this study found it grouped with items seen as high on credence quality. One explanation of this could be that respondents have seen motor vehicle not as a one of tangible product purchase issue but as an ongoing relationship with marketer involving post purchase servicing.

Conclusions

The purpose of this study was to gain retail customers' perspective on relationship marketing. Particularly, the study was designed to identify types of goods and services marketers with whom retail customers see value in building relationship. Overall, the study reveals that customers see most value in building relationship with intangible service marketers, particularly, ones with high credence quality. This finding supports the previous conclusion drawn by Berry (1995) and Bejou *et al.* (1998). However, retail customers do see value in building relationship with marketers of some tangible products with high search quality that has ongoing post sale service requirements and high financial involvement, such as motor vehicles. According to findings of this study, any RM initiative on the part of marketers of tangible products like, furniture or clothing are less likely to be successful, as retail customers do not see any value in such relationships.

Any RM initiative from medical surgery and legal services (both with high credence quality) are most likely to succeed. This is true particularly because the study indicated that retail customers see value in building relationships where the good or service is important to them, i.e., where it is of high involvement financially, physically and/or emotionally; where it is frequently purchased; whether there is likelihood that from a time to time supply may be needed on an urgent basis without prior notice; and the perceived quality of the supplier is high. All of these are relevant to medical services and to a lesser extent to legal services. Results of the study show that, though high in credence quality, consultancy services are not likely to succeed with any RM initiative with retail customers. One explanation of this finding may be that very few retail customers will ever use the services of a consultant.

RM initiatives by marketers of products with high experience quality have moderate likelihood of success. Among this category of products, relationships with restaurants are most valued by customers and vacation service providers to a lesser extent. Retail customers like to pay frequent repeat visits to their preferred restaurants and like to get preferential treatment as valued long time customers. That is not equally true, however, with another service with high search quality, vacations. Significant cross factor loading for this item indicates that, with this item there was variation within respondents between measures. Many retail customers are less likely to pay repeat visits to same vacation location like they do with restaurants. According to the findings of this study, with lawn fertiliser which is another item identified by Lovelock *et al.* (2001) as high in experience quality, RM is least likely to succeed. One explanation of this could be that respondents perceived it as another tangible product with high search quality and overlooked the intangible service aspect of the product.

Overall, it can be said that, retail customers see value of RM selectively and predictions can be made about relational value from the customers' perspective on the basis of the type of goods or service. As such, some product marketers RM initiatives are more likely to succeed than others. However, in this research, ten standardised categories of goods and services have been studied. In reality, customers may see value of RM differently within each of those categories. For example, they may see more value in a relationship with their regular general practitioner as opposed to a pathologist, particularly as the most commonly identified variables in this study that determine relationship value with a marketer from retail customers' perspective are more relevant to a general practitioner than to a pathologist. Further research needs to be carried out to find out such within category differences. Also, findings need to be tested cross-culturally.

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