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RELATIONSHIP MARKETING AND CUSTOMER RETENTION IN SERVICES SECTOR-A REVIEW OF LITERATURE.

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ABSTRACT

With the growth of services sector, the scope of relationship marketing has also grown exponentially. It has a wider scope than CRM as it emphasizes not only on B2C transactions but on B2B and B2G transactions as well. The growth of services in India can be attributed to various factors like the post 1990's liberalization, population growth, increase in the number of nuclear families and working women, increase in disposable income, lifestyle, health, fitness consciousness and growth in recreational facilities, era of guarantees and warranties and increase in standard of living. The paper is aimed to provide an insight into the body of knowledge and research work available on the subject of relationship marketing and customer retention in relation to the service sector and is expected to provide with the understanding of the need for building fruitful relationships with customers and other parties involved in delivering value to the customer. It will provide with an idea as to if it is worthwhile to invest in relationship marketing initiatives or not. Subject of relationship marketing has attracted the attention of researchers and many research studies have been carried out in this field in the last few decades. The literature review presented attempts to provide an overview of the theoretical and empirical literature.

KEY WORDS: *Relationship marketing, CRM, loyalty, customer retention.*

OBJECTIVE

To access, appraise and review the research work done (both conceptual and empirical) on the subject/topic, identify research gaps and scope of further research.

METHODOLOGY

The paper is based on the literature available on the subject/topic and involves secondary data collected from various sources (including research papers from Indian and international journals) with proper referencing indicating the source of the academic body of knowledge.

INTRODUCTION

With the growth of services sector, the scope of relationship marketing has also grown exponentially. It has a wider scope than CRM as it emphasizes not only on B2C transactions but on B2B and B2G transactions as well. At the time of independence, India was predominantly an agrarian economy, but today more than fifty percent of its GDP is contributed to by the service sector. The growth of services in India can be attributed to various factors like the post 1990's liberalization, population growth, increase in the number of nuclear families and working women, increase in disposable income, lifestyle, health, fitness consciousness and growth in recreational facilities, era of guarantees and warranties and increase in standard of living.

Relationship marketing is the practice of building long-term satisfying relations with key parties –customers, suppliers, distributors in order to retain their long-term preferences in business (Philip Kotler). It is a process of creating and maintaining relationships with all the parties involved in delivering the offering the customer as well as the customer itself. Globalization and advances in technology have created a fierce competition for business organizations world over. Technological innovation and globalization are creating dynamic network or chain of interconnected players to bring value to the end user. This has led to a new breed of empowered customers whose expectations are increasing and are virtually controlling the decision making in organizations. These developments have drastically changed the relationship between customers and companies and dramatically changed the role of marketing. Over the last two decades the scope of marketing has widened, Practitioners and Academics have focused ever more on how firms relate to their markets. This has resulted in the emergence of a sub discipline of marketing referred to as Relationship Marketing.

The concept of Relationship Marketing has evolved gradually. Researchers have led to the suggestion that a paradigm shift in marketing is needed if marketing is going to survive as a discipline (Gronroos, 1995) and companies must move from short-term transaction-oriented goal to long-term relationship-building goal (Kotler, 1992). The phenomenon Relationship Marketing was first identified by like Berry (Berry et al, 1983), and then McKenna (1991) used the term relationship marketing. Morgan and Hunt (1994) defined Relationship marketing as the marketing activities directed toward establishing, developing, and maintaining successful relational exchanges. The process of 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). Relationship marketing has been viewed as buyer–seller encounters that accumulate over time with opportunities to transform individual and discrete transactions into relational partnerships (Czepiel, 1990). Nevin (1995) quotes that relationship marketing has been used to reflect a variety of themes and perspectives which range from industrial marketing perspective to service marketing perspective and has been defined in numerous ways by different scholars and practitioners. It has also been interpreted as a strategic marketing approach which is oriented towards attaining long-term profitability and value creation by interactions and mutual exchange among customers, suppliers and other stakeholders.

Researchers have further suggested that the corner stones of relationship marketing are customer satisfaction & customer retention. Keller (2006) defines customer satisfaction as a customer's feeling of pleasure or disappointment resulting from comparing a product's (or service's) perceived performance or outcome in relation to his or her expectations. If a customer is satisfied with a product or a service, it is this satisfaction that repeats the customer's buying behavior. This process of holding customers by satisfying them and not allowing them to defect or switch to other options is called as customer retention. In relationship marketing, customer retention has been given prominence in perspective of company's benefit and reputation (Gummesson, 1999). More companies accept the theory of customer generally because existing customers are comparatively easier and less expensive to retain than to create a new stream of clients (Reichheld 1996; Egan 2001). Customer satisfaction and retention are not possible as long as long as the company does not have a strong and efficient network in place for delivering value to the end user.

The idea of value creation and exchange is one of the foundation stones of relationship marketing. These value perspectives suggest that value is created; as an offering and delivered through recurrent transactions within a supplier-managed relationship; through mutually interactive processes and shared through negotiated agreement within the life of a relationship and shared in interactions that emerge from within networks of relationships. Thus value has been considered to be an important constituent of relationship marketing and the ability of a company to provide superior value to its customers is regarded as one of the most successful strategies. Delivering value demands for a synergetic relationship amongst different parties involved in the service process; the process involves various transactions which fall well within the scope of Business to Business (B2B) practices.

Many companies today therefore have partnered with specific suppliers and distributors to create a superior value delivery network, also called a supply chain (Magnet, 1994). Brown (1997) has defined supply chain/value delivery network as a tool to disaggregate a business into strategically relevant activities which enables identification of the source of competitive advantage by performing these activities more cheaply or better than its competitors. It comprises of larger stream of activities carried out by members like suppliers, distributors and customers. Further Christopher (2002) defines a value delivery network as the network of organizations that are involved through upstream and downstream linkages in the different processes and activities that produce value in the form of products and services in the hands of the ultimate consumers. In order to gain competitive advantage value delivery network, collaboration or integration is required i.e. the backward/upstream and forward/downstream collaboration/integration. Since Relationship marketing encompasses all parties to a business like suppliers, distributors, employees and customers, it synergizes efforts in order to deliver value to the end user. The end user or the consumer if satisfied can be retained and profits can be expected over the customer's lifetime purchases. On an average, businesses send six times more to acquire customers than they do to keep them (Gruen, 1997).

Therefore many business firms especially the service sector ones engage in the process of Customer Relationship Management (CRM) to avoid customer defection and churn out. CRM is a business strategy that aims to understand, anticipate and manage the needs of an organization's and potential customers. It is a journey of strategic, process, organization and technical change whereby a company seeks to better manage its own enterprise around customer behaviors. It entails acquiring and deploying knowledge about one's customers and using this information across the various touch points to balance revenue profits with maximum customer satisfaction. CRM aims to benefit from Customer Lifetime Value (CLV) of a customer by maintaining a relationship with him/her. Since modern business transactions are complex and vast there is a need to have system in place so as to maintain customer profiles and necessary information in order to build a relationship with customers, so it calls for use of modern technology to maintain the same. Thus the e-CRM or electronic CRM has a place in modern business set ups.

LITERATURE REVIEW

Crosby and Stephens (1987) while analyzing the 'effect of relationship marketing on satisfaction, retention and prices in the life insurance industry observed that insurance marketers use relationship marketing approach to avoid price competition. They also suggested that simplified interpretations of the relationships effects should be abandoned in favor of better models of relationship development and value determination. Relationship marketing can be practiced through direct communications that appear highly personalized and create a sense of belongingness on part of buyers.

Anderson, Fornell and Lehmann (1994) investigated the nature and strength of the link between customer satisfaction and economic returns. They discuss how expectations, quality, and price should affect customer satisfaction and why customer satisfaction, in turn, should affect profitability; this results in a set of hypotheses that are tested using a national customer satisfaction index and traditional accounting measures of economic returns, such as return on investment. The findings support a positive impact of quality on customer satisfaction, and, in turn, profitability. The authors demonstrate the economic benefits of increasing customer satisfaction using both an empirical forecast and a new analytical model. In addition, they discuss why increasing market share actually might lead to lower customer satisfaction and provide preliminary empirical support for this hypothesis. Finally, two new findings emerge: First, the market's expectations of the quality of a firm's output positively affects customers' overall satisfaction with the firm; and second, these expectations are largely rational, albeit with a small adaptive component.

Voss and Voss (1997) doubtlessly make a point that that the modern focus on the customer rather than the prospect provides considerable advantages to organization. In the same year, Thurau and Klee (1997) presented a conceptual model that postulates the relationship between satisfaction and customer retention is moderated by the relationship quality construct. Unlike other studies that view customer satisfaction as the central determinant of customer retention, Thurau and Klee indicate that the relationship between these two constructs is weak and can be non-existent.

Garbarino and Johnson (1999) analyzed the relationships of satisfaction, trust, and commitment to component satisfaction attitudes and future intentions for the customers of a New York off-Broadway repertory theater company. For the low relational customers (individual ticket buyers and occasional subscribers), overall satisfaction is the primary mediating construct between the component attitudes and future intentions. For the high relational customers (consistent subscribers), trust and commitment, rather than satisfaction, are the mediators between component attitudes and future intentions.

Based on Gummessons's relationship model (1999), Nagisimha Kanagal, in a more Indian context reported that relationship marketing can help in increasing the switching costs, so that customer defection can be reduced and can be retained. Switching costs can be increased by emotional lock-ins, good experiences etc. he further asserts that in many service businesses (like Hotel industry), the relationships with the government are very important. Relationship marketing leads to competitive advantage when the core service is good and long but professional. The author argues that some hotels for example do not engage in relationship marketing practices and believe in ultimate service quality as only means of customer retention. He further provides with managerial implications of the study with examples from hotel and airlines industry.

Dibb and Meadows (2001), developed a model to access the degree to which business are relationship marketing oriented. They have pin pointed the recent progress of relationship marketing in retail financial services and highlight various barriers that can impede an organizations progress towards a relationship marketing focus. They demonstrate that dealing with the management of 'staff' and 'organizational structure' can take longer and may be more complex. The ultimate success or failure of the organizations pursuing a relationship marketing vision lies in their ability to manage the implementation at a much more human level.

Kristof De Wutf et al., (2001) have observed that retailer-consumer relationships have three distinct intended contributions. It shows that different relationship marketing tactics have a differential impact on consumer perceptions of a retailer's relationship investment. It also demonstrates that perceived relationship investment affects relationship quality, ultimately leading to behavioural loyalty and it reveals that the effect of perceived relationship investment on relationship quality is contingent on a consumer's product category involvement and proneness to engage in retail relationships. The authors empirically cross-validate the underlying conceptual model by studying six consumer samples in a three-country, transatlantic, comparative survey that investigates two industries.

Caulfield (2001) believes that CRM initiatives usually involve a number of departments wherein poor and insufficient understanding among the management and employees of the organization of the CRM initiative become reasons for failure. Data quality issues contribute to a 55-70% failure rate for CRM initiatives.

Davenport *et al.,* (2001) reports that most of the organizations with huge data warehouse are ending up not benefiting from the amounts of information which they possess on their customers. Despite their data being rich, the information available is not being used effectively. For organizations wanting to gain a competitive advantage, they need to know how best to use their CRM capabilities to learn more about their customers and serve them better for mutual benefits.

Greenberg (2002) has acknowledged Customer Relationship Management (CRM) as a healthy and promising newcomer on the business radar. CRM is an approach to the better, faster and more effective organizing of any business interactions with their customers based on a customer-centric foundation. It is an entire discipline, not a single activity or project.

On the relative importance of customer satisfaction and trust as determinants of customer retention and positive word of mouth, Raanaweera and Prabhu (2003) present Trust as an interesting variable. While most of the literature portrays it as a determinant of relationship marketing, they present it as one of the significant drivers of retention. Trust therefore becomes a common factor between relationship marketing and customer retention. The study is unique in not just one way but many. Most of the research work on telecom is now-a-days done in mobile or cellular sector, but this study examines fixed line telephone users by a survey with cross sectional data collected from over 2850 users. The study reveals that Trust is a more important factor for retention in B2B relationships than B2C relationships. Trust may however have more influence in some service sectors (like financial services, online services) as compared to fixed line telecommunications. Satisfaction is ranked ahead of Trust in customer retention as the authors believe that unlike Trust, Satisfaction is a precursor to all repeat purchase decisions while as the influence of Trust varies from service to service and sector to sector. Trust is more important for word of mouth. Customer satisfaction may lead to retention but may not necessarily lead to word of mouth unless there is the element of Trust. The study further explains that the service-failure and service-recovery aspects depend upon which party (service provider or consumer) initiates first. The consumer may adopt the 'forgive but not forget' attitude. Therefore even after a successful recovery, the customer may be satisfied but may still switch and not get retained for the next purchase. Service failures in such cases need to be avoided at all costs if retention is wished.

Gustafsson and Johnson (2005) examined the effects of customer satisfaction, affective commitment, and calculative commitment on retention. The study examined the potential for situational and reactional trigger conditions to moderate the satisfaction-retention relationship. The results support consistent effects of customer satisfaction, calculative commitment, and prior churn on retention. Prior churn also moderates the satisfaction-retention relationship. The results have implications for both customer relationship managers and researchers who use satisfaction surveys to predict behaviour.

Sherrell and Bejou (2007) reported that as consumers have become more demanding in their exchanges with firms and as competition has intensified, marketers have become interested in the potential of relationship marketing activities to deliver enlarged value to the customer over and above the firm's product or service offering. Building strong customer relationships offers a significant competitive advantage due to the difficulty of direct imitation by competitors.

Eshghi and Topi (2007) discussed determinants of customer loyalty in the wireless telecommunications industry in the back drop of mobile number portability facility announced in the United States. In contrast to the practice of 'locking in' customers, the authors suggest that wireless/digital service providers rather ought to improve customer satisfaction in order to minimise customer defection. This would call for shifting scarce resources to customer retention by means of improvement in services and saving costs of expensive customer acquisition campaigns. There is no research evidence to suggest that customer loyalty is driven by financial incentives. In tune with the existing literature reviews the authors state Satisfaction and Loyalty as strong predictors of retention. The concept of satisfaction, loyalty and retention may be used to refer to the same underlying behaviour.

Singh & Shrivastava (2008) suggest relationship marketing as an approach which can be adopted to enhance the competitiveness and profitability of a value delivery network. Better integration and shared mutual values can be developed through relationship marketing across the value delivery network.

Rootman, Tait & Sharp (2011) addressed the need for understanding relationship marketing and customer retention of banks, and related lessons that can be learned from banks in Canada and the United Kingdom (UK). A self-developed, structured questionnaire was distributed via convenience snowball sampling to banking clients in South Africa, Canada and the UK. The findings revealed that six banking service delivery variables influence banks' relationship marketing and customer retention. Fee structures and the ethical behavior of banks are regarded as the most important focus areas for banks. Canada was identified as the country with the most highly regarded banks in terms of relationship marketing, customer retention, empowerment of bank employees and personalization of banking services. UK banks were highlighted as superior in setting fee structures, communication strategies and ethical behavior. Therefore, strategies implemented by Canadian and UK banks relating to the variables were adapted to fit South African banks as well as institutions in other developing countries.

Asif Ur Rahman and Masoom (2012) evaluated relationship marketing practices in Grameen Phone (GP). The objective of the study was to find out whether Relationship Marketing creates competitive advantage and retains customers for businesses. For this purpose two hundred and sixty five respondents were surveyed. Findings show that GP has been applying relationship marketing successfully, consequently retaining customers and achieving competitive advantage. However, GP should emphasize on internal marketing practices and on enhancing employee satisfaction and customer care.

Jayantha and Geetha (2014) while discussing the determinants of customer retention imply that satisfaction, effective commitment, payment equity and trigger have an influence on retention. Customer satisfaction has a major impact on customer retention than other determinants. Effective commitment has even lower effect on retention than payment equity thereby meaning that payment equity has a medium level effect. Reactional triggers seem to have significant negative impact on customer retention. Since triggers may beyond the control of the operator, it is advisable to focus on the determinants like satisfaction.

Donald R Ogungbade (2015) while exploring the relationship between relationship marketing, relationship quality and customer loyalty implied that relationship marketing tactics are positively related to customer satisfaction. He puts satisfaction ahead in terms of relation to loyalty as compared to brand image (another variable in the study). Abdallah et al., 2015[1] studied the effect of relationship marketing on customer retention with variables of communication, seller expertise, comparison level of alternatives, cooperation, dependence on seller, relationship quality, thrust, commitment and satisfaction and concluded that the effect of relationship quality on customer retention showed a significant and positive effect of satisfaction and commitment on customer retention.

Suhail and Mushtaq Darzi (2016), while studying the employee's perception regarding relationship management conclude that customer knowledge and customer orientation have significantly positive impact on customer retention. These findings are in context with the earlier studies (Wood 2003, Wang et al 2010) and reconfirm the findings that these two factors play an important role in facilitating mutual relationship between organizations and their customers (Varki and Colgate 2005)
.

CONCLUSION

The review of literature reflects that a considerable amount of research work has been carried out in the area of relationship marketing. The research has focused on the effect of relationship marketing on customer profitability, competitive advantage, consumer behavior and betterment of quality of service etcetera. Relevant research work has been carried out internationally and in India as well. The review hints that given the costs and effort associated with acquiring new customers, it is profitable to retain the existing customers. It is evident from the literature that most of the studies carried out in India focus only on to the customer side of it. While as relationship marketing is basically not only about relationship with customers only; it is also about the relationship with the upstream linkages, downstream linkages and networks as well. Therefore, there exists a research gap, which calls for studying the impact of relationship marketing on value delivery networks as well. More over the literature review reflects that most of the work has been done on financial service industry and therefore needs to be carried out in an array of other service sectors and manufacturing sectors as well. Association between relationship marketing and customer retention in Indian service sector has to be established with further research.

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