Development of Relationship Marketing

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Since the late 1980's, relationship marketing has received significant academic attention focusing on different issues from different perspectives, based on different backgrounds of marketing systems and environments. With the advent of the Internet, the directions and scopes of relationships may have to be shifted toward a new form of marketing network to meet the demand on the part of on-line consumer communities.

This paper is to review major transitions of researches in the study of relationship marketing over the last ten years and to suggest a new area of relationship marketing in the on-line and off-line communities.

Part I. The Development of Relationship Marketing and its Classifications

In order to get an overall look on researches about relationship marketing, it is possible to utilize a few levels of existing researches for the classifications.

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1. Classification by the diversity of linkage methods and relationship partners

With the help of the change in both the linkage methods and relationship partners, the development of relationship marketing can be generally analyzed according to two dimensions: linkage methods and the relationship partners. First, the dimension of the linkage method is divided into two directions that are decided on the basis of tools used to create linkage: informational linkage and non-informational linkage which utilizes information technology. On the one hand, the diversity of relationship partners has to do with the number and heterogeneity of the elements of relationship marketing communities. Relationship partners are comprised of customers, suppliers, competitors, task environmental factors, etc. If those existing research findings are evaluated based on these two dimensions, it shows that the existing research findings have developed through these two paths.

First, if the developments of the non-informational linkage are analyzed, the concept of relationship of the marketing system's task environment has emerged according to the limitations of traditional marketing. In addition, relationship marketing research, with a focus on customers, has made its appearance on the scene. With respect to the consumption market, there has been an emergence of customer-focused relationship marketing, and along with the growth of Japanese businesses, there has been an emergence of relationship marketing which has a focus on buyer-seller relationships utilized in an industrial market.

The relationship-focused research on corporations have shown that unlike customer relationship marketing, diverse relationship profits are made possible, and, a distinction can be made in the process that there is a utilization of a stronger process of making relationships such as financial relationships and human relationships. By expanding the scope of linking firms, the idea of reaping additional profits through linkage by conversion has expanded into a collective body of core-firm focused research. Also, with the globalization of markets as well as that of competitors, researches on a variety of firms and their strategic alliances have come about. The development process of
these researches on relationship marketing demonstrates the
tendency to expand the scope of the linkage object, and therefore
this is a reflection of the dramatic increases in linkage profits.
This kind of research can be seen as a basic linkage between the
interior task elements of the marketing system, and through this
linkage there is an effort to improve marketing performance as
well as competitiveness, without giving much consideration to
the utility factor of information technology. This can be seen as a
non-informational direction of relationship marketing.

On the one hand, the informationally directed research has
been activated with the emergence of information technology,
which could be the specific path to linkage. Information
technology was started from the firm's information system as
the individual firms' internal activities to increase efficiency.
However, researches on inter-organizational information system
such as suppliers and distributors with the consideration of
relationship marketing concept conducted EDI and VAN in
information system. These business-to-business information
system researches were expanded and developed into new
business network type of information system that connects
various elements in the business system to information
technology, such as Sabre or Appollo. These kinds of
information system were developed into the form of relationship
enterprise with the participation of vertical/horizontal firms of
common business opportunities, firms of different areas, and
various organizations, which shows the expansion of linkage
range.

With the growth of the Internet, market integration and the
power shift into customer communities have important meaning
in the direction of development of linkage range. As customers
form communities and become the center of the marketing
activities, it is likely that reverse relationship marketing will
grow with the help of online relationship communities.
Therefore, further relationship marketing researches will
integrate informational and non-informational relationship
marketing researches based on customer communities.

2. Classification by linkage methods and linkage objects

Development of relationship marketing can be analyzed from
the perspectives of linkage marketing as an aspect of change in the linkage method and linkage objects. Basically, the linkage method can be divided into two parts: non-informational linkage and informational linkage with relation to the utilization of information technology. Non-informational linkage starts with exchange management, which is marketing management’s fundamental objective, and progresses into a two-way relationship management that relies on a deepened relationship, and finally to a network relationship management as an expansion of relationships. Informational linkage is comprised of informational relationship management through utilization of information technology and an online relationship management. Meanwhile, objects of linkages are based on marketing management’s main objective: the market, business-related activities in value chain, and environment.

3. Utilization fields of Relationship Marketing and the related History

There have been various forms of development in relationship marketing for the past ten years. Hence, it is necessary to have a time-based consideration on this perspective. In addition, existing researches need to be classified into specific area as previous researches have been conducted simultaneously in various areas. With the introduction of the Internet, a clear distinction of physical space and virtual space should be made.
because of the emergence of virtual space. Most of the existing researches have been conducted more in physical space than virtual space, and they can be classified by the relationship parties such as business to customer relationship, business to business relationship, and so on. The researches on business to customer relationship have been developed in terms of customer satisfaction, customer relationships, customer loyalty program, and customization. On the one hand, the researches on business to business relationship have been developed in terms of the two-way relationship between the supplier and the distributor, the network relationship, and the value-chain related supplier-chain management. Moreover, there has been substantial development not only about the object of linkage but also on the methods of linkage, and this in turn has been developed by utilizing digital technology. This kind of relationship marketing activities are, in terms of performance, being researched with concentration on relationship merit and market asset.
Table 2. Classification by chronological order and application areas of relationship marketing

<table>
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<tr>
<th>Part 11. Researches on Relationship Marketing in Korea</th>
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<tr>
<td>I. Approaches to related elements of a marketing system with marketing performance.</td>
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Main streams of marketing researches moved from 4p variables in the 1960's, to consumer behavior in the 1970's and to marketing strategies in the 1980's. The relationship management of marketing performances and marketing environments emerged in academic studies in the wake of strategic developments in the late 1980's. Porter(1990) developed his four-factor diamond model of national advantage in his pursuit of comparative advantage. Economic and industrial policies of governments would determine the life and death of private companies in developing countries. Marketing strategies in Korea were therefore strongly related with government policies in the course of socio-economic development. Korean companies would start with the study of Japanese companies in their strategic developments. The Japanese company, a well-organized
business network collaborating closely with government and other institutions in their marketing system, enjoyed a unique competitive advantage over other competitors in the world market. Environmental factors are obviously critical to the survival and growth of marketing performance. Japanese companies were very efficient in collaborating with others, including competitors and government agencies, rather than competing against one another.

How are environmental factors related to marketing success? Relationship marketing began with the relationship management of marketing task environments, such as entry barriers, supply chain, present and potential competitors, distribution network, supporting agencies, coordinating organizations and regulating institutions. Instead of trying to adapt creatively to changing marketing environments, marketers are recommended to investigate the relationship structure of a company with respect to its environment and to manage environmental factors in marketing systems. This approach requires marketers to obtain a thorough understanding of the whole marketing systems.
II. Customer Relationship Marketing


The lifetime value of customers underscores the importance of customer retention through after-marketing techniques, and customer services to enhance customer satisfactions (Berry 1983; Craven and Piercy 1994; Oliver 1980; Churchill and Suprenant 1982; Tse and Wilton 1988; Yi 1990). Research on customer satisfaction shows that, customer satisfaction occurs when the performance of the product or service, that a customer has paid for, exceeds the customer's expectations. Moreover, as customer satisfaction increases, so does their desire to make future purchases. This results in the high possibility for repeat purchases and high customer loyalty, which in turn leads to the high possibility of transmitting of reputation by word-of-mouth. (Bearden and Teel 1983; Westbrook and Oliver 1991; Churchill Jr., and Surprenaut 1982). Research showed that customer satisfaction works primarily to influence customer retention, which makes it possible to have a long-term relationship with customers. Through customer relationship management, firms are able to enjoy performances such as customer retention economics, while customers participating in relationship market behavior, increase efficiency in decision-making, decrease information-processing tasks, maintain cognitive consistency in decision-making, and can minimize the perceived risk related to future decisions. (Sheth and Pravartiya 1995).

Researches and empirical evidence that were raised to criticize to the effect that customer satisfaction has led to the customers' level of expectation to rise rapidly and resulted in an increase in service costs. Customer satisfaction, a measure of post-purchase attitude change, could not be a reliable indicator of customer loyalty. (Thompson 1998; Rust and Oliver 1999).

2. Long-term relationship through Customer Success

Instead of asking how to meet the customer's expectations, the major concern should instead be focused on how to help our
Table 3. Customer satisfaction vs. Customer success

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<th>Goal</th>
<th>Satisfaction</th>
<th>Success</th>
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<td></td>
<td>Be sure to exceed the customer expectations.</td>
<td>Be sure whether our customers get most out of our product. Best product at best price is not the best offer if our customers have limitations to get most out of our product. Our offer must include alternative ways to break and address the limitations.</td>
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<tr>
<th>Market Offering</th>
<th>Product with service</th>
<th>Solution package development for customer total problems with partnership spirit</th>
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<td><img src="image" alt="Customer Satisfaction Diagram" /></td>
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- Lower tiers of client’s hierarchy of needs
- Upper tiers of client’s hierarchy of needs

customers solve their problems and succeed in their business. Customer success, not customer satisfaction, is the key variable to enhance long-term business relationships with customers (Amidon 1997; Lim and Jun 1999).

3. Customer Loyalty Programs

A variety of mileage programs are introduced to increase the customer retention rate, and customer data are utilized to provide a customized offer for each customer (Reichheld and Sasser 1990; Reichheld 1993).

Extensive research on customer loyalty has been conducted especially in the service area, and the concept of the service profit chain was presented. The service profit chain allows customer satisfaction and loyalty to contribute to the increase in value of service delivered to customers, and as a result the performance of the firm is augmented as well. Furthermore, the
service profit chain assumes that in order to bring about customer satisfaction and customer loyalty, it is first necessary to have high employee satisfaction and loyalty as well as have a set of capabilities that conform to a high standard. Therefore, customer satisfaction and customer loyalty is expanded as a section of the firm's internal marketing. (Heskett et al. 1977).

On the one hand, with the importance of customer relationships and the empowerment due to the development of information technology, attention has been drawn to database marketing. This is credited to the utilization of a firm's data on customers, making it possible to have a different marketing activities. (Shani and Chalasani 1993). In order to increase the profitability of a firm with respect to this, research has been conducted by calculating customers' lifetime value and developing differentiated marketing strategies to target those with high lifetime value to the firm. (Jackson 1992; Keane and Wang 1995; Blattberg and Deighton 1996; Berger and Nasr 1998).

III. Relationship marketing along with inter-category competition and network competition.

1. System competition and strategic group

Studies of buyer-seller relationship were extended to the analysis of governance structures in strategic groups by means of ownership, exchange of key personnel, and contracts. The member company of a large strategic group would solicit a cascade of demand through internal channels. Captive market of the business group offered another competitive leverage in market penetration and market development. Programmed buying and relationship buying rather than market transactions became a typical mode of trade in business-to-business marketing (Coase 1937; Williamson 1975; Ouchi 1980; Reve 1990). Strategic implications of big business groups in Japan have been widely covered by researchers.

A marketing network and its management is in a turmoil of global reorganization in major industries by M&A and strategic alliances. Cooperation is regarded as a critical factor of
competitive advantage in global marketing. Competition, implying inter-system competition through intra-network cooperation, has become a paradigm in the restructuring of industry along globalization processes (Brandenburger and Nalebuff 1995).

The emergence of this marketing network has brought about a change in the concept of competition from competition among individual business to inter-network competition, and in the form of group vs. group competition. (Theoreli 1986; Gomes-Casseres 1994; Klein 1995). Also, along with confronting the challenge of network competition, the concept of encapsulated competition was introduced. Encapsulated competition is the competition between diverse forms of companies within a network (Klein 1995). Accompanying the new boundaries of competition was the conversion of other concepts such as the emergence of network-based advantage, and group-based advantage (Gomes-Casseres 1994). In addition came the awareness of the need for both a capability chain to assess the
components that make up the network's capabilities and its management. (Stalk et al. 1992).

2. Relationship Marketing and Information Technology

Information technology has been widely applied to weave business flows by data sharing and data exchange. Transactions and business relationships among separated firms and organizations have been integrated by such programs as SABRE or APPOLLO in the airline industry, QRS in the apparel industry, ECR in the food industry, POS in the distribution industry and JIT in the manufacturing industry. Information technology has also contributed to the restructuring of inter or intra organizational management.

The performance of relationship marketing is significantly influenced by the object and method of linkage, which is as crucial as the content of linkage, and the information technology with the unconventional boost of once limited linkage methods has been the motive for a quantitative expansion and qualitative profundity. While previous financial, contractual, and human relationships have proved to be inefficient as the number of relationship partners increased and diversified, informational relationalization (or relationship building) seeks higher linkage profits from the broadening of relationships and deepening from the integration of information technology. (Jong-Won Lim, Hyung-Jin Park 1998). Informational relationalization takes a marketing system's relationship structure and converts it into a more flexible and yet speedy network. (Jong-Won Lim and two others 1997; Lim and Park 1998). Informational relationalization in terms of quality, increases the flexibility of the network system and relationship structure. (Castella 1989). Information technology is a tool that simultaneously disperses an organization and makes an advanced level of integration possible which increases the organization's flexibility. Informational relationalization increases speed by delivering information in real time. Moreover, it increased mutual utility and made the mutually effective two-way communication possible through the abundance of medium.

In connection square's aspect, informational relationalizations differ from the non-informational techniques in that they are
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characterized by openness, centrality, and multiplexity. First, Informational relationalizations have a comparatively liberal characteristic, and the externality of network accelerates expansion of the connection range. (Clemons and Rows 1992) Second, Informational relationalization makes it easier to connect the inside of organizations and industries to the outside. (Konsynski 1993) Interconnecting academic circles, industries, government and so on, continuously generates new squares of connection. Third, it makes possible for core firms maintain a firm centrality. Core firms that dictate core platforms or protocols have strong power in proportion to its broadened connection range, so it is able to continuously hold a dominant position in the competition. (Morris and Ferguson 1993) Fourth, due to advances in information technology, partnerships are without boundaries and a new type of relationship-structure is established. Therefore, it can be expected that an integration

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<th>Table 4. Competitive strength and relationship marketing</th>
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<td><strong>Perspective</strong></td>
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<td><strong>Unit of Analysis</strong></td>
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<td><strong>Source of Merit</strong></td>
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<td><strong>Dispersion of fixed cost to more volume</strong></td>
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<td><strong>Effect and Limitation</strong></td>
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<td><strong>Disociety of scale</strong></td>
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effect was brought about by the reformation of organizations and industries. (Konsynski 1993; Lim 1997)

3. Relationship Merits and Market Assets

Just as the potential of a student may be evaluated by the reputation and image of the school she/he attends, credibility of a company may also be measured by the reputation of the business group to which it belongs. The power of a business group is much larger than the power summation of each member company. Big business groups in Japan and Korea were very active to expand their markets.

Marketing network can create a domesticated market, a kind of captive market within the network. Benefits a company can derive from its marketing networks are defined as relationship merits: sales increase, cost reduction, market penetration and development, technology and quality improvements.

A marketing network that can generate relationship merit can be defined as a market asset, (Arndt 1979, Lim 1994, 1995), including goodwill or brand asset. A marketing network can just as well be very harmful if it is not open and flexible to accommodate turbulent environmental impact. An example is a big business group, Daewoo of Korea, which filed for bankruptcy. Several competent companies in the group faced serious problems which questioned their ability to remain in their business. The value of a market asset can be evaluated by its (1) value-creating ability, (2) sustainability, i.e., duration period of relationship merits and appropriability. (Shin 1997; Morgan and Hunt 1994; Amit and Shoemaker 1993; Dierickx and Cool 1989).

(1) Value-creating ability

Value-creating ability is dependent upon the market network’s heterogeneity (Peteraf 1993) and ability to supplement (Amit and Shoemaker 1993), scarcity (Barney 1991), and synergy effect (Itami 1992). The network’s linkage method, as a structure dominated by capital or contractual factors, can be weakened in the area of value-creation as well as risk sacrificing of the interest parties if it is not able to promptly adapt to the change in environment. Relationship marketing holds the potential for
value-creation on the assumption that there is a supplementary relationship between the interest parties of a marketing system. However, in order to extend the boundaries of simple supplementary nature for a synergy, it is necessary to construct superior relationship partners who hold the supplementary capabilities. And, establishing trust, mutuality, concentrations among the partners are important. (Arndt 1979, Gilbert et al. 1994; Morgan and Hunt 1994).

(2) Sustainability
When considering the competitive advantage held by the marketing network by its non-imitability, imitability, and transparency, it is directly related to how sustainable the competitive advantage is. (Amit and Shoemaker 1993; Dierickx and Cool 1989). When the value obtained through the marketing network is relatively imitable and there are substitutions for that value, it will be difficult to sustain that value within the network. (Barney 1991). Through the sustainability of the market assets, it is possible to go beyond just the competitive advantage of a business to sustaining the competitive advantage. Non-imitability is further strengthened by the structuralization of relationship partners, causal ambiguity, and economies of scale. (Dierickx and Cool 1989).

(3) Appropriability
Although it is possible to create and sustain value from the marketing network, it is still necessary to make a conversion of that value through the marketing network. (Klein et al. 1978; Grant 1991). Hence, a value-creating process is accompanied by a value-conversion process.

In the event that the marketing network is unable to make an appropriate value-conversion to the interest parties (businesses), the businesses must face a general adaptation or high dependency, making it difficult for them to feel the necessity for the marketing network's existence, not to mention an incentive to participate in the network. The many values that are created through relationship marketing satisfy a basic possibility for conversion mostly within the relationships of the partners. However, many research findings show that with respect to the possibility of conversion, an emphasis is placed on the necessity
for fairness, mutuality, and trust among other things. (Anderson and Narus 1991; Morgan and Hunt 1994).

Part III. Relationship Marketing in the online and offline Communities

Marketing communities in physical space have been established as a form of mixed use development in urban development. Mall of America is the largest marketing community composed of different businesses that share the same target customers. Hotels, department stores, entertainment businesses are clustered together, attracting their customers from abroad. Silicon Valley is another example of relationship marketing community.

The application of the Internet in business-to-business and business-to-customers opened new horizons in the study of relationship marketing. Online sharing of market information such as sales, purchase, order, and inventory would solicit new offers from qualified suppliers throughout the world, establishing more efficient business relationships among trade partners. Different companies in different industries may share the same customers or try to meet the same needs and wants of different customers. In the digital age, they can easily join hands to form a new marketing community in virtual space.

As the marketing network went online, the community became open to all and a central emphasis was placed on the network as a place where members of the community come to meet as well as the roles they assume. With the shift in emphasis came an inevitable forming of relationships between mutual interest parties, turning relationship marketing communities into a complex, hierarchal personality. A high level of openness and multiplicity makes a strict reciprocity between the participating parties. This network allows a limited inter-organizational openness and multiplicity, with a focus on interaction. There is a difficulty in the integration when the openness and multiplicity go over a certain level. In this aspect, the importance of commitment and trust is asserted with the identity as a component of a community. (Anderson, Hakansson and Johanson 1994). However, a high level of openness and
multiplicity is obtained in the relationship marketing community, as a diverse range of people or organizations participate for customer success. Furthermore, these relationship marketing communities make it possible to improve spontaneity by voluntarily active participation of the customers, an improvement of trust through instant delivery of information over opportunism, the possibility of a one-to-one relationship between businesses and consumers through the decrease of limitations in time and space. This, in turn has brought an improvement characterized by an increased concentration between the formation of business-consumer partnerships, and increased equality from the simultaneity of information technology and increased reciprocity. (Jong-Won Lim and two others 1997).

Who should be included as a cooperative partner and who should be identified as competitors in the relationship marketing community built in virtual space? A new concept to describe future direction of alliances and cooperation, organization of a marketing network, and interaction modes within the marketing network has been raised by many types of business integration, consolidation and restructuring. Heterogeneous organizations
that are striving for a shared goal can be defined as a relationship marketing community, which combine forces as fate communities, which instead of individually striving for micro objectives, act as a whole to work more efficiently and swiftly. A community refers to the state in which humans feel a belonging to a network. Armstrong and Hagel III (1996) classified communities into: communities of transaction, communities of interest, communities of fantasy, and communities of relationship. Relationship marketing communities are communities that are formed to benefit from profit comes from the linkage by focusing on forming relationships based on economic interest parties.

Relationship marketing communities can be divided according to the following types: customer sharing communities and value sharing communities. Relationship marketing communities are operated for the purpose of bringing customer success. Customer success is the level to which a customer has fulfilled one's objectives. (Amidon 1997; Lim and Jun 1999). A truly sustainable competitive advantage is possible when a relationship marketing community is formed by organizations that strive for marketing activities that bring value to customers in the most efficient way.
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