Competitive Strength and Relationship Marketing

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Introduction

The idea for Relationship Marketing came from the following simple questions.

Is it possible to offer the best quality products and services at the lowest cost by creative efforts of a firm alone? What kinds of variables are strongly related to marketing performances of a firm? If there are factors and variables other than the four marketing variables(4Ps), how can marketing managers find ways and means to utilize those factors and variables?

The identification and management of those factors and variables can be related to market success. Relationship marketing is defined here as those marketing activities to relate environmental variables to marketing.

The idea and philosophy of the relationship marketing has been found in many prior researches under the terms of Environmental Management, Strategic Partner/Symbiotic Partner, Transaction Cost Analysis, Dependence Theory and Governance Theory, Value-chain Concept, Interorganization Theory, Mega-Marketing, Cause-Related Mareketing, Sub-contraction System, Social

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Interaction Theory, Buyer-Seller Relationship Studies, Studies in Strategic Alliance Group, Symbiotic Marketing, Joint Venture, Merger & Acquisition, Franchise System, Cooperative Strategies, Network Analysis, and Relational Marketing.

But relationships between a firm and its environments are not structured or organized with respect to marketing performance. The following issues are discussed in this paper.

First, several characteristics were described between cooperative strategies and relationship marketing. The components relationship marketing are suggested.

Second, marketing environments are strongly related to marketing success. Environmental management perspective was explanined with several case examples.

Third, competitors are being grouped in global competition. Competitive units are also broadened from a firm level to regional block level. A position and status of a firm in global competitive hierarchy are strongly related to marketing perormance. Competitive partnership in global hierarchy is treated as a form of relationship marketing with competitors.

Fourth, relationships along value-chain are discussed as a source of competitive strength.

Fifth, relationship with customers are explained under the title of Buyer-Seller relationship.

Sixth, under the concept of relationship marketing paradigm, the four marketing variables have distinctive aspects, which are described as relationship marketing mix.

Seventh, relationship merit is argued in this paper as another strong source of competitive strength in addition to scale merit and scope merit.

Finally, comparative studies of relationship marketing practices are to be presented as supporting materials.

The term relationship marketing appeared in marketing journal since 1983 with different issues. An integrated version of relationship marketing is suggested in this paper for future sture study.

I. Cooperative Strategy and Relationship Marketing

The relevant unit of competition seems to grow larger and larger from a small firm to groups of large firms and/or other related organizations, and to a country level, and finally to regional blocks such as EEC. It is just easy to conclude that the larger competitive unit can beat the smaller unit. Therefore business firms and other organizations have searched for opportunities for their cooperation. The Japan Corporation, for example, has made remarkable success in global markets. Several blocks of countries as allied units are evolving these days.

In order to compete effectively and efficiently, many firms have already organized their alliance groups which can exert influences on environmental forces and thereby stabilize their group activities in turbulent or hostile environments.

Adler(1966) used the term Symbiotic Marketing as an alliance of resources or programs between two or more independent organizatons designed to increase their market impact.

Symbiotic marketing include cooperative relationships among companies other than those linked by the traditional market relationship. Possible modes of symbiosis were illustrated by Varadarajan(1986) such as equity position, licensing, technology exchange, joint venture, integration consortium, joint product/technology development, joint sales/product/service marketing, franchising, and so forth.

Nielson(1987, 1988) explained cooperative marketing strategies:

① pool similar marketing resources and risks

② trade(exchange) different resources

③ expand total consumer market demand

(4) increase cooperative marketing players

(5) deescalate destructive competition

(6) cross-subsidize marketing

(7) implement joint marketing contingency plans.

The central theme of relationship marketing is on what are related to the marketing performance of each firm and on how can a firm relate those forces to marketing success.

Based on the positions of those forces in a marketing system, relationship marketing can be classified as:

(1) Relationship Marketing with environmental forces

(2) Relationship Marketing with value-chain organizations

(3) Relationship Marketing with competitors

(4) Relationship Marketing with firms in other business sectors

(5) Relationship Marketing Mix including relationship product decisions, relationship place decisions, relationship promotiom decisions and relationship price decisions

(6) Relationship marketing with different division/functional departments within the firm. Intra-firm relationship marketing is also the area under the title of integrated marketing or total marketing, which is well introduced in marketing literatures. This paper does not cover the intr-firm relationship marketing.

Coopertative strategies are included in Relationship Marketing. One of the most essential concept components of the word, is the utilization of environmental forces, the lack of which can not be regarded as a strategy.

Relationship Marketing enables a firm to utilize environmental constraints and to manage some of the contingencies it faces. Therefore relationship marketing managers are able to plan and implement marketing policies in long-term base. Once marketing environments are stabilized, they do not have to change their strategies frequently. They instead focus their marketing efforts much more consistently and agressively.

As a source of competitive strength, relationship merit is suggested and compared with scale merit and scope merit.

A comparative studies of Korean-Japanese firms in iron-steel industry and banking industry are to be presented with particular reference to alliance structures as supplimentary materials.

II. Relationship Marketing with Environmental Agencies

Scope and Nature of a firm's acitivities can be enlarged througth the coordinative processes among environmental institutions. Foreign Market, for example, was penetrated by the coordinated efforts with government agencies.

(1) Tobaco Companies in the U.S. wanted to penetrate Korean market which was blocked by government regulations. International Trade Commissions of the U.S. might have noticed Korean government agencies to lift the blocks if Koreans wanted to export their cars to the U.S. market. In this hypothetical situation, Korean automobile manufacturers and Korea Trade Promotion Agencies might have tried to persuade Korean government to eliminate the barriers.

(2) Tomato growers may persuade the Agricultural Department to issue regulations establishing a minimum size for tomato marketed. Foreign tomato growers who raised tomatos just below the minimum size could not penetrate the market. Cooperations among firms, largely under the leadership of government and/or quasi-governmental agencies, may be able to penetrate foreign markets or to block domestic markets.

Kotler(1988, p. 385) defined mega-marekting as the strategic coordination of economic, psychological, political, and public relations skills to gain the cooperation of a number of parties in order to enter and/or operate in a given market, or block a certain market. Kotler also introduced the case of Pepsi to explain environmental management of a firm. "To get approval for its entry into India market, Pepsi offered to help India export, and to transfer food processing, packaging, and water treatment technology to India."

Recently many researchers have reconceptualized the relationship between the organization and its external environment. Galbraith termed "environmental management" strategies into three categories: independent strategy, cooperative strategy, and strategic maneuvering. This typology provides a perspective for entrepreneurs to develop their proactive strategies. (Zeithaml and Zeithaml, 1984, p. 49) Miles and Snow typology of prospector, analyzer, defender and reactor was also investigated by McDaniel and Kolari(1987). They showed that each group had distinctive policies in marketing decision variables.

In stead of adapting to the external influences, Hutt, et. al(1986) suggested to adopt the approaches of power development, adjustment process, and change strategies for relationship with environmental organizations. Environmental determinism in the past was shifted to environmental management policy, where management of environmental relationships plays critical role in marketing success.

III. Relationship Marketing with Competitive Hierarchy

—Competitive Hierarchy as another form of Relationship Marketing—

Competitors are teaming up with one another in many industries such as Airline industry, Iron and Steel industry and Automobile industry. This process continues through the growth of large companies, M&A, and through integration into usptream-downstream networks. Chandler(1977) described how a "visible hand" was taking over from the invisible hand.

Global trades are strongly influenced by the "Global Strategic Partnerships (GSPs), in which two or more companies develop a common long-term strategy aimed at world leadership. The partners have their own hierachical structures or networks and their member participants are allowed to maneuver within the boundaries of their management guidelines.

Daewoo motor company, a joint venture with G.M., has to survive and grow under the global network of G.M.. Therefore product line and marketing policies of Daewoo have been constrained by the global policy of G.M.. If Daewoo motor company maintained long lasting relationship with Toyota, Hyundai motor company may not exist in Korea as it is today. Korean Motor industry, just like Electronic. industry might have been under complete control of Japanese Motor industry.

G.M. started joint manufacturing of subcompact cars with Toyota and Suzuki. Hyundai motor company has suffered in the subcompact car market in the U.S. since G.M.-Toyota-Suzuki agreement.

The relationship among the partners is reciprocal and organized along horizontal, not vertical lines. Each partner may possess specific assets to share with. Grossack and Heenan(1986) mentioned that multinational corporations should be globally cooperative to be globally competitive. Arndt(1979) also noted such phenomenon as following:

"Competitive market is eroding. To an increasing degree, transactions are occurring in internal markets within the framework of long-term relationship. The emerging domesticated markets call for more attention to the management of inter-organizational systems and to the political aspects of economic decision marketing".

Cooperative aspects of international business received strong attention from academic papers. The problem is no longer whether to pursue alliances but how and when.

IV. Relationship Marketing with Value-Chain Organizations

—Cooperative Relationship Along Value-Chain Organizations as a Source of competitive Strength—

Campbell(1988) defined relational marketing as the management of both external and internal relationships. The idea of Porter's value-chain was applied to the study of the relationship in the area of marketing, sales and service, procurement, technology developments with the Japanese case examples. He concluded that competitive advantage of Japanese industry springs from the way in which Japanese firms exploit the relational aspect of value-chain activities.

A pyramid of Japanese subcontracting system supported the parent/focus company at low cost and became an obstacle for foreign firms which wished to enter the Japanese market. Membership in such a pyramid hierarchy saved access to financing, domesticated market, routinized transaction and enjoyed political relationship merit to influence government policies.

Business activities of the alliance groups could be coordinated by the remote control of the visible hands of a focus company, government authorities and/or other agencies. The resulting markets administered by the focus organization (company) are referred to as domesticated markets(Arndt, 1979). Substantial portions of transactions are moved inside the boundaries of an alliance group committed to longer term cooperation.

Membership in such an alliance group will provide opportunities as well as threats. Inter-organizational linkages enable the member firm to manage some of its environmental constraints and control some of the contingencies it faces. But interlocking relationships may limit the level of independence and discretion to develop their own future on the part of member firms. Therefore a variety of inter-organizational linkages have been studied in the form of joint venture, contractual/non-contractual relationships, M&A, etc. (Pfeffer and Nowak, 1976)

V. Relationship Marketing with Buyer and Seller

—Relationship between Buyer and Seller—

1. Relationship Marketing in Service Industry

Berry(1983) recommended the concept of relationship marketing to overcome intangibility in the marketing of service such as life insurance or professional counselling.

It is quite difficult for consumers to evaluate such services even after their purchase. The relationship with buyer and seller through personal contact or communication about product information may increase favorable attitude toward the seller of service. Relationship-building activities may also add more value to the service package. If buyer pay too much attention to the interactive aspects, then they may fail to evaluate the service quality rationally (Crosby and Stephens, 1987).

2. Relationship Marketing in Business Market and Retailing

In business market, 80 Percent of a vendor's sales may come from approximately 20 percent of its key customers according to 80/20 rule.

Once a vendor lose its key customer, the vendor may lose the customer forever. A sales contract may also cascade into sales of various follow-on product and/or service. A cascade of sales for example, can be derived from the sales of an office equipment: supplies, parts, maintenance services, etc. Such pattern of derived demand is termed as Cascade Demand by Jackson (1985).

Therefore it is important to build lasting relationship between seller and buyer, which can be accomplished by strengthening the economic, technical, and social ties between the two partners. Relationship marketing is defined as marketing oriented toward strong, lasting relationships with individual accounts (Jackson, 1985, p. 2).

In the process of the counterpart-specific or symbiotic adaptation, the vendor or the customer has to commit considerable investments, which can not be transformed to other business relationships. Such specific investments may not pay off.

The process of inter-firm adaptations has been studied by the term Relationship Marketing. (Hallen, Johanson, and Seyed-Mohamed, 1991). Kotler (1988, p. 9) explained relationship marketing as following statements.

"The ultimate outcome of relationship marketing is building of an unique company asset called a marketing network... The operating principle of relationship marketing is" build good relationship and profitable transactions will follow."

The idea of relationship marketing is also applied to the customer relationship in retailing. The following is described by Berry and Gresham(1986).

"The heart and soul of relationship retailing is personal attention: treating the customer as a client rather than as a face in the crowd, individualizing service, tailoring it, adding a touch of grace, marketing the client feel special."

VI. Relationship Marketing Mix

1. Relationship Product Offering

Product is defined as something that is capable of satisfying a need or want. If a woman is concerned with her appearance, she may have a desire to buy cosmetics, new clothes, fitness club membership, and so forth. These products or services are competitive one another. As a marketer of new clothes, he or she may add extras such as installment payment, packaging, warranty services. New clothes with augmented services give more value to consumers. The augmented product is more liklyto be chosen by consumers.

While the augmented product is adding service to a tangible item, ralationship product offerings are sets of different items. If the marketer offers a package of new clothes, samples of cosmetics, tickets for hair cut and fitness club, the marketer should record better market performances than before. In stead of competing one another among different items, marketers of clothes, cosmetics, hair cut, fitness services get together to offer a total system of benefits to consumers. Different items competing for the same consumer needs are related together to increase total value or utility for consumers. A mixture of these competing but related item is defined here as relationship product offering.

Relationship Product offerings are classified into two categories: Physical mixture of related/different items, and Chemical mixture of different items.

Physical mixtures of different items can be found in many marketing situations: (1) Tourist agencies, tourist hotels, souvenir shops, manufactures of souvenir items, transportation companies including air line companies have developed a variety of programs for tourists. (2) Credit card companies are very good at developing bundles of benefits for card users. (3) Citi Bank developed "Citi-One" package, whichis a mixture of saving, checking, and credit services.

Chemical mixtures of different items are also valuable offering to consumers. Chemists can make water from the two entirely different materials: Oxygen and Hydrogen. Business organizers like chemists can develop new products/new markets by chemical treatment of different items.

It is a well known case that tele-video conference market was developed by a hotel company and a telecommunication company. Blendings or fusions of different industries are widely promoted in Japan(佐藤淳治, 1988). The terms, megatronics or biochemistry, are another evidences of developing a new discipline through blending of two different sciences.

The concept of product has been extended from core product, to tangible product and to augmented product. It is time for marketing scholars to review relationship product concept in the era of competition and cooperation.

2. Relationship Place as Another Way of Establishing Efficient Distribution Networks

A distribution channel may be defined as the allignment of marketing functions such as selling, sorting, grading, transportation, storage, financing, risk taking and negotiation. Any organizational unit that performs one or more of these functions is a channel participant.

Relationship place decisions are on how to find new channel participants and how to organize the relationships among the channel participants. The following case describes some perspectives of relationship place decisions:

(1) A manufacturer of forklift trucks had established its distribution networks for the last 10 years. Dealers of the forklift truck could not enjoy enough sales revenue to cover increasing expenditures. Even the most efficient sales

manager moved to other industries.

The situations were pretty much the same with dealers of automatic storage and retrieval system(AS/RS), dealers of conveyers and robots, and dealers of scanning system.

The forklift truck maker established a wholesale company whose shareholders included dealers of AS/RS, robots, and scanning system and shippers association. Later warehouse owners were also invited to join the wholesale company. Some shareholders were customers of the wholesale company. Others worked as brokers for the company. Shareholders in this case played active role in developing their markets.

(2) Small manufacturing wholesalers of garment industry were competing so fiercely one another that they could not afford to renew their equipments and facilities. Finally they decided to develop a family brand. Retail outlets were also pooled together. Each manufacturing wholesaler specialized a certain line of garments. A new distribution network worked very efficiently for their mutual growth of each member company.

(3) Automatic Teller Machines(ATM) were installed in a chain of shopping centers. Shopping centers offered space for ATM and the bank offered financing services within the shopping centers. A new technology of ATM combined the two different services for the convenience of customers.

(4) A textile company in Korea developed extremely expensive woolen fabrics for the best dressers in the world. The company selected famous dealers of very expensive cars for their new product. Dealers of expensive cars proved to be efficient dealers of woolen fabrics too.

3. Relationship Promotion

(1) Social causes can be related to marketing: Cause-related marketing

Korea Gas Corporation(KGC) suffered substantial loss in the initial stage of its business. It was imperative for KGC to develop demand from household market and private industrial market. Switch cost to natural gas was substantial burden for industrial users, to whom marketing efforts of clean energy were quite useless.

Mass communication networks began at that time to raise environmental concern to the public. Air pollution problems were attributed to big buildings, holtels, and apartment complex which refused to use clean energy. Public interest on clean air was successfully related to the marketing of clean energy.

(2) Tangible goods can be related with intangible image to improve market performances. Intangible service related with visualized objects may receive better acceptance.

A gas table of brand A dominated Korean market for serveral years. Magic Chef brand of gas oven was introduced later. As time goes on, the user images of the two brands were shaped distinctively by the brand origin: the former from Japan and the later from the U.S. The image of the Magic Chef brand was characterized by ladies who were more involved in social life for their husbands. As sweet home maker they knew how to use the gas oven/table to prepare western styles of food and cakes. If was believed that the users of magic chef had more attractive appearance.

A furniture company launched a new design of desk and chair for elementary school children. The brand name was UFO. The company repeated a series of stories about UFO which were strong enough to receive attractions from children as well as from their parents. The UFO was about 20 percent more expensive than traditional set of desk and chairs. But the UFO maintained a good market share for several years.

Medical services and insurance companies are much concerned with the design of their buildings, equipments, atmospherics of their interior arrangments. Corporate identity programs are regard as another indicators of their reputation, credibility and responsiveness to the need of their customers.

4. Relationship Pricing

It there are 5 different items available for pyhsical mixtures of relationship products, there can be 32 combinations of relationship products. Therefore relationship marketing manager can prescribe 32 different types of pricing for different competitive situations.

If an air line company develope a tourist package, the company is in a better position to charge higher price for air line tickets and relatively lower prices for hotel, food and beverages and other components in the package. In order to build long term client relationship, special incentives are also availabe in air line industry. Special discount schedules for frequent flyers can also be regarded as a form of relationship pricing.

In the case of chemical mixture of relationship products, as the case of tele-video conference, relationship marketer can enjoy monopoly status in the new market.

VII. Relationship Merit as another Source of Competitive Strength in Global Marketing

—Scale Merit, Scope Merit and Relationship Merit—

Chandler(1990, p. 17) investigated scale merit and scope merit.

"Scale merit(economies of scale) may be defined as those that result when the increased size of a single operating unit producing or distributing a single product reduces the unit cost of production or distribution.

Scope merit(economies of joint production or distribution) are those resulting from the use of processes within a single operating unit to produce or distribute more than one product."

Survival and growth of a firm depend upon resources of other organizations, which are related each other as a network. If the firm can utilize the external resources through the efficient management of network relationship, it can achieve much better market performances. Network relationship may be regarded as another form of market assets(Johanson and Mattson 1988) which generate revenues for the firm.

All the merits through the management of the relationship network are defined here in this paper as relationship merits. Good will, for example, is formed through customer relationship of the firm. Therefore a good relationship with task environments and customers is also a valuable market asset from which relationship merits are derived. Relationship partners consist of environmental organization(mega-marekting), companies in different industries, companies in the same industry, companies in the firm's value-chain network, different organizations within the firm, and customers(buyer-seller relationship).

Relationship merit covers all the market impacts that are from the relationship frameworks among environmental organizations, competitors, suppliers,

Table 1. Comparison of Scale, Scope and Relationship Merit

i) Basic Concepts

	Scale Merit	Scope Merit	Relationship Merit
• Perspective	• Micro-functional aspect	• Micro-functional aspect	• Macro-Inter/Intra organizational aspect
• Unit of Analysis	• A single operating unit	• A single operating unit	• a super-organizational system based on social division of labor, specialization & inter-dependence
• Characteristics of Interfirm relationships	• Atomic relations-hips amongs firms	• Mechanistic relationships among firms	• Ecological interaction among related partners
• Sources of Merit	• Dispersion of fixed cost to more volume	• Dispersion of fixed cost to multiple units	• Synergy effect —Reduction of transactional costs —Reduction of uncertatinty —Chain effect • Stabilization effects of environmental impacts
• Competitive Situation	• Each firm competes agaist each other	• Each firm competes agaist each other	• A set of firms and enviromental organizations are clinged together to beat competitors
• Competition & Cooperations	• Competition oriented	• Competition oriented	• Cooperations oriented
• Time Perspectives of Interfirm Transaction	• Short/One-Shot affairs	• Short/One-Shot affairs	• Long/Relational transaction
• Responses To Environment	• Adaptive • Other thing being equal	• Proactive Market/ Product development	• Preemptive/Proactive
• Effects and Limitations	• Market failure situation • Diseconomies of scale	• Diseconomies of scope • Demerit of big company • Hierarchy failure	• Inter-mediate mode of organization • Domesticated market
	• Ecomomics of scale and scope may be sacrified if the firm attempts to make for itself what it can procure in the market		• The cost leadership also comes form high inter-firm productivity of sub-contraction system

ii) Application Areas

	Scale Merit	Scope Merit	Relationship Merit
• Market Offerings	• A Single product at low cost	• Multiple products	• A package of consumption system which reduces ultimate cost and increases market attractiveness
• Main Application —Strategies Level—	• Production/ Distribution	• Addition of new business units • Product diversification under FMS system	• Restructuring a marketing system
• Main Application —Company Level—	• Resource-Driven company • Manufacturing company	• Factor-Creating comapny	—Business Organizing company
• Main Application —Industry Level—	• Iron &Steel industry	• Chemical industry	• Hi-tech industry • Automobile industy • Textile industry
• Main Application —Country Level—	• American competitive markets • A big company oriented • High mountain in the Prairie • Direct competition	• American diversfication strategies • Conglomeraterate oriented • Mountains • Implicit competition	• Japanese cooperative strategies • A Pyramid hierachy of Japanese Sub-contracting system • Small mountains in High Land • Guerilla strategy

distributors and customers. Relationship merit results when all the market participants are organized to achieve their common interests.

Therefore the role of marketing manager can be defined as facilitator who must orchestrate or manage interacting forces as effectively as possible by quoting the statement of famous marketing manager. (Park, and Zaltman, 1987, p. 9).

"The irony is that I'm considered such a successful product manager because I don't manage products. I really manage suppliers, distributors, competitors, customers, and my colleagues(in other departments). I worry, too, a lot about government regulations, and spend a good deal of time trying to second-guess the implementation of safety regulations." (product manager, General Electric Company).

Table 1 describes different charactoristics of the three merits; Scale, Seope and Relationship Merit.

Summary and Conclusion

What can be related to marketing success? How can a firm relate those factors and variables to improve market performance? How can firm in a developing country survive and grow in the global hierarchy of competitive structure?

Various kinds of prior researches on the above questions are scattered under different titles, key concept components of which include inter-organization, value-chain, transaction vs relationship marketing, market hierarchy, cooperative strategies, etc.

Prior researches were rearranged in this paper under the concept of relationship marketing, an operationalization of environmental marketing management. Relationship marketing is suggested to give some answers and insights to the questions. The concept of relationship merit is described as a source of competitive strength in addition to scale merit and scope merit.

Relationship marketing paradigm is presented but modes of relationship marketing are not analyzed in this paper. Prior researches in intermediate mode of organizations can be valuable assets to investigate relationship structures for future studies.

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