RELATIONSHIP MARKETING IN MASS MARKETS

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INTRODUCTION

There is considerable evidence that organizations are increasingly applying relationship marketing concepts in mass markets. The business press abounds with examples, ranging from Citibank usage rewards to Saturn picnics (e.g., Aaker 1994). These various approaches to developing stronger bonds with customers are typically characterized as customer retention programs, loyalty based management or one-to-one marketing strategies (Reichheld 1996, Peppers and Rogers 1993). Many of these new marketing practices have been enabled by advances in information and communications technology and the availability of new exchange forums such as the World-Wide-Web and the Internet.

The focus of relationship marketing is frequently considered to be customer retention because retention is less costly than acquisition (Fornell and Wernerfelt 1987; Reichheld 1996) and small increases in retention rates can have a dramatic effect on the profits of a company (Fornell and Wernerfelt 1987, 1988; Reichheld and Sasser 1990). For example, existing customers tend to purchase more than new customers (e.g., Rose 1990); and, in most cases, there are efficiencies in dealing with existing customers as compared to new customers (Reichheld 1996). However, relationship marketing can refer to all marketing activities directed toward establishing, developing and maintaining successful relational exchanges" (Morgan and Hunt 1994, p.22). Thus, following Berry (1983, p. 25), we define relationship marketing as marketing activities that attract, maintain and enhance customer relationships.

This chapter focuses on relationship marketing in mass markets -- that is, in markets in which customers (that is, potentially large numbers of end users) make exchanges involving goods or services with manufacturers or service providers. Our view of exchange is not restricted to economic resources alone -- marketers have long recognized that exchanges can involve social and psychological resources, as well as economic resources (e.g., Bagozzi 1979). Specifically, exchanges can involve the transfer of psychological or social resources such as status, esteem, understanding, affect, information, and time -- as well as economic resources such as money, goods and services (Foa and Foa 1976). In the remainder of this chapter, we will address two questions: (1) What are the conditions under which relationship marketing will be effective in mass markets? (2) What marketing strategies will be most appropriate in influencing relationship processes and outcomes under these different conditions?

The rest of the chapter addresses the above issues in the following way. First, we discuss the necessary conditions for a relationship to develop between a customer and an organization. Next, given that necessary conditions are satisfied, we describe the key product category characteristics that motivate customers to engage in relational behaviors. Third, we provide a model that outlines the evaluation process by which customers decide to withdraw, maintain or enhance a particular relationship. Having outlined the model, we discuss the various strategies that marketers use to influence parts of this decision process and achieve desired relational outcomes. We finish the chapter with some key research issues that need to addressed in the field of relationship marketing in mass markets.

NECESSARY CONDITIONS FOR RELATIONSHIP MARKETING

A relationship develops between a customer and an organization when there are benefits to both from one or more exchanges. For a profit maximizing firm, the benefits of a relationship with end users arise from the economics of retention (Reichheld 1996), insulation from competition (Anderson and Sullivan 1994), and so forth. For the customer, the benefits of a relationship with the organization include customization and decreased costs due to efficiencies in dealing with known suppliers, including lower search costs and risk reduction (Sheth and Parvatiyar 1995). In this section, we discuss some necessary conditions for an exchange relationship to exist.

Customization. Relationship marketing in mass markets requires that the market consists of different benefit segments that can potentially be served by differentiated products. In other words, customization must be possible within the product category for relationships to develop -- via products (including branding and image), people or technology. Mass customization is generally considered a tool to build loyalty when mass-market quality is no longer a sufficient differentiator (Gilmore and Pine 1997). Mass customization began in service industries, where customization is necessary due to simultaneity of production and consumption. Service operations or employees may customize the process and/or the outcome of the service for the customer. For example, a service organization can customize the process by offering a customer alternative appointment times when a visit to the customer's premises is required, or it can customize the outcome by offering a customer tailored product bundles. In manufacturing industries, mass customization entails the use of flexible processes, structure and management to produce varied and *even individualized* products at the *low cost* of standardized, mass-production systems with *short cycle times*. For example, the IBM System/360 has modules for varied configuration needs; Motorola manufactures a great variety of pagers. At the extreme, many organizations desire one-to-one relationships with their customers (Peppers and Rogers 1993). Technology has begun to make such customization possible through the use of multiple media such as telephones, electronic mail and the world-wide-web for order taking or registering complaints. For example, the package tracking pages available at the Fedex and UPS web pages can be customized to meet a particular customer's information needs (Hoffman and Novak 1996).

Customer Intimacy. Relationships involve one or more exchanges over time. However, a key feature of relationship marketing is its explicit recognition that exchanges between organizations and customers extend beyond strict economic boundaries (Hunt and Morgan 1994). For example, it recognizes that *emotions* -- as well as cognition -- play a role in the relationship between the buyer and the seller. In mass markets, relationship marketing can facilitate customer intimacy by invoking emotions in a variety of contexts. Broadcast media can create a sense of identification or affiliation with the organization. Organizational procedures can influence customers' perceptions of the fairness of the exchange relationship (Lind and Tyler 1988). Substantively personalized service can influence customers' perceptions of the helpfulness and friendliness of the organization (Surprenant and Solomon 1987). In favorable situations, these circumstances can invoke emotions such as happiness, pride, and achievement. In unfavorable situations, these same circumstances can invoke emotions such as anger and frustration. Customers and employees in organizations who engage in favorable relationships feel a sense of "commitment" or "connection" towards one another (Morgan and Hunt 1994).

Two Way Interactions. The very notion of an exchange relationship between the organization and the customer requires a (direct) two way interaction. In mass markets, organizations typically have a variety of ways of contacting customers via the marketing mix. To practice relationship marketing in mass markets, managers must ask: Can customers contact the organization? In service organizations, the customer frequently interacts with the organization when he/she comes in contact with service employees, such as salesperson, a customer service representative or a service provider (e.g., the claim taker at an insurance company). In manufacturing firms, the customer interacts with the organization by mail, toll free telephone numbers, sweepstakes and contests, e-mail addresses and the world-wide web. Many organizations keep the addresses and/or phone numbers of their customers on file so that they can respond to customers who contact them by sending newsletters, information on upcoming events and appointments, and so forth — thereby fostering the relationship. In the case of computer mediated environments, Hoffman and Novak (1996) have proposed a many-to-many communication model in which customers can actively take part in providing immediate, iterative feedback to the manufacturer or service provider. At the extreme, two way interactions occur on a one-to-one basis. For example, amazon.com is a virtual bookstore for customers with access to the world-wide web. These two way interactions can also reduce the propensity of customers to switch to new suppliers as customers invest in educating their suppliers about their needs and have to start all over again with a new supplier (Hart 1996).

Extended Time Intervals. The relationship between an organization and a customer occurs over a time interval that may encompass one or more exchanges. However, even if the interval includes a single monetary transaction, the exchange relationship often extends beyond the time of the actual sale. Since the exchange involves psychological/social resources, as well as economic resources, the duration of the relationship includes the various stages of the selling process -- either prior to a particular sales transaction (e.g., interior decoration or real estate), during the sale (e.g., automobiles), or afterwards (e.g., maintenance and repair of appliances). In the case of multiple exchanges, the relationship can include regular or intermittent transactions (e.g., hairdresser, dentist, massage therapist), or continuous transactions (e.g., telephone companies, electric utilities and cable television). Figure 1 provides a hypothetical illustration of the different stages of a relationship building process that happens over time between a customer and a marketer. In contrast to the framework offered by Liljander and Strandvik (1995), note that each of the stages of relationship building such as pre-sale, sale and consumption in our framework may involve multiple "episodes" or interactions.

Figure 1 here

Figure 1 could be used to explain how relationships develop between a buyer and a seller in single exchanges which extend over a lengthy period of time, such as automobile dealerships, insurance agencies and so on. It highlights the role of elements that are not at the core of the product offering. In particular, social and psychological resources are exchanged between the buyer and seller in each stage and play an important role in determining the likelihood of the relationship moving to the next stage. Thus, an automobile salesperson at the pre-sale stage may provide certain psychological / social resources -- e.g., courtesy, respect -- as well as economic resources -- e.g., an opportunity to take a test drive, the provision of brochures -- to the customer, and these outomes may (or may not) motivate a buyer to come back and make further inputs into the relationship -- perhaps ultimately resulting in a purchase from the dealership. A valuable relationship may result in the buyer's purchasing accessories, upgrading his/her purchase or recommending the dealership to friends and colleagues.

CONDITIONS FACILITATING RELATIONSHIP MARKETING

The preceding section discussed the necessary conditions for organizations and customers to engage in relational behavior. However, even after the necessary conditions are satisfied, customers' proclivity to engage in relational behavior will vary across product categories. To take an extreme example, customers' propensity to switch brands in packaged goods may be quite different from their propensity to switch their primary care physician. This section describes three key product category characteristics that should influence the decision to invest, maintain or withdraw from a relationship. It also describes the various kinds of relational behaviors that may be observed in different product categories or situations.

Product Category Characteristics

Product Category Heterogeneity. As discussed earlier, relationship marketing in mass markets is only possible when some degree of customization is possible. Customization is a major benefit to the customer, and adds significant value to the exchange relationship. However, product categories differ in terms of the extent to which customization exists (or is possible); this characteristic is called product category heterogeneity. Product category heterogeneity is associated with large numbers of alternatives in the category (e.g., shampoos), complex alternatives (e.g., computers), significant differences among alternatives (e.g., cars), or variance in retail operations (c.f., Newman 1977). Importantly, it may also be due to perceived differences among alternatives (Dick and Basu 1994) -- these differences are mostly created through branding and image advertising. Customers tend to expand their consideration set beyond existing exchange partners when they perceive the product category to be relatively homogeneous (e.g., Duncan and Olshavsky 1982). Thus, we propose that there is a positive relationship between perceived product category heterogeneity and the likelihood of customers' engaging in relational behavior. Analogously, contexts of high perceived heterogeneity are also those where we are likely to witness a greater degree of customization.

Perceived Risk. Customers' decisions involve risk, in the sense that the decision to include/exclude an alternative from consideration will have consequences that cannot be predicted with certainty. Perceived risk is considered to be the probability of any loss that can occur by excluding an alternative from consideration, multiplied by the importance of that loss; it can include financial risk, performance risk, physical risk and convenience risk (Peter and Tarpey 1975; Srinivasan and Ratchford 1991). Sheth and Parvatiyar (1995 p. 258) propose that "the greater the perceived risk . . ., the greater will be the consumer propensity to engage in relational marketing behavior." Subsequently, they expand this notion beyond economic aspects of perceived risk and propose that "the greater the potential to reduce *social risks*, the greater the consumer propensity to adopt relational marketing behavior" (p. 260). For example, customers are likely to expand their consideration set beyond existing exchange partners in product categories with intrinsically lower perceived risk of all types. Thus, we propose that customers will be more likely to engage in relational behaviors when they perceive risk (financial, performance risk, physical risk, social risk and so forth) to be high. Furthermore, Doney and Cannon (1997, p. 36) emphasize that "trusting parties must be vulnerable to some extent for trust to become operational. In other words, decision outcomes must be *uncertain* and *important*" (italics added). Thus, we propose that perceived risk creates a context in which trust becomes an important influence on relational behaviors.

Switching Costs. Switching costs are defined to be the one-time costs the buyer encounters in switching from one supplier's product to another's (Porter 1980). In addition to the monetary costs, switching costs include search costs and nonmonetary costs (such as the cost of forming new relationships). These costs are frequently self-evident in business-to-business markets (e.g., the decision to perform a service in-house rather than outsource), but are equally relevant in mass markets. For example, customers switching from an audiotape player to a compact disc player face substantial monetary costs in replacing their audiotapes with compact discs. Fornell (1992) proposes that repurchase intentions depend on customer satisfaction and switching costs (which vary across industries). In other words, customers are likely to value existing relationships more highly when search and switching costs are greater.

It is important to note that switching costs can include non-monetary costs as well. Non-monetary costs will be larger when customers face mental processing costs, social costs of forming relationships with the employees of new suppliers, and so forth. Mental processing costs will tend to be high when customers have little knowledge of the product class. Punj and Staelin (1983) found a negative correlation between cost of search (non monetary) and amount of search. Sheth and Parvatiyar (1995, p. 258) propose that "the greater the need for information, knowledge and expertise in making choices, the greater will be the consumer propensity to engage in relational marketing behavior." Thus, we propose that customers will be more likely to engage in relational behaviors when they perceive monetary and non-monetary switching costs to be high.

Joint Effects of Heterogeneity, Switching Costs and Perceived Risk

We propose that customers will have a greater propensity to engage in relational behaviors in categories characterized by greater heterogeneity among alternatives, higher perceived switching costs and higher levels of perceived risk. This typology, with some product category examples, is shown in Table 1. The shaded cells of the table indicate a greater propensity to engage in relational behaviors, and (consequently) a potentially greater payoff from relationship marketing expenditures.

Table 1 here

In developing our typology, we have discussed these three characteristics separately. However, it is important to note that they are not independent. Customers may perceive switching costs to be higher in a category where product heterogeneity is high. Similarly, in certain contexts, perceived risk and switching costs are also likely to be positively correlated. That is, in addition to the main effects, the interaction among these variables may also impact customers' propensity to engage in relational behavior. Thus, with reference to Table 1, the heterogeneity in computer systems may inflate customers' perceptions of the high switching costs in that product category or the risk perceptions of switching hair dressers may influence perceptions of heterogeneity in their capabilities.

Furthermore, our typology does not imply that -- when heterogeneity, switching costs and perceived risk are high -- customers will persist with the same provider or product forever. Depending on the product category, situational and personal characteristics, customers may have a need to seek variety (McAlister 1979). In contexts where variety seeking is likely to be high, relationship marketers offer a wider assortment of goods/services or develop a network of providers (cf. Iacobucci 1996) to enhance customer retention.

MODELING THE CUSTOMER'S DECISION TO MAINTAIN, BUILD, OR WITHDRAW FROM A RELATIONSHIP

This section models the customer's decision to maintain, build or withdraw from an existing relationship with an organization. It views the customer's decision to build, maintain or withdraw from a relationship from a cost-benefit perspective, rather than a perceptual or processing perspective. Consistent with prior research (DeSarbo and Jedidi 1994; Hauser and Wernerfelt 1990; Roberts and Lattin 1991), it represents the customer's informal, heuristic process for evaluating decision alternatives (i.e., build/maintain/withdraw) as a tradeoff between costs and benefits/utility.[1] Specifically, we consider the customer's decision to engage in a relational behavior using the classic maximization of utility framework -- but with an expanded conceptualization of utility.

The Subjective Expected Value of Relational Behaviors

Our model of the antecedents of customers' relational behaviors is depicted in Figure 2. Following Winer (1985), our model assumes that a customer seeks to maximize his/her subjective expected value from a relational behavior. His/her subjective expected value from a relational behavior depends on his/her assessment of its *long run future value*, weighted by his/her *trust* in the organization.

Figure 2 here

[1]This approach is similar to Sheth and Parvatiyar's (1995) suggestion that "consumers engage in relational market behavior to achieve greater efficiency in their decision making, to reduce the task of information processing, to achieve more cognitive consistency in their decisions, and to reduce the perceived risks associated with future choices." However, our model concerns a multiplicity of relational behaviors, rather than focusing (as they do) on choice reduction.

Long Run Future Value. We postulate that the customer assesses the *long run future value* arising from a relational market behavior (e.g., purchasing from an organization), where alternatives with greater benefits -- including customization of economic, psychological and social exchange elements -- or lower costs -- including mental processing costs, search costs, and opportunity losses -- are more likely to be considered.[2] In this conceptualization, building or maintaining an existing relationship is more likely when the future value of a particular relational market behavior is high -- that is, there are high perceived benefits/utility (due to customization, personalization, product bundling etc.) or low costs (due to reduced mental processing, search costs, etc.) in the long run.

Trust. In our model, the customer weighs the long run future value of a relational market behavior by his/her *trust* in the organization to obtain an assessment of his/her subjective expected value. This expected value calculation implicitly assumes that trust is defined as "confidence in an exchange partner's reliability and integrity" (Morgan and Hunt, p. 23) -- emphasizing that trust is a probabilistic belief. In this respect, we follow Anderson and Narus's (1990, p. 45) definition of trust as a belief that an organization "will perform actions that will result in positive outcomes . . . as well as not take unexpected actions that result in negative

[2]The benefits for customers go beyond the routinization of purchase behavior to using the organization as a means of self-expression and self-identity. However, these features can also be considered "benefits" in our framework. This definition of value is similar to the definition suggested by Anderson, Jain and Chitangunta (1993).

outcomes."

Antecedents of Long Run Future Value and Trust

Both the customer's assessment of the long run future value of a relational behavior and his/her trust in an organization are considered to be similar to an belief, attitude or cumulative perception. Following Hogarth and Einhorn's (1992) theory of belief updating, we postulate that customers update these beliefs though a sequential anchoring and adjustment process in which the individual's current belief (i.e., the anchor) is adjusted by the impact of succeeding *new experiences*. For example, the customer's perception of the future long run value of a relational behavior is postulated to depend on his/her perception of the current value of the relationship, updated by any new experiences (e.g., through advertising, newsletters). His/her trust in the organization is updated in a similar fashion. Hence, relational marketing efforts create prior experiences (for existing customers) and new experiences (for both new and existing customers) that influence long run future value and trust via their antecedents.

The antecedents of the long run future value of a relationship to a customer are relatively straightforward. In an existing relationship, we expect that the customer's perception of the future long run value of the relationship will depend heavily on his/her cumulative satisfaction with the prior experiences, updated by any new experiences. This notion is consistent with prior research concerning the linkage between satisfaction and commitment (c.f., Gruen 1995; Brown and Peterson 1993). Consequently, consistent with the customer dis/satisfaction research (Oliver 1996), we consider that cumulative satisfaction depends on customers' perceptions of norms and expectations, equity and affect. Research on the antecedents of trust are less well-developed, but include prior experiences that influence shared values and communications (Morgan and Hunt

1996).

How Relationship Marketing Variables Influence the Antecedents of Subjective Expected Value

In categories in which there is greater heterogeneity among alternatives, higher perceived switching costs and/or higher levels of perceived risk, there is an opportunity for relationship marketing variables to influence customers' assessments of the subjective expected value of the relationship. As shown in Figure 2, relationship marketing variables may create new experiences that directly increase customer's assessments of the long run future value and trust[3] For example, an organization may customize its product or decrease costs to the customer (such as by lowering search costs). Note that these marketing efforts should attract new customers, as well as retain existing customers. It is important to note that -- when a customer has prior experience with an organization — relationship marketing variables will frequently operate through cumulative satisfaction and its antecedents. In other words, relationship marketing variables create experiences that operate through mediating variables -- such as affect, equity, cumulative satisfaction, long run future value and trust -- to influence relational behaviors. Dwyer, Schurr and Oh (1987) describe some potential sub-processes through which relationship marketing efforts may operate to deepen customer commitment and encourage relational behaviors. Unfortunately, there is little research on the nature of this process. Peterson (1995) argues that *affect* seems to offer great promise for explaining customers' perceptions of satisfaction and long term value. Bagozzi (1995) argues that reciprocity is a core feature of a marketing relationship — implying that the role of equity is particularly important. Both constructs are likely to be important in explaining how relationship marketing influences customer behavior.

As an illustrative example, traditional equity theory proposes that parties to an exchange will feel equitably treated if the ratio of their outcomes to inputs is “fair” -- in other words, when the outcome to input ratio is proportionate for participants in the exchange (Adams 1965; Deutsch 1975). In other words, the customer is considered to apply an integration rule, in which he/she compares his/her outcomes to inputs, compares other participants’ outcomes to inputs, and finally compares the two ratios or differences (Oliver and Swan 1989a; 1989b). If the ratio of his/her outcomes to inputs exceeds the ratio of the other parties in the exchange, he/she will attempt to restore balance in the exchange by increasing his/her inputs. This notion suggests that it may be useful for the organization to engage in relational marketing efforts that provide positive outcomes to the customer in the anticipation that the customer will attempt to restore balance within the exchange relationship by increasing his/her inputs -- that is, by engaging in commitment behaviors (c.f., Peterson 1995, p. 280; Gruen 1995, p. 457). For example, Bolton and Lemon (1997) show that customers adjust their service usage levels in response to service provider changes in price and service levels to maintain equity in their relationships with an interaction television service provider and a cellular communications provider.

<u>Relational Behaviors</u>

In maximizing his/her subjective expected value, the customer may decide to engage in a variety of relational behaviors. A repeat purchase (that is, an additional identical exchange) can be considered a behavior consistent with maintenance of the relationship. The decision to build a relationship with an organization will be associated with behaviors such as increased usage,

[3] We describe these relational marketing efforts in greater detail in the next section.

positive word of mouth, multi-product purchases, customer advocacy and so forth.[4] The decision to withdraw from a relationship with an organization will be associated with behaviors such as decreased usage or no purchase or interaction (i.e., relationship severance), negative word of mouth, boycotts and so forth.

Commitment has been a central constructs in studies of customer behavior within an exchange relationship (e.g., Crosby, Evans and Cowles 1990). Morgan and Hunt (1994) define commitment as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it." Thus, it can be viewed as an attitude or belief that coincides with a variety of relational behaviors -- that is, behaviors associated with the customer's decision to maintain, build or withdraw from a relationship with an organization. Furthermore, although many authors have suggested that these behaviors form a partnership hierarchy (Payne et al 1995), we prefer to consider relational behaviors as an related "bundle" of decisions by the customer — where each of these decisions may be determined by many of the same factors (although with different weights). In other words, we view a behavior bundle as a portfolio, in which some of the exhibited behaviors are positive (from the standpoint of the provider) whereas others may be negative. For instance, customers who belong to frequent flyer programs of airlines sometimes exemplify our notion of a bundle of relationship behaviors -- they fly the airline because of the frequent flyer points but do not hesitate to "bad mouth" the organization on every possible score. Jones and Sasser (1995) use the term "false loyalty" to

[4] According to Webster (1992), one of the ultimate goals of relationship marketing is to have customers be advocates for the organization.

describe such customers.

THE ROLE OF MARKETING VARIABLES

Since relationship marketing in mass markets is a relatively new topic for research, very little is known about how organizations' relational marketing efforts affect mediating variables -- such as equity, norms, expectations[5] and affect -- to influence customer satisfaction, the perceived future value of the relationship, trust, and relational behaviors. In the preceding section, we discussed how the relationship marketing efforts of firms are influenced by the characteristics of the product category, and how, in turn, these efforts impact customers' intermediate/mediating attitudes and ultimately relational behaviors. In this section, we discuss specific relationship marketing variables, the processes through which they operate and their relational behavior outcomes.

We discuss relational marketing variables under four broad categories: product, price, promotions, distribution and communications.[6] However, our discussion of relationship marketing variables is not intended to be exhaustive. It focuses on variables that exploit the necessary conditions underlying exchange relationships -- namely, customization, customer intimacy, two way interactions, and extended time intervals -- and exploit product category characteristics that facilitate exchange relationships -- namely, heterogeneity, switching costs and perceived risk. We identify these marketing variables and explain how they operate, invoking a

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[5]For an useful framework on how firms can manage customer expectations, see Sheth and Mittal (1996).

[6]This approach is similar to Rosenberg and Czepiel (1995) who describe a "customer keeping marketing mix" that consists of five elements: product extras, reinforcing promotions, salesforce connections, specialized distribution and post-purchase communication.

variety of theoretical disciplines -- such as cognitive psychology and social psychology (e.g., Fiske and Taylor 1991), network approaches (Iacobucci 1996), economic perspectives on pricing and signaling (e.g., Robertson and Eliashberg 1989), behavioral decision theory and operations research.

Product Variables That Facilitate Relationships

Perceived Quality. The notion that customer satisfaction and perceived value depend on perceived quality is central to the marketing literature (e.g., Kotler 1996), appears prominently in the service quality literature (e.g., Parasuraman, Zeithaml and Berry 1991) and, in the relationship quality literature (e.g., Crosby, Evans and Cowles 1990). Perceived quality (including the consistency and reliability with which it is delivered) constitutes the "core" of a product. Thus, delivery of a high quality product can strengthen relationships with customers in mass markets. Moreover, "augmented" product attributes -- which may include customized product attributes -- signal product quality and thereby increase customer satisfaction and the perceived future value of the relationship. More specifically, customers may use the physical landscape, symbols used by the organization, the attitudes and behavior of employees, and brand name as signals for product quality (e.g., Bitner 1990, Hartline and Ferell 1996). Hence, these augmented product attributes can also influence customer satisfaction[7], value and relational behaviors such as repeat purchasing and purchasing other products from the organization.

Warranties. Warranties, guarantees or return policies are signals that create customer expectations about product performance, as well as reducing perceived risk (e.g., Bolton and

[7]For example, Keaveney's (1995) self-report data indicates that negative attitudes and behaviors by employees were responsible for 34% of customer service switching behavior.

Drew 1994). The length of the warranty helps define the customer's perception of the time interval of the relationship. Warranties increase trust in the organization, as well as increasing the customers' perception of the future value of the relationship, so there is a dual effect on the customer's subjective expected value. Furthermore, warranties encourage two-way interactions between the customer and the service organization -- facilitating proactive complaint management, continuous improvement efforts and reinforcing employees' use of relationship marketing practices.

Pricing and Promotion Practices that Facilitate Relationships

Usage Rewards. Rewards from the organization to the customer that are related to the level of usage have become a common phenomenon. Airlines have frequent flyer programs, supermarkets have frequent buyer programs and restaurant chains have frequent diner programs. These programs create an incentive to stay with the same organization to collect the reward, thereby directly influencing purchase behavior. However, participation in many of these programs (e.g., paying for credit card usage but getting airline miles for every dollar charged) is strictly an economic decision for the customer -- such participation may have no influence — or even a negative influence -- on other relational behaviors, such as word of mouth. To steer the customer towards non-economic usage and evaluation of the program, marketers use behavioral decision theory principles such as mental accounting (cf. Thaler 1985) in their advertising. In general, Dowling and Uncles (1995) suggest that rewards that directly supports the product's value proposition (e.g., price promotions by a retailer) are better from a loyalty standpoint than rewards that are indirect (e.g., raffle tickets offered by a retailer). Similarly, rewards that are more immediate (e.g., price discounts) are better than rewards that are delayed (e.g., frequent shopper points).

Tailored promotions. Marketers also deploy tailored promotions using direct mail, telemarketing, or regional events. These variables create perceived heterogeneity within the product category. Personalization and customization increases the customer's perception of the future value of the relationship and increases his/her perceived switching cost. Furthermore, certain tailored promotions — e.g., regional events — create positive affect that influences cumulative satisfaction with the organization and thereby perceptions of the future value of the relationship. Other promotions — e.g., giveaways, sweepstakes — may cause customers to perceive advantageous inequity in the relationship (i.e., they have received outcomes from the organization that are disproportionate to their inputs), which may lead to relational behaviors intended to restore the balance.

Distributional Variables that Facilitate Relationships

In recent years, networks of purposeful cooperating firms have emerged to increase the value delivered to the customer. For example, Wal-Mart and P&G cooperate to create value for the customer through their merchandising efforts. Campbell and Wilson (1996) call these value-creating networks "managed networks" and claim that their ultimate goal is to manage relationships. However, in the following paragraphs we focus on relationships with customers, rather than with other firms.

Flexibility. Flexibility in product delivery and distribution is another critical marketing variable used by organizations to strengthen relationships with customers. Flexibility leads to customization which increases customer satisfaction and the perceived value of the relationship. With the advent of information technology, customization and personalization is increasingly evident in mass markets. For example, travel agents keep customers' idiosyncratic preferences on flight, hotel and car rentals on file. The Ritz Carlton also maintains a data base of its guests and can provide them with their favorite newspaper, breakfast etc. without being asked (Hart 1996). Direct marketers such as L. L Bean enable customers to shop either through catalogues or through the world-wide-web and keep records of customers' sizes and preferences. In many contexts, astute relationship marketers even "tailor" the product or service to customers at a price far lesser than the traditional custom-made model (Wiersema 1996). For example, Fedex provides its customers software to update realtime information on the status of packages (McKenna 1995).

People. Even in mass markets, products are frequently delivered by service employees. These interactions may take place face-to-face (e.g., retailing) or over the telephone (e.g., customer care centers in insurance or telephone companies) or by mail (e.g., order fulfillment employees in direct mail companies). Interactions between service employees and customers are -- to some extent -- always customized and personalized, two way interactions. They frequently entail the exchange of psychological/social resources, as well as economic resources. To be successful in stimulating relational behaviors, effective human resource management (hiring, training, supporting, retaining policies) is critical to ensure that service employees can create customer satisfaction, develop personal trust, and so forth (Bowen and Lawler 1992). For example, an important component of Starbucks Coffee company's growth strategy is an innovative, comprehensive employee benefits package for both full time and part-time employees (Berry 1995, p 172). By creating employee satisfaction, Starbucks is able to retain friendly and courteous employees, thereby creating customer satisfaction and increasing the future value of the relationship with Starbucks to the customer.

Communications Strategies that Facilitate Relationships

Communications strategies that facilitate relationships are likely to be frequent, two interactions, via personal rather than impersonal modes, with customized information content (Mohr and Nevin 1990). These strategies are in direct contrast with typical mass market communications strategies. In order to be effective, the elements of these strategies must be consistent in enhancing the customer's subjected expected value of the relationship. For example, to attract new customers, corporate advertising employing celebrities helps develop a sense of affiliation between the customer and the organization and/or may signal the firm's reputation to the customer, both of which enhances the likelihood that the customer would buy products from the firm. In existing relationships, there are many opportunities to use communications strategies to enhance the customer's cumulative customer satisfaction and his/her trust in the organization.

Public Relations. On the one hand, public relations and corporate advertising create norms and expectations regarding product performance. On the other hand, such activities help develop a sense of affiliation between the organization and the customer (Peter and Olson 1995) and influence overall attitudes. For example, advertising sporting shoes using a well known celebrity such as Michael Jordan may enable customers to develop a social identity and subsequently a sense of identification with the sponsoring organization. In turn, identification engenders positive affect and influences customer satisfaction and perceived value.

Customer Listening Posts. Listening is an important aspect of the organization-customer relationship that creates two way interactions. Listening has many benefits. 3M claims that over two thirds of its product-improvement ideas come from listening to its customer complaints

(Kotler 1996). Organizations listen to their customers through a variety of media: letters, toll free telephone numbers, email, videotape, and marketing research. According to Reese (1996), availability of customer listening posts also raises customer expectations and may impact customer perceptions about the company and its products. Moreover, customers feel "wanted" and "taken care of" when organizations listen to them which reduces disconfirmation in the instance of complaints and could even induce positive affect if the context is one of suggestions for improvement. In support of this notion, Fornell and Wernerfelt (1988) suggest that firms should even encourage complaints from customers because such complaints give the firm a chance to retain these customers.

Forums**.** Recently, organizations have sought to develop a "connection" or relationship with customers through both electronic and personal interaction forums. Tenets of social psychology -- social identity theory (Tajfel and Turner 1985) in particular, helps us understand how forums help strengthen relationships. Increased contact with the organization leads to a sense of "identification" whereby customers start to define themselves in terms of the attributes and values of the organization (Bhattacharya, Rao and Glynn 1995). The Saturn picnics (Aaker 1994), the Harley Davidson rallies (Reid 1989) and Reebok forums on the Internet (McKenna 1995) are examples of personal interaction forums that lead to identification. In electronic forums, individual customers have established Web pages for automobiles, toys and television shows (Hoffman and Novak 1996). Identification has both cognitive and affective dimensions (Bergami and Bagozzi 1996), and has been shown to be positively related to customer satisfaction. Not surprisingly, identification has desirable relational outcomes -- in the context of employees, identification has been shown to lead to lower turnover (O'Reilly and Chatman

1986), and, in the context of alumni of educational institutions, it leads to increased donations (Mael and Ashforth 1992).

Moreover, customers are also using the Internet to form “brand communities” around organizations such as Saab, Disney and Leggo (Winer et. al 1996). Organizations can facilitate and influence these customer-to-customer encounters by encouraging group formation, controlling the environments in which customer-to-customer encounters take place, and so forth. Research in business-to-business marketing contexts has shown that frequency of information exchange (facilitated by such forums) is positively associated with global relational behaviors (Boyle et al 1992). Not surprisingly, organizations have seen opportunities to exploit the extensive social networks among customers — e.g., MCI’s “Friends and Family program” (Martin and Clark 1996) — to obtain desired relational behaviors.

<u>Corporate Partnerships and Sponsorships</u>. Corporations have always been associated with sporting and cultural events. The Virginia Slims women’s tennis tournament and the Winston Cup in car racing are examples of organizations trying to influence customer attitudes and behavior through associations. Typically, such associations are both cognitive and social in nature. In recent years, there has also been an increase in organizations developing alliances with worthy causes and/or with nonprofit organizations (Andreasen 1996, Brown and Dacin 1997, Varadarajan and Menon 1988). Such partnerships and sponsorships seem to serve as “idiosyncratic investments” or pledges that influence the commitment of both parties to the relationship (c.f., Anderson and Weitz 1992). They also signal to the customer that the organization is “socially responsible,” which is another dimension that enhances the value of the relationship for the customer.

Measuring the Effectiveness of Relational Marketing Variables

Measures of the effectiveness of relationship marketing variables should include individual or aggregate measures of customers' relational behaviors: share of purchases, customer retention rates or lifetime durations, purchase or usage levels, multi-product sales, and so forth. However, the effectiveness of relationship marketing efforts will also be reflected in measures of attitudes (e.g., service quality) and underlying predispositions (e.g., loyalty). For example, prior research has shown that relationship marketing efforts can influence interpurchase durations for goods and services (e.g., Crosby and Stephens 1987). Furthermore, the elasticity of purchase intentions with respect to customer satisfaction is lower for organizations with high levels of satisfaction (Anderson and Sullivan 1994), implying a long run reputation effect insulating organizations who practice relationship marketing. In addition, more satisfied customers have longer relationships with their service providers (Bolton 1996) and higher usage levels of services (Bolton and Lemon 1997). Typically, as the duration of the relationship increases, the benefits of the relationship increase for both the organization and the end user. Ultimately, we expect the effectiveness of relationship marketing variables to be reflected in financial/economic measures of the organization's performance (e.g., market share, share of customer and profits).

RESEARCH QUESTIONS

Relationship marketing in mass markets is a fruitful topic for additional conceptual and empirical research. In the conceptual domain, the extant literature has focused almost exclusively on relational outcomes as a function of customer, firm and product characteristics. However, an important determinant of relational outcomes is the lateral relationships or networks that develop among groups of users. The popular MCI "friends and family" campaign may be one example of such a network. We need to understand how an individual customers' decisions to withdraw, build or maintain a relationship is affected by relevant others' decisions to do the same, and conversely, what strategies firms can use to enhance customer loyalty by strengthening the ties among these networks. The literature on organizational demography (cf. Pfeffer 1983) is valuable for advancing such an understanding.

In the empirical domain, there is much need for studies that use surveys, experiments and longitudinal analysis that uses data collected from consumer panels. For instance, a ripe area for research is an investigation of cross-category variation in the effectiveness of relational marketing efforts. Cross sectional data on a number of different categories would make it possible to investigate how product category characteristics affect marketing mix effectiveness and subsequently relationship value. The same analysis could also provide insight into the interdependencies in the perceptions of product heterogeneity, perceived risk and switching costs (that we discussed in section two), and hence enable us to assess how the pay-off from relationship marketing efforts changes with changes in product category characteristics.

Since relationships develop over time, there is also a need for dynamic models that explain how marketing mix variables influence relational behaviors via mediating constructs (e.g., trust). One approach to these issues is to conduct longitudinal research, using data collection techniques such as customer panels that provide ongoing attitudinal and behavioral data for specific product categories. Such research could answer questions about the nature of the "value function" and its antecedents. For example, how is equity maintained in relationships over time? We can empirically test for the integration rule and extend Bolton and Lemon's

(1997) work to investigate the types of mechanisms customers use over time to restore equity in their relationship. Furthermore, we can also investigate how equity affects customers' assessment of the future value of the relationship.

Finally, experimental research could be used to address a number of interesting issues. First, there is the whole area pertaining to the practice of using both brand and organizational level attributes to influence customer retention. We need to understand how information with regard to the organization is processed by customers and integrated with brand related information. Relatedly, under what conditions does information pertaining to the organization impact brand/service purchase behavior? How is such information processing mediated by one's identification with the organization and his/her strength of brand preference? Second, we need to understand how different sets of marketing mix conditions and product characteristics result in specific behavior bundles such as repeat purchase, word-of-mouth, multi-brand loyalty and so on. Computer based experimental settings (e.g., Burke 1996) are appropriate for this purpose because many different market conditions can be created with relative ease. Third, it is important to understand whether there are asymmetries between relationship building and relationship withdrawal types of behaviors. If relationship withdrawal is inferred by the customer as a loss of sorts, it is possible that psychological theories that speak to loss aversion (e.g., Kahneman and Tversky 1979), can be invoked to understand whether customers are more likely to enagage in behaviors such as negative word of mouth compared to the commensurate positive word of mouth expected in a relationship building context.

(Figure 1: Graph: presale / sale / consumption /after-sale / repeat + cross-selling + . . . + feedback)

Table 1

Product Category Characteristics Facilitating Relationship Marketing*

	Low Risk		High Risk	
	Homogeneous	Heterogeneous	Homogeneous	Heterogeneous
Low Switching Cost	Packaged Goods, Telephone service	Retail merchandising, Restaurants	Airlines, Hotels, Package Delivery	Hair Salons, Clothing, OTC medicines
High Switching Cost	Cable television, Car Insurance	Computers	Life Insurance	Housing, Child care, Financial Services

*Customers propensity to engage in relational behaviors will be higher in categories characterized by higher perceived switching costs, higher levels of perceived risk and greater heterogeneity among alternatives in the product category. Higher propensity to engage in relational behaviors is indicated by more heavily shaded cells.

Table 2

Examples of Links Between Marketing Variables, Antecedents of Relational Behaviors and Relational Outcomes

Marketing Variable	**Key Mediators of Customer Satisfaction and Perceived Value**	**Relational Outcome**
Corporate Advertising Using Celebrities	Affiliation Reputation	Cross Selling
Warranties	Expectations about product performance	Trial
Membership Programs/ Forums	Affiliation, Identification	Repeat buying, Cross selling, Advocacy
Listening Posts	Expectation disconfirmation, Affect	Repeat buying, Word of mouth

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