

# Relationship Marketing Strategy

By  
Patricia Sorce,  
Ph.D.

Professor, College of  
Business

Rochester Institute of  
Technology

A Research Monograph of the  
Printing Industry Center at RIT

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# Abstract

The purpose of this research is to understand the impact of relationship marketing strategy on the demand for customized communication through printing. Though many marketing executives report that they are using a relationship marketing strategy, this has not resulted in high demand for variable data printing. Is it a failure of strategy or a failure of implementation? Two exploratory studies are presented to answer this question. First, the foundations of relationship marketing strategy are presented. In particular, the central role of loyalty is discussed as the mediating factor in building relationships with customers. Using the concepts of brand equity, value equity and retention equity as presented in the Customer Equity model designed by Rust, Zeithaml and Lemon, it will be argued that to build retention equity common to most relationship marketing programs, marketers need to understand the relationship from the customer's point of view. An exploratory study of 160 adults was conducted to determine their preferences for common relationship marketing tactics such as receiving mail from businesses they patronize, getting e-mail notices of sales, joining frequent buyer programs, and use of customer service phone lines.

The results indicated that catalogs and direct marketing were viewed very favorably by the respondents. Commercial e-mail messages were viewed somewhat less favorably. There was not a high level of interest in frequent buyer programs. A factor analysis revealed that these preferences combined to form four dimensions representing the different forms of media to communicate with customers: printed mail, e-mail, telemarketing, and face-to-face service. Relationship marketing strategies will be successful if customer communication preferences are part of the customer profile database of a firm.

The second exploratory study addresses whether there are infrastructure or implementation barriers to capturing and using this customer feedback. Interviews with executives from an advertising agency, a large printing company that produces direct mail, and an executive from a customer relationship management software company were conducted to determine what are the barriers to implementing personalized print campaigns using variable data? The results indicated that many of their business clients were not able to implement these campaigns because:

1. Their internal databases were inadequate.
2. There were a small number of businesses cases where this level of personalization was cost effective.
3. There was an overall lack of awareness of the range of marketing automation possible with today's digital printing technology.

These barriers must be overcome in order for variable data printing to meet its potential.



# Introduction

It is estimated that 60 percent of the volume printed by commercial printers is produced to support the advertising needs of business (Romano 41). The choice of advertising communication vehicle is driven by the marketing strategy of a firm. For printers to flourish in today's crowded commercial media market, they must understand the marketing strategy goals of their clients and help them use the appropriate print media tool to achieve these goals.

The purpose of this monograph is to examine one popular strategy: relationship marketing. Relationship marketing is based on creating a mutually beneficial exchange between business partners. This often requires personal communication with the customer. Digital printing, with its high speed personalizing capabilities, is a logical choice for advertisers wishing to pursue this strategy. If product manufacturers can build and maintain relationships with customers through print communications, then they will buy print media advertising.

But relationship marketing strategy is not a silver bullet. There are many examples of the failure of marketing programs designed to build loyalty. If done improperly, the relationship marketing strategy will not achieve the goals of the client firm. One strategy is not appropriate for all marketing programs. In what situations should the strategy be used? What applications are most appropriate? If interaction with the customer is a requisite part of the relationship marketing program, what information should the client firm be capturing from its customers and how should it be used to shape future communications? In order to help the client firm implement a relationship marketing strategy, the printer should understand these questions within the context of relationship marketing theory and the buyer behavior research that supports it.

The first chapter of this monograph will present the marketing strategy trends in the last decade which are intended to build customer commitment and loyalty. Success of these programs is dependent on both how loyalty is defined and the business context in which it is applied. Chapter 2 will present the theoretical foundations of relationship marketing and the importance of interdependence and interactive communication between partners in the commercial relationship. Marketing theory provides a context to correct the criticisms of relationship marketing practice that have emerged. The 'cure' for poor practice is to understand the customer's view of the relationship. Chapter 3 of the monograph will present the results of an exploratory study that attempts to measure the consumer's view of the marketing tactics used to build relationships. The last chapter will look to the requirements for implementing such a strategy and some of the barriers that must be overcome.

This monograph is written for marketing practitioners and is designed to communicate:

- What are the different types of loyalty and under what conditions does building brand loyalty make sense?
- What are the attributes of business-to-customer relationship interactions?
- What data should we capture from customers to make relationship marketing programs successful?
- What technology barriers must be overcome to implement a successful relationship marketing strategy?



# Chapter 1: Marketing Strategies that Build Customer Commitment and Loyalty

The objective of many marketing strategies in the last 10 years has been building the customer's commitment to a brand or a dealer. This has taken three forms:

- **Creating customer satisfaction** - delivering superior quality products and services (Gale and Chapman).
- **Building brand equity** - the sum of the intangible assets of a brand. Factors that contribute to this are: name awareness, perceived quality, brand loyalty, the associations consumers have towards the brand, trademarks, packaging, and marketing channel presence (Aaker 17).
- **Creating and maintaining relationships** (Peppers and Rogers).

Success with any of these strategies will result in high levels of repeat purchase, insulation from price increases and improved responsiveness to marketing communications by customers.

There has been an evolution of marketing thought and activity over this last decade. Initially, the quality movement placed customer satisfaction as the ultimate goal of marketing programs. However, as satisfied customers were shown to defect to other brands or providers at relatively high rates, strategists looked to creating a greater commitment with the customer. Two ways to achieve this were to build brand equity (primarily for consumer products) and to build relationships (primarily for industrial products.) Brand equity used mass media advertising, corporate citizenship and public events sponsorship to build a brand image. Relationship marketing sought to build interdependence between partners and relied on one-to-one communications, historically deliv-

ered through the sales force. With the growth of marketing databases and the Internet, the ability to reach customers individually became a viable strategy for a wide range of firms including consumer products companies.

The growth in relationship marketing was fueled by the writings of management consultants. In 1993, Don Peppers and Martha Rogers published *The One-to-One Future*. Taking inspiration from mass customization manufacturing technologies and applying them to marketing communications, Peppers and Rogers encouraged a one-to-one focus on "share of customer" rather than the mass-marketer's "share of market." This was based on the marketer's ability to communicate a unique message to the customers based on the company's knowledge of their interests. They claimed that this one-to-one interaction with customers would lead to improved lifetime value.

Frederick Reichheld further developed the importance of building customer commitment in his 1996 book *The Loyalty Effect*. He focused on the cost of customer defection and set the stage for the problem by claiming "many major corporations now lose and have to replace half their customers in five years [...]" (Reichheld 1). Using examples from financial service companies, advertising agencies, and manufacturing firms, Reichheld claimed that even small improvements in customer retention can as much as double company profits. This is because:

1. It costs less to serve long-term customers.
2. Loyal customers will pay a price premium.

- Loyal customers will generate word-of-mouth referrals to other prospective customers.

However, given the failure of many information technology investments to achieve the expected benefits, concerns about relationship marketing strategy are emerging. The section that follows addresses the questions of whether loyal customers are more profitable and under what conditions a loyalty strategy is appropriate.

## ARE LOYAL CUSTOMERS MORE PROFITABLE?

Recent research has empirically investigated the premise that loyal customers are actually more profitable. Reinartz and Kumar tested the claims that loyal customers were less costly to serve, were usually willing to pay more for brand choices than non-loyal customers, and acted as word-of-mouth marketers for the company (87). In their five-year study of the costs of doing business with key customers, they measured direct product costs, advertising and sales force expenses, and service and organizational expenses in serving annual cohorts of customers in four businesses. Loyal customers were defined as those who made regular purchases for at least 2 years. They found that the correlation between profitability and loyalty was weak to moderate:

Company	Correlation Coefficient
US mail order firm	.20
German brokerage firm	.29
Corporate service provider	.30
French food retailer	.45

For example, in the corporate service firm, the cost of their loyalty program was about \$2 million per year but the most loyal customers barely generated a profit in the five-year time frame of study. Their most profitable customers were those that had a short but intense buying experience with the firm. The authors concluded

that there was little evidence to suggest that steady purchasers will generate the most profit.

However, when Reinartz and Kumar redefined loyalty, their results supported the loyalty effect. Their original definition specified only the behavioral dimension of loyalty - that is, repeat purchase within a specified time frame. However, when they included customer attitudes such as whether they felt loyal to the company, whether they were satisfied and whether they had an interest in switching brands or service providers, the loyalty effect emerged. They called this “thought and deed loyalty.” For example, grocery customers who had strong thought and deed loyalty were 120 percent more profitable than those that were repeat purchasers. In the corporate services company, thought and deed customers were 50 percent more profitable than customers defined by just by purchase frequency or recency.

The facilitating effect of loyalty on achieving the marketing outcomes of higher market share and premium pricing was confirmed in another recent study. Chaudhuri and Holbrook measured consumers’ attitudes towards 107 brands in 41 different product categories (86). They differentiated between a consumer’s purchase loyalty (“I will buy this brand again”) and attitudinal loyalty (“I am committed to this brand”). These attitudes were averaged over the survey responses to develop brand-level data (that is, the brand was the unit of observation.) These observations were merged with data collected from brand and product managers regarding the current market share of the brand, share of voice, relative price and perceived differentiation among competing brands. The results showed that purchase loyalty was positively related to market share but not relative price of brand. That is, brands that had higher ratings on statements such as “I will buy this brand again” had higher market shares but were not the premium price brand in the market. Conversely, attitudinal loyalty was related to relative price but not market share. That is, brands that had higher ratings on statements such as “I am committed to this brand” were able to charge higher prices than those brands that received lower ratings on attitudinal loyalty. This higher consumer commitment, however, was not related to differences in

market share. The study confirms that higher levels of loyalty are correlated with positive marketing outcomes but that different definitions of loyalty had selected effects on either market share or price premiums.

In conclusion, the results confirm that creating customer commitment can be effective in achieving business goals. Moreover, consumer commitment cannot be defined by repurchase behavior alone. Rather, the consumer's attitude toward the brand or firm must be known in order to understand consumer repurchase behavior. This leads to the second concern that has been raised in implementing loyalty strategies: what are the different types of loyalty and in what situations are they likely to occur.

## WHAT IS LOYALTY AND WHEN DOES IT OCCUR?

Knowing the buying motivations of customers has been an important part of understanding customer loyalty and brand switching behavior (Jacoby and Chestnut; van Trijp, Hoyer, and Inman 283). Brand loyalty has three components: commitment, preference and repeat purchase (Oliver 35). Oliver describes four levels of loyalty based on these components:

1. Cognitive – one brand is preferable based on superior brand attributes.
2. Affective – liking towards brand has developed over the course of multiple purchase situations that were satisfying.
3. Conative – Affective stage with the express intention to re-buy.
4. Action – Conative stage plus the active desire to overcome situational influences and marketing efforts that may have the potential to cause switching behavior.

On reaching the action phase, the customer possesses a deep commitment to repurchase but also is active in blocking the influence of alternative brands. Oliver claims that action-level loyalty will be created when consumers intentionally immerse themselves in a social

system that rewards brand patronage. Examples include fan clubs, alumni associations, and lifestyle products such as Harley Davidson motorcycles. Achieving consumer loyalty via immersed self-identity, though, may prove to be the rarest form of loyalty. Oliver lists the requirements for this state to occur:

1. The product must be perceived as superior by a large enough segment of the firm's customers in order to be profitable.
2. The product must be subject to adoration (or focused commitment).
3. The product must have the ability to be embedded in a social network.
4. The firm must be willing to expend resources to create the village.

Oliver concludes that, for many consumer product categories, achieving this emotional commitment by customer is unattainable. There should be different loyalty strategies for different industries. Empirical work to demonstrate this was presented by two McKinsey researchers, Stephanie Coyles and Tim Gokey. Using data from a two-year study on 1200 households regarding the purchase of 16 types of products and services, they defined three loyalty segments:

- *Emotive loyalists* were the most loyal. They feel their current alternative is the best for them and rarely reassess their purchases. This group often spends more money than those consumers who deliberate over purchases.
- *Inertial loyalists* are uninvolved with the product, or experience high switching costs, and this leads to inaction and repeat purchase based on inertia.
- *Deliberative loyalists* maintain their spending levels for brands because they feel it is superior. They have selected the brand through a rational process such as reviewing the price and performance of the various options. They often reassess their

purchases in light of new information and alternatives to find the new, better alternative.

- (A fourth group of consumer that valued variety was found for industries such as fashion and package goods. Though beyond the scope of this paper, packaging printing applications may play the primary role in the marketing communication mix of these industries.)

The deliberative loyalist group is the largest, representing about 40 percent of the sample in the McKinsey study. However, the proportion of people in each segment varied widely by product category. The highest proportion of emotive loyalists was found for soft drinks (40%) and laundry soap (30%) products. The highest proportion of deliberative loyalists was found for apparel (69%), groceries (56%), and auto insurance (53%). For some product categories, such as credit cards and long distance telephone service, there were relatively similar proportions of consumers in each category. For example, 34 percent of credit card customers were classified deliberative, 21 percent as inertial and 22 percent as emotive. For long distance, 24 percent were deliberative, 25 percent were inertial and 32 percent were emotive.

Coyles and Gokey concluded that these loyalty patterns are influenced by five structural factors within an industry:

- How often purchases are made
- The frequency of other kinds of interactions such as service calls
- The emotional or financial importance of a purchase
- The degree of differentiation among competitors offerings
- Ease of switching.

They concluded that repurchase behavior is determined by a number of factors that are unique to different industries. One loyalty strategy should not fit all situations.

In conclusion, the loyalty marketing strategy recommended should vary by industry. Research from both academic and consulting worlds conclude that “emotional loyalty,” the pinnacle of loyalty where the customer resists the influence of other brand offers, is not a realistic goal for many marketers. Moreover, achieving attribute superiority required for a deliberative loyalty strategy is difficult to pursue for product categories where there is little differentiation among brands (Dillon, et al. 416). For businesses where there is not a ‘village’ or where there is little differentiation among brand attributes, creating an environment with high switching costs to create inertial loyalty may be the only viable strategy to create customer commitment. Inertial loyalty plays a major role in relationship marketing strategy.

# Chapter 2: Foundations of Relationship Marketing Strategy

The current conceptualization of relationship marketing migrated from organizational behavior and industrial marketing where interdependence between firms has been the foundation of successful business-to-business alliances. Morgan and Hunt define relationship marketing as all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges (21). In their definitions of these key constructs, Morgan and Hunt draw from social and clinical psychology, namely, social exchange theory, and the marriage literature. In their model, commitment and trust are the key mediating variables because they encourage exchange partners to preserve relationship investments, resist attractive short-term alternatives, and maintain the belief that partners will not act opportunistically.

Morgan and Hunt describe 10 discrete forms of relationships, and almost all (8 out of the 10) were typical of the relationships that firms have with their suppliers, strategic partners, employees, and among functional units within a firm. Only two relationships described by Morgan and Hunt involve customers or clients – the relationship between service providers such as advertising agencies and their clients and the long-term relationships between service firms and their ultimate customers. Both of these assume a certain level of interdependence and history of interaction. Is relationship marketing only viable within these contexts?

Iacobucci and Hibbard examine that question (13). They describe three types of relationships: business marketing relationships (BMR); interpersonal commercial relationships (ICR); and business-to-customer relationships (B-to-C). Business marketing relationships are those similar to the ones described by Morgan and Hunt where the relationships are typi-

fied by long-term, close, and intense interactions between relatively symmetric (in terms of power) partners. These relationships have had the longest history of study by marketers, which has resulted in a rich and well-developed theory to describe them. In their review of the literature, Iacobucci and Hibbard reinforce the importance of commitment, trust, and interdependency in understanding business relationships. These factors relate to the quality of relationship interactions and their definitions are presented in Table 1.

The second type of relationship examined by Iacobucci and Hibbard is the interpersonal commercial relationships (ICR): the interactions between a service firm and the final customer. These include business-to-business relationships (such as those between an advertising agency and its clients) and retail transactions between a sales agent and a customer. The service quality literature has studied these latter relationships and built theory around them (Berry and Parasuraman's *Marketing Services*). For the former, such as ICRs between attorneys and their clients or advertising agencies and their clients, the interactions occur between two relatively symmetrical partners, are close and long term in nature, and may also include a social component. The outcomes of the quality of relationship interactions are satisfaction, profitability, positive evaluations of service provider, intentions to generate referrals, and the ability to compromise or bargain fairly. The factors related to the quality of ICR relationship interactions are presented in Table 2.

## Chapter 2

Business Marketing Relationship Factors	Definition (Iacobucci and Hibbard pages noted)
Commitment	Implicit or explicit pledge of relational continuity between exchange partners; adoption of a long term orientation toward the relationship – a willingness to make short-term sacrifices to realize long term benefits (22).
Trust	One party's belief that its needs will be fulfilled in the future by the actions undertaken by the other party (22). Contingent on presence of uncertainty.
Power	Ability of one party to get another party to undertake an activity that the other party would not normally do (23).
Control (part of power)	Outcome of power and results when a party is successful in modifying its partner's behavior (23).
Balance of Power (part of power)	Balance = symmetric power Imbalance = hierarchical; one party has dictatorial abilities over the other (23).
Interdependence	Mutual state of dependence (24).
Communication	Formal and informal sharing of meaningful and timely information between firms (24).
Cooperation	Similar or complementary coordinated actions taken by firms to achieve mutual outcomes (24).
Idiosyncratic Investments	Sunk costs that would not be recoverable in the event of a termination (24).
Conflict Resolution	Functionality of dispute resolution stimulates more creative and effective partnerships (22).

Table 1: Business Marketing Relationship Factors

Interpersonal Commercial Relationship Factors	Definition (Iacobucci and Hibbard pages noted)
Communication	Exchange of information (26).
Similarities of Shared Belief Systems	Similarities in preferences of apparent personality or demographic factors; similarities in goals and beliefs, social closeness (26).
Competence and Personal Factors	Capability of front line service providers such as service providers' friendliness; same gender and physical attractiveness of provider (27).
Absence of Conflict	Ability to resolve disputes (27).

Table 2: Interpersonal Commercial Relationship Factors

The third relationship described by Iacobucci and Hibbard is the business-to-customer relationships (B-to-C). These are defined as largely technology-driven interactions between a business and an individual customer. Iacobucci and Hibbard note that there is very sparse scientific research on these relationships. They conclude that what we have learned from the BMR literature has limited application to the B-to-C world because the concepts of trust and cooperation become meaningful if and only if there is interdependence between the exchange partners. The lack of interdependence has been the focus of the criticism of relationship marketing practice.

## RELATIONSHIP MARKETING IN PRACTICE

Fournier, Dobsha and Mick present a critical perspective on relationship marketing practice. They question the actual amount of interactivity between a customer and a commercial firm (42). They warn that the premature death of customer relationship management (CRM) is likely because, in exploiting the ability to communicate one-to-one with a customer, the majority of the firm-generated communication with customers is often one-way from the business to the customer. With a few notable and well-publicized exceptions such as Amazon.com and Cisco Systems, there is rarely any evidence of interaction. That is, even if a consumer does communicate with the business, this information rarely impacts the nature of the future communications from that business.

The solution to reducing this conflict is to understand the relationship expectations from the customer's point of view. To achieve this, Fournier developed a model of CRM from the consumer's perspective building on the social and marriage models of relationships. She presents six factors that define the relationships that customers can hold with brands. These are: intimacy, commitment, partner quality, attachment, interdependence, and love. She argues that business strategists should recast their conceptions of the relationship from a revenue generating and cost saving device (the goals of the firm) into a vehicle to create *meaning* for the customer with the brand. The relationship

is the facilitator, the means to an end, and not the end-goal itself for the customer.

The notion of a consumer having a relationship with a brand (rather than with a person or group of people) is the key component in the brand equity construct mentioned in the first chapter of this monograph. Keller views relationship with a brand as part of brand equity (14). These brand relationships are based on the degree of personal identification the consumer has with the brand and involve two dimensions of attitudinal strength and a sense of community (similar to Oliver's notions of immersed self-identity).

But equating relationships between a customer and a commercial firm to brand equity moves us far from the foundations of relationship marketing as described early in this chapter. Moreover, Iacobucci and Hibbard view the notion of a consumer's relationship with a brand as a pseudo-relationship — there is no possibility of interdependence or interaction. According to a recent theory, the personal identification of a consumer with a brand is a separate construct from a customer's relationship with a business. In the book by Rust, Zeithaml, and Lemon, *Driving Customer Equity*, the three constructs of brand equity, customer satisfaction and customer relationships with firms are used to define a new construct of **customer equity**. Customer equity includes:

1. Value equity – the customer's objective assessment of the utility of a brand. This assessment is driven by the product's quality, price and convenience.
2. Brand equity – customer's subjective and intangible assessment of the brand built through image and meaning. This assessment is influenced by brand awareness, consumer's attitude toward the brand, and the firm's corporate citizenship.
3. Retention equity – the tendency of the customer to "stick with" a brand above and beyond the objective and subjective assessments.

## Chapter 2

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According to Rust, Zeithaml, and Lemon, there are five drivers of retention equity (99). These are:

- Loyalty programs
- Special recognition programs
- Affinity programs
- Community programs
- Knowledge-building programs.

To achieve the goal of understanding the customer's view of the commercial relationship, marketers should understand the customer's attitudes towards these programs. The next chapter presents an exploratory study on the relationship marketing tactics from the consumer's point of view.

# Chapter 3: Exploratory Study of Consumer Preference Towards Common Relationship Marketing Tactics

The purpose of this exploratory study is to identify consumer preferences towards common relationship marketing and communication tactics of businesses they patronize. If marketers are going to ask consumers to be partners in defining the exchange relationship, first we must know what interactions consumer like and whether there are unique dimensions within these interaction preferences.

## METHOD

### Sample

The sampled population was from the faculty and staff of Rochester Institute of Technology. RIT faculty and staff were sent an e-mail message inviting them to participate in an on-line survey about their relationships with businesses they patronize. Of the approximately 1700 faculty and staff on the mailing list, 197 visited the site providing 160 usable responses yielding a response rate of 9 percent. The gender and age demographic profile of the sample was: 55 percent of the respondents were women and 45 percent were men; 7 percent were 29 years of age or younger, 53 percent were age 30-49, and 40 percent were age 50 or older.

### Questionnaire Design

The questionnaire was comprised of ten likert-scale items and three demographic questions. The likert-scale items were constructed based on the content analysis of a pilot study of MBA students who were asked to identify the marketing communication tactics they liked and disliked from companies they felt they had a relationship with. The most frequently mentioned tactic they liked was notices of sales and special offers. The most frequently mentioned tactic they disliked was too many telemarketing calls.

Respondents were asked to agree or disagree with the following ten statements using 5-point scale.

1. I like the way some companies follow-up with a phone call after a service is performed.
2. I like it when telemarketers address me by name, even if I have never done business with them before.
3. If I don't get a live person when I phone a customer service line, I am disappointed.
4. I like getting e-mail notices of airfare sales for the cities I often travel to.
5. I like getting catalogs in the mail from stores I patronize.
6. I like getting mail about new products being introduced from companies I do business with.
7. I sign-up for as many 'frequent buyer' memberships as I am offered.
8. I don't want special treatment from a business I patronize; rather, I just want good service.
9. I prefer getting e-mail messages rather than US postal mail from companies I do business with.
10. I'd rather have a smile from a sales clerk than a frequent buyer membership card.

## Chapter 3

Statement	Strongly Agree	Somewhat Agree	Neutral	Somewhat Disagree	Strongly Disagree
If I don't get a live person when I phone a customer service line, I am disappointed.	54%	33%	7%	5%	1%
I'd rather have a smile from a sales clerk than a frequent buyer membership card.	34	43	16	5	1
I like the way some companies follow -up with a phone call after a service is performed.	34	40	10	12	4
I like getting catalogs in the mail from stores I patronize.	30	52	8	6	4
I don't want special treatment from a business I patronize; rather, I just want good service.	28	48	8	15	1
I like getting mail about new products being introduced from companies I do business with.	24	42	17	10	6
I prefer getting e-mail messages rather than US postal mail from companies I do business with.	21	28	18	20	14
I like getting e-mail notices of airfare sales for the cities I often travel to.	20	34	25	10	11
I sign-up for as many 'frequent buyer' memberships as I am offered.	4	18	22	27	29
I like it when telemarketers address me by name, even if I have never done business with them before.	2	6	11	16	65

Table 3: Percentage of Responses to Statements (n=160)

## RESULTS

The results are shown in Table 3. On the positive side, over two-thirds of respondents liked getting catalogs from stores they patronize (82% agreement), follow-up phone calls (74%), and getting mail about new products from companies they do business with (67%). Approximately half of respondents indicated they liked to get e-mail notices of airfare sales (53%) and prefer to get e-mail messages rather than postal mail from companies (49%). Frequent buyer membership programs were not as valued: only 22 percent agreed that they signed-up for as many frequent buyer programs as offered and 78 percent agreed that they would rather have a smile from a sales clerk than a frequent buyer membership card. The notion of good personal service being valued over other marketing tactics was reinforced by the 76 percent who agreed with the statement that they don't want "special treatment"; rather they just want good service. Turning to telemarketing, 80 percent of respondents disagreed that they liked being addressed personally by a business they have never patronized and 88 percent agreed that they are disappointed when they don't get a live person when they call a customer service line.

An exploratory factor analysis was conducted on all ten statements and the results are presented in Table 4. Four factors emerged from the principal components analysis with varimax rotation that explained 60 percent of the variance. The first factor included two statements about US postal mail (liking to get mail about new products and catalogs from businesses they patronize). The second factor included the two e-mail statements (liking to get e-mail airfare notices and preferring e-mail to postal service mail) and a third statement about signing-up for as many frequent flyer programs as possible. The third factor included the two statements about marketer-initiated telemarketing (follow-up after service and being addressed by name). The fourth factor included the three statements about customer service (want good service versus special treatment; a smile versus a membership card; getting a live person on customer service line.)

Statement	Factor 1	Factor 2	Factor 3	Factor 4
I like getting catalogs in the mail from stores I patronize.	.828			
I like getting mail about new products being introduced from companies I do business with.	.813			
I like getting e-mail notices of airfare sales for the cities I often travel to.		.78		
I sign-up for as many 'frequent buyer' memberships as I am offered.		.677		
I prefer getting e-mail messages rather than US postal mail from companies I do business with.		.593		
I like it when telemarketers address me by name, even if I have never done business with them before.			.653	
I like the way some companies follow -up with a phone call after a service is performed.			.592	
I don't want special treatment from a business I patronize; rather, I just want good service.				.687
I'd rather have a smile from a sales clerk than a frequent buyer membership card.			.557	.596
If I don't get a live person when I phone a customer service line, I am disappointed.				.535
Variance Explained (total of 60.6%)	21.7%	14.1%	12.6%	12.1%

Table 4: Factor Loadings from Principal Component Analysis with Varimax Rotation (loadings of 0.50 and higher reported)

### DISCUSSION

The research has a number of limitations. First, a convenience sample of adults was used. This sample may be quite different from a representative sample of the population particularly in terms of educational profile. Second, the statements were not specific to any brand or product category. There may be a great deal of variation in response to communication preferences about everyday household products versus fashion or lifestyle products. Third, since it is an exploratory study, it raises more questions than answers for marketing scholars regarding insights into B-to-C relationships. Iacobucci and Hibbard posited that the concepts of trust and cooperation become meaningful if and only if there is interdependence between the exchange partners. If marketers explicitly use stated consumer preferences to customize their marketing programs, this interactivity may increase customer perceptions of mutual dependence with the firm, and in turn, lead to greater trust. Further research is needed to determine if there is an effect of this two-way interaction on customer perceptions of trust in a B-to-C environment.

Notwithstanding these limitations, the results provide insights into the relative consumer preference of common relationship marketing interactions. The results from the factor analysis revealed that there were four underlying dimensions of relationship marketing preferences and that these corresponded to communication channels - US postal mail, e-mail, personal interactions, and telephone. In terms of their preferences for direct media channels, a majority of respondents reported liking to get mail from firms they patronize. However, nearly half of respondents preferred receiving e-mail rather than US postal mail from businesses. The highest level of consumer favorability was found for interactions based on personal service such as getting a smile from a sales clerk. This carries over to telephone service interactions: the majority of respondents preferred human interaction when they initiated a call to customer service centers.

These results help marketers to further refine personalization strategy. Peltier, Schibrowsky, and Davis advocated using attitudinal information in addition to behavioral data in database

marketing profiles of customers (32). This research suggests an expanded scope of the attitudinal data to gather. In addition to capturing attitudes towards the product, also capture the consumer's communication preferences across all channels. Knowing that a customer prefers e-mail to US postal mail, as 49 percent of our respondents did, should be helpful in implementing successful relationship strategies. Reducing the annoyance factor may be the greatest benefit of personalization strategies in database marketing programs.

Lastly, the results should send an encouraging message to direct marketing practitioners concerned with the looming privacy legislation. First, there may be a pay-off if marketers take a proactive stance in communicating with customers beyond permission-based e-mail. Customers have clear opinions about how they want companies with whom they do business to communicate with them. And, given a chance to opt-out, a large majority of consumers report that they would want their names removed from telemarketing lists (86%) and e-mail lists (50%) (Milne and Rohm 244).

Moreover, the Internet world has raised broader information concerns of consumers. According to the Personalization Consortium Research, 33 percent of e-commerce buyers have deliberately misreported personal information because they were afraid that the information would be shared without their consent (Compton). The concern about privacy of online information has been sufficient to generate a bill in the US Congress to restrict the sharing of sensitive personal information collected online such as medical and credit information (Vence). However, most of this consumer concern focuses on unsolicited marketing efforts that use information shared without consumer's consent, such as those used by companies while prospecting for new customers. If marketers explicitly ask consumers to opt-in to communications, and these preferences are adhered to by business, consumer fears of having their privacy compromised may be reduced.

In conclusion, the current study is concerned with the question of what are the consumer perceptions of relationship building tactics from businesses they currently patronize. The

results from this exploratory study suggest that marketers ask consumers to specify the communication interactions they want with commercial firms. If implemented correctly, this may help build better relationships between the firm and its customers. This information would focus the goals of loyalty marketing programs that are powered by database marketing tools.

How do we implement relationship building programs? The next chapter addresses these implementation challenges.



# Chapter 4: Technology Requirements for Relationship Marketing

The conclusions from the exploratory study and the literature review presented in the first three chapters is that to make loyalty and relationship marketing programs work, consumer attitudes, motivations and communication preferences should be part of the consumer profile. This feedback from customers must be added to the data found in the firm's database. What are the requirements to do this?

## TECHNOLOGY ENABLERS

The major technology enablers for relationship marketing have been the Internet and enterprise-wide management information systems. The former allowed businesses, for the first time, to get low cost interactions with customers. The second allowed for a firm to generate a single view of a customer across all functional areas of a firm. Both of these systems together allowed for customized communication with a single customer for very large firms.

The growth of enterprise-wide systems was fueled by fears of mass destruction of information systems as they dealt with the impact of the Y2K problem. As companies upgraded their information infrastructure, they looked for solutions that would add value to their operations by reducing costs internally and by improving relationships with suppliers. ERP providers such as SAP, Baan, and PeopleSoft grew in response to this demand. However, early version of these systems did not focus on interaction with its customers. The shift in interest to CRM software applications took hold in the late 1990s. In 2001, CRM spending was nearly \$10 billion with nearly half of that spent on marketing applications including call centers and web sites (Joachim). However, though executives want their CRM systems to expand relationships with existing customers (60% of respondents said yes), make it easy for

customers do to business with them (54%), and cross-sell through personalization (45%), these companies often did not have the capability to do this (Patrick Group). In particular, Jupiter Research reported that only 17 percent of companies that have implemented CRM software use customer analytics that are the tools for creating the personalizing content (Joachim). In addition, though most IT executives expect to increase spending in CRM technology in the next year, only 7 percent of the spending will go into improving and profiling customers.

These data suggest that relationship marketing strategies are in place but the infrastructure to accomplish these objectives is not. To examine the barriers to the implementation of relationship marketing campaigns and print media campaigns in particular, three depth interviews were conducted with:

- Executives of a regional full-service advertising agency
- Executives of a large printing company involved in direct print communications
- An executive of an enterprise-wide CRM software firm.

All were asked about their experience in implementing personalized print campaigns for their clients.

### Regional Ad Agency

When asked what barriers to the adoption of a one-to-one print strategy are there for their clients, the executives mentioned three factors. The first was the quality of the database. As one account manager commented, "an inventory management database is not a marketing database." The second factor was the cost to

maintain the currency of the database. One manager noted that database obsolescence is the most important factor in the success of the communication program. In her experience, the client is months behind in their database maintenance activity. The third barrier cited was cost of personalized print campaigns that limited its applications. In particular, given the fix budgets in advertising, a client can either spend money on file overlays and analysis or spend the money on less targeted printing and mail more pieces. In their experience, the firms decide to go with the larger mailing. Moreover, even though variable data is a big selling point for digital printed communications, the cost to prepare the file by the ad agency is high and thus the cost of the program is high relative to other printed applications. In some cases, the improved response rate will be enough to cover the production costs. In other cases, it does not make sense. For example, it is possible to run customized newsprint coupons for grocery products based on the scanner data that grocery stores collect. However, given the margins, it does not make sense to produce and mail this variable data flyer.

When asked about the growth in their direct marketing programs of clients, they reported that direct is becoming assimilated into other communication programs. Many clients are using a more integrated approach. The attractiveness of direct marketing techniques is that you can track the ROI. However, for many clients, selling direct marketing is difficult because of an earlier experience with direct marketing. Many clients were reported saying that “I did direct mail once and it didn’t work.” As noted by one agency manager, the first foray of a business into direct mail is rarely successful. After three years, with modeling and refinement of the database, it works. Some firms don’t have the patience for this.

And lastly, there is a problem with project creep for the agency. One ad executive said that if you have a large direct marketing function in-house that you offer to clients, then the next logical step is a call center. This is not an attractive option to many ad agencies because their main job then becomes director of an employment agency given the high turn-over of call center personnel.

In sum, the barriers that the regional advertising firm experienced to implementing personalized print communications for their customers were: the lack of marketing-oriented databases of their clients, the poor maintenance programs of database resulting in obsolescence, and the cost of getting a database ready for one-to-one that restricts application to higher margin products and services.

### Large Commercial Printer

The manager of the direct marketing group of a large printer echoed similar concerns. She said that they remain “skeptical about how much companies can use the data they have.” Because of this hurdle, the printing company representatives recommend versioning rather than a one-to-one program. That is, create a customized message to a small number of customers rather than one message to a particular individual. The manager reported that there is often too much time and money invested to prepare the file for a one-to-one program. Moreover, she emphasized that the client does not see the true pay-off; that is, there is often no difference in response to a targeted, short-run catalog versus a unique one-person catalog.

A major reason for the lack of pay-off for the client is that the client does not do a good job in effectiveness testing; i.e., in measuring the results of the marketing program. The printing company has offered this service to their clients, but because the client firm views the database as a strategic resource, they don’t give it up easily to outside service vendors. For example, in the 2001 DIRECT magazine survey, only 23 percent of larger firms use an outside service bureau for database management (Levey).

### CRM Software Firm

In the interview with the CRM software company representative, he was asked to explain the reason for the slow adoption of personalized print for clients that purchased the enterprise-wide software. In his experience, CRM marketing programs were designed to improve relationships with customers in the following order; sales force automation; call center support; personalizing a web site experience; and lastly, direct mail. When asked why direct mail was the last frontier, the executive said there were two reasons. First, there is a

lack of awareness of the technology, affordability and ROI gains for the new capabilities of marketing automation. Second, there are many definitions of marketing automation. For some, their CRM implementation is a mail-merge letter using a list from a direct marketing house. For others, it's using the information in their own billing system to target new offers to customers. Only a few (for example, 3500 installations of Siebel software worldwide), realize the CRM capabilities of the enterprise-wide systems that enable a multi-channel strategy and a single view of the customer across all functions.

### CONCLUSION

Based on the three interviews, the barriers to implementing a personalized print campaign are:

- Inadequate internal client databases.
- Lack of apparent ROI of a one-to-one message versus a message sent to a small segment. This results in a small number of business cases where a unique message is profitable.
- Lack of awareness of client firms regarding the range of tactics that constitute marketing automation and the expanded capabilities of today's printing technologies.



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Rochester Institute of Technology  
College of Imaging Arts and Sciences  
55 Lomb Memorial Drive  
Rochester, NY 14623  
Phone: (585) 475-2733  
Fax: (585) 475-7279  
<http://print.rit.edu>