CHAPTER 9

Generic Relationship Marketing Strategies

In this chapter, the concept of relationship oriented marketing strategy as a very convincing and effective method of developing sustainable competitive advantage will be presented. The term generic relationship marketing strategy will be used in this context. The term generic in this context means that in order to achieve long-term outstanding performance, the company must be very clear about the main relationship benefit sources behind the strategy and their sustainability within a framework of competitive understanding.

Unique customer relationships will inevitably be reflected by strong customer loyalty. Strong loyalty assumes extraordinary customer satisfaction, which then becomes a clear vision for any successful relationship marketing strategy.

In the process of developing a strategy, a company will either aim at gaining relationship economic advantages in terms of a leading position in transaction cost efficiency or perceived unique relationship quality advantages. Both of these strategic directions can be successful, whether geared towards the total market or focused on specific market segments or niches.

Relationship marketing strategies have to be defendable as do the various generic strategies with regard to what competitor initiatives they are potentially vulnerable to.

9.1 The Narrow, Decisive Track to Outstanding Performance

These examples will illustrate how much a company’s profitability depends on loyalty:

“It costs $51 to win a new account; profits earned grow annually from $30 in year 1 through $42, $44, $49 to $55 in subsequent years.

S. Hougaard et al., Strategic Relationship Marketing © Springer-Verlag Berlin Heidelberg 2002
Clearly, a customer relationship must last into the second year before break-even is reached."¹

"Increasing customer retention by 5% adds more than 3 years to the average customer lifetime. Defection declines markedly across customer tenure with a financial institution and account usage per relationship increasing over time... "In the same publication an analysis from Cumberland Bank reveals the following about the top 5% of their customer base: "These top customers generate 40% of the bank's total deposits. A 5% increase in retention among top customers yields a 24% increase in overall profitability...."

Why is it that some companies succeed in creating a high and outstanding level of customer loyalty while others do not? According to the idea of so-called meta loyalty,² internal loyalty from employees is a prerequisite for the development of external loyalty in terms of customer attitudes, propensity for repurchase etc. But is that all?

In economic terms, the idea of customer relationship profitability is a reflection of different marginal revenues generated at the transactional level of the relationship. This generates higher prices, larger volume, lower costs of servicing the customer, lower defection rates, reduced sales- and marketing expenses, increased buying frequency etc. What the company must sometimes do, in order to maximise transaction economy, i.e. the relationship generated plus-revenue streams, is to investment in customer specific assets. These assets will typically be idiosyncratic due to eventual asset redeployment losses and hence dependence and vulnerability in terms of loss of bargaining power.

When customers tend to rebuy and behave as loyalists over a longer period of time and when this behaviour contributes to the financial success of the supplier, it can to some extent be explained by a similar relationship economic logic. Depending on the category of product or service and the fit within the regulating mechanisms, a customer gets more value for "loyalty money" in the sense that the perceived marginal transaction costs going through an extended purchasing process exceed the expected benefit that such a process could possibly generate.

Therefore, the main thesis is that it may pay off for the customer to demonstrate loyalty from an economic, technical or psychological standpoint. This how-