

THIRD EDITION

# Total Relationship Marketing



**Marketing management, relationship strategy, CRM, and a new dominant logic for the value-creating network economy**

*"An informed and innovative approach... Gummesson has provided a vivid demonstration of the ubiquity of relationships in marketing."*

PHILIP KOTLER, S.C. Johnson Distinguished Professor of International Marketing, Kellogg School of Management, Northwestern University, USA.

**Evert Gummesson**



# Total Relationship Marketing

Third edition

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**Evert Gummesson**

Marketing strategy moving from the 4Ps – product, price, promotion, place – of traditional marketing management to the 30Rs – the 30 relationships – of a new marketing paradigm incorporating service-dominant logic, B2C, B2B, C2C, CRM, many-to-many marketing, and the value-creating network society



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# Preface and acknowledgements to the third edition

Revising and updating is a wonderful opportunity to test the viability of one's own ideas and to bring them to others. It is an obtrusive reminder that markets, customers, companies, society and technology keep changing. Relationship marketing (RM) and customer relationship management (CRM) have become accepted – and debated – parts of marketing. We still have a long way to go to separate unrealistic theory and research, advocacy, rhetoric and hype from what can lead to hands-on action in a true relationship spirit. As before, my effort to sort this out is expressed by the title of the book: *Total Relationship Marketing*.

What's new in this third edition and what stays put:

- I'm proud to say that the 30 relationships approach, the 30Rs, stays fit after 25 years when the ideas started to brew in my head and after 15 years since the 30Rs became complete. Many liked the Rs from the start, others were puzzled, others joked about them and yet others claimed that the Rs were too many. A commentary in *The Times Higher Education Supplement* advocated that the traditional 4Ps (product, price, promotion, place) are superior as students and executives can keep 4 things in their heads but not 30. This is a gross understatement of their intellectual capacity. I know numerous people – both students and CEOs – who have learnt the alphabet (26 letters) and can handle multiple strategies simultaneously. *Reality is complex – it is not a sound bite or a one-liner – and marketing complexity has to be addressed with an open and daring mind*. I still do not hesitate to say that this is the most complete attempt so far to cover RM/CRM on a strategic level and offer the beginnings of a theory. So the 30Rs stay.
- *Each R* has been scrutinised for revision and updating. For example, information technology (IT) keeps changing our lives and relationships. The general notion of e-relationships (R12) stays but it is demanding to try to discern the big picture because of all new technology and inventive service. Another example is the green relationship (R15), which in its broadened sense includes corporate social responsibility, CSR. It is literally hotter than ever. Specific elements of the relationships need to be adjusted but their core messages remain.
- *Theories, concepts and vocabulary* change. Integrating the new ones with the text and dropping the outdated ones turned out to be a challenge, no, a nightmare. I did not

have access to the Holy Grail and its miraculous power to make everything consistent. But I want to be remembered for being one of the first to try, hoping that others can improve it further. With the *service-dominant logic*, *S-D logic*, certain conceptual dilemmas begin to get sorted out. The meaning of S-D logic will be explained and integrated with RM throughout the text. In the third edition there is even more emphasis on networks and network theory. In marketing, network thinking has almost exclusively been applied in B2B. Through the concept of *many-to-many marketing*, network theory can form the foundation of all types of marketing, B2B as well as B2C. The customer-centric concepts of *lean consumption* and the *customer value network* supplement the production-centric lean production and the conventional supplier-centric value chain. Chain is replaced by network to show that events are not sequential and linear but iterative and non-linear. Further, the customer centric view of marketing is suggested to be broadened to *balanced centrality*, a trade-off between the needs of all stakeholders of a network. As a consequence the former Chapters 8 and 9 have been revised and merged into a new Chapter 8.

- Marketing deals with the *generation of revenue* and revenue must exceed cost. Don't you ever forget it! Over the past 50 years I have seen numerous efforts to find general models and indicators to get financial control over marketing. The cry for marketing accountability and metrics is currently loud – again. The problem is to design metrics that work in practice and provide genuine guidance. All the same it is essential to keep the assessment of marketing effects, both quantitative and qualitative, on the agenda. Chapter 6 is an updated effort to do so.
- As in earlier editions, concepts and ideas are constantly accompanied by short *cases* and *examples* to facilitate reading and make it easier to relate them to practice. Cases and examples have been substituted wherever they have gone stale. In a five year period some lose their pitch; they may have danced just one summer. Others change and need updating but there are also those that are robust enough to stand the test of time; they are classics. I have tried to avoid superficial hypes, however appealing they may look at the time. At the end of each chapter a *Questions for Discussion* section has been added to support classroom use.
- I have been careful to include *references*, update them and give recognition whenever possible. This is the first time I revise a book when Google, Wikipedia and other Internet-based sources are both easily accessible and rich in information. It made updating easier. As anybody can get into Google and find a host of sources on any subject, I have found it practically impossible to give reference to websites or information that is widely spread through the media. I have always checked several sources and tried to assess the credibility of the information.

I'm grateful for this opportunity to prepare a third edition. I'm also grateful to a large number of people who have stimulated my work over the years. We meet around the

world at conferences and at each other's universities, and we meet in publications. Many have become good friends. The personal networking facilitates academic work immensely. I especially want to mention a group of people who have offered research, publication or speaking opportunities. I can't add them all to the list but many are also found among the references in the book.

My roots are in Northern Europe. The Nordic School has become a designation for researchers and practitioners in Sweden and Finland who started to take an interest in services in the late 1970s. They focused on service management and marketing where relationships and interaction formed the core. The Nordic School has gradually found that quality, value, RM, CRM, networks and service represent a new foundation for marketing. The Marketing Technology Centre (MTC) in Sweden supported my work on service and later on relationships at a stage when nobody thought much of it. Christian Grönroos, Hanken, Helsinki, and Uolevi Lehtinen, University of Tampere, and their colleagues helped to build a sustainable platform for theory generation in marketing. My affiliation with their schools became a driver of my own thinking. And so did later Bo Edvardsson and his colleagues at the Service Research Center (CTF) Karlstad University, Sweden, not least through the QUIS symposia. My cooperation with these institutions has continued after I took up my position at the Stockholm University School of Business. For a period it became a heartland for innovative and unorthodox research within a theory-creating and qualitative tradition. Its PhD students provided much of the research resources and so did its Marketing Academy. Leif Edvinsson with a foot in both business and academe and a world authority on intellectual capital, has supported the broadening and renewal of marketing. A large number of practitioners have provided encouragement by engaging me in consulting and speaking assignments, and thus kept me in touch with the realities of marketing.

Many from other countries have been instrumental in paving the road for RM. Bernard Taylor, long time Editor of *The Journal of Long Range Planning*, accepted my first effort in the mid 1980s to publish the 30R approach – although there were only 9 relationships at that time. An ongoing dialogue with the international icon of marketing, Philip Kotler, Northwestern University, keeps being a source of inspiration. Much of what The Nordic School and others have stood for over the years has been skilfully conceptualized and expanded into the S-D logic by Steve Vargo and Bob Lusch; I greatly value the cooperation with them. At an early stage David Ballantyne engaged me in the International Colloquia in Relationship Marketing and recently in the Otago Forum on Service-Dominant Logic thus offering extraordinary opportunities to conduct a global dialogue. My recent acquaintance with the IBM project Service Science and its leader Jim Spohrer holds many promises for the future. A very special thanks to Akiko Fujioka, Japan, and Cristina Mele, Italy, who have been instrumental in adapting my book for publication in their home countries. As to methodological issues and research approaches, Barney Glaser, co-creator of grounded theory has become a friend and coach, later with committed support by Andy Lowe. Barney not only thinks grounded theory, he lives it.

During the process of creating this third edition my long time colleague and friend Chris Lovelock, pioneer in service and enthusiastic contributor to marketing renewal, unexpectedly passed away. Chris, I'll miss our dialogue!

Among others who have contributed to my thinking and helped to create a dialogue in their home countries and globally and are: in Australia Adrian Payne, Louise Young and Ian Wilkinson; in Canada Ulrike de Brentani, Michèle Paulin and Ronald Ferguson; in Germany Friedhelm Bliemel, Anton Meyer and Bernd Stauss; in Ireland Stephen Brown, David Carson, Tony Cunningham, Damien McLoughlin and the late Liam Glynn; in Latin America Jaquie Pels and Javier Reynoso; in New Zealand Rod Brodie, Richard Brookes, Nicole Coviello and Brendan Gray; in Poland Kazimierz Rogozinski and Richard Nicholls; in the UK Michael Baker, Keith Blois, Douglas Brownlie, Martin Christopher, Bob Johnston, Michael Saren, Michael Thomas and Nikos Tzokas; and in the US David Bejou, Len Berry, Mary Jo Bitner, Stephen W. Brown, Shelby Hunt, Jay Kandampully, Parsu Parasuraman, Atul Parvatiyar, Roland Rust, Jag Sheth, and Pat and Joan Townsend.

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# Introduction

The purpose of this book is to contribute to a more realistic approach to marketing management. It addresses the question: 'What do you learn if you look at marketing as relationships, networks and interaction, and what can you do with this knowledge?' This way of approaching marketing is referred to as relationship marketing (RM), and within this concept the topical issues of customer relationship management (CRM) and one-to-one marketing belong.

The book has been written for all those who want to develop their knowledge of marketing: practitioners, students, educators and researchers. As marketing management permeates every activity in today's business – and not only the marketing and sales departments – this book will be of particular interest to top executives and managers of all types of functions.

Chapter 1 is an introduction to RM and its 30 relationships, the 30Rs, prevalent in business. This is by far the broadest and most comprehensive framework of RM that has been designed; hence the reference to total relationship marketing. Each relationship is then covered in more detail in Chapters 2–5. Chapter 6 is about marketing metrics and return on relationships (ROR), that is, the financial effects of RM and the effects on relationship-oriented marketing and business planning. Chapter 7 deals with RM and new organizational formats, captured under the term network organization; the chapter also puts RM and its organization in the context of the market economy. Chapter 8 covers theories and experiences that have formed the foundation of RM, describes how RM and CRM have emerged from these, and forebodes a paradigm shift in marketing.

The structure of the book, particularly the presentation of the 30Rs, is, in a sense, encyclopaedic – a hypertext in modern terminology – which gives readers the option to look up what they are interested in without having to read every page in sequence from cover to cover.

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# Chapter

# 1

## Relational approaches to marketing

### In this chapter

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**INTRODUCTION**

The chapter presents the purpose and outline of the book, and the concepts of relationship marketing (RM), customer relationship management (CRM), one-to-one marketing and many-to-many marketing are defined. The ideas of a new general marketing logic, the service-dominant logic (S-D logic) are discussed together with certain basics of marketing, among them the problem with customer centricity and the need for a broader stakeholder focus, balanced centricity. Although marketing attempts to be scientific, the importance of tacit knowledge emerging from reflection, experience, common sense and intuition is brought to the fore. The reader is urged to see marketing through the 'relationship eye-glasses' and to adjust to a paradigm shift in marketing. To help in this process the general characteristics of relationships and a summary of the 30 specific relationships of RM, the 30Rs, are introduced.

**The relational realities of marketing**

Two practical experiences from business drew my attention to the importance of relationships in marketing.

I was hired by a market leading northern European management consulting firm which had just been acquired by the large international PA Consulting Group headquartered in London. One of my tasks, besides doing consulting assignments, was to sell the services of a group of consultants. My knowledge of marketing was based on textbooks used in business school education and practical experience as a marketing manager of consumer goods. I was taken by surprise when realizing that (at that time in Northern Europe) the consulting company did little or nothing that the books prescribed. No explicit marketing strategy, no marketing organization, no marketing planning, no marketing research, no specialized sales force, no advertising and no public relations.

Should the fresh consultant tell the CEO the bad news – that they were doing everything wrong – followed by the good news: I'm here to set it right? There was a disturbing fact, though. The company was doing well. It must be doing something right.

Through observation and advice from senior colleagues – one had worked for 14 years as consultant to the same large corporation – I learnt that one thing in particular mattered beside the professional knowledge: the network of relationships that the individual consultants belonged to through past and present professional achievements, birth or membership of social groups. And furthermore, relationships were equally important internally when consultants were selected by their colleagues to staff new assignments.

Creating and maintaining a network of relationships – outside as well as inside the company – constituted the core marketing of the

consulting firm. Credibility and referrals built on performance in the assignments and the relationships that developed there. Advertising, public relations, branding, and other marketing activities were supportive, but they were not the core of their marketing.

Another significant experience occurred during the 1980s while I was working as a consultant to Ericsson. The then CEO, Björn Svedberg, commissioned one assignment with the following words: 'Evert, explain to us what we are actually doing in our marketing and selling!' Ericsson is known for being a leading supplier of telecom equipment and systems and for its mobile phone operation in alliance with Sony. At that time each sale was large, complex, high tech and long term. A major marketing strategy – although it was not officially perceived as such – was the creation and maintenance of long-term relationships with a few large telecom operating companies, as well as the cultivation of relationships with research institutions, own suppliers, government agencies, politicians, banks, investors, the media and others. The relationships concerned many people in several tiers and functions within the customers' organizations and also within Ericsson's own organization.

Ericsson's success over its 130 years of existence has been based on a combination of state-of-the-art technology and a well-developed network of relationships.

These two experiences taught me a very obvious and common-sense lesson: when your current real world experience clashes with your previous experience and received theories, rethink! I found that my textbook knowledge and experience of marketing management and consumer marketing was not adequate. Simply put:

**INSIGHT**

When – after careful scrutiny – you find that the terrain differs from your map, trust the terrain and your own judgement!

Aren't these experiences just history in the third millennium? No! And are the lessons applicable to smaller businesses? Yes! Grönroos tells the example of rice merchant Ming Hua in ancient China, many thousands of years ago.<sup>1</sup> He developed an initially slow rice business to become the local market leader. What did he do? He did relationship marketing!

<sup>1</sup> Grönroos (2007, pp. 29–30).