

*Review*

## **Relationship marketing: Strategic and tactical challenges for SMEs**

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Accepted 6 September, 2010

This study sought to explore the tactical and strategic challenges, which small and medium sized service firms may face in their bid to successfully practice and implement Relationship marketing. The framework of the requirements for successful practice of relationship marketing propounded by Gronroos (1996) was used in this study to explore likely, the tactical and strategic challenges that small and medium sized service firms face in their endeavour to practice Relationship marketing (RM). A critical literature review was undertaken on the inherent characteristics of SMEs and how they pose the aforementioned challenges. Small and medium sized firms could find it strategically and tactically challenging to meet effectively, the requirements of successfully implementing and practicing Relationship marketing owing to their inherent characteristics and constraints. Researchers are recommended to empirically investigate the applicability of the "generalized" requirements for the successful practice of Relationship marketing in small and medium sized service firms. The study viewpoint, which is the first of its kind, demonstrates that the "one size fit all" approach as regards the practice of Relationship marketing does not generically apply to all business forms (large and small) hence, may not be generalized to small and medium sized service firms as well across all types of economies.

**Key words:** Relationship marketing, SMEs, strategic and tactical challenges.

### **INTRODUCTION**

Rapidly changing markets, a complex array of technologies, shortages of skills and resources and more demanding customers present service organizations with an unprecedented set of challenges (Gummesson, 1994; Tapscott and Castor, 1993). A central feature of these challenges is the recognition by many business executives that building relationships is essential to compete effectively in the turbulent and rapidly challenging post-industrial economies. According to Gruen (1997) and Gronroos (1989), the philosophy of business has shifted from production orientation to a selling orientation and then to a marketing orientation, and finally to a relationship marketing orientation. The basic aim of the practice of relationship marketing is to foster long term relationships and to create mutual benefit to customers and all

concerned stakeholders. Relationship marketing philosophy is being advocated more and more strongly by marketers (Gummesson, 1994). For small and medium sized service firms, adoption or practice of relationship marketing may mean unprecedented opportunities embodied with challenges.

The purpose of this article is to examine the philosophy of relationship marketing and analyze central requirements for the successful practice of marketing relationship in small and medium sized firms. Viewpoints are then advanced by the authors as to why small and medium sized service firms considering their inherent characteristics may find it strategically and tactically challenging to successfully practice relationship marketing. This article therefore, attempts to provide tentative answers to this key question: How could the requirements of the practice of relationship marketing pose as strategic and tactical challenges to small and medium sized service firms? Before addressing the key

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question, the article begins by discussing the evolution of the philosophy of relationship marketing, the benefits of relationship marketing to firms and characteristics of small and medium sized enterprises.

## REVIEW OF RELATED LITERATURE

### The philosophy of relationship marketing

From the 1970s, an alternative approach based on the establishment and management of relationships emerged with two streams of research emanating from Scandinavia and Northern Europe and eventually spreading to the growing parts of Western World. These two streams of research are the Nordic School of Service (Berry and Parasuraman, 1993) which looks at management and marketing from a service perspective and the Industrial Marketing and Purchasing Group (Haikansson, 1982) which takes a network and interaction approach to understanding industrial businesses. A common denominator of these two schools of thought is that marketing or market-oriented as marketing is frequently called has to be built on relationships than on transactions (Gronroos, 1996).

The concept of relationship marketing was formally introduced by Berry (1983) who defined relationship marketing as 'attracting, maintaining and enhancing customer relationships'. Later on, a more comprehensive definition was proposed to include further the 'establishing relationships with customers and other parties at a profit by mutual exchange and fulfillment of promises' (Gronroos, 1990; Hunt and Morgan, 1994; Christopher et al., 1992; Sheth and Parvatiyar, 1995). Researchers studying services were the first to embrace the concept of relationship marketing (Sin et al., 2002). However, in the literature there seems to be no agreement on the definition of relationship marketing as suggested by different definitions. Berry and Parasuraman (1991) propose that: 'Relationship marketing is concerned with attracting, developing and retaining customer relationships'. On the other hand, Gronroos (1996) states that: 'Relationship marketing is to identify and establish, maintain and enhance relationships with customers and other stakeholders at a profit, so that the objectives of all parties involved are met and that this is done by mutual exchange and fulfillment of promises'.

As practiced in the 1980s and 1990s, relationship marketing had a strong emphasis on business to customer relationship paradigm (Berry, 1983; Gronroos, 1997; Gummesson, 1999; Kotler and Armstrong, 1999). The definition by Kotler and Armstrong (1999) illustrates this emphasis on customers. The two state that: Relationship marketing involving maintaining and enhancing strong relationships with customers and other stakeholders, is oriented to the long term and its goal is to deliver value to the customer and the measure of

success is long term customer satisfaction.

However, many commentators (Freeman, 1984; Arrow, 1998; Murphy, 1988; Murphy et al., 1997; Verbeke, 1992; Polonsky, 1995; Murphy et al., 1999, 2005; Payne et al., 2001, 2005; Christopher et al., 2003) have expressed the view that business is a coalition of stakeholders including employees, suppliers, shareholders, the community as well as customers and therefore, the scope of relationship marketing should be expanded to embrace business to stakeholder relationships. Based on these assertions, Sin et al., (2002) propose that: 'Relationship marketing is to identify and establish, maintain and enhance relationships with customers and other stakeholders at a profit so that the objectives of all parties are met and that this is done by mutual exchange and fulfillment of promises'.

According to Murphy and Wang (2006), a stakeholder orientation implies that the ultimate aim of a business is to create value for its stakeholders beyond just customers. Murphy et al. (2005) have encapsulated the modern consideration of a holistic business as a coalition of stakeholders with triple bottom line objectives of achieving sustainable economic, social and environmental value for its stakeholders by augmenting the prevailing customer relationship-marketing paradigm to a holistic relationship paradigm. Murphy et al., (2005) provide the following definition of relationship marketing: "Stakeholder relationship marketing involves creating, maintaining and achieving strong relationships with customers, employee, supplier, community, shareholder and stakeholder of a business with the goal of delivering long term economic, social and environmental value to all stakeholders in order to enhance sustainable business financial performance".

Profitable business relationships rely on the capability of the firm to develop trust with its customers and other stakeholders. The relationship literature in particular has stressed the importance of stakeholder relationships (for example, Christopher et al., 1991; Morgan and Hunt, 1994; Doyle, 1995; Gummesson, 1995; Buttle, 1995). The 'Six Markets Model' by Christopher et al. (1991) is arguably the most comprehensive of the other models recognizing stakeholder importance, in that, each of the six-market domain can be subdivided in a manner that will cover all the major stakeholder groups (Payne and Holt, 2001). The core of relationship marketing is relations, maintenance of relations between the firm and the actors in its marketing environment, that is, suppliers, market intermediaries, employees, the public and customers (Ravald and Gronroos, 1996).

### Benefits of relationship marketing to the firm

Service researchers argue that a customer's satisfaction with a particular service is primarily an outcome of the interactive relationship between the service provider and

the customer (Berry and Parasuraman, 1993; Gronroos, 1990). The findings of several studies on services have suggested that in order to acquire and maintain competitive advantage, organizations should develop long-term relationships with their customers (Gronroos, 1991; Berry, 1983; Gummesson, 1987; Jackson, 1985; Levitt, 1983). Firms have accepted that customer retention is more profitable than customer attraction. A long term orientation that puts the emphasis on commitment to customers seems to be essential (Sheth and Parvatiyar, 1995). A business that adopts relationship marketing will improve its business performance (Sin et al., 2002). Competition is so central in market based economies; therefore, firms enter into relational exchanges with other firms and customers when such relationships enable the firm to compete better (Hunt and Arnett, 2006). Specifically, the fundamental imperative of relationship marketing strategy is to achieve competitive advantage and superior financial performance. Firms should therefore, identify, develop and nurture a relationship portfolio (Gummesson, 2002; Hunt and Derozier, 2004).

### **Characteristics of small to medium enterprises**

There is debate on what constitute a small to medium enterprise. Definitions of small to medium firms vary from country to country. Small to medium enterprises are those firms with less than 250 employees (European Commission, 2003). In Zimbabwe for example, a small firm is defined as a business employing not more than 50 employees and a medium enterprise is that employing up to 100 people (Zimbabwe Government, 2002). The assertions of Behrendorff et al., (1996), are that a small to medium firm is 'independently owned and managed, controlled by owner/managers who contribute most if not all of the operating capital; the principal decision making resting with the owner/managers'. For the purpose of this article, small to medium firms have been defined as a firm employing not more than 100 people.

It is well documented that small to medium firms have unique characteristics that differentiate them from conventional marketing in large firms (Carson, 1990). These characteristics may be determined by the inherent characteristics and behaviors of the entrepreneur or owner/manager and maybe determined by the inherent size and stage of development of the enterprise. Gilmore et al. (2001) summarized such limitations of small to medium firms as:

1. Limited resources such as finance, time and marketing knowledge.
2. Lack of specialist expertise (owner/managers tend to be generalists rather than specialists).
3. Limited impact in the market place.
4. Marketing in small to medium firms tend to be haphazard and informal, because of the way the owner/manager does business, they make decisions on their own;

respond to current opportunities and circumstances and so, decision making tend to be haphazard and chaotic.

Small to medium firms tend to suffer from many problems. Huang and Brown (1999) in a study of 973 small to medium firms in Western Australia obtained the following problems:

1. Sales and marketing
2. Human resources management
3. General management
4. Production and operations

Sales and marketing is often the most dominant problem encountered by small business operators and yet has been acknowledged to be the most important of all business activities and is essential for the survival and growth of small business (Huang and Brown, 1999; Mckenna, 1991). Huang and Brown (1991) also showed that the areas of marketing with the most frequent problems in small to medium firms were promotion and market research. The reasons given for this were that small to medium firms lacked the financial resources to employ specialists and that resource constraint limited the ability of the firms to search for information and that lack of a management information system limited the use of data already held within the firm. Lack of planning and capitalization has frequently been advanced as the most critical determinants of small firm success or failure (Robinson and Pearce, 1984).

Having considered the concept of relationship marketing, benefits of relationship marketing to the firm and characteristics of small to medium firms, this paper focuses on the requirements of relationship marketing and why small to medium firms may find it strategically and tactically challenging to successfully practice relationship marketing.

### **Requirements for the practice of relationship marketing: Strategic issues for SMEs**

Gronroos (1996) identified three main strategic issues in relationship marketing as follows: The firm as a service business, the firm from a process management perspective and partnerships, and networks. It could therefore, be suggested from the views of Gronroos (1996) that successful relationship marketing practice requires firms to view their firms as a service firm, view the organization from a process management perspective, and develop partnerships and networks.

### **The firm as a service firm**

A key requirement of relationship marketing is that a firm should know the long-term needs and desires of customers so as to be able to offer better and added value on top of the core service. Customers do not look for services, they demand a much more holistic service

offering and they demand all this in a friendly, trustworthy and timely manner. In today's competitive environment, the core service is very seldom enough to produce successful results and a lasting position in the market place. What counts is the ability of the service firm to manage additional elements of the total offering better than the competitors. Gronroos (1996) argues that the core is not often the reason of customer dissatisfaction than the elements surrounding the core. The various service elements create added value for the customer, whereas, the core service is only a necessary prerequisite for value. Firms, therefore, have to understand the nature of service management as a new management approach geared to the demands of the new competitive situation (Gronroos, 1994).

Value is considered to be important constituent of relationship marketing and the ability of the firm to provide superior value to its customers is regarded as one of the most important competitive strategies. This ability has become a means of differentiation (Christopher et al., 1991; Gronroos, 1994; Heskett et al., 1994; McKenna, 1991; Nilson, 1992; Quinn et al., 1990; Treacy and Wiersema, 1993). By adding more value to the core service, companies try to improve customer satisfaction so that bonds are strengthened and customer loyalty is achieved.

Customer satisfaction depends on value. Organizations cannot just consider what they give to the customer; rather they must concentrate on the sacrifice the customer has to make. This requires that firms should know or identify all this through constant and effective marketing surveys or research. This could be a major strategic challenge to small to medium firms who are constrained by resources. It is our view that very few small to medium firms regularly implement marketing research activities because of lack of resources. Lack of regular marketing research as a result of lack of resources means that most small to medium service firms may be alienating themselves from customers and the value addition could consequently have nothing to do with the actual needs of the customer. Most small to medium service firms could therefore, be introducing supplementary services that are not driven by the needs of the customers. New customers may be attracted and market share increase, but any long lasting bonds will hardly be achieved, yet bonding is an important issue or aspect of relationship marketing.

Any firm attempting to provide competitive value to its customers needs to gain a thorough understanding of the customer's needs and the activities that constitute the customer's value chain. No matter how unique a service offering might be, the value addition of it may become a waste of money if it does not fit beneficially into the activities, sequences and links to the customer value chain. Raval and Gronroos (1996) suggest that an organization's offering should be seen as 'value-carrier'. Therefore, in order to achieve competitive advantage, the firm must provide an offering, which the customer perceives

to offer a greater net value than the offerings of the competitors because consumers tend to compare services offered by different firms.

The common attributes used by consumers for comparison purposes include quality, innovativeness and the degree to which the market offering can be customized to meet individuals needs (Hunt and Arnett, 2006). Higher levels of quality are often associated with service offerings that are perceived to meet consumer needs and wants and are more reliable. The nature of relationships has a major effect on total value perceived (Raval and Gronroos, 1996). In a close relationship, the customers shift the focus from evaluating separate offerings to evaluating the relationship as whole. This implies evaluating the nature of the interaction of the service provider (employees) and the customer. This can be evaluated in terms of responsiveness, empathy and communication. Therefore, it could be deduced that small to medium firms should provide high quality service market offerings, innovate and customize services to meet individual needs. The study revealed that this poses a strategic challenge to small and medium service firms as they should focus on creating and managing relationships that provide access to high-equity market offerings.

### A process management perspective

An ongoing relationship where customers look for value in the total service offering requires internal collaboration among functions and departments. The whole process of service delivery has to be coordinated and managed as one total process (Gronroos, 1996). A process management perspective is very different from the functionalistic management approach based on scientific management. Functions and functionalistic organization allow for sub optimization because each function and corresponding department is more oriented towards specialization within each function than collaboration between functions. Therefore, in order to produce total value in a coordinated relationship with customers, the firm has to go further. A process management approach to the whole operations of the firm has to be taken. Traditional department barriers have to be removed. Department activities should be managed as value creating activities or processes that enable and strengthen relationship building and management.

A process management approach in our view also implies collaboration between different types within a firm. Gummesson (1994) introduced the idea of Full-Time Marketers (FTMs) and Part-Time Marketers (PTMs) whereby he describes FTMs as 'those who work in the marketing and sales department' and PTMs as 'all those who perform other main functions, but yet influence customer relationships directly or indirectly'. For relationship marketing to be implemented successfully, there should be collaboration between these two groups of marketers. It

was revealed that most small to medium service firms are characterized by owner/manager structures and this may present strategic challenges to the implementation of relationship marketing strategies. The owner/manager structures imply that most decisions are made by the owner/manager and there is less coordination or involvement of other employees within the firm.

Hogg and Cater (2000) argue that internal marketing (IM) is an integral part of overall marketing orientation involving the use of marketing techniques within the organization to create and communicate corporate values. This therefore implies that by concentrating on the use of marketing, like activities that are internal to the achievement of organizational goals, internal marketing strives to achieve employment commitment. Many firms struggle against rigidity and a knowledge gap that ensures no escape (Ballantyne, 2003). Interfunctional staff teams need to work on improving the everyday work processes in which they are involved. This would mean a shift in internal marketing focus to internal suppliers and internal customers, one, which potentially involves challenging value-creating patterns (between internal suppliers and internal customers) that has impact on external market performance. Therefore, the implementation of such strategies cannot be the function of FTM only. It would require FTM working collaboratively with non-marketers (PTMs). Inken (1996) argues that organizational knowledge creation occurs when the knowledge held by individuals is amplified and internalized, as part of the organizational knowledge base. However, unless these means are in place, whereby, this knowledge can be shared, reflectively challenged and renewed, it will have only a limited impact on improving that organizational knowledge base (Ballantyne, 2003).

In order to gain new organizational knowledge, superior to that of competitors, market intelligence must be reflectively renewed, opportunities reviewed, opportunities delineated, critical customer and competitor issues examined and operational levels and judgments made about strategies, priorities, good fit and implementation costs (Ballantyne, 2003). This level of internal review could be beyond the remit of any one 'expert-based' department or sole individual. SMEs are owner-managed, this therefore, become a strategic challenge to the implementation of relationship marketing strategies as decision making could be restricted to owner/ managers in most small to medium sized service firms. Dixon (1996), argue that the organizational learning is the process whereby organization employs to gain new understanding or to correct the current understanding; it is not the accumulated knowledge of the firm. Organization wide training programs can be established to increase problem solving skills and objective knowledge of individuals.

In markets where the external market requirements are fast changing or where the right responses to external market requirements are complex, then a collaborative or team based learning approach may be tried. This requires

bringing together of different minds to set them on a mission supported by personal relationships, which develop in support of such endeavors. Dunne and Barnes (2000) posit that a successful IM strategy would serve both the valued interests of the organization and the individual employee in a continuing process of transforming the whole firm into a customer focused entity.

Problems that seem to appear with most small to medium firms is that there is lack of development training initiated from within the firms. In terms of training, time would appear to be a fundamental issue within most small to medium firms (Smith et al., 1999; Wong et al., 1997; Kerr and McDougall, 1999; Westhead and Storey, 1996). It seems that most small to medium firms are focused on short time horizons and day-to-day crises are given priority over training. Costs also feature high on the list of constraints considering the limited resources of small to medium firms. Moreover, if small to medium firms invest in valuable skills for staff particularly in the form of recognized qualifications, they are concerned that the staff will use this accredited expertise to seek positions at competitor organizations and the investment will be lost to the firm (Westhead and Storey, 1996; Johnson, 1999).

## **Partnerships and networks**

Previous research by Sodequist (1996) identified 'the development of networks and partnerships' as part of five critical success factors for improving performance in small to medium firms, the other four helps in promoting a corporate culture, creating an effective structure, analysis of competitors and developing flexibility and speed response to customers. Relationship marketing is based on cooperation rather than adversarial situation where parties are best off as partners. Therefore, it implies that small to medium service firms that want to successfully implement relationship marketing should recognize certain aspects of the relationship that characterize successful relational exchanges. These issues concern factors such as trust, commitment, and cooperation, keeping promises and shared values.

It is the view of the study that for the successful practice of relationship marketing, it is imperative that small to medium sized service firms should establish and maintain relations with all-important players in the operating environment. This range of stakeholders is captured by Christopher et al. (1991)'s Six Markets Model. Payne and Holt (2001) argue that the Six Markets model is arguably the most comprehensive one recognizing stakeholder importance, in that, each of the six markets domains could be subdivided in a manner that will covers all major stakeholder groups. The market domains identified by Christopher et al (1991) are the internal markets, recruitment markets, supplier and alliance markets, influence markets, customer markets and referral markets.

It is our view that most small to medium service firms could find it strategically challenging to create and maintain relationships with all these market domains because most decision making rests on owner/manager. Moreover, the owner/manager may be constrained by time to create and maintain relationships with all these major stakeholders as captured by the Six Market model.

## TACTICAL CHALLENGES FOR SMES

Gronroos (1996) identifies three tactical elements of relationship marketing strategy; direct contacts with customers, database creation and customer oriented service system.

### Seeking direct contacts with customers

Relationship marketing is based on the notion of trusting cooperation with known customers. Therefore, firms need to know their customers better. Firms should develop systems that provide as much information as possible so that activities such as advertising campaigns, sales contacts and complaints situations can be made as relationship oriented as possible. Modern information technology provides the firm ample opportunities to develop ways of knowing the customer. Firms should always use face-to-face contacts with customers or means provided by information technology as possible to get close to customers (Gronroos, 1996).

Managing relationships with customers is important especially for many firms because they engage in different types of transactions and their customers 'needs vary considerably (Hunt and Arnett, 2006). To meet these challenges, many firms are turning to formal customer relationship management programmes that center on customer based needs and/or profitability (Srivastra et al., 1999). Customer relationship management involves a relationship management component (for example, support teams and loyalty programs) and a data-driven component (for example, identifying profitable segments through statistical techniques Dowling, 2002). Information technology supports the customer relationship processes by providing a mechanism by which customer needs are uncovered. With respect to identifying profitable segments, customer relationship management is driven by information technology, that is, customer are analyzed to uncover previously unknown relationships that could be used to develop marketing strategies. Interaction manifests itself in activities such as contacting customers, answering adequately to their complaints, enhancing personal and friendly relations with them and customizing services. All this is enhanced or supported by information technology.

The knowledge and information based economies have accelerated the need to better understand the development of strong and flexible relationships not only with

customers, but also with other stakeholders. This study revealed that the development of this new business model could be a difficult task for small to medium service firms due to lack of resources. In this regard, small to medium enterprises may be tactically challenged with regard to having effective direct contact with customers and therefore, may fail to successfully practice relationship marketing.

### Developing a database

Traditional marketing operates with little information about customers; in order to pursue relationship marketing, the firm cannot allow such ignorance to persist (Gronroos, 1996). A database consisting of customer profiles have to be established (Vavra, 1994). Databases should be expanded to include other stakeholders. If such a database does not exist, customer contacts will be handled only partially. In addition to the primary use of databases to maintain customer relationships, databases can be used for a variety of marketing activities such as segmenting the customer base, tailoring marketing activities, generating profiles of customer types, supporting activities and identifying high likelihood purchases (Vavra, 1994). It is our view that resource constraints limits the ability of SMEs to search for information and the lack of management information system limit the use of data already held within the organization

### Creating a customer orientated service system

Successfully executed relationship marketing requires that the firm defines its business as a service business, and understand how to create and manage a total service offering, that is, manage service competition (Gronroos, 1996). Computerized systems and information used in design, production and administration of the service have to be designed from a customer service orientation. A customer oriented service system implies that an organization should be customer oriented or customer driven. Appiah-Adu and Singh (1998) view customer orientation as an organization wide emphasis on the evaluation of customer needs. Customer orientation is therefore, an integral component of a general organization culture and therefore, attention to information about customers should be considered alongside the basic values and beliefs that are likely to reinforce such a customer focus and permeate the firm. A focus on customers should be central to the operations of organizations (Webster, 1998).

However, most small to medium sized service firms may find it tactically challenging to be customer oriented because of the following reasons:

1. Resource constraints, which limit capacity to be innovative in terms of addition of new supplementary services

to the core service.

2. Resource constraints, which could limit the small to medium, sized service firms to research on the ever-changing consumer needs, preferences and tastes.
3. Lack of resources limiting investments in operational customer relationship management affecting the automation of basic business processes such as marketing, sales and service delivery

## CONCLUSIONS AND IMPLICATIONS FOR PRACTITIONERS AND RESEARCHERS

Well-conceived and properly managed strategies combined with the willingness to invest in relationship building could provide small to medium sized service firms' managers with the gradual momentum to achieve sustainable competitive advantage. The characteristics of SMEs are different from those of large firms. Therefore, it implies that the requirements for the successful practice of relationship marketing discussed in this paper may apply to large firms and may not be generalized to small firms. The viewpoints in this paper are based on the assumption that the requirements for the practice of relationship marketing in large firms can be generalized to small to medium service firms. Empirical research is therefore, needed on the applicability of these requirements in the context of small to medium firms and whether these requirements can be generalized across all types of economies, that is, across developed and developing economies.

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