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Relationship Marketing of Services—Growing Interest, Emerging Perspectives

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Relationship marketing is an old idea but a new focus now at the forefront of services marketing practice and academic research. The impetus for its development has come from the maturing of services marketing with the emphasis on quality, increased recognition of potential benefits for the firm and the customer, and technological advances. Accelerating interest and active research are extending the concept to incorporate newer, more sophisticated viewpoints. Emerging perspectives explored here include targeting profitable customers, using the strongest possible strategies for customer bonding, marketing to employees and other stakeholders, and building trust as a marketing tool. Although relationship marketing is developing, more research is needed before it reaches maturity. A baker's dozen of researchable questions suggests some future directions.

Relationship marketing is a new-old concept. The idea of a business earning the customers' favor and loyalty by satisfying their wants and needs was not unknown to the earliest merchants. Grönroos (1994, p. 18) cites this Middle Eastern proverb from ancient trade: "As a merchant, you'd better have a friend in every town."

Yet the blossoming of relationship marketing, the creation of a conceptual framework for understanding its properties and studying its possibilities, was slow to develop. Until recently, marketing's focus was *acquiring* customers. Formally marketing to existing customers to secure their loyalty was not a top priority of most businesses nor a research interest of marketing academics. As Schneider wrote in 1980:

> What is surprising is that (1) researchers and businessmen have concentrated far more on how to attract consumers to products and services than on how to retain those customers, (2) there is almost no published research on the retention of service consumers, and (3) consumer evaluation of products or services has rarely been used as a criterion or index of organizational achievements. (p. 54)

The phrase "relationship marketing" appeared in the services marketing literature for the first time in a 1983 paper by Berry (Barnes 1994; Grönroos 1994). Berry defined relationship marketing as "attracting, maintaining and—in multi-service organizations—enhancing customer relationships" (p. 25). He stressed that the attraction of new customers should be viewed only as an intermediate step in the marketing process. Solidifying the relationship, transforming indifferent customers into loyal ones, and serving customers as clients also should be considered as marketing. Berry outlined five strategy elements for practicing relationship marketing: developing a core service around which to build a customer relationship, customizing the relationship to the individual customer, augmenting the core service with extra benefits, pricing services to encourage customer loyalty, and marketing to employees so that they, in turn, will perform well for customers (Berry 1983).

Although relationship marketing terminology in the services literature can be traced back to 1983, recognition of the need to formally market to existing customers appeared earlier. Ryans and Wittink suggested that many service firms pay inadequate attention to encouraging customer loyalty in a 1977 paper. Levitt emphasized the need for firms marketing intangible products to engage in constant reselling efforts in 1981. George (1977), Grönroos (1981), and Berry (1980, 1981) each wrote about improving the performance of service personnel as a key to retaining customers.

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Today, relationship marketing is at the forefront of marketing practice and academic marketing research. The concept of marketing to existing customers to win their continuing patronage and loyalty is becoming well integrated into the various subdisciplines of marketing as this special issue of the *Journal of the Academy of Marketing Science* attests. On marketing's back burner for so many years, relationship marketing now sits on the front burner. The purpose of this article is to explore the state of relationship marketing in services marketing. Reasons for the growing interest in relationship marketing and emerging themes in the literature are discussed. A list of future research topics concludes the article.

RELATIONSHIP MARKETING IN SERVICES—IN THE GROWTH PHASE

Using product life cycle terminology, relationship marketing in both practice and research is beyond the introduction stage and on a growth curve toward becoming a mature concept. What accounts for the accelerated interest in relationship marketing in services? Four convergent influences have propelled the current focus on relationship marketing: the maturing of services marketing, increased recognition of potential benefits for the firm *and* the customer, and technological advances.

Maturing of Services Marketing

The implications of marketing a performance rather than an object are well understood today. The reality of many services being rendered on an ongoing or periodic basis coupled with the reality of customers forming relationships with people rather than goods paves the way for relationship marketing. Repeated contact between customers and service providers facilitates relationship marketing. Moreover, product intangibility often requires reselling efforts. As Levitt (1981) wrote:

> The most important thing to know about intangible products is that the customers usually don't know what they're getting until they don't get it. Only then do they become aware of what they bargained for; only on dissatisfaction do they dwell. . . . in keeping customers for intangibles, it becomes important regularly to remind and show them what they're getting so that occasional failures fade in relative importance. (p. 100)

The core subject as the services marketing field has developed—service quality—also has stimulated interest in relationship marketing. The object of improving service quality, after all, is to engender customer loyalty. A natural extension of the strong interest in service quality is growing interest in relationship marketing. Effective relationship marketing should help a company capitalize on its investment in service improvement.

Benefits to the Firm

The development of services marketing was itself fueled by intensifying intratype and intertype competition in the late 1970s and early 1980s, including the deregulation of banking, airline, trucking, and other service industries (Berry and Parasuraman 1993). In the mid-1990s, service industry competition has never been more fierce. AT&T and MCI are continually raiding each other's customer base, supermarkets are competing with warehouse clubs such as Sam's Club and Price/Costco, discount broker Charles Schwab is attracting millions of investment dollars from full-service brokerages and commercial bank accounts every week, and airlines have implemented lower cost service strategies (United Express) to try to stem the tide of price leader Southwest Airlines. In the mid-1990s, marketing to protect the customer base has become an imperative.

Reichheld and Sasser (1990) have demonstrated across a variety of service industries that profits climb steeply when a company successfully lowers its customer-defection rate. Based on an analysis of more than 100 companies in two dozen industries, the researchers found that the firms could improve profits from 25 percent to 85 percent by reducing customer defections by just 5 percent. Not only do loyal customers generate more revenue for more years, the costs to maintain existing customers frequently are lower than the costs to acquire new customers. An analysis of a credit card company showed that lowering the defection rate from 20 percent to 10 percent doubled the longevity of the average customer's relationship from 5 years to 10 and more than doubled the net present value of the cumulative profit streams for this customer from \$135 to \$300. If the defection rate declines another 5 percent, the duration of the relationship doubles again and profits increase 75 percent—from \$300 to \$525 (Reichheld and Sasser 1990).

Benefits to the Customer

Relationship marketing benefits the customer as well as the firm. For continuously or periodically delivered services that are personally important, variable in quality, and/or complex, many customers will desire to be "relationship customers." High-involvement services also hold relationship appeal to customers. Medical, banking, insurance, and hairstyling services illustrate some or all of the significant characteristics—importance, variability, complexity, and involvement—that would cause many customers to desire continuity with the same provider, a proactive service attitude, and customized service delivery. All are potential benefits of relationship marketing.

The intangible nature of services makes them difficult for customers to evaluate prior to purchase. The heterogeneity of labor-intensive services encourages customer loyalty when excellent service is experienced. Not only does the auto repair firm want to find customers who will be loyal, but customers want to find an auto repair firm that evokes their loyalty.

In addition to the risk-reducing benefits of having a relationship with a given supplier, customers also can reap social benefits. Barlow (1992) points out that "it fundamentally appeals to people to be dealt with on a one-on-one basis" (p. 29). Jackson (1993) argues that relationship marketing addresses the basic human need to feel important. Czepiel (1990) writes that because service encounters also are social encounters, repeated contacts naturally assume personal as well as professional dimensions.

Relationship marketing allows service providers to become more knowledgeable about the customer's requirements and needs. Knowledge of the customer combined with social rapport built over a series of service encounters facilitate the tailoring or customizing of service to the customer's specifications.

Parasuraman, Berry, and Zeithaml (1991) report that customers' desires for more personalized, closer relationships with service providers are evident in customer interview transcripts for both ongoing services (e.g., insurance, truck leasing) and services provided intermittently (e.g., hotel, repair services). The following customer comments illustrate many expressed in a series of 16 focus group sessions in five cities (Parasuraman, Berry, and Zeithaml 1991, p. 43):

> They should be a partner and more actively give me advice on what my calculated risks are. When they are a partner our money is their money too. (Business insurance customer)
>
> I would like them to be a distant extension of my company. They should take care of the details. (Truck leasing customer)
>
> You need to know the service tech. I should be able to call him directly. I want to know the tech on a one-to-one basis. (Business equipment repair customer)
>
> Agents should come back to you and ask you if you need more coverage as your assets increase. (Auto insurance customer)
>
> When employees remember and recognize you as a regular customer you feel really good. (Hotel customer)

Relationship marketing does not apply to every service situation, as Barnes (1994) emphasizes. However, for services distinguished by the characteristics discussed in this section, it is a potent marketing strategy.

Technological Advances

Relationship marketing appears to be an expensive alternative to mass marketing. Thus marketers are likely to become interested only if it is deemed to be affordable and practical. Rapid advances in information technology are decreasing the costs and increasing the practicality of relationship marketing while its potential benefits are becoming better known.

Information technology enhances the practical value of relationship marketing by *efficient* performance of key tasks:

- tracking the buying patterns and overall relationship of existing customers
- customizing services, promotions, and pricing to customers' specific requirements
- coordinating or integrating the delivery of multiple services to the same customer
- providing two-way communication channels—company to customer, customer to company
- minimizing the probability of service errors and breakdowns
- augmenting core service offerings with valued extras
- personalizing service encounters as appropriate

The United Services Automobile Association (USAA), Walgreen, and Bradys illustrate these applications of technology to relationship marketing.[1] USAA is a San Antonio–based insurer primarily serving a military clientele who are "members" of the "association." USAA has invested heavily in automating insurance policy writing, member inquiries, claims, and billing, among other processes. Building a computerized, integrated member database was a pivotal step. By 1994, USAA had information on more than 2.6 million members and associate members (members' children and grandchildren) in its database. Although USAA's military clients are spread throughout the world and change locations frequently, policy changes are a simple matter. In one brief phone call, a member can insure a new car, add a driver, change an address, or effect any number of other changes. The member's file is consolidated. No handoffs to other departments are necessary. In a one-stop process, the transaction is completed, and the new or changed policy is mailed the next morning.

One of USAA's most important technology investments is an electronic imaging system. The more than 30,000 pieces of daily mail never leave the mail room. Instead, the correspondence is scanned onto optical disk and inserted in the member's policy service file, accessible electronically to 2,500 service representatives. The service representative who answers Colonel Smith's phone call about his recent correspondence is positioned to customize and personalize the service encounter. Colonel Smith's recent letter, plus the rest of his file, is accessible to the representative on his or her IMAGE terminal.

Walgreen, the nation's largest drugstore chain filling 7 percent of all prescriptions in the United States, also uses information technology at the heart of its relationship marketing strategy. Intercom is a satellite-based computer system that links all Walgreens[2] stores in 30 states plus Puerto Rico—more than 2,000 stores in 1994. The system maintains customers' prescription records for timely use in emergencies. Where state law allows, customers can obtain a refill at a Walgreens store in a different state. Walgreens' customers can reach a pharmacist 24 hours a day via a toll-free 800 number, and the company will send the prescription by overnight mail. Through Intercom, Walgreens can provide a patient's prescription records to hospital emergency rooms 24 hours a day, 7 days a week. Intercom can supply customers a printout of prescription purchases for their tax and insurance records.

Bradys, a San Diego chain of men's clothing stores, uses a personal computer system to capture customer information such as demographics, clothing size and style preferences, purchasing history, and hobbies. Through this database, the company customizes and personalizes service. For example, Bradys mails personalized letters at the start of each month to clients having birthdays that month. A 15 percent discount coupon is included for any merchandise in the store. Regular customers are notified a week before a sale is publicly announced, allowing them the first look at the sale merchandise. If overstocked in certain sizes, Bradys writes and calls clients to invite them to the store for discounts on their sizes (Zielinski 1994).

In effect, information technology advances are creating the opportunity for firms to move from segmenting markets by groups to segmenting by individual households. From *Business Week* ("A Potent New Tool," 1994) comes this comment:

> In ever-expanding processing power, marketers see an opportunity to close the gap that has widened between companies and their customers with the rise of mass markets, mass media, and mass merchants. Database marketing, they believe, can create a silicon simulacrum of the old-fashioned relationship people used to have with the corner grocer, butcher, or baker. (p. 58)

EMERGING PERSPECTIVES

Accelerating interest and research is deepening and extending understanding of relationship marketing. In this section, we explore some of these emerging perspectives. Building on Berry's 1983 definition of relationship marketing as attracting, maintaining, and enhancing customer relationships, Grönroos (1990) adds the perspectives of noncustomer partnerships, mutual benefit, promise-keeping, and profitability: "Marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises" (p. 138). Grönroos emphasizes the *promise concept*, articulated by Calonius (1988), as integral to the practice of relationship marketing. Calonius argues that *keeping* promises, rather than *making* them, is the key to maintaining and enhancing customer relationships.

Czepiel (1990) notes that relationship marketing involves the mutual recognition of a special status between exchange partners. Thus, for a relationship to exist, it has to be mutually perceived and mutually beneficial (Barnes 1994).

Hunt and Morgan (1994), in the spirit of Grönroos (1990), broaden the scope of relationship marketing to include all forms of relational exchange, not solely customer relationships: "Relationship marketing refers to all marketing activities directed at establishing, developing, and maintaining successful relational exchanges in . . . supplier, lateral, buyer, and internal partnerships" (p. 23).

Targeting Profitable Customers

Some customers typically are far more profitable to a firm than others. Some customers actually may be unprofitable to serve. Some customers may be loyalty-prone, hoping to find a supplier that will effectively deliver the desired service and intending to stay with that supplier. Other customers may be deal-prone, receptive to a better offer from a competitor, or even seeking out such offers.

Relationship marketing involves fixed- and variable-cost investments during the customer "attracting" phase to create an opportunity for "maintaining and enhancing" customer relationships—which offers the most profit potential. Accordingly, the idea of targeting the "right customers" for relationship marketing has emerged in the literature. Reichheld (1993) is a vigorous proponent of this view, stressing that companies aspiring to practice relationship marketing should make formal efforts to identify those customers who are most likely to be loyal and develop their overall strategy around delivering superior value to these customers. He points out that USAA could not have achieved a 98 percent retention rate in automobile insurance for its military clientele (a group known for its frequent moves) without its integrated, centralized database and telephone sales force that members can access worldwide. Those who may have been the "wrong" customers for some auto insurers—mobile military personnel—are highly profitable to USAA, which is positioned to provide superior value to them.

Targeting profitable customers for relationship marketing involves study and analysis of loyalty- and defection-prone customers, searching for distinguishing patterns in why they stay or leave, what creates value for them, and who they are. Relationship marketing firms need to determine which types of customer defectors they wish to try to save (e.g., price, product, or service defectors) and create a value-adding strategy that fits their requirements and strengthens the bond(s) with loyalty-prone customers.

Importantly, some customers may be profitable as transactional customers, even if they are not profitable as relationship customers. Thus certain companies may wish to mount dual strategies: relationship marketing for some market segments, transactional marketing for other segments. The emerging focus on relationship profitability should not be interpreted by marketers as a mandate to forfeit customers lacking relationship potential. The healthier interpretation is that relationship marketing is not an appropriate strategy for all customers, but other strategies may be appropriate. Moreover, multiple relationship marketing strategies may be necessary for different market segments. Walgreen might design one relationship marketing strategy for moderate and heavy prescription drug users who prefer coming to the store, another relationship

TABLE 1
Three Levels of Relationship Marketing

Level	*Primary Bond*	*Degree of Service Customization*	*Potential for Sustained Competitive Advantage*	*Examples*
One	Financial	Low	Low	American Airlines' AAdvantage Program
Two	Social	Medium	Medium	Harley-Davidson's Harley Owners' Group (HOG)
Three	Structural	Medium to High	High	Federal Express' Powership Program

SOURCE: Adapted from Berry and Parasuraman (1991).

marketing strategy for regimen pharmacy customers who find mail order more cost-effective and convenient, another relationship marketing strategy for prescribing physicians, and a convenience-based transactional strategy for customers who primarily purchase merchandise other than prescription drugs. Whereas a pure service company like USAA with a sharply focused customer niche likely would strive to build profitable relationships with all customers falling within the niche, Walgreen—with its goods-service mix, chain of stores, and large, heterogeneous customer base—would appropriately stress the profitable attraction, retention, and enhancement of some customers (relationship marketing) as well as effecting profitable, independent transactions with others.

Multiple Levels of Relationship Marketing

Relationship marketing can be practiced on multiple levels, depending on the type of bond(s) used to foster customer loyalty. More recent literature in relationship marketing (e.g., Turnbull and Wilson 1989; Berry and Parasuraman 1991) distinguishes among types of linkages or bonds and their relative effects; these distinctions are not stressed in earlier literature. As shown in Table 1, the higher the level at which relationship marketing is practiced, the greater its potential for sustained competitive advantage.

Level one relationship marketing relies primarily on pricing incentives to secure customers' loyalty. Higher interest rates for longer duration bank accounts, a free video rental after 10 paid rentals, and frequent flyer points illustrate level one relationship marketing. Unfortunately, the potential for sustained competitive advantage from this approach is low because price is the most easily imitated element of the marketing mix. Within 3 years of American Airlines establishing its AAdvantage frequent flyer program, 23 other airlines offered their own frequent flyer programs (Stephenson and Fox 1987). Moreover, customers most interested in pricing incentives are particularly vulnerable to competitor promotions and may well flunk the profitability test discussed in the last section. Marketers seeking to establish the strongest possible relationships typically must be more than a price competitor.

Level two relationship marketing relies primarily on social bonds, although aggressive pricing may be a vital element of the marketing mix. Level two relationship marketers attempt to capitalize on the reality that many service encounters also are social encounters (McCallum and Harrison 1985; Czepiel 1990). Social bonding involves personalization and customization of the relationship—for example, communication with customers regularly through multiple means, referring to customers by name during transactions, providing continuity of service through the same representative, and augmenting the core service with educational or entertainment activities such as seminars or parties.

Harley-Davidson has forged a powerful relationship marketing strategy on the foundation of its Harley Owners Group (HOG). Harley-Davidson dealers each have local HOG chapters. Harley-Davidson pays the first year's membership dues for customers who buy one of its motorcycles. The underlying purpose of HOG is to help buyers enjoy and use their motorcycles. Thus the company and its dealer network sponsor and facilitate weekend riding rallies, training sessions, and other events that bring like-minded people together. Harley-Davidson mails a bimonthly magazine to HOG members that lists regional, national, and international riding events. Most dealers distribute a local chapter newsletter. With more than 250,000 members, HOG is level two relationship marketing at its best. Michael Keefe, director of the HOG program, refers to the process as "customer bonding. If people use the motorcycle, they'll stay involved. If there's nowhere to ride, no place to go, the motorcycle stays in the garage, the battery goes dead, and a year from now, they just sell it" ("A Potent New Tool," 1994, p. 59).

Although social bonding normally cannot overcome a noncompetitive core product (Crosby and Stephens 1987), it can drive customer loyalty when competitive differences are not strong. A social relationship also may prompt customers to be more tolerant of a service failure or to give a company an opportunity to respond to competitor entreaties. Crosby, Evans, and Cowles (1990) found a significant effect of life insurance salesperson relational selling behaviors (staying in touch with clients; personalizing the relationship by confiding in clients and sending cards and gifts; demonstrating a cooperative, responsive service attitude) on relationship quality (client trust in, and satisfaction with, the salesperson). Relationship quality, in turn, had a significant positive influence on clients' anticipation of future interactions with the salesperson.

Level three relationship marketing relies primarily on structural solutions to important customer problems. When relationship marketers can offer target customers value-adding benefits that are difficult or expensive for customers to provide and that are not readily available elsewhere, they create a strong foundation for maintaining and enhancing relationships. If the marketers also are using financial and social bonds, the foundation is even more difficult for competitors to penetrate.

At level three, the solution to the customer's problem is designed into the service-delivery system rather than depending upon the relationship-building skills of individual service providers. The problem solution is "structural" and thus binds the customer to the company instead of—or in addition to—an individual service provider who may leave the firm.

Federal Express's Powership program, which installs computer terminals in the offices of high-volume customers, illustrates level three relationship marketing. Powership comprises a series of automated shipping and invoicing systems that save customers time and money while solidifying their loyalty to Federal Express. The systems are scaled to customers' usage. Customers receive free an electronic weighing scale, microcomputer terminal with modem, bar-code scanner, and laser printer. Powership rates packages with the correct charges, combines package weights by destination to provide volume discounts, and prints address labels from the customer's own database. Users can automatically prepare their own invoices, analyze their shipping expenses, and trace their packages through Federal Express's tracking system (Lovelock 1994, p. 275). By 1994, Federal Express was processing close to 60 percent of its volume through more than 60,000 Powership systems deployed at customer sites (Miller 1994).

Marketing to Employees and Other Stakeholders

The idea of marketing to service employees to improve their performance with customers predates the first papers on relationship marketing. George (1977), Grönroos (1978, 1981), and Berry (1981, 1983) were early, ardent proponents of service firms practicing internal marketing to improve external marketing. Internal marketing is included as an emerging perspective nonetheless because of its increasingly sophisticated treatment in the literature, including its linkage to relationship marketing, and because its maturation as a construct has provided a natural path to relationship building with multiple stakeholder groups.

Internal marketing has been emphasized in the services marketing literature because the services product is a performance and the performers are employees. Thus service firms must focus attention and resources on "attracting, developing, motivating, and retaining qualified employees through job-products that satisfy their needs" (Berry and Parasuraman 1991, p. 151). Only when service providers perform well does the likelihood of customers continuing to buy increase (Berry 1983).

Gummesson (1981, 1987) coined the phrase "part-time marketer" to stress the critical marketing role performed by customer-contact employees in service organizations, a theme of Grönroos's work from his earliest publications on services marketing to his most recent works. In a 1994 article, Grönroos underscores the limitations of the traditional marketing mix paradigm for relationship marketing:

> For a firm applying a relationship strategy the marketing mix often becomes too restrictive. The most important customer contacts from a marketing success point of view are the ones outside the realm of the marketing mix and the marketing specialists. The marketing impact of the customer's contacts with people, technology and systems of operation and other non-marketing functions determines whether he or she (or the organizational buyer as a unit) will continue doing business with a given firm or not. All these customer contacts are more or less interactive. . . . In relationship marketing interactive marketing becomes the dominating part of the marketing function. (pp. 10-11)

Attracting employees with the potential to be part-time marketers, developing their marketing skills and knowledge, and building an organizational climate for marketing will fail to deliver intended results if employees constantly turn over and customers continually must deal with different—or inexperienced—service providers. Recent literature positions employee retention as an antecedent of customer retention. Schlesinger and Heskett (1991) view high employee turnover as a central factor in what they label "the cycle of failure." High employee turnover discourages management from investing much in hiring, training, and other commitment-building activities; this, in turn, leads to ineffective performance and/or the perception of dull or dead-end work, which feeds employee turnover. High employee turnover negatively affects service quality and customer retention, thus hurting profitability and further reducing resources available to invest in employees' success.

Reichheld (1993) argues that the longer employees stay with a company, the better they are able to serve their customers. Long-term employees know more about the business and have had more opportunity to develop bonds of trust and familiarity with customers. Reichheld writes, "Just as it is important to select the right kinds of customers before trying to keep them, a company must find the right kind of employees before enticing them to stay" (p. 68). He suggests that companies analyze the cases of former employees who defected early, looking for patterns. He also recommends that companies typically rotating managers through a series of branch offices reconsider this practice, which has the effect of discouraging the long-term perspective required in relationship marketing.

Starbucks Coffee Company is one of America's fastest-growing companies. The centerpiece of its growth strategy is an innovative, comprehensive internal marketing strategy that includes health care benefits, stock options, in-depth training, career counseling, and product discounts for all employees, including part-time workers. Chief Executive Officer and president Howard Schultz has been quoted as saying that the quality of Starbucks' workforce is what makes and keeps the company competitive. He believes in the necessity of creating pride in, and giving workers a stake in, the company, so that workers perceive both financial and spiritual ties to their jobs (Rothman, 1993, p. 59).

Starbucks's stock option plan, called Bean Stock, is designed to reduce employee turnover and instill the pride of ownership. The plan is structured on a 5-year vesting period. It starts 1 year after the option is granted, then vests the employee at 20 percent each year. Every employee also receives a new stock-option grant each year, initiating a new vesting period. The percentage of the grant is linked to the company's profitability (Rothman 1993).

Conceptualizing effective internal marketing as a prerequisite to effective external marketing reveals relationship marketing in a means-end context. In effect, companies must establish relationships with noncustomer groups (the means) to successfully establish relationships with customers (the end). Internal relationship marketing to pave the way for external relationship marketing is an example. As mentioned earlier, Hunt and Morgan (1994) extend relationship marketing to include internal, supplier, and lateral partnerships, as well as buyer partnerships. In an economic era characterized by more prevalent strategic network competition (networks of independent entities collaborating as partners and competing against other such networks), Hunt and Morgan stress that cooperation is increasingly necessary to compete. Gummesson, in a 1994 paper, proposes 30 potential types of relationships, including those of a company with customers, employees, investors, suppliers, mass media, and government; front-line personnel with customers; and full-time marketers with part-time marketers. He suggests that managers need to establish the mix of relationships essential to the company's success, as not all relationships are important to all companies all the time.

Trust as a Marketing Tool

For a strong relationship to exist, it must be mutually beneficial (Czepiel 1990). The good intentions of partners in a relationship cannot be in doubt. Communications must be open, honest, and frequent. Similar values must prevail. Partners must be willing to give, not just get.

Relationship marketing is built on the foundation of trust, as accumulating research demonstrates (e.g., Crosby, Evans, and Cowles 1990; Parasuraman, Berry, and Zeithaml 1991; Morgan and Hunt 1994). Trust is "a willingness to rely on an exchange partner in whom one has confidence" (Moorman, Deshpandé, and Zaltman 1993, p. 3). It is critical to the formation of service-based relationships because of the intangibility of services. Most services are difficult to evaluate prior to purchasing and experiencing them, and some services remain difficult to evaluate even after they have been performed. These latter services, labeled "black box" services by van't Haaff (1989), are typically technical in nature, such as automobile repair, or are performed away from the customers' view, such as a restaurant meal. Customers purchasing black box services are particularly vulnerable because they have less knowledge than the supplier about what actually transpired in the service performance.

Under the best of circumstances, customers using a specific service supplier for the first time generally feel some uncertainty and vulnerability. As discussed earlier, these feelings are likely to be heightened for services that are personally important to customers, require considerable involvement, are heterogeneous, or are complex (black box). Customers who develop trust in service suppliers based on their experiences with them—especially suppliers of services with these significant characteristics—have good reasons to remain in these relationships: they reduce uncertainty and vulnerability.

The inherent nature of services, coupled with abundant mistrust in America, positions trust as perhaps the single most powerful relationship marketing tool available to a company. Yankelovich Partners has documented an erosion of trust among American consumers in its annual monitor study of consumer attitudes and lifestyles. Barbara Caplan (1993), a senior researcher at Yankelovich Partners, writes:

> How people are feeling and thinking speaks to a national mood of skepticism. Distrust permeates the very fabric of American life. . . . There is a sense that integrity, credibility, and competence are lacking. Consumers are wary of misrepresentation, exaggeration and hype and are determined to stamp deception out. (p. 1)

How can relationship marketers demonstrate their trustworthiness?

Opening lines of communication. Forthright, frequent, two-way communications clearly are important. Maritz Marketing Research surveyed consumers about being contacted by a company and found that 80 percent of its sample felt it was important for a company to keep in touch with its customers. Eighty-seven percent indicated they would buy from a company that had a reputation for keeping in touch (Cottrell 1994). Lexus, consistently ranked first by American consumers in J.D. Power research in both product quality and dealer service, offers free 1,000- and 7,500-mile maintenance checkups to owners even though the company's engineers say the checkups are unnecessary. The rationale is to increase personal contact between the customer and dealer (Illingworth 1991). Two-thirds of Lexus buyers today have bought one before, the highest repeat purchase rate in the luxury car market (Henkoff 1994).

Parasuraman, Berry, and Zeithaml (1991) report that the automobile insurance customers they interviewed expressed strong resentment and mistrust of their insurance companies because they believed these firms were price gouging, making false promotional promises (such as lower premiums for safe drivers), and were prone to cancel their insurance if they had an accident. Based on these findings, the researchers advise auto insurers to communicate with their policyholders more openly, regularly, and creatively about the rationale for rate hikes, their criteria for canceling insurance, and other sensitive subjects. The researchers suggest that insurance companies sponsor education seminars and "town hall" meetings in local markets as well as other communications initiatives.

Regular, open, two-way communications conveys the firm's interest in the customers' welfare—what PHH Corporation calls its "Evergreen Philosophy" in its 1993 annual shareholders report. Communication leads to trust and trust to relationship commitment (Morgan and Hunt 1994). Communication intensity also can encourage customer perceptions of "special status" (Czepiel 1990) and "closeness" (Barnes 1994) that are indicative of true relationships, plus allow marketers the opportunity to continually "resell" intangible services (Levitt 1981).

Communications effectiveness in building trust can have implications for organizational structure, especially in companies typically serving customers through different representatives at each service contact. Warner Corporation, a large heating, ventilation, and air-conditioning company in Washington, D.C. and surrounding markets, reorganized its service delivery system so that each technician is responsible for a specific geographic area. Instead of making service calls throughout the trade area and rarely seeing the same customer twice, the technician focuses on one or several zip codes. Called "Area Technical Directors," each technician is expected to build a business in the assigned area. A new incentive system developed concurrently with the restructuring encourages the technician's staying in touch with customers and making sure they are satisfied with the service. One Area Technical Director said that he goes so far as to give his pager number to his customers (Finegan 1994, p. 66).

Delivering services through cross-functional teams also fosters service continuity and communications with customers. Customers are served by a team for most or all of their service requirements, giving a big company the opportunity to deliver a level of personalized service more characteristic of a small company (Berry 1995).

Guaranteeing the service. Service guarantees are another means to build trust. Dissatisfied customers can invoke the guarantee and receive compensation for the burden they have endured. When executed well, service guarantees can symbolize a company's commitment to fair play with customers and facilitate competitive differentiation. Guarantees also force the organization to improve service to avoid the cost and embarrassment of frequent payouts.

A service company should never implement a service guarantee without a thorough analysis of its purpose and risks. Guaranteeing a poor service is always a mistake. Firms delivering poor service first should significantly improve their service quality. Then they can consider a guarantee that will help facilitate further improvement.

When Bank One acquired a failed Texas bank in 1989, it found itself in the unusual situation of needing to start a trust banking division because the failed bank's trust department had been sold. New management faced the daunting challenge of dislodging prospective clients from their existing institutions. Today, Bank One's Texas Trust Division is among the fastest growing trust companies in the United States with more than 4,500 accounts. An unconditional service guarantee anchors the Trust Division's market-entry and continued positioning strategy of service excellence.

The guarantee is simple. Clients dissatisfied with the service need not pay the fee. Given to every new client, the written guarantee reads: "If you are not satisfied with our service quality in any given year, we will return to you the fees paid, or any portion thereof you feel is fair." Customers wishing to invoke the guarantee must inform the bank in writing within 90 days of the end of the account year. Four clients invoked the guarantee during the first four years of operation. According to management, all the claims were justified and were for the same reason: overpromising.

A higher standard of conduct. Companies seeking to build genuine relationships with customers must be willing to operate with a higher standard of conduct than just legality. Corporate practices that rob customers of self-esteem or justice may be legal, but they destroy trust and consequently the potential for relationship building. Relationship marketers must be prepared to subject every policy and strategy to a fairness test. They must be willing to level the playing field. They must be willing to ask not only "Is it legal?" but also "Is it right?" (Berry and Parasuraman 1991, p. 145).

GOING FORWARD

Relationship marketing's time has come. Marketing practitioners and academics are interested in its possibilities as never before and for good reasons. Virtually all market offerings have a service component (from manufactured goods to pure services), and relationship marketing fits the salient characteristics of services. Both company and customer benefit from effective relationship marketing. Advances in information technology are making relationship marketing programs more affordable, feasible, and powerful.

Growing interest and active research in relationship marketing of services are bringing newer, more sophisticated perspectives to the subject. These include focusing on profitable relationships, recognizing multiple levels of relationship marketing with different effects, practicing relationship marketing with noncustomers such as employees and strategic alliance partners to better serve customers, and leveraging an old-fashioned idea—trust—as a central relationship building block.

Although relationship marketing in services is developing, it is far from mature. Here is a baker's dozen list of issues requiring more research:

- What types of customers are most receptive to relationship marketing?
- What service characteristics increase or decrease the appeal of relationship marketing to customers?
- What are the common characteristics of successful relationship marketing programs?
- What drives customer loyalty for services?

- What are the antecedents of customer trust in service providers, and how do these rank for different types of services?
- Does the number of services a customer uses from a single company source affect future retention?
- Does duration of a customer's relationship with a company affect future retention?
- What are the implications of relationship marketing for organizational structure?
- What are the implications of relationship marketing for technology?
- What is the role of pricing in relationship marketing?
- What is the role of advertising in relationship marketing?
- What is the association between employee turnover and customer defection in different types of service companies?
- What are the different types of membership programs marketers can consider, and what are their strengths and limitations?

Service firms can increase market share three ways: attract more new customers, do more business with existing customers, and reduce the loss of customers. By directing marketing resources to existing customers, relationship marketing directly addresses two of these opportunities: expanding relationships and reducing customer defections. Because many customers want to be relationship customers, relationship marketing also can help firms attract more new customers. Relationship marketing is a potent strategy for today and tomorrow; it warrants the attention it now is receiving in the discipline.

NOTES

1. These examples, and several others used in this article, are based on material appearing in Leonard L. Berry (1995).
2. The reader may wonder about the use of both Walgreen and Walgreens. Walgreen is the company name and Walgreens the store name.

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