Executive Master of Business Administration
(Singapore)

Compatibility of Service Dominant Logic and Relationship Approaches with Sustainability Concept to Developing a Marketing Strategy

Submitted in part fulfilment of the requirements for:

**07 02968 Marketing Module**

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Submitted by: Student ID No. 1067413
Intake Date: September 2009

Word Count: 2750 words

Submission date: 21st May 2010
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Executive Summary

The essay centered on the study of a) Why firms need a sustainable approach for their marketing? b) Compatibility of sustainability with Service Dominant Logic and Relational approaches in developing a marketing strategy?

In the introduction segment, the objectives, scope, information gathering and limitations of the essay was outlined with the acknowledgement of needed inclusion of Strategic Marketing, Strategic Management and Operation Management disciplines that will provide greater in-depth coverage of identified issues.

The next segment establishes the relationship of various elements that include social justice, environmental stewardship and stakeholders towards the concept of sustainability which has been endorsed by 58% of firms in a research study by American Marketing Association in 2009 with indications of sustainability assisting in business success.

The essay follows with a review of the key principles underlying Service Dominant Logic and Relationship Marketing with reference to Lusch and Vargo, Gronross, Gummesson and other contemporary writers' viewpoints on these two approaches.

Thereafter the essay analyse the question of compatibility of sustainability concept with SLR and relationship approaches in developing a marketing strategy. Here, case study of firms such as Dell and Cadbury was highlighted, academic writings was cited for supporting the compatibility of sustainability with the two approaches.

The essay concludes by stressing on the need for firms acknowledging its responsibilities towards sustainability concept as its operation is intimately link to society at large.

Kotler suggested principles of consumer-oriented marketing, customer value marketing, innovative marketing, sense of mission marketing and societal marketing for sustainable marketing objective share similarities to principles of SLR and relationship marketing.

The essay propose SDL and relational approaches as alternative avenue in developing a marketing strategy that is centered on creating and receiving “value” from customers.
Introduction

The purpose of this essay lies in conducting a study for determining reasons relating to:

a) Why firms need a sustainable approach for their marketing?

b) Compatibility of sustainability with Service Dominant Logic and Relational approaches in developing a marketing strategy?

Data was obtained from a variety of sources that include academic textbooks, electronic database, module notes and relevant websites for wider perspectives of the relevant issues.

Limiting factors that surface in this report include the inherent need for the disciplines of Strategic Marketing, Strategic Management and Operation Management which will provide a holistic and strategic viewpoint in the report. However, this need is not fulfilled as the identified disciplines will only be conducted at the later stage of the MBA program.

1.0 Sustainable Approach to Marketing

Gurau & Ranchhod (2007, pp.390-301) observe the ‘era of responsible, customer–oriented marketing is dawning’ and firms will be judged by a wide range of measures that include corporate governance, role of stakeholders, how they develop relationships with customers, ecological performance rather than traditional ROI measurement.

This call for a marketing strategy based on integration of sustainability elements that include social justice, environmental stewardship into a firm business practices of products and services creation, industry partnership, supply chain management (SCM) for continuity of firm existence.

Firms can no longer pursue profitability without recognising and satisfying growing stakeholders such as customers and employees “voices” on issues such as: a) “green marketing” for environmental sustainability b) accountability for corporate activities such as Enron scandal c) social and ethical practices such as utilisation of labour, wages in the chain of production i.e. Nike scandal as pointed out by Kotler (2010, p.633) on sustainable marketing being ‘having concern for tomorrow’s customers in assuring the survival and success of the business, shareholders, employees and the broader world in which they all live’

Sustainable marketing calls for a holistic approach in measuring and fulfilling the expectations of all stakeholders as illustrated in Figure 1 when planning a marketing strategy as indicated by
Ranchhod (2004, p48). on the necessity of understanding stakeholders interests such as ‘customer-company interactions, company-shareholder, company-community, company-environment and a host of other interactions’ which is similarly share by D’ Aveni (1994) who emphasis on ‘superior stakeholder satisfaction is critical for successful companies in a hypercompetitive environment’.

**Figure 1: Stakeholder Components**

![Stakeholder Components](image_url)

**Figure 3.1 Stakeholder components**


A research study by American Marketing Association in 2009 indicates 58% of firms placing emphasis on sustainable initiatives in the future and they believe this strategy will ‘create business success through increased cost and production efficiencies, enhanced brand image and relationship with stakeholders and competitive differentiation (http://events.fleishmanhillard.com/wp-content/uploads/2010/04/ama-fh_sustainability_report.pdf).

### 2.0 Review of Service Dominant Logic Paradigm

Lusch and Vargo (2004) postulate firms should compete through service via organisation viewing and approaching itself and market on the basis of ‘commitment to collaborative processes with customers, partners and employees...co-creation of value through reciprocal service provision’ (Appendix 1).
Service Dominant Logic (SDL) advocates a “market with” philosophy by ‘viewing customer as an operant resource’ that act on other resources in co-creation of value with the firm. Internal / external environments are resources that are draw upon for overcoming resistance and a relational cum collaborative approach is undertaken between firms, customers and stakeholders in a network relationship towards achievement of ‘absorptive and adaptive competence’ of the firm’s value chain as illustrate in Figure 1.

**Figure 1 Service Dominant Marketing**

Canal, more sediment and nutrients flow into the canal. These sediments (and nutrients) clog the canal and, in doing so, indirectly stimulate the growth of waterweeds (Economist April 23, 2005). The government could use heavy equipment to dredge the canal to keep it clean. Alternatively, it could simply replant trees to solve the problem. The trees would trap sediments and nutrients and regulate the supply of fresh water. In brief, the forests would serve as a replacement for build-

**SDL foundational premises (10 FP to date) emphases on the application of a firm dynamic operant resource such as skills, knowledge, information on other resources for meeting the needs of the customer whose perceived “value-in use” are ’not products that are the aim of the customer’s acquisition, but rather the benefit available through the service of the provider’.

The underlying principle of SDL lies in viewing of customer as a collaborative partner in creation of value through a customer oriented and relational approach which represent a shift from traditional goods dominant and transaction based marketing of customer being a operant resource to be acted upon via the 4P of marketing Firms can only furnish “value proposition” to the customer who will appraise their value-in-use that are individualistic, naturally subjective and behavioural influenced. This co-creation can be seen in Microsoft “active” customer involvement for its Windows 7 operating system (source: http://www.microsoft.com/presspass/press/2009/oct09/10-22windows7pr.mspx).
Lusch and Vargo (2004, 2006) assert value cannot be embedded in operand resources i.e. static, usually tangible but rather is created through ‘collaboration between firms, customer and other value-network’ that interact with each others as operant resources thus creating synergy as can be seen in Dell and Benetton leveraging on its network of suppliers (source: http://www.gsb.stanford.edu/news/research/supplychain_internet.shtml) as a competitive strategy.

SDL conceptual transitions (Appendix 2) stress on a relational approach of dialogue, customer experience and solution founded on value creation network, service orientation foundation that is different from that of traditional good dominant logic of “market to’ approach focusing on ‘flow of goods and services from producer to customer’.

3.0 Review of Relationship Marketing Concept

Gronroos (2008, pp.138-146.) consider relationship marketing as a ‘philosophy that guides the planning and management of activities in the relationship between a firm and its customers, distributors and other partners’. Gronroos claim relationship marketing objective lies in creating ‘results in the long run through enduring and profitable relationship with customers’ which may be achieved by a different approach ‘when compared with the isolated transactions through the Four Ps of the marketing mix’:

The relationship cost theory suggested by Gronross suggest satisfactory relationship permit avoidance of transaction and quality costs to customers and suppliers respectively which lead to “binding of customer” and reduction of production costs which translate into economic gains for firms.

For example, offering beyond the core product through “add-on value” such as just-in- time (JIT) logistics, technical advice and know-how in industrial market enable creation of an on-going relationship for customer via its attractiveness, customer’s perceived technical quality of the outcome and the dominant functional quality of the interaction process (model of total perceived quality, Nordic School of Services).

Gummesson (1987) pointed out service and industrial marketing emphasis on ‘long term, interactive relationship between buyers and sellers’ (Appendix 3) which differ from the short term nature, ignoring of relationship as a crucial factor in the exchange process, implicit financial value found in transactional marketing.
Gronross marketing strategy continuum (Appendix 4) outline the differing approaches adopted by transaction and relationship approaches with the latter objectives being "create results in the long run through enduring and profitable relationships with customers' founded on the implicit elements of trust and fulfillment of promises.

Gronross (Appendix 5) clarify the continuing validity of the ‘concepts of managerial approach’ i.e. market segmentation, distribution, product branding as relationships cannot functioned by themselves. He views relationship marketing as a dynamic process that is network centric with service providers interacting with ‘among others, customers, suppliers, intermediaries and environmental actors’.

4.0 **Compatibility of Sustainability with Service Dominant Logic and Relationship Approaches in Developing a Marketing Strategy?**

In the New Economy, firms faces fundamental environmental changes such increasing customer’s power, changing value propositions, shifting demand patterns, new sources of competitive advantage, security and ethical concerns while formulating marketing strategy as noted by Ferrell & Hartline (2004, pp.2-3).

Sustainable business entails sustaining the varying interests of all stakeholders of firm operations as firms cannot operate in a vacuum given the dynamics of globalisation such as the transformation of passive to active voices of customers, private and public bodies as seen in the clamour for regulating social responsibilities of financial institutions for its roles in the subprime crisis.

Customers are the lifeblood of a business and firms faces intense competition for customer loyalty given the rise of technology i.e. internet that has raise customer’s knowledge and awareness of avenues for satisfying demands of products and services.

Normann and Ramirez (1993, p.65) state ‘strategy is the art of creating value…links together the two resources that really matter…knowledge and relationships’. This provide credence to the importance of relational approach in management of all stakeholders in a firm’s value chain base on trust, integrity, reliability and knowledge of customer needs, knowledge of firm’s responsibilities and role as a member of society.
According to Bharadwaj (1993) the purpose of a competitive strategy lies in achieving sustainable competitive advantage (SCA) which require 4 essential elements as define by (Barney, 1991) : a) it must be valuable b) it must be rare among competitors c) it must be imperfectly imitable d) absence of substitute for this resource skills (Appendix 6).

Doyle (2009 p.73).state the starting point of successful marketing lies in ‘understanding the needs of customers and developing a proposition that they will regard as offering superior value’. Firms can no longer stick with the old mantra of just “delighting” customer” by providing products they deem as beneficial to customer. Instead, they need to collaborate with customers as active partners for co-creation of “value” when developing marketing strategy as assert by Vargo and Lusch (2004) that ‘customers do not buy product and services, but life-enhancing experiences’.

Here, adoption of placing customer in the centre of firm activities is require as implied in Vargo and Lusch (2204) Foundational Promise of ‘customer oriented and relational”. Firms that actively “relate to” and “partner with” customers will achieve valuable information for aligning their market strategies to actual customer requirements as pointed out by Gurau & Ranchhod (2007 p.30) on information as ‘one of the most important operant resources, allowing firms to assess correctly their internal capabilities, evaluate risks and opportunities present in the market place and understand consumer's needs'

The application of relational approaches with stakeholders and leveraging of SDL “operant resources” enable a firm flexibility in a) developing and delivering personalised experiences for the various segments of its targeted market for continuing growth b) knowledge on customer’s needs maximize their lifetime value and contribution to sustainability of business and profitability c) securing of the firm supply chain as illustrated in Cadbury “Fairtrade” policy (Appendix 7). that has strengthened its relationship with its core customers and built stronger ties in its key markets for prevention of competitors encroachment of market share.

Cravens & Piercy (2008 p.206) highlight the growing importance of strategic relationships between a firm with its suppliers, producers, distribution channels and customers from the realities of environmental complexity, globalisation, skills and resource limitations of the firm and powers of customers.

Sudarshan D (1995) states that identification of partner public (customers, channels) and the contract (nature of the relationship) is a key component of marketing strategy.

This give rise to a “real need” for inclusion of customers and other stakeholders including competitors in the firm’s marketing activities for synergy and increase ability of the firm in
matching present and future needs of its customers. Relationship approach base on trust and integrity enable the firm to create an internal and external network centering on providing the benefits that customer derived from the product.

LI and Nicholls (2000) contended mutually cooperative interaction in an exchange process was a strategic choice which involve primary stakeholders ‘without whose continuing participation, the company cannot survive as a going concern’ as affirm by Clarkson (1995)

Ford (1980) suggests the benefits of inter-companies relationships derive from reduction of costs or increasing of revenue and relationship fosters individual and organisation network that support a firm marketing strategy (Appendix 9) as can be seen in collaboration activities between 2 competing firms in product development such as Sony and Samsung joint venture LCD panel production for sustaining resource needs of both firms.

Return on relationship model by Gummesson (1999) relates ‘good relationships to good quality and good customer satisfaction’. This will contribute to customer retention from higher “switching costs”, improved profitability from good “internal relationships” i.e. employee and provision of goods and services based on full understanding of customer’s needs and want.

The application of relationship technology such as CRM (Customer Relationship Management), Database Marketing enable surfacing of customer insights that is vital for firms in formulating marketing strategy to match evolving needs of customers as seen in the marketing strategy of NTUC Fairprice (a Singapore retail entity) “Finest” retail concept focusing on relevancy to its customer’s changing needs, aspiration and lifestyle (source: http://www.ntuc.org.sg/documents/070907_10.pdf)

Ballantyne et.al. (1993, p.68) advocate the use of relationship marketing as a competitive strategy through focusing on ’quality in the sense of customer perceived value’ towards ‘keeping customers as it is on getting them in the first place’.--- that ‘providing unique value in chosen markets, sustainable and profitable over time’.

In addition, Ballantyne et.al (2008) Otago Forum support the SDL concept of value proposition through linking it with McKinsey & Co’s Value Delivery System Model (Appendix 8) that enable a firm to ‘choose, provide and communicate profitably the chosen value’ for business success. This is seen in Starbucks Shared Planet program emphasising on ethical sourcing, community involvement and environmental stewardship that is reinforced in Starbucks IMC (Integrated Marketing Communication) message in its website, retail outlets focusing on establishing its commitment to be a responsible member of society which serve as a basis of establishing good
relationship with its known and prospective segments of customers that demand good ethical business process and environmental awareness.
(source: http://www.starbucks.com/responsibility/learn-more/goals-and-progress)

Effective application of SDL and relationship approaches enables Dell in developing a successful marketing strategy (Appendix 10) base on differentiation of its position in the targeted market. Dell’s “most customer-focused company” positioning centered on listening, responding and fulfilling customer needs, customer interaction and collaboration which provide Dell with a competitive advantage.

5.0 Conclusion

The concept of sustainability is a recent phenomenon and covers diverse areas of disciplines such as social accountability, environmental maintenance, ethical business processes that requires in-depth expertise.

Firms must accept its responsibilities in embracing and upholding the sustainability concept as ignoring the issues will give rise to repercussion given firm’s marketing activities are link to the health of “Mother Earth and society”.

Kotler (2010, pp.626-629) highlights consumer-oriented marketing, customer value marketing, innovative marketing, sense of mission marketing and societal marketing as principles that should be adopted for sustainable marketing objective.

The principles underlying SDL and relationship marketing share many similarities of which the most importance lies from the involvement and establishing of relationships and the concept of “value creation” as viewed from the customer’s perspective.

Ferrell & Hartline (2004, p.100) stress on the need for firms in possessing ‘comprehensive understanding of its customers’ for ‘creating strategies that attract and retain customers over the long term’. SDL and relational approaches offers another avenue for developing strategies towards sustaining firm’s as a on-going concern via ‘companies can build profitable customer relationships by creating value for customers in order to capture value from customers in return, now and in the future’ as propose by Kotler (2010, p.633)
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Appendices


7. Cadbury: Bringing Fairtrade to the mainstream
http://www.bitc.org.uk/resources/publications/how_can_marketers.html

8. Service Dominant Logic and Value Propositions: Re-examining our Mental Models OTAGO FORUM 2: 8-12 December 2008, University of Otago, Dunedin, New Zealand

9. How Important are Stakeholder Relationships? Christopher S., Paul M., Amy
http://www.albany.edu/~pm157/research/stakeholders.pdf

Appendix 1:  Compe ting through service: Insights from service-dominant logic

Competing through service: Insights from service-dominant logic

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Abstract


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Keywords: Service-dominant logic; Goods-dominant logic; Derivative propositions

Introduction

Business scholars and practitioners are aware that competitive advantage can be enhanced through service (Karmarkar 2004). It is also clear that there is a link between competitive advantage and superior performance (Barney 1991; Coyne 1985; Day and Wensley 1988; Hunt and Morgan 1995; Porter 1985). Yet, by almost any definition or measure, there is little evidence of significantly increasing service. In fact, it is often argued that service is actually on decline (Oliva and Sterman 2001), at least in the U.S. marketplace. Paradoxically, managers, though motivated to perform and aware of the links among service, competitive advantage, and firm performance, often fail to execute on that knowledge (cf. Bharadwaj et al. 1995). Additionally, academics, though aware of these links, have not sufficiently informed normative theory to adequately assist in that execution.

We submit the problem is that there is not a full and adequate understanding of the concept of “service” and its role in exchange and competition. Accordingly, our purpose is to advance this understanding by exploring a relatively new conceptual lens (service-dominant logic) through which we can view exchange, markets, enterprises — including, but not limited to retailers — and competing through service.

We argue that competing through service is about more than adding value to products. Importantly, it is also more than the collective roles of marketing, strategic business, human resource, information-systems, financial, and operations management to produce and distribute better products. We argue that effective competing through service has to do with the entire organization viewing and approaching both itself and the market with a service-dominant (S-D) logic (Vargo and Lusch 2004).

S-D logic is based on an understanding of the interwoven fabric of individuals and organizations, brought together into networks and societies, specializing in and exchanging the application of their competences for the applied competences they need for their own well being. It is a logic that is philosophically grounded in a commitment to collaborative processes with customers, partners, and employees; a logic that challenges management at all levels to be of service to all the stakeholders; a logic perspective that recognizes the firm and its exchange partners who are engaged in the co-creation of value through reciprocal service provision. It
is about understanding, internalizing, and acting on this logic better rather than the competition.

Clearly the preceding statement is highly compact and laden with meaning that requires elaboration. Consequently, the purpose of this article is to demonstrate how S-D logic can better inform competing through service, the major theme of this special issue of the *Journal of Retailing,* than traditional “goods-dominant” (G-D) logic. We approach this purpose, primarily, by contrasting S-D logic with G-D logic. In doing so, we explicitly rely upon the nine foundational premises of S-D logic (Vargo and Lusch 2004, 2006) to develop nine *derivative propositions* that inform marketers on how to compete through service.

**A brief review of G-D and S-D logic**

Goods-dominant logic views units of output as the central components of exchange. It developed from both a combination of *Smith’s* (1776) normative work on how to create national wealth through the “production” and export of surplus tangible commodities and the economic philosophers’ desire to make economics a true science at a time when *Newtonian Mechanics* served as the model for the mastery of nature (Vargo and Morgan 2005). Accordingly, modern economic thought embraced objects (matter or goods) as having innate properties (utility) and relationships to other objects, measured in terms of price mechanisms and value-in-exchange. This economic theory became formalized in the mathematics of calculus and differential equations, and economic science became a foundation for financially engineering and optimizing the economy and the firm (Vargo and Lusch 2004).

As marketing emerged in the beginning of the 20th century, it embraced this G-D logic. Before 1960, marketing was seen as transferring ownership of goods and their physical distribution (Savitt 1990) and was viewed as the “application of motion to matter” (Shaw 1912, p. 764). Consequently, one of the early debates centered on the question: if value was something added to goods, did marketing contribute value?

Even after the discipline had purportedly shifted from a “product orientation” to a “consumer orientation”, first through the marketing concept (cf. Barksdale and Darden 1971; McNamara 1972), then through investigating firms’ implementation of such philosophy (e.g., Kohli and Jaworski 1990; Narver and Slater 1990; Webster 1988), the consumer, as well as competition and most other market variables, remained exogenous to value creation. The leading marketing management textbook in the 1970s (Kotler 1972, p. 42, emphasis in original) stated that “marketing management seeks to determine the settings of the company’s *marketing decision variables* that will maximize the company’s objective(s) in the light of the expected behavior of noncontrollable *demand variables.*” In short, competitive advantage was seen to be a function of utility maximization through embedding value in products by superior manipulation of the Four P’s, with an assumed passive consumer in mind.

The idea that “service” could increase competitive advantage was developed upon this G-D conceptual foundation. Service was considered, almost simultaneously, as both a type of product (i.e., “services”) and something of a fifth “P” (e.g., Booms and Bitner 1981; Christopher et al. 1991), another tool for maximizing the value of other products. Accordingly, while there has been significant attention toward delineating services as special types of products (intangible goods) and as value-adding enhancements to tangible goods, there has been relatively little theoretical progress in understanding “service” as a stand-alone variable and its role as a *primary* focus of exchange. There is of course exception to this subordinate treatment of service in the service literature (see Fisk et al. 1993), especially in the Nordic school (e.g., Gronroos 2002; Gunnsnesson 1993).

S-D logic superordinates service (the *process* of providing benefit) to products (*units of output* that are sometimes used in the process). Service-dominant logic is grounded in nine foundational premises; eight of which were initially elaborated in Vargo and Lusch (2004) and the ninth in Vargo and Lusch (2006). These are reproduced in Table 1.

When formal marketing thought developed in the early 1900s, marketing was about taking goods and services "to market." In fact, the American Marketing Association initially (mid 1930s) defined marketing as the set of business activities that direct the flow of goods and services from producer to consumer. After World War II, marketing thought in the U.S. moved to a "market to" orientation in which the market and customer were researched and analyzed and then products were produced to meet customer or marketplace needs. However, under this "marketing concept," the customer was viewed an *operand resource*—a resource to be acted on. That is, a goods-dominant logic remained and the customer was segmented, targeted, promoted to, distributed to, captured, and then enticed to continue to purchase by the seller using heavy promotional programs where transparency was the exception. The underlying notion was *value distribution* (Webster 1992).

In contrast, S-D logic advocates viewing the customer as an operand resource— a resource that is capable of acting on other resources, a collaborative partner who *co-creates value* with the firm (Vargo and Lusch 2004)— and promotes a "market with" philosophy. Fig. 1 depicts the evolution of marketing philosophies.

In S-D logic, collaboration between the firm (and relevant partners) and the customer allows for a strategic orientation that informs the more tactical “Four P’s.” “Products” are viewed in terms of service flows, in which the service is provided directly or indirectly through an object; promotion is reoriented toward conversation and dialog with the customer; price is replaced with a value proposition created by both sides of the exchange; and place is supplanted with value networks and processes (Lusch and Vargo 2006).
Table 1
Summary and rationale of foundational premises

<table>
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<tr>
<th>Foundational premise</th>
<th>Rationale</th>
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<tr>
<td>FP1. The application of specialized skills and knowledge is the fundamental unit of exchange</td>
<td>Service — applied knowledge for another party’s benefit — is exchanged for service</td>
</tr>
<tr>
<td>FP2. Indirect exchange marks the fundamental unit of exchange</td>
<td>Micro-specialization, organizations, networks, goods, and money obscure the service-for-service nature of exchange</td>
</tr>
<tr>
<td>FP3. Goods are distribution mechanisms for service provision</td>
<td>“Activities render service; things render service” (Gummesson 1995)—goods are appliances</td>
</tr>
<tr>
<td>FP4. Knowledge is the fundamental source of competitive advantage</td>
<td>Operant resources, especially “know-how,” are the essential component of differentiation</td>
</tr>
<tr>
<td>FP5. All economies are service economies</td>
<td>Service is only now becoming more apparent with increased specialization and outsourcing; it has always been what is exchanged</td>
</tr>
<tr>
<td>FP6. The customer is always a co-creator of value</td>
<td>There is no value until an offering is used—experience and perception are essential to value determination.</td>
</tr>
<tr>
<td>FP7. The enterprise can only make value propositions</td>
<td>Since value is always co-created with and determined by the customer (value-in-use), it cannot be embedded in the manufacturing process</td>
</tr>
<tr>
<td>FP8. A service-oriented view is customer-oriented and relational</td>
<td>Operant resources being used for the benefit of the customer inherently places the customer in the center of value creation and therefore implies relationship</td>
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<tr>
<td>FP9. Organizations exist to integrate and transform micro-specialized competences into complex services that are demanded in the marketplace</td>
<td>The organization exist to serve society and themselves through the integration and application of resources</td>
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In addition, the dominant marketing paradigm assumed the external environments (legal, competitive, social, physical, technological, etc.) as largely uncontrollable and forces to which the firm needed to adapt (McCarthy 1960); S-D logic inverts this assumption and views the external environments as resources the firm draws upon for support by overcoming resistances and proactively co-creating these environments.

This can be illustrated by viewing the ecosystem as an operant resource that is an active party in service provision. For example, because of deforestation along the Panama Canal, more sediment and nutrients flow into the canal. These sediments (and nutrients) clog the canal and, in doing so, indirectly stimulate the growth of waterweeds (Economist April 23, 2005). The government could use heavy equipment to dredge the canal to keep it clean. Alternatively, it could simply replant trees to solve the problem. The trees would trap sediments and nutrients and regulate the supply of fresh water. In brief, the forests would serve as a replacement for building vast reservoirs and filtration beds (Economist April 23, 2005). These service flows of sediment trapping and nutrition can be a substitute for industrially designed products. Further, the remaining external environments, other than physical or ecological, should be viewed as potential sources of opportunities for collaboration to co-create value.

Fig. 2 represents the elements of this strategic vision. In the following sections, we address how the foundational premises (FPs) of S-D logic (Table 1) inform a “compet-
Table 2  

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Rationale</th>
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<tr>
<td>1. Competitive advantage is a function of how one firm applies its</td>
<td>Since applied operant resources are what are exchanged in the market (FP1),</td>
</tr>
<tr>
<td>operates its operant resources to meet the needs of the customer</td>
<td>they are the source of competitive advantage (FP4)</td>
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<td>relative to how another firm applies its operant resources</td>
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<td>2. Collaborative competence is a primary determinant of a firm’s acquiring</td>
<td>The ability to integrate (FP9) operant resources (FP4) between organizations</td>
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<td>the knowledge for competitive advantage</td>
<td>increases ability to gain competitive advantage through innovation</td>
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<td>3. The continued ascendance of information technology with associated</td>
<td>Reduced barriers to technology utilization combined with the trends of open</td>
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<td>decrease in communication and computation costs, provides firms’</td>
<td>standards, specialization, connectivity, and network ubiquity increase the</td>
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<td>opportunities for increased competitive advantage through innovative</td>
<td>likelihood of collaboration with firms and customers (FP6, FP8)</td>
</tr>
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<td>collaboration</td>
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<td>4. Firms gain competitive advantage by engaging customers and value network</td>
<td>Because the customer is always a co-creator of value (FP6), and the firm is</td>
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<td>partners in co-creation and co-production activities</td>
<td>a resource integrator (FP9), competitive advantage is enhanced by</td>
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<td>proactively engaging both customers and value- network partners</td>
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<td>5. Understanding how the customer uniquely integrates and experiences</td>
<td>Since value is co-created (FP6) comprehending how customers combine</td>
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<td>services-related resources (both private and public) is a source of</td>
<td>resources (FP8, FP9) provides insight into competitive advantage</td>
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<td>competitive advantage through innovation</td>
<td></td>
</tr>
<tr>
<td>6. Providing service co-production opportunities and resources consistent</td>
<td>Expertise, control, physical capital, risk taking, psychic benefits, and</td>
</tr>
<tr>
<td>with the customer’s desired level of involvement leads to improved</td>
<td>economic benefits influence customers’ motivation, desire, and amount of</td>
</tr>
<tr>
<td>competitive advantage through enhanced customer experience</td>
<td>participation (FP6, FP9) in service provision through collaboration (FP8)</td>
</tr>
<tr>
<td>7. Firms can compete more effectively through the adoption of</td>
<td>Appropriately shifting the economic risk of either firm or customer through</td>
</tr>
<tr>
<td>collaboratively developed, risk-based pricing value propositions</td>
<td>co-created (FP6) value propositions (FP7) increase competitive advantage</td>
</tr>
<tr>
<td>8a. The value network member that is the prime</td>
<td>The ability to effectively combine micro-specialized competences into</td>
</tr>
<tr>
<td>integrator is in a stronger competitive position</td>
<td>complex services (FP9) provides knowledge (FP1) for increased</td>
</tr>
<tr>
<td>8b. The retailer is generally in the best position to become the</td>
<td>competitive advantage (FP4)</td>
</tr>
<tr>
<td>prime integrator</td>
<td></td>
</tr>
<tr>
<td>9. Firms that treat their employees as operant resources will be able to</td>
<td>Since competitive advantage comes from the knowledge and skills (FP4) of</td>
</tr>
<tr>
<td>develop more innovative knowledge and skills than gain competitive</td>
<td>the employees, it can be enhanced by servant leadership and continual</td>
</tr>
<tr>
<td>advantage</td>
<td>renewal</td>
</tr>
</tbody>
</table>

Source: Journal of Retailing, 2007, Vol. 83 Issue 1, p5-18
Appendix 2: Lusch and Vargo Conceptual Transitions

Table 1: Conceptual Transitions

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>Services</td>
<td>Service</td>
</tr>
<tr>
<td>Products</td>
<td>Offerings</td>
<td>Experiences</td>
</tr>
<tr>
<td>Feature/attribute</td>
<td>Benefit</td>
<td>Solution</td>
</tr>
<tr>
<td>Value-added</td>
<td>Co-production</td>
<td>Co-creation of value</td>
</tr>
<tr>
<td>Profit maximization</td>
<td>Financial engineering</td>
<td>Financial feedback/learning</td>
</tr>
<tr>
<td>Price</td>
<td>Value delivery</td>
<td>Value proposition</td>
</tr>
<tr>
<td>Equilibrium systems</td>
<td>Dynamic systems</td>
<td>Complex adaptive systems</td>
</tr>
<tr>
<td>Supply chain</td>
<td>Value-chain</td>
<td>Value-creation network/constellation</td>
</tr>
<tr>
<td>Promotion</td>
<td>Integrated marketing communications</td>
<td>Dialogue</td>
</tr>
<tr>
<td>To market</td>
<td>Market to</td>
<td>Market with</td>
</tr>
<tr>
<td>Product orientation</td>
<td>Market orientation</td>
<td>Service orientation</td>
</tr>
</tbody>
</table>

A decoupling of thinking began that was manifest in a transitioning lexicon of service marketing, relationship marketing, resource-based views of exchange and competition, etc. but one that was still heavily G-D logic driven (see Vargo and Lusch, 2004b). As marketing increasingly breaks free from the confines of G-D logic, we are witnessing (and hopefully contributing to) a more S-D logic friendly lexicon. Yet, the binds of G-D logic are strong and we find ourselves struggling with acceptable words. For example, The Otago Forum participants agreed that neither ‘consumer’ nor ‘customer’ adequately captured the S-D logic service beneficiary and while ‘solution’ is more S-D logic friendly than ‘attribute’, it still connotes a unit of output. Clearly, development of a compatible and fully reflective lexicon will be a major challenge in the advancement of S-D logic.

Concluding Comment

As we stated at The Otago Forum, we do not consider S-D logic either ours or complete. Our purpose remains the identification of and participation in what we see as an evolving new dominant logic of marketing, one that will emerge with or without our involvement. We believe that both the need for and the foundation of this logic can be found in commonalities among the apparently divergent schools of thought that constitute the marketing literature. Support for this logic can also be found in scholarly work from other disciplines. We are certain that it is best approached collaboratively and welcome both elaborative and critical viewpoints.

References


Appendix 3: Relationship Marketing: Is it a Paradigm Shift?

Relationship Marketing: Is It a Paradigm Shift?

Introduction

Relationship marketing emerged as a contestant to traditional marketing theories since the early 1990s. Proponents of relationship marketing as a paradigm shift to traditional marketing theories criticized the transactional nature of traditional marketing concept. They argued that the positivist nature of theorizing marketing based on microeconomic models ignored the factor of relationship in a marketing process and its strategic implications in human interactions in an exchange process. This paper outlines their major contentions and provides a critique on the subject.

Contentions of Relationship Marketing As a Paradigm Shift

With the rapid changes in economic and business environment, Berry (1982) recommended the American banking industry to adopt a relational approach in marketing. He suggested that bank marketing should shift the focus from product-marketing and order-taking to a relational approach in marketing. The approach, relationship banking, was termed as “attracting, maintaining, and enhancing client relationships” (Berry, 1982, p. 6). Berry (1983) further reinforced the relational approach in a conference proceeding in services marketing with the American Marketing Association where the term “Relationship Marketing” was first used to describe the relational approach in services marketing. Although Berry did not present the relational approach as a paradigm shift, the transactional approach in services marketing was severely challenged for its divergence from the rapidly changing operating environment in the services industry.

In succession, Gummmeson (1987) criticized that the short term nature of transactional marketing did not apply to services marketing and industrial marketing. He interpreted that practitioners in services marketing and industrial marketing emphasized long term, interactive relationship between buyers and sellers. Traditional marketing concept that focused on consumer marketing did not consider relationship as a crucial factor in the exchange process. He further raised nine issues that signified the deficiency in traditional marketing theories:

1. The need to thoroughly understand the relational webs that consist of people in various operating units from both buyer and seller organizations.
2. The manipulation of regulations and policies by various professional and government authorities has crippled the marketing mix from being able to identify the real decision maker in an exchange process.
3. While customer feedback is used to loop back the marketing process for refining the marketing mix, interaction between buyer and seller provides on the spot refinement opportunity in serving the customer. In essence, the customer has become a co-producer in the exchange process.
4. The market is a complex network of relationships between inter-linking industries that depend on each other. The network has to be analyzed to better identify and assess market opportunities.
5. With increasing business partnerships such as strategic alliances, joint ventures and cross shareholding between organizations, market mechanisms are brought into organizations. Without clear boundaries as to who is the competitor, buyer, or seller, the phenomenon has created an internal market where marketing strategies have to be developed to address the need.
6. Interactions between customers and staff in various operating units of different organizations in the exchange process have made them part-time marketers in addition to the full-time marketing professionals in the marketing unit.
7. Product development, production, purchasing, marketing, and other functions within an organization work together toward achieving the common goal of serving the customer. People in an organization should treat one another as internal customers.
8. People in an organization should be well attuned to achieving the common purpose of the organization. Human resources are crucial to the success of an organization.

Therefore, internal marketing within the organization is a prerequisite for successful external marketing.

9. Relational quality, the quality of a relationship, has a major impact on the long-term business relationship with the customer.

Furthermore, Gronroos (1994) criticized the transactional nature of the marketing mix that was derived out of microeconomic theories. He asserted that transactional marketing theories focused on optimizing the economic gain in an exchange process between seller and buyer. In addition, such calculated exchange ignored humanism that positioned people at the center of the social interaction (Smith & Higgins, 2000).

Trust and commitment are imperative to a relationship (Morgan & Hunt, 1994). In an exchange process, they form the basis for a reliable and enduring relationship. With higher costs in creating new customers than retaining existing ones, economic benefit exists in building and sustaining relationship with customers (Gronroos, 1995; Storbacka, Strandvik & Gronroos, 1994). Transactional marketing has ignored the implicit financial value of relationship in an exchange process.

The underpinning that relationship marketing is a paradigm shift lies in the interpretations on the differences between transactional marketing and relationship marketing. In addition to the critical challenges toward transactional marketing contended by Gummesson (1987), Gronroos (1994, 1995) further contended that relationship marketing maintained a long-term relationship with the customer while transactional marketing was transactional and short-term in nature. In relationship marketing, customers tended to be less calculated. In addition, relationship marketing focused on the customer, attended to their satisfaction, and maintained quality interactions with the customers. On the other hand, transactional marketing relied on gimmicks, focused on single transaction (Christopher, Payne & Ballantyne, 1993), ignored quality of interactions with the customers, and was market share oriented (Gronroos, 1994).

However diverging the interpretivists and the positivists in their respective contentions, the notion of the strategic nature of relationship in an exchange process is shared by many academics. Webster (1992) asserted that strategic partnerships and networks were gradually replacing large, bureaucratic organizations. The new, flatter form of exchange process required relationship building of a long-term nature. Taking a resource-based approach, Gronroos (1996) illustrated that relationship played a strategic and tactical role in networking between business partners. Stone and Mason (1997) demonstrated the strategic nature of relationship in marketing with the close-knit networking and interdependencies of business partners participating in the processes of system selling, just-in-time, and quick response system. Morgan and Hunt (1999) illustrated the strategic value of organizational resources in obtaining a relationship-based competitive advantage. Li and Nicholls (2000) contended that the mutually cooperative interaction in an exchange process was a strategic choice.

Relationship marketing was loosely defined (Coviello, Brodie & Munro, 1997) with limited coherence among academics. Almost at the same time, Gummesson and Gronroos offered their propositions on the frameworks on relationship marketing for further research. Gummesson (1994) offered a 3R approach within an operational perspective. The approach defines relationship marketing as “relationships, networks and interaction” (Gummesson, 1997, p. 267). It emphasized customer retention, value in interaction, operational and practical, linkage to organizational structure and management, and collaboration to compete. Gronroos (1994) accentuated the strategy continuum with marketing focus, customer perceived quality, customer satisfaction, inter-organizational collaboration, and internal marketing. Coviello et al. (1997) classified marketing into transactional marketing and relationship marketing, with relationship marketing incorporating database marketing, interaction marketing and network marketing. Mattsson (1997) perceived relationship marketing as a development within transactional marketing. Molker & Halinen (2000) argued that relationship marketing did not form a general theory but viewed the relational theory in a consumer, market-based theme and an inter-organizational, network-based theme. Gronroos (2004) conceived relationship marketing as a process and proposed the framework of interaction process as the core, a planned marketing communication process, and the outcome from a customer value process.

http://kchui.com/articles/Relationship_Marketing_Paradigm_Shift.pdf
Appendix 4: The Marketing Strategy Continuum: Some Implications

Figure 1
The Marketing Strategy Continuum: Some Implications

<table>
<thead>
<tr>
<th>The Strategy Continuum</th>
<th>Transaction</th>
<th>Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time perspective</td>
<td>marketing</td>
<td>marketing</td>
</tr>
<tr>
<td>Dominating marketing</td>
<td>Short-term focus</td>
<td>Long-term focus</td>
</tr>
<tr>
<td>function</td>
<td>Marketing mix</td>
<td>Interactive marketing</td>
</tr>
<tr>
<td>Price elasticity</td>
<td>Customers tend to be more sensitive to price</td>
<td>Customers tend to be less sensitive to price</td>
</tr>
<tr>
<td>Dominating quality</td>
<td>Quality of output (technical quality dimension) is dominating</td>
<td>Quality of interactions (functional quality dimension) grows in importance and may become dominating</td>
</tr>
<tr>
<td>dimension</td>
<td></td>
<td>Managing the customer base</td>
</tr>
<tr>
<td>Measurement of</td>
<td>Monitoring market share (indirect approach)</td>
<td>Real-time customer feedback system</td>
</tr>
<tr>
<td>customer satisfaction</td>
<td></td>
<td>Interface of substantial strategic importance</td>
</tr>
<tr>
<td>Customer information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>system</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interdependency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>between marketing,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>operations and personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The role of internal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The product continuum</td>
<td>Consumer packaged ← Consumer ← Industrial ← Services</td>
<td>Consumer packaged ← Consumer ← Industrial ← Services</td>
</tr>
<tr>
<td></td>
<td>goods</td>
<td>durables</td>
</tr>
</tbody>
</table>

Source: [12]

in time. Therefore, the interface between the firm and its customers is expanded far outside the marketing department of marketing and sales specialists.

In consumer durables the customer interface is broader than for consumer packaged goods, and a pure transaction-type strategy is not the only naturally available option. Industrial goods, ranging from mass-produced components to complex machines and projects, would probably fit best between consumer durables and services. However, in many industrial marketing situations the customer relationships are similar to many service situations, and here no distinctions between the industrial marketer and service marketer can be made on the continuum.

The time perspective of marketing differs depending on where on the continuum a firm is. As transaction marketing means that the firm focuses on single exchanges or transactions at a time, the time perspective is rather short. The unit of analysis is a single market transaction. Profits are expected to follow from today’s exchanges, although sometimes some long-term image development occurs. In relationship marketing the time perspective is much longer. The marketer does not plan primarily for short-term results. His objective is to create results in the long run through enduring and profitable relationships with customers. In some cases single exchanges may even be unprofitable as such. Thus, relationships as such are equally the units of analysis.

Appendix 5: From Marketing Mix to Relationship Marketing: Towards a Paradigm Shift in Marketing

Has today’s dominant marketing mix paradigm become a strait-jacket? A relationship building and management approach may be the answer.

From Marketing Mix to Relationship Marketing: Towards a Paradigm Shift in Marketing

Christian Grünroos

The marketing mix management paradigm has dominated marketing thought, research and practice since it was introduced almost 40 years ago. Today, this paradigm is beginning to lose its position[1-3]. New approaches have been emerging in marketing research. The globalization of business and the evolving recognition of the importance of customer retention and market economies and of customer relationship economics, among other trends, reinforce the change in mainstream marketing.

Relationship building and management, or what has been labelled relationship marketing, is one leading new approach to marketing which eventually has entered the marketing literature[2, 4-14]. A paradigm shift is clearly under way. In services marketing, especially in Europe and Australia but to some extent also in North America, and in industrial marketing, especially in Europe, this paradigm shift has already taken place. Books published on services marketing[15-17] and on industrial marketing[18-20] as well as major research reports published are based on the relationship marketing paradigm.

A major shift in the perception of the fundamentals of marketing is taking place. The shift is so dramatic that it can, no doubt, be described as a paradigm shift[21]. Marketing researchers have been passionately convinced about the paradigmatic nature of marketing mix management and the Four P model[22]. To challenge marketing mix management as the basic foundation for all marketing thinking has been as heretic as it was for Copernicus to proclaim that the earth moved[23, 24].

The purpose of this report is to discuss the nature and consequences of the dominating marketing paradigm of today, marketing mix management of the managerial school (cf.[25]) and how evolving trends in business and modern research into, for example, industrial marketing, services marketing and customer relationship economics demand a relationship-oriented approach to marketing. Relationship building and management are found to be an underlying facet in the research into these areas. Relationship marketing is suggested as one new marketing paradigm and a number of consequences for marketing and management of a relationship-type marketing strategy is discussed based on the notion of a marketing strategy continuum. Finally, the possibility of building a general theory of marketing based on the relationship approach is examined. A further discussion of the nature of the relationship marketing paradigm is, however, beyond the scope of this report.

Marketing Mix and the Four Ps
Marketing the way most textbooks treat it today was introduced around 1960. The concept of the marketing mix and the Four Ps of marketing—product, price, place and promotion—entered the marketing textbooks at that time[26]. Quickly they also became treated as the unchallenged basic model of marketing, so totally overpowering previous models and approaches, such as, for example, the organic functionalist approach advocated by Wroe Alderson[27,28] as well as other systems-oriented approaches (e.g.[29,30]) and parameter theory developed by the Copenhagen School in Europe (e.g.[31,32]) that these are hardly remembered, even with a footnote in most textbooks of today. Earlier approaches, such as the commodity (e.g.[33]), functional (e.g.[34]), geography-related regional (e.g.[35]) and institutional...
in the network. The interactions are not necessarily initiated by the seller – the marketer according to the marketing mix management paradigm – and they may continue over a long period of time, for example, for several years.

The seller, who at the same time may be the buyer in a reciprocal setting, may of course employ marketing specialists, such as sales representatives, market communication people and market analysts but in addition to them a large number of persons in functions which according to the marketing mix management paradigm are non-marketing, such as research and development, design, deliveries, customer training, invoicing and credit management, has a decisive impact on the marketing success of the “seller” in the network. Gummesson[5-7] has coined the term part-time marketers for such employees of a firm. He observes that in industrial markets and in service businesses, the part-time marketers typically outnumber several times the full-time marketers, i.e. the marketing specialists of the marketing and sales departments. Furthermore, he concludes that “marketing and sales departments (the full-time marketers) are not able to handle more than a limited portion of the marketing, as its staff cannot be at the right place at the right time with the right customer contacts” [7, p. 13]. Hence, the part-time marketers do not only outnumber the full-time marketers, the specialists, often they are the only marketers around.

The Marketing of Services

In the early 1970s the marketing of services started to emerge as a separate area of marketing with concepts and models of its own geared to typical characteristics of services. In Scandinavia and Finland, the Nordic School of Services, more than researchers into this field elsewhere, looked at the marketing of services as something that cannot be separated from overall management[77]. In North America, research into service marketing has to a much greater extent remained within the boundaries of the marketing mix management paradigm, although it has produced some creative results[17,78]. Grönroos brought quality back into a marketing context[79-81] by introducing the perceived service quality concept in 1982[15]. He introduced the concept of the interactive marketing function[15,82] to cover the marketing impact on the customer during the consumption of usage process, where the consumer of a service typically interacts with systems, physical resources and employees of the service provider. In France, Langeard and Eglite[83] developed the service concept to describe this system of interactions. These interactions occur between the customer and employees who normally are not considered marketing people, either by themselves or by their managers, and who do not belong to a marketing or sales department. Nevertheless, they are part-time marketers.

In many situations long-lasting relationships between service providers and their customers may develop. Grönroos[15,84] developed the customer relationship life-cycle model, originally called the “marketing circle”, to cover the long-term nature of the establishment and evolution of the relationship between a firm and its customers. Managing this life-cycle is a relationship marketing task, although the term itself was not used at that time. Again, the marketing success of a firm is only partly determined by the “full-time marketers”. In fact, the “part-time marketers” of a service provider may often have a much more important impact on the future purchasing decisions of a customer than, for example, professional sales people or advertising campaigns (e.g.[5,16]).

The Interest in Customer Relationship Economics

During the last few years there has been a growing interest in studying the economics of long-lasting customer relationships. Heskett[85] introduced the concept of market economies, by which he means achieving results by understanding the customers instead of by concentrating on developing scale economies. Reichheld[86] gives an example of this. “At MBNA (in the credit card business in the US), a 5 per cent increase in retention grows the company’s profit by 60 per cent by the fifth year” (p. 65). More similar results from other industries are reported in a study by Reichheld and Sasser[87]. Long-term relationships where both parties over time learn how to best interact with each other lead to decreasing relationship costs for the customer as well as for the supplier or service provider. The relationship cost theory which is based on literature on, for example, quality costs (cf.[88]) and transaction costs (cf.[89]) has been suggested by Grönroos[90]. A mutually satisfactory relationship makes it possible for customers to avoid significant transaction costs involved in shifting supplier or service provider and for suppliers to avoid suffering unnecessary quality costs.

However, customer retention is not enough. Some long-lasting customer relationships, where the customers are obviously satisfied with what they get, are not profitable even in the long run, as Storbecka[91] demonstrates in a recent study in the retail banking industry (cf. also[92]). Therefore, segmentation based on customer relationship profitability analysis is a prerequisite for customer retention decisions. To conclude, there is clear evidence that from a profitability point of view intelligent relationship building and management make sense.

Relationship Building as a Cornerstone of Marketing

The interaction and network approach of industrial marketing and modern service marketing approaches,
network with, among others, customers, suppliers, intermediaries, and environmental actors. It is possible to include the behaviour of the actors on the marketplace and in the nonmarket environment and to analyse the interactions and processes of the relationships in this system. Furthermore, managerial decisions and actions in the relationships are included. Relationship marketing is also dynamic, because of its process nature. Compare, for example, the dynamism of Howard's [128] managerial theory of marketing which also includes consumer behaviour ingredients. In conclusion, we think it is not unfair to say that the relationship building and management approach to marketing, relationship marketing, has the necessary ingredients for the development of a general theory of marketing. In such a theory the managerial approach with the notion of the marketing mix and other concepts and models become one facet.

Is There a Paradigm Shift in Marketing?
From a management point of view the Four Ps may have been helpful at one time, at least for marketers of consumer packaged goods. The use of various means of competition became more organized. However, the Four Ps were never applicable to all markets and to all types of marketing situations. The development of alternative marketing theories discussed in previous sections of this article demonstrates that even from a management perspective, the marketing mix and its Four Ps became a problem.

However, in the bulk of textbooks and in much of the ongoing marketing research this paradigm is still strong today. In a standard marketing text, services marketing, industrial marketing and international marketing, for example, are touched on in a few paragraphs or they may be presented in a chapter of their own. However, they are always occurring as add-ons, never integrated into the whole text. "Books become compilations of fragmented aspects, like services marketing is being piled on top of the original structure or relationship marketing getting a small paragraph or footnote" [128, p. 257]. Why has the marketing mix management paradigm and the Four P model become such a strait-jacket for marketers? The main reason for this is probably the pedagogical virtues of the Four Ps that makes teaching marketing so easy and straightforward. The simplicity of the model seduces teachers to toolbox thinking instead of constantly reminding them of the fact that marketing is a social process with far more facets than that. As a consequence of this, researchers and marketing managers are also constrained by the simplistic nature of the Four Ps. The victims are marketing theory and customers.

On the other hand, marketing is more and more developing in a direction where the toolbox thinking of the marketing mix fits less well. In industrial marketing, services marketing, managing distribution channels and even consumer packaged goods marketing itself, a shift is clearly taking place from marketing to anonymous masses of customer to developing and managing relationships with more or less well-known or at least somehow identified customers. In marketing research new approaches have been emerging over the last decades, although they have not yet been able to overthrow the paradigmatic position of the marketing mix. As has been advocated in this article, an underlying dimension in these types of research is relationship building and management with customers and other parties.

Marketing mix management with its four Ps is reaching the end of the road as a universal marketing approach. However even if marketing mix management is dying as the dominating marketing paradigm and the Four P model needs to be replaced, this does not mean that the Ps themselves, and other concepts of the managerial approach such as market segmentation and indeed the marketing concept [130-35], would be less valuable than before. Relationships do not function by themselves. As McIntyre [134] said already three decades ago, "the existence of a market relation is the foundation of exchange not a substitute for it" (p. 59). Only in extreme situations, for example when the computer systems of a buyer and a materials provider are connected to each other in order to initiate and execute purchase decisions automatically, the relationship, at least for some time, may function by itself. In such situations one comes close to what Johan Arndt [135] called "domesticated markets", where "transactions...are usually handled by administrative processes on the basis of negotiated rules of exchange" (p. 56). Normally, advertising, distribution and product branding, for example, will still be needed, but along with a host of other activities and resources. However, what marketing deserves in new perspectives, which are more market-oriented and less manipulative, and where the customer indeed is the focal point as suggested by the marketing concept.

Most certainly relationship marketing will develop into such a new approach to managing marketing problems, to organizing the firm for marketing, and to other areas as well. Today it is still an exotic phenomenon on the outskirts of the marketing map. In the future this will change. In fact, this change has already started. Marketing mix as a general perspective evolved because at one time it was an effective way of describing and managing many marketing situations. Before the marketing mix there were other approaches. Now time

Appendix 6: **Role of Relationship Marketing in Competitive Marketing Strategy**

Journal of Management and Marketing Research

1.0. **INTRODUCTION**

The purpose of competitive strategy is to achieve a sustainable competitive advantage (SCA) and thereby enhance a business performance (Bharadwaj, 1993). One of the major objectives of marketing strategy is to enhance the long-term financial performance of a firm. As such competitive marketing strategy serves to improve financial performance of the firm through the route of sustainable competitive advantages. There are four essential requirements for a resource/skill to be a source of SCA (Barney, 1991). It must be valuable; it must be rare among competitors; it must be imperfectly imitable; there must not be any strategically equivalent substitutes for this resource skill. Sources of SCA leads to positional competitive advantage (differentiation and low cost). Sustainability of positional advantages leads to superior long-term market and financial performance. Formulating competitive marketing strategies also involves, recognizing relationships between elements of the marketing mix as well as assessing the impact of competitive and market conditions on marketing mix formulation. A model (Carpenter, 1987) has been outlined of the relationship between product quality levels, promotion expenditures and prices and assesses the impact of industry structure on the formulation of marketing mix. Relationship marketing serves as a moderator for the sustenance of positional advantages and influences the impact of competitive and market conditions on the formulation of the marketing mix.

Competitive advantage is realized based on three factors (Sudarshan D, 1995): (1) the firm’s marketing strategy, (2) implementation of this strategy and (3) the industry context (Porter’s model). An important component of firm’s marketing strategy is relationships. Relationships with customers, channel members and with competitors. He defines each relationship by the identity of the partner public and the contract with it.

1.1. **Importance and Objective of the study:**

There are two important streams of conceptual and empirical work in strategic marketing that have developed more or less independently during the past 10 years (Steinman, Deshpande and Farley, 2000), although the two are inherently interrelated. One stream is market orientation which focuses on the extent to which a customer focus binds suppliers and customers together. The second stream is relationship marketing, which principally focuses on efforts of sellers, but also of buyers to some extent, to move from single transaction consumption to investment in longer term streams of mutually profitable partnership behaviors (Anderson and Weitz, 1989; Dwyer, Schurr and Oh, 1987; Morgan and Hunt, 1994; Weitz and Jap, 1995). In this context, the following objectives are laid for studying the role of relationship marketing in competitive marketing strategy:

1. Competitive marketing strategies (CMS) is a systematic action setting process as much as it is a dynamic adjustment process. By studying role of relationship marketing (RM), proper accordance can be given to RM in the systematic action setting. This helps improve the effectiveness of CMS formulation.

2. By studying role of RM, marketing programs can be suitably designed to attract, develop customer segments. Resource allocations can be made more effective.
Journal of Management and Marketing Research

There must be two characteristics present for an exchange situation to be described as a relationship (Barnes and Howlett, 1998). These are: (1) the relationship is mutually perceived to exist and acknowledged by both parties, (2) the relationship goes beyond occasional contact and is recognized as having some special status. Inclusion of ‘status recognition in a relationship’ puts a doubt whether a relationship could be developed with, for example, a local supermarket. The existence of special status is less obvious in consumer markets.

Three characteristics are important for customers to desire continuity with the same provider. These are variability, complexity, involvement (Berry, 1995). The author says that relationship marketing occurs at three levels. Level one relationship marketing relies primarily on pricing incentives to secure customers’ loyalty. However, the sustainability of competitive advantage is minimal on this level one, as pricing moves can be matched quickly. Level two relationship marketing relies primarily on social bonds, though pricing is still a vital element. This involves personalization and customization of the relationship. Level three relationship marketing relies on structural solutions to customer problems, such as Federal Express providing computer terminals in offices of high volume customers.

From the above discussion, for the purpose of this paper, RM is defined as the identification, establishment, maintenance, enhancement, modification and termination of relationships with customers / consumers to create value for customers and profit for organization by a series of ongoing exchanges that have both a history and a future. Such exchanges are called relational exchanges.

3.0. FRAMEWORK OF COMPETITIVE MARKETING STRATEGY

We first outline a format of marketing strategy and then delineate the position of relationships in the framework of competitive marketing strategy.

3.1. Format of Competitive Marketing Strategy

Any marketing strategy has to have a marketing objective. Based on the marketing objective, flows two types of analysis – strategic market analysis and internal analysis. Strategic market analysis involves customer management and analysis, market management and analysis, environmental scanning and future building or scenario planning. Management of relationships with customers and important internal bodies in the market such as dealers, suppliers and the government is an important part of marketing strategy formulation and management. Internal analysis includes strengths, weaknesses, core competencies, resource constraint analysis.

Based on the marketing objective, strategic market analysis, internal analysis (and past performance records and present strategy), the marketing strategy for a particular decision problem / situation is developed. This includes the decisions on the 4Ps (Product, Price, Promotion, Place). During the process of marketing strategy development, an analysis of competition and other analytical inputs of the market are used. The marketing strategy developed is then implemented and any deviations from the plan are feedback to the marketing objectives and the development of marketing strategies. Pictorially this format of marketing strategy is as below:

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3.2. Framework for Marketing Strategy

3.2.1 Marketing Objective

For firms to have a formulation of marketing strategy, they should have a marketing objective. Objectives include maximization of profit, maximization of market share, maximization of sales, enhance brand image, improve customer satisfaction, provide customer value, and maintain price stability.

3.2.2 Focus

It is recommended for a marketing strategy to have customer orientation and competitor focus. It is also sometimes called market orientation.
In service industries, there is always some form of direct (social) contact between the customer and the service firm. This direct (social) contact or ‘service encounter’ is so important a part of service delivery that it is frequently called ‘the moment of truth’ (Johns, 1999).

Strategic Marketing in service industries is influenced significantly by ‘Moments of Truth’. By adapting to a RM approach, the organization can virtually turn the ‘Moments of Truth’ in its favor, as the customers are continually attended to in a Relationship.

4.2. RM to improve profitability

The return on relationship model (Gummesson, 1999) suggests that good relationships leads to good quality and good customer satisfaction. Good quality arises as internal relationships / employee relationships are fostered. Good customer satisfaction arises as specific customer needs and wants are understood better and served better. Good quality and customer satisfaction leads to customer retention and consequent improved profitability.

\[
\text{Good Internal Quality} \rightarrow \text{Satisfied Employees} \rightarrow \text{Employee Retention} \rightarrow \text{Good External Quality} \rightarrow \text{Customer Satisfaction} \rightarrow \text{High Profitability} \rightarrow \text{Customer Retention}
\]

Figure 3: Return on Relationship Model (Gummesson, 1999)

One of the major objectives of competitive marketing strategy is to improve the long-term financial performance. Relationship marketing by working towards improving profitability based on exploiting its relationships serves this financial performance objective of marketing strategy. In fact, RM pays off handsomely when products or services have high switching costs e.g. office automation system. RM is profitable when customers are willing to stay with suppliers for a long period of time. Transaction marketing on other hand pays when there are low switching costs.

4.3. RM builds partnering

RM fosters external partnerships that cater to the mega-marketing needs of a business. RM fosters external partnerships through networks (individual relations); collaborations (organizational relations) including alliances. These sets of external relations bring together market elements synergistically. The management of the set of external decisions to the firm-customer relationship is called as mega-marketing or market externalities. The deep personal, social contacts fostered under the umbrella of relationship building help solves the external decisions to a firm-customer relationship.
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Personal selling plays a key role in the partnering especially in buyer-seller relationships (Weitz and Bradford, 1999). The focus of personal selling shifts from influencing buyer behavior to a management of conflict inherent in the buyer-seller relationships. Conflict management approaches include that of avoidance, accommodation, confrontation, compromise and collaboration. The approaches indicate commitment (high or low) through signaling and have low to high levels of exchanging information. The approaches vary in their levels of assertiveness and cooperation.

The role of a salesperson is more of a value creator than a persuader or problem solver. Attempts are made through specific investments to build competitive advantages for the buyer-seller dyad over competing dyads. There is the development of a sales team headed by relationship managers to interface with the buy center. The sales team is more customer-centered than product centered. Relationship Managers are to have knowledge, skills and abilities to perform their jobs. Much of their knowledge comes from on-job learning. Some of the skills used by relationship managers include creative problem solving, innovativeness, cross-functional interaction, conflict management, build trust, planning and project management and leading teams. Relationship managers are in a way akin to brand managers.

Relationship managers in assessing performance give importance to relationship quality. Some of the constructs used for relationship quality include trust, commitment, satisfaction, ethical conduct, customer orientation, minimal opportunism, willingness to invest, expectations of continuity, share of customer and growth in customer value (Weitz and Bradford, 1999).

4.4 Relationship technology helps address ‘Customer Better’.

Relationship technology leads to deep customer insights so useful in the formulation of effective marketing strategy. Information technology helps store and manipulate extensive information about the customer. This information about the customer is used in marketing called CRM – customer relationship management. Through the technology of ‘CRM’, RM helps uncover consumer insights. Also the technology of ‘CRM’ helps understand and manage customers better. ‘CRM’ helps give attention from the mindspace of the marketer to the mindspace of the customer. The key analytical CRM applications include (Kelly, 2000): (a) Sales analysis (b) customer profile analysis (c) campaign analysis (d) loyalty analysis (e) customer contact analysis, (f) profitability analysis.

Database Marketing uses databases to hold and analyze customer information thereby helping creating strategies for marketing. DbM usually uses personalized communications. Data mining refers to uncovering relationships about customers from customer data. Advanced software and hardware have made it possible to extract consumer insights that might not have been possible otherwise.

Apart from Database marketing (DbM) and CRM, Relationship technology also includes direct marketing (DM). This individual attention to individual customer needs has been described as ‘One-to-One’ marketing. This type of marketing implies the development of long term relationships with each customer in order to better understand that customer’s needs and better deliver the ‘service’ that meets the individual requirements. (Chaffey et. Al., 2000). One to One marketing leads to better interactivity of the customer and the firm. The interactivity leads to high degree of dialog that leads to better understanding on the part of the firm. This leads to superior relationships and consequently a better dialog and understanding. One-to-One Marketing (Peppers et. Al., 1999), is grounded on idea of establishing a learning relationship with

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each customer starting with most valuable ones. Advantages accrue to the firm over competition due to process of customization, even if competitor were to offer same level of customization. There are four steps to a one-to-one marketing program (a) identifying your customers’ (b) differentiating among customers’ (c) interacting with customers’ (d) customizing your product/service. One-to-One marketing results in reduced customer attrition and higher levels of customer satisfaction due to improved customer understanding. This improved customer understanding can be used in formulation of effective marketing strategy.

Both Database marketing and direct marketing use a database of customer data. In database marketing, database is analyzed to create strategies for marketing while if communication with customers is envisaged to elicit direct response then the concept of direct marketing comes into play.

4.5. Buy in of Customer Attention.

It is very important to note that it takes ‘two’ to form a relationship. As such, if a firm has ongoing relationship strategies with its stakeholders (customers, suppliers, employees, government etc), then implementation of competitive marketing strategies (be it a pricing policy or a positioning change etc) becomes smoother. This is because in forming a relationship, the stakeholder has come to appreciate the objectives and the strategies of the firm to an extent. To this extent, employee care on customers is very important. In relationship marketing, this is accomplished by reducing expenses on advertising and increasing expenses on customer care. Buy in of customer (attention) is also made possible by developing long term engagements with customers.

4.6. Protect Emotional Well being

RM plays an important role in protecting emotional well being of customer. Deep dissatisfaction are avoided, customers are made to feel important, private information of customers are handled fairly well, long run supply security is provided, customer care is maximized, sudden spikes in demand are managed. Care should be taken to preserve the prestige and well being of the customer. The customer in turn transfers greater responsibility of the supply to the seller. The seller can increase his service and maximize his profitability.

4.7. Understand consumer psyche

RM helps the company to understand consumer psyche and shifts in psyche, owing to long association and close bonding that the company enjoys with the buyer. The company becomes a sort of consumer specialist in selected areas that the company operates. Information gaps with the customer are considerably reduced and it is quite likely that the company acquires information advantages with respect to competition. This helps in acquiring new customers, launching new products and services, testing new concepts, improving products and services. Understanding subtleties in consumer psyche also helps in delighting the customer, which may not be possible otherwise. This enables the company to also function as a brand specialist.
Appendix 7: Cadbury: Bringing Fairtrade to the mainstream

Cadbury

THE OPPORTUNITY
Cadbury has sourced cocoa from Ghana for 101 years. When research commissioned by Cadbury showed that cocoa farming in Ghana had become less attractive to the next generation of farmers, Cadbury seized the opportunity to further develop the livelihoods of cocoa farmers, strengthening its supply source and its relationship with customers and consumers.

Cadbury launched the Cadbury Cocoa Partnership in 2008 and achieved Fairtrade certification for Cadbury Dairy Milk in a groundbreaking move for Cadbury’s flagship brand in 2009. Ethical consumerism was growing and consumer recognition of the Fairtrade logo was also accelerating, with awareness high at around 70%. The move to Fairtrade certification for the nation’s favourite chocolate bar has contributed to a ‘Tipping Point’ for the Fairtrade Foundation, accelerating Fairtrade chocolate further into the mainstream through 30,000 outlets, from supermarkets to corner shops. Available at the same great taste and price, Cadbury Dairy Milk has created a new generation of Fairtrade consumer fans.

THE STORY
Cadbury’s ‘performance driven, values led’ culture can be traced back to its Quaker roots almost 200 years ago. Cadbury first began selling drinking chocolate as an alternative to alcohol, ensuring that the price of its products were accessible to all. The company guaranteed high quality products whilst providing pioneering workers benefits with the development of a ‘Factory in a Garden’. This approach to responsible business practice is as true today for Cadbury as it was then. Cadbury promotes ‘Principled Capitalism’; the notion that doing good is good for business and sustainability commitments are deeply embedded in business strategy.

Cocoa is a vital raw material for Cadbury and in 2008 Cadbury published research into cocoa production. The research, led by the Institute of Development Studies and the University of Ghana, showed that the average production in some cocoa farms had dropped to 40% of their potential yield. Even though cocoa prices were at an all time high, Cadbury recognised the need to invest in its cocoa growing communities. It was essential to secure the supply of a vital ingredient whilst enhancing the standard of living for its cocoa farmers by improving incomes and developing communities.

The establishment of the Cadbury Cocoa Partnership in 2008 saw Cadbury collaborating with the United Nations Development Programme, local governments, farmers and communities. The partnership represents a £45 million investment over a ten-year period to secure the economic, social and environmental sustainability of around a million cocoa farmers and their communities in Ghana, India, South East Asia and the Caribbean. The Partnership is currently active across 100 Ghanaian farming communities.

Building upon this base of sustainable agriculture, and two years of discussion with the Fairtrade Foundation, Cadbury attained Fairtrade certification for Cadbury Dairy Milk in the UK and Ireland in July 2009. Cadbury then faced an unusual marketing challenge as to how to communicate this move to its heartland audience. Cadbury insights revealed that when analysing the market for ethical consumption, there were three types of consumer groups.
There were the ‘ethical elites’ who are the traditional Fairtrade consumers. These are consumers who are fully committed to seeking out ethical choices and who are willing to pay above the average to support what they feel is right. At the other end of the spectrum were the ‘ants’ who are completely disengaged with the ethical agenda; they had no desire to know about it and they certainly didn’t want to pay more for it. Lastly, but most significantly, there were the ‘feel good factors’. These were by far the largest consumer group and they represented Cadbury’s heartland consumers. These are consumers who are interested in ethics, but not to the extent of compromising convenience, value or taste.

Cadbury needed to communicate successfully with the ‘feel good factors’ without alienating the ‘ants’ or the ‘ethical elites’. The first step was to launch an online blog to engage the ethical elites at the very beginning of the creative process. Here, consumers were able to interact directly with the Cadbury Dairy Milk brand and share their thoughts on the move to Fairtrade. To engage all three audiences, Cadbury decided to develop its communications campaign taking inspiration from the origin of its Fairtrade cocoa, Ghana.

Cadbury Dairy Milk used its advertising construct ‘a Glass and a Half Full Productions’ to engage its audiences; a campaign designed to entertain and make people smile called ‘Zingolo’. Cadbury developed a music track, accompanying pop promotion video and press and poster campaign that showcased the talents of Ghanaian craftsmen, artists, musicians and dancers with a local cost of over 350 people. The pop promotion was filmed in a cocoa producing community that Cadbury work closely with in Ghana, and starred Ghanaian music superstar Tinny. The track is available to download on iTunes and all profits raised go to Ghanaian cocoa growing communities.

The campaign aimed to tell the story of Cadbury and Fairtrade in a realistic and engaging way, celebrating Ghana. Qualitative focus groups took place early on into the concept development process involving Ghanaian community members and consumers in the UK and Ghana. The Fairtrade Foundation were also heavily involved in guiding the development of the campaign.

**IMPACTS**

Cadbury Dairy Milk’s move to Fairtrade has already delivered significant wins for Cadbury, for the Fairtrade Foundation and for Ghanaian cocoa farmers. Cadbury has strengthened its relationship with its core consumers and built stronger ties in Cadbury’s key chocolate markets with the campaign being welcomed by Ghanaian community leaders both in Ghana and in the UK.

Cadbury has also built on the work of the Cadbury Cocoa Partnership, supporting the sustainable supply of a fundamental ingredient. For the Fairtrade Foundation, the Cadbury move increases Fairtrade UK sales by 25%**.

Awareness of the move is also reaching the ‘feel good factors’; after just six weeks on air the ‘Zingolo’ campaign had reached 83% of the UK population with 182,112 views of on YouTube and 17,116 Facebook fans. And in Ghana, £200,000 has already been transferred to the cocoa growing communities, as the first installment of the Fairtrade premium.

**THE NEXT CHAPTER**

Cadbury’s mission to take Fairtrade into the mainstream does not stop with the UK. In August 2009 Cadbury confirmed that three more markets, Canada, Australia and New Zealand are to receive Fairtrade certification for Cadbury Dairy Milk by early 2010. As a result around one quarter of Cadbury Dairy Milk global sales and 350 million Cadbury Dairy Milk bars will be Fairtrade certified in 2010. This will act to quadruple Fairtrade cocoa sales from Ghana to 20,000 tonnes in 2010.

*Figure correct as of 2008 **Based on £7.12 million fairtrade sales in 2008

Source: [http://www.bitc.org.uk/resources/publications/how_can_marketers.html](http://www.bitc.org.uk/resources/publications/how_can_marketers.html)
Appendix 8: **Service Dominant Logic and Value Propositions: Re-examining our Mental Models**

Service-dominant logic and value propositions: Re-examining our mental models
David Ballantyne, Richard Varey, Pennie Prow, Adrian Payne

downstream distribution and after-sale service support activities. In other words, an end customer’s value-in-use assessment is the culmination of a time-series of value propositions, negotiated agreements and value-in-use determinations by various resource providers and integrators. Opening up the time-logic of exchange to include a variety of interactions is the second mental model correction needed in our exploration of the functioning of value propositions.

Third, there is no active market space or place without buyers and so it follows that marketing is never just what sellers do. Marketing has become so attached to seller dominant managerial perspectives that we easily forget that a market is shared space for sellers, buyers, facilitators and other stakeholders. Oddly enough, industrial marketing practice readily recognises that the purchaser or the seller may take the initiative in developing and making a value proposition, or indeed another associated party. However, mainstream marketing logic assumes that the seller is proactive in the market. As a necessary corrective, we introduce two commonsense terms familiar in Information Science, namely *initiators* and *participants*. That is, there are both initiators and participants in any market encounter. For example, a market encounter may start with an enquiry which is countered with a value proposition, or it may be the other way around. It is unduly restrictive of innovation to say that only a seller will initiate an enquiry or a value proposition. That *initiator* and *participant* roles are routinely interchangeable in practice is the third mental model correction needed in our exploration of the functioning of value propositions.

In sum, we argue that the place, time and who is involved aspects of common mainstream mental models (shared assumptions) need updating to align with what we see as a commonsense understanding of market exchange. If this is agreed, or even taken on provisionally, we will be in a position to review what is meant by value proposition.

**Value proposition perspectives**

The genesis of the concept can be traced to a value delivery system project undertaken by consulting firm McKinsey & Co. in the 1980s. However, only brief mention was made of the concept in the business literature of the time (Bower and Garde 1985). It was not until 1988 that a more complete description of the value proposition, as well as the related work on the value delivery system, was published in an internal *McKinsey Staff Paper* (Lanning and Michaels 1988). They consider that business success is constrained by companies adopting a traditional production-led approach (in today’s terminology a goods-dominant logic approach) that focuses on making a product and selling a product. They argue that, rather than adopting the supplier-oriented approach inherent in Porter’s (1985) value chain, companies need to adopt a customer value oriented approach. This involves focusing on two things: developing a value proposition and creating a value delivery system.

Their value proposition approach involves three processes: analyzing and segmenting markets by attributes that customers’ value; assessing opportunities in each segment to deliver superior value; and explicitly choosing the value proposition that optimizes these opportunities. The McKinsey Value Delivery System framework (Figure 1) identifies how a business might choose, provide and communicate profitably the chosen value proposition. Lanning and Michaels (1988) emphasise that achieving
Competitive success is not only dependent upon choosing the right value proposition, but is also based on how thoroughly and innovatively it is delivered and communicated.

**Figure 1: McKinsey & Co's Value Delivery System Model**

Source: Based on Lanning and Michaels (1988)

Interest in the value proposition concept increased following publication of a popular managerial text by Tracey and Wiersma (1995) who saw a value proposition as: “An implicit promise a company makes to customers to deliver a particular combination of values - price, quality, performance, selection, convenience, and so on”. However, their positioning for value propositions is strategic but clearly generic – they suggest companies should pursue strategies for achieving best total cost (operational excellence), best product (product leadership), or best total solution (sustained customer “intimacy”).

Other authors also describe the value proposition concept from the perspective of an organization (e.g., Kaplan and Norton 2001). Anderson et al. (2006) suggest that organisations typically adopt one of three approaches to developing value propositions: All benefits (identifying benefits a company can deliver to customers), favourable points of difference (identifying benefits relative to those delivered by key competitors) and resonating focus (key benefits valued by chosen customers that are delivered or potentially could be delivered). These authors contend that the third approach is preferable.

A recent review of the literature on value propositions was conducted by Frow and Payne (2008) with groups of managers attending five executive events on three continents. A total of 265 senior and mid-level managers participated in this study, representing over 200 large and medium-sized companies. Two questions were addressed: first, “Is the term ‘value proposition’ one that is in regular use within your organization?” and second, “If so, is the term just used in a general sense without specific meaning attached to it, or is there a structured underlying process resulting in a clearly articulated written customer value proposition within your organisation?” On average, the term was used within 65% of the organisations. However, only 8%, of those who were using the term stated that they had a formal process for developing written value propositions and communicating them within their organisation.

The results from the Frow and Payne (2008) survey suggest that the term value proposition is used most commonly to indicate only that “value offered to the customer is important”. This supports Anderson et al.’s (2006) view that the term is widely used within businesses but it also endorses Lanning’s (2003) contention that: “The term value proposition ...is frequently tossed about casually and applied in
Appendix 9: How Important are Stakeholder Relationships?

HOW IMPORTANT ARE STAKEHOLDER RELATIONSHIPS?

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ABSTRACT

The importance of organizational-stakeholder relationships has and continues to be of interest in the organizational studies literature. The relevance of this topic is even greater given the recent governance failures involving Enron, Tyco, and WorldCom. Indeed, an excessive emphasis on stockholders is blamed for the neglect of other legitimate stakeholder groups. We should acknowledge that the central focus of studying any organizational relationship is the establishment, development, and maintenance of relationships between exchange partners (Morgan & Hunt, 1994). This study investigates the determinants of stakeholder relationship importance and the role it plays in determining whether relationships will continue. For managers, these results suggest that an organization’s ability to develop and maintain strong relationships with their salient stakeholder groups improves the chance that relationships will continue.

INTRODUCTION

What determines the importance of stakeholder-organization relationships? The notion of “paying attention to key stakeholder relationships” (Freeman, 1999: 235) is and has been a major theme in the strategic management literature. In fact, superior stakeholder satisfaction is critical for successful companies in a hypercompetitive environment (D’Aveni, 1994). Empirical research has begun to investigate what determines the success or failure of relationships between exchange partners. This has been accomplished by examining both the characteristics of the organization as well as the specific stakeholder groups and the nature of the interaction between them (Pfeffer, 1981; Jensen & Meckling, 1976; Morgan & Hunt, 1994; Williamson, 1975, 1985; Parsons, 2001). An assumption has been made in much of the empirical and conceptual work is that developing and maintaining relationships are desirable goals for both the stakeholder and the organization (Dwyer, Schurr & Oh, 1987; Wilson, 1995). However, absent from much of the stakeholder management literature is a discussion of when relationships should be important.

This paper presents one part of an overall research stream on the relationships between organizations and their stakeholders, the development and maintenance of these relationships, and the impact of these relationships on an organization’s strategies when dealing with their stakeholder groups. This study specifically focuses on three stakeholder groups: customers/clients, employees and suppliers/distributors. Porter (1980) recognized the importance of these stakeholder groups when he formulated his “Five Forces” model of competition, which included the bargaining power of customers and the bargaining power of suppliers. Due to the nature of the study, stockholders/owners were not included in this study. Stockholders are among the most important stakeholder groups. Collecting the type of data from this group needed for the study may have been problematic for several reasons. The nature of stockholder-organizational relationships can be very dynamic. A stockholder may buy and sell ownership in an organization within a period of minutes, thus making the measurement of the relationship with an organization almost impossible. Secondly, it may be very difficult to access information pertaining to a
specific stockholder. Lastly, due to the nature of the relationship, any information gathered from a stockholder may not have been relevant to this study.

Knowing what variables contribute to the success of relationships with stakeholder groups could have a beneficial effect on a firm’s strategic actions. Therefore, the goal of this research was to determine what variables contribute to the importance of the organization-stakeholder relationship. This research helps strategic managers decide if they should promote stakeholder relationship strategies as effective managerial tools for their organizations. This research will also aid managers in identifying to which stakeholders the firm should cater.

CORPORATE-STAKEHOLDER RELATIONSHIPS

Stakeholder theory (Donaldson & Preston 1995; Evans & Freeman 1988; Freeman, 1984) and empirical research (Clarkson 1995) indicate that companies do explicitly manage their relationships with different stakeholder groups. Donaldson & Preston (1995) point out that although this is descriptively true, companies appear to manage stakeholders for both instrumental (i.e., performance based) reasons and, at the core, normative reasons. Building on the work of others, Clarkson (1995) defines primary stakeholders as those "without whose continuing participation, the corporation cannot survive as a going concern," suggesting that these relationships are characterized by mutual interdependence. He includes here shareholders or owners, employees, customers, and suppliers, as well as government and communities. The "web of life" view (Capra 1995) envisions corporations as fundamentally relational, that is, as a "system of primary stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations and responsibilities" (Clarkson, 1995: 107).

Ford (1980) suggests that companies pursue relationships with other companies to obtain the benefits associated with reducing their costs or increasing their revenues. By entering into relationships, organizations hope to gain stakeholder satisfaction and loyalty while stakeholders look for quality (Evans & Laskin, 1994). There may be negative implications associated with pursuing relationships as well. Stakeholders may forego better exchange alternatives in the future because of their commitment and loyalty to a particular organization (Han, Wilson, & Dant 1993). They may not be willing to give up the benefits associated with the relationship even if they could reduce operating costs by dealing with another organization. Also, if an exchange partners represents a major portion of the other’s business, there may be a risk of overdependence due to a lack of diversification (Han, Wilson, & Dant, 1993).

The purpose of this research was to determine when stakeholder relationships are important. We assessed relationship importance by asking stakeholders to rate the importance of holding a stake in a particular organization. There are many dimensions of stakeholder-organization interactions that may play a role in determining when relationship strategies are important or appropriate. We used situational variables and inherent risk variables as the primary determinants of relationship importance. Situational variables include favorability of the situation, type of product offering, amount of service, availability of substitutes, and frequency of contact between the organization and the stakeholder. Inherent risk is the risk associated with specific situations due to the nature of the exchange relationship (Bettman, 1973). These would include financial risk, performance risk, and termination costs. All our constructs were derived from the extant literature.

Appendix 10: Dell Positioning Differentiation – Brand Triangle

Case Study 3.1
Dell's Positioning-Differentiation-Brand Virtuous Circle

Dell Computer is the second largest manufacturer and marketer of computers in the world, with approximately $18 billion in sales. The company is special because ever since its establishment in 1984, it has enjoyed continual hypergrowth, consistently growing at five times the industry rate. The company’s sales have leaped from around $3 billion in 1996 to $18 billion today, six times in four years. Dell is also a darling of Wall Street, because its stock is up more than 36,000% this decade. Even more impressive, in 1999, the company was listed in Fortune Magazine’s American 500, Global 500, America’s Most Admired Companies and The Fastest Companies.¹ It is a record that even the likes of General Electric, Microsoft and Intel would find difficult to compete with.

One of Dell’s keys to success has been the fact that its strategic triangle elements have matched and strengthened each other, resulting in the virtuous circle described above (see Figure 3.4).

Since its foundation, Dell has positioned itself as “the world’s most customer-focused company”. In doing so, it has made a “promise” to be at the forefront of the computer business by listening, responding to and fulfilling customer needs. It has succeeded in meeting customer expectations by providing the highest quality goods, competitive pricing, and best-in-class service and support. The positioning chosen by Dell is very strong, and has been favourably received by consumers. Why? Because Dell has succeeded in realizing this positioning (remember that positioning is a “promise” to the customer). They have not been merely empty words.

How did Dell manage this? The answer is, Dell supports its positioning with a strong differentiation: a unique direct-to-customer business model, often known as the “direct model”—selling computers directly to the consumer without using a reseller or retail channel.

By selling computers directly to the consumer, on the one hand, Dell saves on reseller and inventory costs which result in cheaper end-user prices. On the other hand, since the company is in direct and continual contact with its customers, it can listen intently and respond to their problems, and, of course, deliver what they want. This direct relationship with the customer—first through telephone calls, then through face-to-face interaction, and now through the Internet—has enabled Dell to benefit from real-time input from real customers regarding product and service requirements, products on the market and future products they would like to see developed. “While other companies had to guess which products their customers wanted, we knew, because our customers have told us before we built the product,” says Michael Dell, Dell’s founder and CEO.²

The right positioning and strong differentiation in turn created a strong brand image for Dell in the mind of consumers. This strengthened its positioning, and established its brand integrity. This process continued to snowball, resulting in a solid basis for its competitive advantage.


¹
²