

## CRM Chapter 2 Customer-supplier relationships

### 2.1 General

- Relationship describes the feelings that two people have for one another: mutual attraction & respect, consideration, dependency & the like.
- Poiesz and van Raaij (1993) describe relationship as:
  - 1) Interactions must take place between at least two parties; characteristics of interactions are that the activities of one of the parties influence those of the other & vice versa.
  - 2) A certain degree of continuity must be present in a relationship since interactions from the past influence present and future interactions; relationships will also have to extend over a longer period of time.
  - 3) The effects of interactions are dependent upon the actual events and the subjective approach to these events.
- Toolboom (1996) describe relationship according to primary and secondary relationship.

| Primary relationship                                       | Secondary relationship  |
|--|---|
| Love relationship between a man and a woman.               | Diffuse and comprise many roles, behaviours and situations.                         |
| One person cannot automatically be replaced by another.    | Fairly clear rules of etiquette and reasonably well-defined social roles.           |
| Not limited by strict rules governing contact.             | Deep emotional involvement rarely occurs.   |
| People involved generally know one another extremely well. | Such as those between customer and supplier.  |
|  | Players are more easily replace in general  |
|  | Short-term interpersonal relationships with a limited degree of social interaction. |

## 2.2 Customer-supplier relationships



**Pyramids of relationships**

1. As shown above is the differences between the parties involved in customer-supplier relationships (Peelen, Ekelmans & Vijn, 198; Payne, 1995; Schijns, 1998), pp26:
  - Whether or not a transaction has already been completed: from prospect to customer.
  - If a long-term orientation is present which extends further than that one transaction: from customer to client.
  - To what degree the relationship felt by both parties: from supporter to ambassador.
  - To what degree both parties take an active position in the relationship: from ambassador to partner.
2. Customer-supplier relationships may be secondary in nature but can also lie in the transitional area between secondary and primary relationships.

Eg;

Primary relationship – Ali gets fresh bread every morning from Abu’s bakery shop near his house. Both have got to know and value with one another.

Secondary relationship – Relationship between cashier and customer at the supermarket are not involved to each other. Ali buys his groceries almost every weekend in Tesco, but the cashier did not know him by his name and their conversation is limited.

### 2.3 Interaction and reciprocity

- According to social exchange theories, reciprocity forms the basis for relationships.

| <i>Lacking/weak relationships</i>  | <i>Close relationships</i>  |
|--|---|
| Concrete agreements have been made regarding reciprocation.                                | There are few agreements concerning reciprocation.  |
| Agreements have a short-term horizon.  | Of the few agreements that do exist, many have a long-term horizon.   |
| Initiative for interaction is taken primarily by one party.                                | The initiative for interaction is distributed evenly among the parties.                                     |
| A limited number of topics are raised for discussion.                                      | A multitude of topics are raised for discussion.  |
| Topics are treated in a limited degree of depth.   | Topics are treated in a high degree of depth.   |
| Both parties present themselves as separate individuals/entities to the outside world.     | Both parties present themselves as one entity to the outside world.   |
| Each of the parties pursues its own interests.   | Each of the parties pursues its own interests and takes the other's satisfaction/fate to heart.             |
| Intentions regarding the continuation of the relationship are present to a limited degree. | The intention exists to continue the relationship in the long term, in spite of changes in the environment. |
| There are few barriers to ending this relationship and to starting another one.            | There are many barriers to ending this relationship and starting a new one.                                 |
| The parties consider, and may experiment with, alternative partners.                       | With respect to alternative partners, the adage 'look but do not buy' applies.                              |

- Reciprocity assumes that:
  - 1) A moral norm exists to give something back when something is received.
  - 2) A precise return is not desirable. Exchanges do not need to be in balance immediately as long as equilibrium is created in the long run.
  - 3) Reciprocity occurs in all cultures; it is universal.
  - 4) Reciprocity makes interaction possible because the norm of return applies; people are willing to take a chance with someone because of the valid norm.
  - 5) According to anthropologists, the goal of reciprocity is the survival of the group, but according to an individual psychological explanation, the goal is to better oneself in an economic sense.

## 2.4 Commitment

- The exchange of resources will influence the level of commitment present in the relationship.
- Commitment definition: ‘enduring desire to maintain a valued relationship’ (Moorman, Deshpande and Zaltman, 1993).
- Johnson identifies 3 different forms of commitment:
  1. Personal commitment
  2. Moral commitment
  3. Structural commitment

|                   | <i>Structural</i> | <i>Moral</i> | <i>Personal</i> |
|-------------------|-------------------|--------------|-----------------|
| Choice/limitation | Limitation        | Limitation   | Choice          |
| External/internal | External          | Internal     | Internal        |

Characteristics of three forms of commitment

1. Personal commitment
    - It is the will that someone displays in continuing a relationship.
    - Eg; a satisfied customer at a car dealership will want to continue his relationship with that company.
  2. Moral commitment
    - People feel a sense of obligation
    - They feel that they are supposed to continue the relationship
    - Eg; The small independent fresh baker has a difficult time just to stay in business, and people feel that after all these years, they really can't just go and buy their bread elsewhere, even if it is better or cheaper.
  3. Structural commitment
    - The perception that ‘there is no escaping it’.
    - Eg; Investments have been made in that operating system and it cannot be done away without having substantial investments in new software, training programmes and undergoing a difficult transitional period.
- ❖ The differences are some of them are experienced as a limitation to freedom of movement, others are based on a voluntary choice. Some are the result of the individual's own decision and others are imposed from the outside.

## **Loyalty and Commitment**

Loyalty is a deeply held commitment to rebuy or repatronise a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour.

### **2.5 Trust**

- Trust is a basic condition necessary in order for a relationship to grow and has been defined by Moorman, Deshpande and Zaltman (1993) as 'a willingness to rely on an exchange partner in whom one has confidence'.
- Trust may be associated with qualities, such as honesty, fairness, responsibility, helpfulness and involvement.
- Honesty is the foundation of trust as without it, there is no confidence, no integrity.
- There are 3 levels of trust:
  - 1) Keeping one's commitments (eg; comply a legal contract)
  - 2) Concern with a characteristic of the partner (eg; this person is motivated and capable)
  - 3) Finding general all-encompassing standards (eg, integrity)
- Advantages of trust:
  - 1) Leads to overcoming feelings of insecurity and doubt
  - 2) People dare to take more risks
  - 3) Leads to goodwill which causes people to act in a more tolerant manner if transaction does not live up to their expectations
  - 4) Gain higher level of commitment to be attained in a relationship

## 2.6 The dynamic in relationships

Dwyer, Schurr and Oh (1987) identify five phases in a relationship:

- 1) Both parties become aware of each other
- 2) Exploration or sounding out
- 3) Growth phase
- 4) Commitment or saturation
- 5) Decline

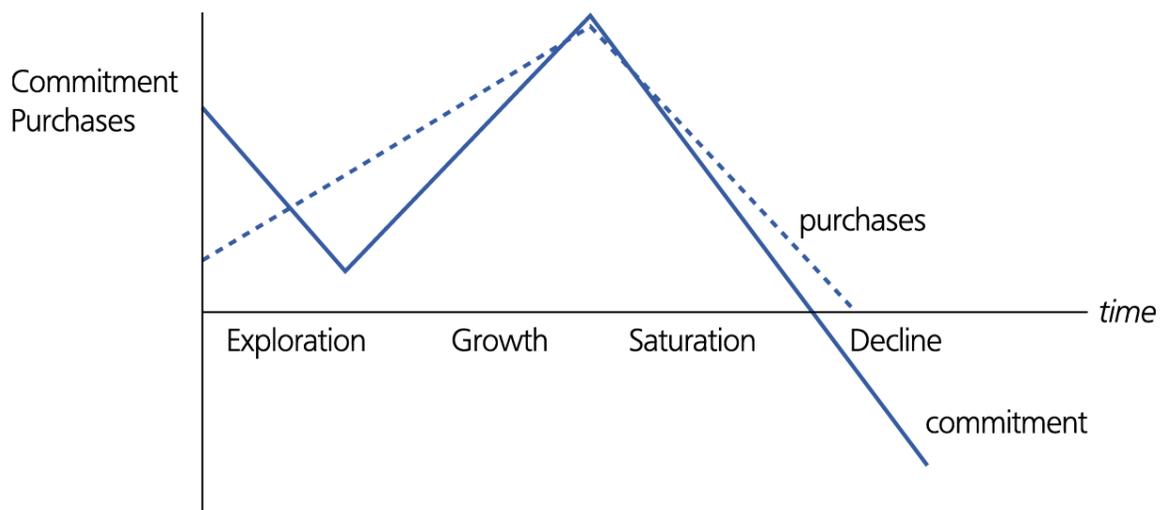
### 2.6.1 Analysis of the course of the relationship

- Phase 1 Both parties become aware of each other
- Both parties position themselves and take actions designed to demonstrate their appeal to the other party.
  - The first introduction makes an important impression on the relationship.
- Phase 2 Exploration or sounding out
- This phase begins with attraction.
  - Attraction may develop when both parties think that they aspire to the same goals.
  - Empathy plays larger role during this phase.
  - The level of satisfaction is still relatively low.
  - Customers have little to no experience with the products and services of the supplier.
  - Switching costs are low.
- Phase 3 Growth phase
- Both parties continue to attract the other.
  - Negotiations continue, norms and expectations are in detail.
  - More risks are taken under this phase.
  - Activities are performed to try and test out the relationship.
  - Mutual dependency increases and more resources are exchanged.
  - The supplier is examined more for its performance than for its reputation or image.
  - The satisfaction with the goods or services increases.
  - However, commitment may slightly drops when the actual value-for-money product reveals.
- Phase 4 Commitment or saturation
- The relationship reaches its maximum level of commitment, mutual dependency, trust and respect.

- Saturation phase (usually more than 2 years) is characterized by the highest number of purchases from suppliers and the highest degree of commitment.
- Potential problems are discussed fairly and openly, and a constructive solution is sought.
- The social and non-social environment also contributes to the stability of the relationship.
- Not many changes are occurring in either behaviour or purchases at this stage.
- Relationship is strengthening, satisfaction increases, and trust grows as well as building goodwill.
- Switching costs increase slightly as customer has become accustomed to the supplier's methods and offering.

#### Phase 5 Decline

- Directness and a focus on others may indicate that the continuity of the relationship is at issue.
- Eventually apart due to differences in expectations and individual characteristics of the partners such as different needs for freedom or renewal.
- External factors also might as well influence the broken relationship.
- Common reason for the deterioration of the relationship is the reduction in need for the products and services provided by the supplier.
- Other reason is the nature of a so-called economy buyer who prefers not to commit and are constantly in search of the supplier with the best value-for-money ratio.



$$\text{Commitment} = f(\text{satisfaction, attractiveness, switching costs})$$

## Relationship Life Cycle

As shown above is the relationship life cycle.

- The relationship as shown in the diagram exists during the transition from the first to second phase involved in the first purchase.
- The growth phase is completed at the moment the increase in purchases changes over course, moving from progressive to degressive (gradually decreasing).
- Finally, the decline phase begins as the number of purchases begins to drop.

### 2.6.2 Challenge for marketers

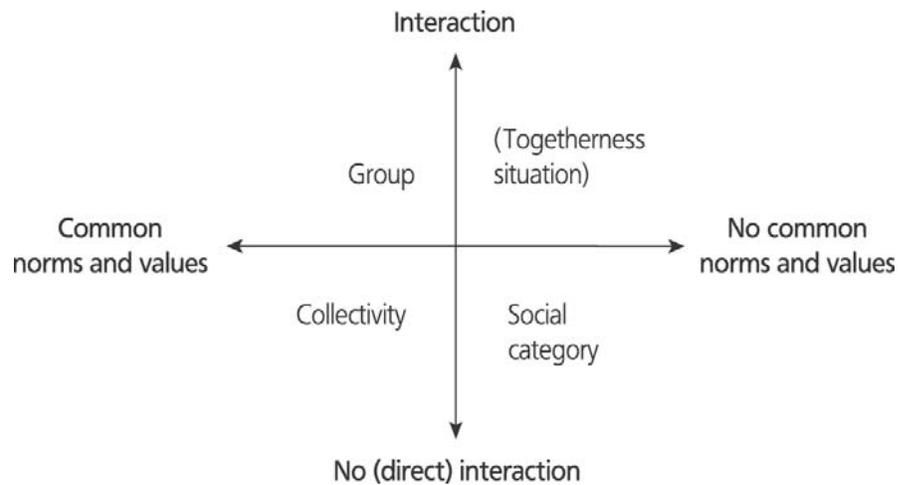
- Dynamic of the relationship should be considered when developing a long-term mutually profitable relationship with a customer.
- Every effort will have to be made to prevent customers from ending the relationship as early as growth phase.
- By understanding relationship life cycle, marketers should be able to influence the relationship in the most effective and efficient manner to build the most beneficial relationship with customers.

## 2.7 Communities

- ‘Communities’ refers to a group of users or customers and suppliers who interact with one another, without the need to analyse the connection is within the social structure.
- Communities may be seen as a distinct, geographically separate group of people for instance by town, cities, or districts.
- Certain behaviour will probably be punished because it does not fit within the norms and value patterns or the goals of the community.
- Online communities can provide valuable information to businesses.
- There are 7 criteria to analyse social structures (Merton, 1957):
  1. The number of members.
  2. The composition.
  3. The degree of interaction and communication.
  4. The common goals and interests.
  5. The common norms and values.

6. The feeling of solidarity.
7. The permanence.

- ❖ Merton relates the interaction and the presence of common norms and values with three social structures:
  - a) the group
  - b) the collective
  - c) the social category



**Profile of social structures**

a) The group

- A group is a gathering of individuals who engage mainly in direct communication with one another for a certain amount of time and who develop a more or less common awareness.
- Merton suggested that a system of common norms and values must exist in a group.

b) The collective

- The collective has lack of direct interaction and communication.
- It is a long-term yet separate connection that is viewed as a social unit by outsiders.
- A collective will expand to become a group eg, political parties, religious factions and trade unions.

c) The social category

- The social category involves neither interaction nor communication, nor common norms and values.
- In fact, the social category doesn't exist, except for statisticians who use these categories to classify people on the basis of certain qualities.
- Eg; social category such as age, marital status, hair colour, or race, pensioners.
  
- ❖ The advantages of understanding the social structure of the community:
  - be able to occupy the proper social position within the community
  - be able to obtain the optimum advantage from the relationships between the individuals in the community.