The Impact of Relationship Marketing Strategies on Customer Retention

Abstract

The purpose of this conceptual paper is to study the impact of relationship marketing strategy on customer retention. The result of variety of researches show relationship marketing has many effects on different aspects of customer behavior. Retailers and service providers in different businesses are trying to increase their sales by using different marketing strategies. All the strategies has one destination for the businesses which is persuading customer to come back and keep buying from the retailer or ask for more services. Maintaining customers and increasing the level of relationship between customer and retailer which its outcome is repurchasing in the literature named Customer Retention. Many researches have been done on well-known factors such as loyalty and satisfaction which leads to customer retention but the goal of this paper is study of primary and fundamental factors and their relationship with customer retention. This paper develops a conceptual framework in the field of relationship marketing that enables greater perceiving about the impact of relationship marketing factors including communication, rewarding, preferential treatment, personalization and trust on customer retention.

Keywords: Relationship marketing, customer behavior, customer retention

Introduction

After metamorphosis of traditional marketing to contemporary competitions, customer is the most critical pillar in companies' activities. Establishing relationship with new customers and maintaining existing customers are vital factors for companies to keep their business alive. Evaluating the effects of marketing strategies on customer behavior is one of the important concerns for companies to increase their sales and creating long term relationship with customers. But it is not worthy to maintain close relationship with all customers. Some of them are not compatible with mission of the company due to the changes in their needs and behaviors. Therefore cost of keeping relationships is higher than the profit which is gained from these customers. Thus the companies must reevaluate their investment on customers and
close unsuccessful relationships. Most of companies are trying to find the best relationship marketing strategies to increase the loyalty of customers.

Relationship marketing is in high popularity (Palmatier et al., 2006) and many researches have been done about the value of relationship marketing and developing customer lifetime loyalty (Sheth and Parvatiyar, 1995; Gronroos, 1994, 2000). Relationship Marketing refers to marketing actions to implement, develop and maintain prosperous relational exchanges in business (Morgan and Hunt, 1994, p22). Lacey et al. (2007) suggests customer perception about relationship marketing strategies is critical for retailers and service providers. This paper concentrates on the impact of relationship marketing strategies on customer retention behavior.

Bloemer and Odekerken-Schroder (2002) examined the relationship between social belongingness need and customer behavior in beauty salons. They suggested a model about the direct impact of social belongingness need and customer tendency of relationship on behavioral results including Word-of-mouth marketing (WOMM), price sensitivity and repurchasing. This model had three parts; first part included personality features, social belongingness and relationship tendency, second part included WOMM, price sensitivity and repurchasing and third part studied customer situation after committed relationship and trust. Results showed higher level of social belongingness need and higher customer tendency for relationship increase WOMM, price sensitivity and repurchasing.

Bejou et al (1998) studied the effect of relationship satisfaction on relationship commitment based on marketing mix. They explain all marketing tools are based on marketing mix and they have positive effect on relationship satisfaction. They explain when a customer has satisfaction of product, promotion, price and placement (distribution), it is likely that there is satisfaction of relationship between customer and seller. The results showed there are positive relationships between product, price and placement satisfaction and relationship satisfaction.

Abdul-Muhmin, A.G (2003) studied Instrumental and Interpersonal Determinants of relationship satisfaction. Instrumental variables were product, distribution costs and marketing communications that all companies need to use them in their marketing mix. Interpersonal variables were credit, benevolence and opportunism. The reason of choosing these variables is to evaluate different aspects of trust as a multi-dimension concept and its important role in maintenance and development of long term
relationship with customers and supplies. Results clarified that there are positive relationship between instrumental variables (product, price and distribution) satisfaction and relationship satisfaction; also there are positive relationship between interpersonal variables (credit, benevolence and opportunism) and relationship commitment.

One of the main outcomes of strong relationship between buyer and seller is customer retention (Crosby et al., 1990). Cost saving and increasing profitability has priority for all businesses and customer retention can be considered as a key element to achieve these goals. Many studies and available evidences have shown existing customers are more profitable in compare with establishing relationship with new ones (O’Connell and Keenan, 1990; Reichheld and Sasser, 1990; Jones and Sasser, 1995) Thus applying strategies that have positive impacts on customer relationship and customer retention can be one of the best tactics to achieve the highest potential of customer profitability.

The effect of relationship marketing strategies on customer retention

It is an accepted concept that ability to expand loyal customers and maintain the existing ones is determined as a critical factor for long-term success of organizations (Slater, 1997; Kandamully and Duddy, 1999). Successful Relationship marketing has important outcomes for retailers and service providers due to increase in loyalty and satisfaction such as: willingness to spend more time in the store or buy other brands and products (Reichheld, 1996; Christy et al., 1996; Reynolds and Beatty, 1999; Gwinner et al., 1998; Wong and Sohal, 2003; Georgina Whyattand Ralph Koschek, 2010). The importance of developing customer relationship increase when retailers and service providers consider the fact that attracting new customers is more costly than keeping existing ones (Harley, 1984), also existing customers have higher rate of purchase than new ones (Weiser, 1995; James S. Boles, Hiram C. Barksdale Jr and Julie T, 1997). Relationship marketing is defined as a form of marketing that companies try to maintain and improve close relationship with customers. Relationship marketing endeavor to implement the relationship which was existed in old years between retailers and customers. There are many strategies in the concept of relationship marketing that can be used to improve the strength of connection between
customer and retailer. The forms of applying these strategies are different and depend on the nature of businesses but the result is increase in customer retention and repurchasing. These strategies are categorized in communication, preferential treatment, personalization, rewarding and trust in this study.

**Communication**

Communication has a vital role for connecting retailers and customers (Mohr and Nevin, 1990) and initiate customer trust (Ring and Van De Ven, 1994). Communication is a conscious or unconscious process of transferring feelings and opinions in form of message which is sent, received and perceived (Mohammad Arabi and DavoodIzadi, 2005). Communication is defined as advertisement, sales force face to face connections, public Relation, packaging and any form that company send its products to external environment. Communications are trying to teach customers something about products, persuade customers to search for product information, increase customer satisfaction and loyalty. Macintoth suggests a company without effective sales forces with strong communication does not have any chance to enhance the relationship with customers and persuade them for repurchasing (Macintosh et al., 1992). Therefore communication is an important strategy to establish relationship with new customers and improve connection with existing customers (Singh and Sirdeshmukh, 2000).

**H1. There is a positive relationship between communication strategy and customer retention.**

** Preferential Treatment**

Preferential treatment concept concentrates on selected customers and gives them higher social recognition and offers products above the standard value and services beyond regular practices (Lacey et al., 2007). In this study Preferential Treatment means customer perception about the level of higher services that retailers and service providers give to loyal customers (Smith and Taylor, 2004). It is a marketing fact that customers are not equal and they must be separated based on their profitability for the company (Parviz Dargi, 2007). Sometimes cost of maintaining some customers is higher than the profit which is gained from them. Therefore companies need to reevaluate their investments on customers and finish unprofitable relationships.
Salespersons have important role in implementing this strategy. In other hand applying preferential treatment can improve the quality of services (Chien-Ta Bruce Ho and Wen-Chuan Lin, 2010) with loyal customers and this treatment develops the level of customer retention.

**H2. There is a positive relationship between preferential treatment strategy and customer retention.**

**Personalization**

Personalization marketing refers to adjustment and modification on products and services based on additional information from customers (Jari Vesanen, 2007; Anyuan Shen and A. Dwayne Ball, 2009). This strategy enhances the relationship between retailers and customer (Chia-Yu Lin and E.Y. Huang, 2005). Companies also use IT applications to personalize services and products (Ansari and Mela, 2003; Winer, 2001) to establish long term and more personal relationships with valuable customers (Anyuan Shen and A. Dwayne Ball, 2009). Customers have different desires for personalization (Bettencourt and Gwinner, 1996). In this study personalization means how warm and since reloyal customers are treated by salespersons in retailer.

**H3. There is a positive relationship between personalization strategy and customer retention.**

**Rewarding**

Rewarding defined as an incentive strategy for products, distributor or end customer that immediate sales is its primary goal (Belch, 2001). Rewarding is a promotion tool in sales process. Promotion is an acceleration tool to maximize sales to customers who are not persuaded by advertisement. This strategy improves the relationship between customer and retailer. Wesley. S. Changchien et al. (2004) suggest promotions based on previous information of customers can develop the quality of relationship in different aspects. In this study reward means tangible promotions that are delivered by retailers to customers.
There is a positive relationship between rewarding strategy and customer retention.

Trust
Trust is a multi-dimensional concept with different behavioral, emotional and conceptual aspects (Sanzo, et al, 2003). It can be defined as a psychological positive state to accept vulnerability from behaviors of others (Rousseau et al., 1998). Trust is an important moderator between organizations (Hong-Youl Ha et al., 2010) which facilitate commercial transactions. Stable quality of product, sufficiency and benevolence are the elements that increase the level of trust of customers (Barry, 2004). Satisfaction is the prerequisite of trust, without satisfying customers it is not possible to increase the level of trust (John Simon and Minor Michel, 2003). Trust has impact on variety of consequences. Also it plays important role in repurchasing (Hennig - Thurau and Klee, 1997). Also this argument is supported for online businesses by Bart empirical findings with positive relationship between trust and behavioral intent (Bart et al., 2005). In this study trust means Faith of customers that company and retailer is honest with them.

There is a positive relationship between trust and customer retention.

Conceptual Framework
Establishing long life relationship with customers is an essential condition for success and survival of most enterprises (Heskett et al., 1994; Berry, 1995). The long term relationship with customers has variety of results. The main visible outcome of this event is customer retention. Therefore repurchasing behavior of customer positioned as dependent variable in this conceptual model. Due to the literature review there are five concepts that have significant impact on repurchasing of customers including rewarding, communication, trust, preferential treatment and personalization which are positioned as independent variables.
Managerial implications and Conclusions

In the literature, Relationship Marketing is offered for all type of customers and this solution can be used for product retailers and service providers. The main concern of business owners is increasing their sales and relationship marketing is one of the most important strategies to achieve this goal. There are many factors that have impact on the relationship between retailers, service providers and customers. Many studies have been done on the effect of different factors on customer behavior but this paper concentrated on marketing relationship key factors and their impact on customer detention as a specific outcome. The key factors are communication, preferential treatment, personalization, rewarding and trust. The direct impact of each factor as a marketing strategy can be studied on customer retention.

There are different paths to establish and develop these relationship marketing strategies.

Implementing a call center and answering service for customers can be a positive step to improve communication with customer. Also data gathering and creating a
database from customers' complaints and suggestions help company to enhance its personalization strategy. Utilization of customer information can be used to personalize customer rewarding to maximize the effectiveness of promotions as an incentive for customer detention.

Developing a learning system for employees especially sales and marketing forces and improving marketing and communication skills of sales forces that have direct connection with customers has important role to enhance the ability of salespersons for their performance in preferential treatment strategy.

Maximum using of touch points and creating new ones is a positive step to increase the level of communication with different niches of market. Developing a website is a very good idea for businesses to improve their mutual communication with customers. Establishing info stands in target markets like malls and trade markets can helps businesses to have face to face communication and not only give different product information and product samples to potential customers but also gain variety of feedbacks and ideas that can help producers and service providers to enhance their products and services and modify them for related target market.

Sales forces at the face line have face to face connection with customers and they are the best people who can gain related information about customers and comment on type of personalization which can be done for different loyal ones. The final management decision about personalization and the way to apply them must be transferred to people in sales line again.

This study is a conceptual paper which is based on many researches in the literature and implementing field study is suggested by authors to gain empirical evidence for testing and approving hypotheses. There is opportunity for researchers to investigate on hypotheses in different types of businesses and markets such as service providers and producers and retailers.

References


Georgina Whyatt and Ralph Koschek, (2010), Marketing Intelligence and Planning Vol. 28 No. 5, 2010 pp. 582-599


Hong-Youl Ha, Swinder Janda, Siva K. Muthaly (2010), European Journal of Marketing Vol. 44 No. 7/8, pp. 997-1016

Jack Horotiz (2003), Seven strategic Key in services, translated: Mohammad Arabi and Davood Izadi, Tehran, Cultural Research Office (2001)


Mohammad Arabi and Davood Izadi (2005), Communication Management, Tehran, Cultural Research Office


Parviz Dargi, Sales Management and face to face sales based on Iran Market, Tehran, Rasa Publication.


