

# A Review on the Formation and Development of the Relationship Marketing Theory

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## Abstract

Relationship marketing has become an important marketing mix and won great attention from both academia and industry. In this paper, a comprehensive review of previous studies has been conducted from the theoretic perspective. Based on literature, existing relationship marketing studies are divided into two stages, the formation stage and the development stage, after investigating the four key aspects (industries, types, contents and applications). An integrated research framework for relationship marketing is then established, incorporating both transaction marketing and relationship marketing. The framework indicates that transaction and relationship marketing work collaboratively, and are even able to transfer a possible customer to a partner. Finally, the potential topics for further theoretical research are proposed.

**Keywords:** Relationship Marketing, Transaction Marketing, Marketing Theory.

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## 1. RELATIONSHIP MARKETING: CONCEPT FORMATION AND DEVELOPMENT

### 1.1 The Formation of the Concept of Relationship Marketing (1960s~1980s)

Marketing theory formed around 1950s and 1960s, featuring the theorization of marketing knowledge, the concept of marketing management and the 4P Marketing Mix advocated by McCarthy. American Management Association (AMA) released the revised official definition in 1960: Marketing is the business activities of directing product and service from supplies to customers. In this definition, marketing was regarded only as exchange and sell. A group of prescient researchers started to focus on customers since then. McCarthy [1] proposed that marketing should meet with customers' need which was later emphasized by Levitt [2] in "Marketing Myopia" and consolidated in the textbook "Managerial Marketing, Planning, Analysis, and Control" (Kotler's [3]). Caring about customers' interest and value has formed the foundation of the relationship marketing concept, though the idea had not entered the mainstream.

In 1960s and 1970s, traditional marketing mode was still established on the idea of exchange where the core issue was how to transfer value to instead of creating value for customers, through proper pricing and channel. That mode is called transactional marketing, which mainly consists of the 4P Marketing Mix. Thus, some researchers regarded transactional marketing as the foundation of the 4P model (e.g., Grönroos [4]).

The term "relationship marketing" was first proposed in 1983 by Berry [5], the dean of Retail Research Center of Laurie Mace Business School, A&M University, Texas, US. It was defined as

attracting, maintaining and promoting customer relationships through multiple services. This article primarily focuses on service marketing. Later, Jackson and Bund [6] explicitly distinguished relationship marketing from transactional marketing, and pointed out the feature of the two based on his research in the industry field. Other researchers treated the two modes as incompatibly substitutive.

Although some researchers call 1980s “the stage of relationship marketing”, the truth was that the concept was just a new-born and the theory was still elementary. The research topics were confined to industrial goods marketing and service marketing while the key issue was the establishment and maintenance of transaction relationship.

Researchers started to pay attention to the concept of relationship marketing in the 1980s not only because the concern of customers’ interest and value had become a consensus, but also owing to the growing importance of service marketing theory, which underlines customer satisfaction and loyalty and has a natural theoretical affiliation to relationship marketing. Another reason was the concept of Big Marketing raised by Kotler, who integrated public relation and political right into Marketing Mix and created the idea of social marketing. Government relationship, media relationship and public relationship extended the relationship from the bi-lateral one (buyers and sellers) to a multi-lateral one. 1950s is the era of consumable marketing; 1960s: industry goods marketing (emphasize paid to service); 1970s: nonprofit organization (emphasize paid to service); 1980s: service marketing (Payne, Christopher, Peck and Clark [7]), which led to the birth of the concept of relationship marketing.

Meanwhile, AMA revised the definition of marketing in 1985: Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create transactions that satisfy individual and organizational objectives. Obviously, the definition was still based on the 4P model, not having adopted the concept of relationship marketing, indicating that relationship marketing had not yet won wide recognition.

To summarize, traditional marketing theory, which encouraged marketers to pay more attention to customer value and satisfaction, built the foundation for relationship marketing theory. The idea of Big Marketing or Social Marketing put forward by Kotler et al extended the scope of “relationship”. Marketing theory created by industrial goods marketing and service marketing researchers constitutes an important section of relationship marketing research. Berry et al brought forward the concept of relationship marketing and clearly distinguished it from transactional marketing. Figure 1 shows how marketing management has switched from transactional marketing management to relationship marketing management over the years, as well as the course of change for the four other dimensions of marketing.

## **1.2 The Developing Path of Relationship Marketing Theory (Since 1990s)**

The concept of relationship marketing aligns with the marketing trend of “caring the customers”. Therefore, it was regarded as a potentially prominent theory ever since it was born and soon gained popularity among new scholars. Senior scholars also started to pay more attention to customer caring and selectively incorporated the idea of relationship marketing into new textbooks. All these factors spurred the development of relationship marketing theory and led to the amendment of the definition of “marketing” by AMA in 2004: Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. The largest change from the last version, which remained unchanged for almost 20 years, was that maintaining customer relationship became a portion of the definition of marketing. Some researchers even thought that the purpose of marketing is to confirm, establish, maintain, consolidate and terminate (at proper time) the relationship with customers or collaborators (Grönroos [4]). Most mainstream textbooks of marketing management added exclusive chapters discussing relationship marketing. Kotler and Keller added relationship marketing and service marketing in the 6th edition of “Marketing Management” [8]. Later they emphasized relationship orientation, customer value and customer satisfaction in 8th Edition [9]. Customer relationship

management (CRM), lifetime customer value and value marketing were highlighted in 11th Edition [10].

		1920s	1930s~1940s	1950s~1960s	1970s~1980s		
<b>Dimension of marketing</b>	<b>Concept of marketing</b>	Production and product	Sales and promotion	Marketing management	Social marketing		
	<b>Idea of marketing</b>	Incubation	Formation: Framework of marketing		Management logic, quantitative and behavioral method		
	<b>Line of business</b>			Consumables	Industrial goods	Non profit	Service industry
	<b>Relationship marketing</b>	Phenomena of relationship marketing		Customer oriented	Social service marketing	Relationship marketing	
	<b>Marketing management</b>	Transaction and sales management			Transaction and marketing management	Relationship marketing management	

**FIGURE 1:** Formation of the concept of relationship marketing.

Although currently there are diverse views of relationship marketing theory in definition, origin, boundary, attribute and strategy, researchers and practitioners from throughout the world are promoting and enriching the development of the theory through different paths. The academia usually classifies scholars by geography into 3 genres: Anglo-Australian, Nordic and North America. On the purpose of describing the developing path of the relationship marketing theory, a more extensive literature review was conducted based on existing opinions, and the results have been arranged from four perspectives: industry field, relationship type, contents of study, and application model. The path is shown in Figure 2.

## 2. COMMENTS AND THE RESEARCH FRAMEWORK OF RELATIONSHIP MARKETING THEORY

As can be concluded from the previous discussion, due to different understanding of the connotation and extension of relationship marketing, there exists a gap in the academia when defining marketing and relationship marketing. Researchers have created a variety of theories with scattering opinions, making it hard to build a clear theoretical framework with general consent. This has held back the development and application of relationship marketing theory. In 2004, researchers had already appealed that “relationship marketing theory urgently awaits integration”, but it has not been achieved.

This study is based on the review of the formation and development of relationship marketing theory. We try to articulate the relation between dominant mainstream marketing (according to Kotler’s textbooks) and relationship marketing, and build a comprehensive framework of relationship marketing theory.

### 2.1 Connections between Mainstream Marketing and Relationship Marketing

Scholars of relationship marketing regarded the 4P Marketing Mix as traditional marketing, because it overlooks customers. Modern mainstream marketing, though still based on 4P, has begun to pay attention to customers and is no longer purely transactional. In this paper, we eliminate the ambiguity by clearly defining traditional or transactional marketing as the 4P Marketing Mix before relationship marketing was born, while defining modern or mainstream marketing as the 4P after the idea of relationship marketing was introduced. There are three

different viewpoints towards transactional marketing, mainstream marketing and relationship marketing: substitution, coexistence and complement.

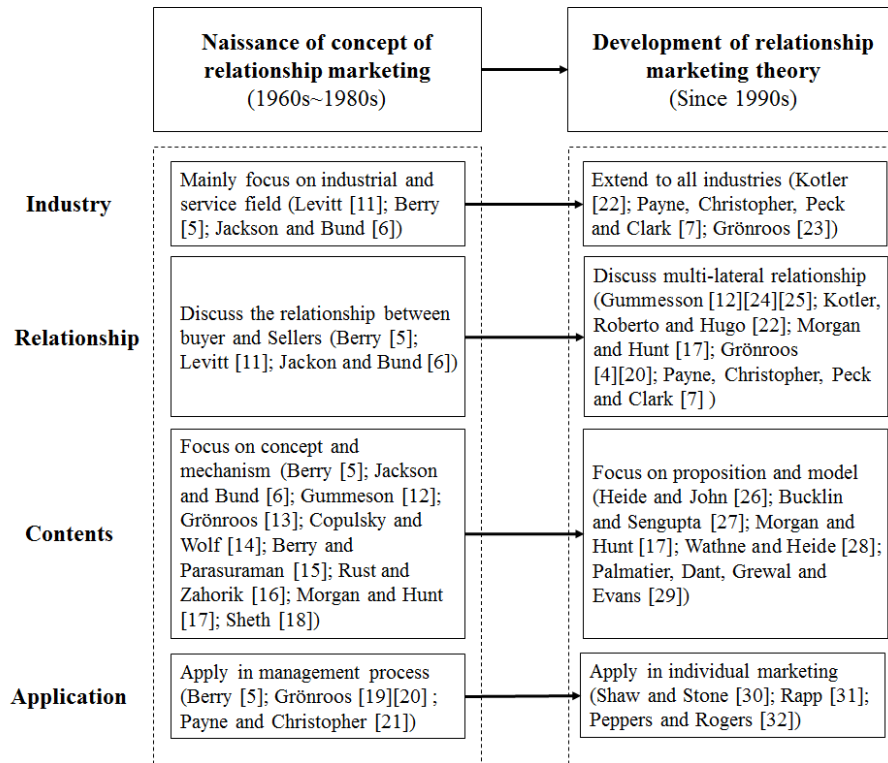


FIGURE 2: The developing path of relationship marketing theory.

(1) Substitution

Some researchers considered relationship marketing as a revolutionary or directional change of the marketing paradigm (Ravald and Grönroos [33]; Sheth [34]; Gummesson [24]; Aijo [35]; Hunt and Morgan [36]). The change had such high theoretical and practical values that they believed relationship marketing can fully substitute for the traditional marketing paradigm (Webster [37]). Researchers also pointed out that the traditional marketing theory is obviously transaction-oriented, which belongs to a short-term conduct (Payne [38]; Grönroos [39]; Gummesson [25]), while the relationship marketing theory is based on a customer-oriented philosophical viewpoint, switching a great fraction of care from corporation, product and market to corporation, employee and customers (Grönroos [39]).

(2) Coexistence

El-Ansary [40] stated that relationship marketing, instead of replacing transactional marketing, coexists with it, acting as one of the marketing relationships. Relationship marketing emphasizes on building, developing, maintaining or terminating the relationship with regular customers. As every industry is, to some extent, service industry, relationship marketing is applicable to each of them. However, some customers didn't want to build relationship with corporations, in which case transactional marketing comes back to stage. More often, a corporation will adopt different marketing strategy in different aspects. This is the so-called relationship-constrained transactional marketing, directing a corporation to adopt relationship marketing generally and practice transactional marketing on a case-by-case base or in segment markets, so as to achieve the optimal system and the maximum value-in-exchange. Lenovo is a good example of applying transactional marketing to customers and relationship marketing to institutions.

### (3) Complement

Some researchers pointed out that traditional marketing is the basis of relationship marketing and the two had no essential difference in terms of essential attributes, operation principle, application range, profit pattern and service philosophy. They are not contrary. Meanwhile, relationship marketing is far from either forming a unified, complete theoretical system, or being highly operable in practice. Thus, it is hard to spread, let alone substituting for traditional marketing. Because of its low adaptability in different sociocultural environments, relationship marketing is unlikely to qualify as a general guide. As result, relationship marketing is the derivation and extension of the traditional marketing theory, instead of a denial against its predecessor.

The authors agree with the coexistence and complement viewpoints. In the history of marketing theory development, many attempts were made to replacing traditional theories with new ones, but all ended in failure. Though contributed a lot, these new theories, including 4C theory, 4R theory, and integrated marketing communications, were no more than complement. Relationship marketing theory is no exception.

In the 21st century, when relationship marketing theory becomes prevalent, AMA (2004) revised the definition of marketing: Marketing is the process of creating, communicating and transferring values to customers while developing relationship with and bring benefit to interested parties. Later in 2007, it was further amended as: A series of activities, organizations, systems and process of creating, communicating, transferring and exchanging values (in any form) with individual clients, corporation customers and the whole society. Marketing management is the analysis, plan and execution of this process. Thus it can be concluded that the target of marketing management is about providing value to related individuals and parties; the tools are product (creation), price (exchange), distribution (transfer) and communication (communication); the method is applying the Marketing Mix according to target customers and market positioning. These are the nature and paradigm of marketing management.

According to AMA's definition of marketing in 2004, relationship marketing just added one more connection between Marketing Mix and marketing target, i.e. building relationship by means of Marketing Mix and then benefiting the interest parties through relationship. So relationship marketing is only a complement instead of a change to the original marketing paradigm. Some researchers equal relationship marketing to marketing relationship, just as those who believe that marketing equals to communication. They ignored the nature of marketing: providing value. Though relationship marketing can be comprehended as the practice of public relation tactics to keep good relation with various parties, on the strategic marketing level, Marketing Mix must be applied to enhance the relationship with customers.

## **2.2 Framework of Comprehensive Relationship Marketing Theory**

Marketing theory evolved with market environment and marketing practice. The marketing efforts shifted from transactional marketing to customer need, promoting the relationship marketing theory. However, neither transactional marketing nor relationship marketing can work without the 4P Marketing Mix. Even the most advanced service management is no exception, since 7P is no more than the extension of 4P. Likewise, both should follow the essential process of marketing management: micro and macro environment analysis, customer segmentation and targeting, market positioning, Marketing Mix, value selection, value production, value exchange, value transfer and value communication. Consequently, modern marketing contains two basic forms: transactional marketing and relationship marketing. Transactional marketing focuses on exploiting new customers and one-off transaction. Advertising and sales are common methods to attract customers' interest. Relationship marketing retains old customers by strengthening multi-lateral connections from six aspects. Categorized customer management and one-to-one customer management have gradually become important tools. There are two intrinsic differences between transactional marketing and relationship marketing. 1) Customer numbers. In transactional marketing, the buyers are the only customers. In relationship marketing, customers include not only buyers, but also five other parties indirectly related. 2) Marketing method. Transactional marketing emphasizes one-off or short-term transactions, devaluing long-term ones. Relationship

marketing, on the contrary, regards long-term relationship as of critical importance. Whichever marketing a corporation practices, Marketing Mix must be applied to achieve transaction or relationship.

The research framework of a comprehensive relationship marketing theory is shown in Figure 3. The nature of marketing (in the center of the model) starts from the analysis of macro and micro environment, followed by customer targeting and marketing positioning. Then a decision is made between transactional marketing and relationship marketing. Subsequent procedures include Marketing Mix and corresponding transactional or relationship management. If transactional marketing is chosen (the upper model), the corporation will follow the process of “prepare, start, on-going and finish”, focusing on the customer market. More specifically, it will first search for customers, then conduct and finish the transaction, and finally part with the customers. It soon begins a new cycle, looking for new customers. If relationship marketing is chosen (the lower model), the corporation will not only look for customers and finish the transaction, but also establish and maintain relationship with them and make new transactions with them. Relationship marketing is guided by different theories when applied to corresponding territories.

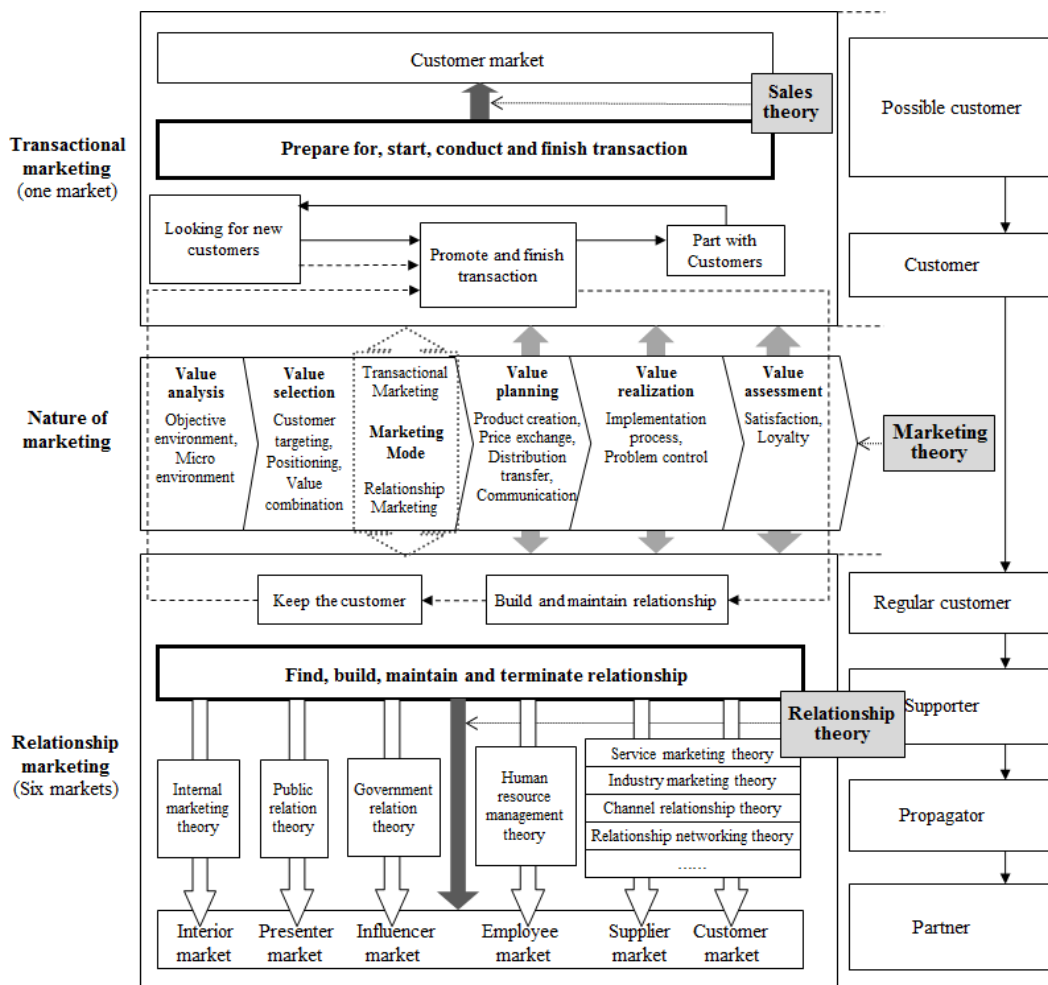


FIGURE 3: The framework of a comprehensive relationship marketing theory.

### 3. TOPICS FOR FUTURE THEORETICAL RESEARCH

Marketing theory is constantly developing, so needs the relationship marketing theory to keep moving forward. Future research not only requires adding and defining concepts, enriching propositions, building and validating models, but also calls for an integration of relationship

marketing and marketing management. The following section focuses on a potential research topic: establishing a universal theory for relationship marketing.

### **3.1 Improving and Updating the Relationship Marketing Theory Framework**

Marketing theories are constantly evolving and upgrading. The theoretical framework proposed in this study also needs improvement and update. The current framework is based on the transactional marketing theory (the upper part), the relationship marketing theory (the lower part), and the interactions between them (the loop). With fast accumulating marketing best practices and marketing phenomena, the relation between the two theories can be better explored, especially for the interaction part. In other words, a more integrated framework is expected.

### **3.2 Identifying the Subjects and Objects in a Relationship Marketing Study**

If A and B have a certain relationship, the subjects are A and B while the object is the relationship. We need to identify who are A and B as well as what kind of relationship is between them. On one side we have the marketers. Other the customer side, it is generally accepted there are ten markets, namely suppliers, distributors, end users, employees, financial institutions, government, media, members of alliance, competitors and the public. Among them, marketers conduct direct transactions with suppliers, distributors, end users and employees, and conduct indirect transactions with the others. Different transaction pairs have different relationships. Some are more social; others are more transactional.

It has been unclear how to categorize the markets or what are the key traits of each category. For example, the marketer-end user relationship is apparently different from the marketer-government relationship, but the existing relationship marketing theory pays little attention to the differences. It simply regards government as the customer, which actually differs a lot from an end user. Existing research either fails to subdivide the customers or cares too little about relationship involving subjects distant from the marketing channel, i.e. government, media, competitors and public. Futures studies are expected to focus on those away-from-channel subjects.

### **3.3 Enriching the Methods to Conduct a Relationship Marketing Campaign?**

What are the tools for relationship marketing? Are there any restrictions? Existing research either relies on the “trust-promise” mechanism, which is quite abstract and hard to operate, or conducts proposition studies under many restrictive conditions without managerial implications. A limited number of complete relationship models have been built, but they only discuss how to form, maintain and develop the relationship from a sociological perspective, instead solving marketing issues. Another question is how to maintain the relationship on a proper level. A close relationship can be costly to build. Meanwhile, too close a relationship may lead to crime, especially when we lack an effective tool to avoid bribery. In this sense, relationship marketing desires much tactical guidelines.

## **4. CONCLUDING REMARKS**

In this paper, a review of previous studies was conducted from the theoretic perspective. It is concluded that the five dimensions of marketing have all shifted their focuses over the years, especially for marketing management, which has switched from transactional marketing management to relationship marketing management. The developing path of the relationship marketing theory was reconstructed, incorporating industry, relationship, contents and application. Connections between mainstream marketing and relationship marketing were discussed. Based on the coexistence and complement viewpoints, a framework of comprehensive relationship marketing theory was established. Finally, three topics for future theoretical research were proposed, calling for further investigation into relationship marketing framework, subjects and tools.

The contributions of this study are four-fold. Previous studies lack a systematic summary of the formation and developing path of the relationship marketing theory. This study has filled the gap and setup a milestone that enables further theoretical breakthrough and practical innovation.

Meanwhile, previous studies failed to distinguish the two theories, let alone unifying them in a framework. This study has come up with explicit definitions and established a comprehensive theoretical framework, creating a new research tool for academia and a universal operation guideline for industry.

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