Only Some Types of Relationship Marketing Enhance the Bottom Line

Marketing managers are learning to document accountability for many elements of their department's strategies. Two academics have proved that relationship management programs deserve resource allocation, not only for the customer equity that they create and that we as marketers try to quantify.

For all of the talk about getting legitimacy for goodwill, that often squishy supplement to tangible book value, relationship management programs don't need to be evaluated with such a broad brush. Relationship marketing programs affect firm performance through increased profit.

Robert Palmatier of Northwestern University and Srinath Gopalakrishna of University of Missouri report the results of their economic study of relationship marketing programs in the Marketing Science Institute's 2005 Working Paper Series. They identify three types of relationship marketing programs in the business-to-business marketplace — financial, social, and structural.

Financial investments use pricing or tangible financial rewards such as free products, special prices, or a guaranteed low price to retain customers. Of the three types of relationships the researchers defined, financial efforts to nurture more business fail most often. Competitors can match price discounts and draw your cherry pickers to their product lines.

Social programs — those that create relational bonds with customers through personalized treatment like meals, entertainment, and special status — have a strong impact on profit. Social bonds are difficult for competitors to copy and tend to invite customers to respond in kind, solidifying the bond. The research showed an 84% ROI for these programs — the highest of the bunch.

Structural programs include solutions or products developed exclusively for a single customer or customer segment like customized order processing systems, dedicated account services teams, and best-customer policies. The commitment the seller makes in supplying these considerations makes customer attrition unlikely, so structural investments may generate great competitive advantage. They have a positive impact on profit, but only for customers that interact frequently with the seller.

Financial programs were the big losers. By extending special discounts to customers as a play for their continued business, they end up engaging companies always scouting the cheapest deal. The researchers recommended that businesses call financial relationship management programs what they really are — pricing policies — and use price promotions only in response to competitive pressures, not as a go-to-market strategy.

Financial relationship management initiatives may not secure customer loyalty across the customer base but they do generate higher returns from those clients that have a proclivity to loyalty. They likely won't go shopping among competitors if time and time again, one seller offers the rock-bottom price for its goods. Social programs deliver the highest return on dollars invested, however it is important to note that some customers will attribute the benefit of social programs to the salesperson rather than the seller.

Overall marketers can develop a profile of customers or customer segments and vary the mix of relationship management programs based on segment characteristics. The MSI analysis offers a basis for the proportion of dollars invested in a given relationship management activity.

To read the entire article, visit www.msi.org and search for "Determining the Payoff from Relationship Marketing Programs" by Robert Palmatier, visiting professor at Kellogg School of Management, Northwestern University, and Srinath Gopalakrishna, associate professor of marketing at University of Missouri.