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Value-driven Relational Marketing: from Products to Resources and Competencies

Marketing from a relational perspective, or relationship marketing, requires that a firm offers more resources and activities than a core product (goods or services) in order to satisfy the long-term value needs of its customers. In the present article a value-driven approach to how such long-term needs are fulfilled is discussed. The analysis goes beyond the product concept and develops a resources-and-competencies approach to the market offer. However, a relational approach to marketing can be expected to be successful only if the firm adopts a true relational intent and the customer is in a relational mode. Therefore, the concepts of relational and transactional intent and relational and transactional mode, respectively, are also introduced and discussed.

Introduction

Marketing from a relational perspective has been defined as the process of identifying and establishing, maintaining, enhancing, and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met, where this is done by a mutual giving and fulfilment of promises (cf. Grönroos 1996),[1] or as a marketing approach involving interactions, relationships and networks (Gummesson 1995).[2] In this article we focus on how to understand the product concept in such a marketing context. The basic perspective is that of the Nordic School of service research, which has been identified as one of the major research traditions in the discipline (cf. Berry and Parasuraman 1993), and its extension into relationship marketing. Marketing in a relational context is seen as a process that should support the creation of perceived value for customers over time.

Only the relationship between a firm and a customer is taken into account in this context. Moreover, a dyadic situation is focused upon. It should, however, be possible to extend the analysis to other relationships in networks using the same argument. Such an extension is outside the scope of the present article.

First, the nature of a relational approach to marketing is discussed and the

[1]Recently Shelby Hunt has offered a definition with the same meaning. See Hunt and Morgan (1994, p 23). In a similar way, Sheth and Parvatiyar (1994) define relationship marketing as "the understanding, explanation and management of the ongoing collaborative business relationship between suppliers and customers". See also Christopher *et al.* (1992) and Blomqvist *et al.* (1993). Also compare Berry (1983).

[2]This new marketing paradigm has been called *relationship marketing*. It would be more accurate to use the term *relational marketing*, because it indicates an alternative way of looking at the marketing phenomenon, whereas the term relationship marketing easily is interpreted as just a subset of something else, or in the worst case as yet another tool in the marketing mix. However, because relationship marketing already has become a widely used term, it is used in this article as well interchangeably with the expression relational marketing to mean an approach to marketing that is based on a relational perspective.

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concepts of relational intent and relational mode are introduced. Then the meaning of value and customer perceived value in a relational context is analysed, and finally the product concept is discussed in a value-driven relational context as compared to a transactional context. It is argued that the traditional product concept is too simplistic, and that one has to understand the management of resource structures and competencies of a firm beyond the product construct to be able to create value-driven solutions for customers in relational contexts.

Relational Intent versus Transactional Intent

In the on-going discussion about relationship marketing it is frequently argued that relationships between, for example, a firm (supplier of goods or service firm) and its customers do not necessarily always *exist*, and that either part may not *want to have* a relationship with the other part. However, it would be more fruitful to look at the situation in a different way. We argue that *latent relationships* do always exist, and that either the firm or the customer, or both, may choose to activate that latent relationship, depending on their strategies, needs, wishes and/or expectations or choose not to do it.

Thus, the firm may choose either a relational strategy or a transactional strategy. On the other hand a customer may want either to have a transactional contact with a firm or become engaged with the firm in a more relational manner. The main thing is, therefore, not whether a relational strategy is possible or not, but whether a firm finds it profitable and in other respects suitable to develop a relational strategy or a transactional strategy. For example, a marketer of canned juice may choose to activate the latent relationships with consumers who could be open for a relational engagement with the firm by adding a note on the cans encouraging consumers to give feedback. In addition the marketer develops a system for actively answering consumers' phone calls, faxes or e-mail messages to make a continuing dialogue with the consumers possible. This is a relational marketing strategy that may well suit this type of goods and market situation. Some consumers may want to activate the latent relationship and indeed get in contact with the marketer. Others may recognise the invitation to give feedback and feel pleased with the fact that they have been given an opportunity that they for some reason do not choose to use. Still, in their minds the value of this particular brand has increased. In the latter case the consumers mentally and passively engage in a relationship, whereas in the first case they actively do so. Finally, some consumers may not evaluate this relational invitation at all. They are not relationally interested consumers in this market. For them a strategy based on transactional intent works well.

On the other hand, a marketer of the same packaged goods may choose not to invite this type of feedback or to do it without really developing a system for showing consumers who indeed contact the firm that it really cares. In this latter case the marketing strategy is transactional. If there is an invitation for consumers to give feedback but no intention to follow up on such feedback in a customer-orientated way, the activity that may look relational is based on transactional thinking. Rather the activity is used as what could be called a transactional tool. For transaction-oriented consumers this may work well, for others is may become a source of discontent, if the consumer chooses to give feedback and gets no response.

Similar examples of a relational approach as the consumer packaged goods one (canned juice) can easily be found from the fields of business-to-business marketing and services marketing. However, because marketing situations differ, the nature and contents of relationships vary even to a large degree. For example, a relationship would probably be much more extensive and multi-faceted in an average business-to-business marketing situation (cf. Holmlund and Törnroos 1996). Thus, depending on the situation, a relational strategy will probably require very different types of activities, to both their nature and scope.

Customers, individual consumers and organisational users can be seen as interested in either a relational or transactional contact with a firm. Regarding different types of goods and services or industrial solutions the same individual or organisation can probably take a different interest. Thus, in a given marketing situation the consumer (or user in a business-to-business relationship) is either in a *relational mode* or in a *transactional mode*. Furthermore, consumers in a relational mode can be either in an *active* or a *passive* relational mode, as the example with canned juice illustrated. Consumers or users in an active mode seek contact, whereas consumers in a passive mode are satisfied with the understanding that if needed the firm will be there for them.

Why people enter a relational mode and choose to react favourably to a relationship marketing approach by a firm is a topic that has not been studied very much so far. Sheth and Parvatiyar (1995) argue that the primary reason is to reduce choices. Baggozzi (1995), on the other hand, says that this is probably not a pervasive motive. As antecedents to reduction in choices he offers the possibility that customers may enter relationships in order to be able to fulfil goals to which they have earlier committed or tentatively committed. Goals may, of course, be of very different nature, such as profitability, cost reduction, comfort, health and self esteem. As another antecedent he offers the possibility that some customers may sometimes feel that being involved in a relationship is an end in itself.

Strategic Conclusions for Marketing

For marketing strategy the important thing here is not whether relationship marketing is possible in a given situation or not, rather it is a question of whether the company finds it profitable and suitable to base its strategy on a *relational intent* or not. In principle, a relational strategy is always possible, because there are always latent relationships. However, it is not always the best choice to activate these latent relationships by developing a marketing strategy based on a relational intent. In some situations, if the customers are not in a relational mode or if a relational strategy cannot be justified from an economic standpoint, it may be more profitable and suitable to adopt a *transactional intent* and create a marketing strategy that is transactional in nature. It all depends on the nature of the product, the market situation, the needs and wishes of the customers, the competitive situation, etc. We do, however, believe that a relationship intent is required in more and more situations, because of the general development of the environment surrounding the marketers.

As illustrated by Figure 1, three modes of consumers and users (active and passive relational and non-relational or transactional, respectively) and two types of marketing efforts (based on a relational intent or based on a non-relational or transactional intent, respectively) can be combined into a *relationship configuration matrix*. By analysing where in this configuration matrix the current or potential customer falls, the firm can see what type of marketing strategy seems to be most appropriate.

In a *non-relational intent/non-relational mode* configuration (cell 6) a transactional strategy leading to the exchange of a product for money (moving to cell 6) makes sense, because this creates the value the customers are looking for. Anything else would not produce additional value.

In a *relational intent/non-relational mode* configuration (cell 5) a transactional approach leading to the exchange of a product for money (moving to cell 6) makes sense as well. In fact, anything else would be a waste of efforts, because the consumers or users are not in a relational mode.

In all other configurations (cells 1, 2, 3 and 4) the customers are looking for something in addition to the product to satisfy their or an organisation's *value needs*. By value needs we mean the total value created by the core offering and other resources and activities in the relationship that a customer is requiring in order to feel satisfied. Value creation goes beyond the product. In these cases a marketing strategy based on a relational intent (moving to cells 1 and 3) obviously makes sense.

A relational intent is a philosophical way of thinking about a given market situation that probably leads to the development of a relational marketing strategy. If the firm adopts a relational intent in a given situation, it believes that in this particular business, for this given product or types of products, for this particular customer or group of customers, or for the existing competitive situation activating the latent relationships may be a better way of serving the customers than relying on

		FIRM	
		Efforts based on	
		Relational intent	**Non-relational** intent
	Active relational mode	1	2
CUSTOMER or USER	**Passive** relational mode	3	4
	Non-relational mode	5	6

Figure 1. Relational configuration matrix.

a transactional strategy. The actions taken will be quite different. This has a decisive impact on the *value perception* of customers. By value perception we mean the way and to what extent the value created by a firm is perceived by customer.

The relational intent, contrary to the transactional intent, implies a long-term notion. This does not, however, mean that the firm and the customer always would engage in on-going interaction or dialogue with each other. Sometimes the customer perceives and appreciates the relational intent knowing that the firm will be there for him or her if and when needed. Hence, the long-term notion is there, because of the actions of the firm based on a relational intent, even if no on-going relationship is visible. Of course, customers who are not looking for such a relational intent will not be impressed by such a strategy. If the relationship manifests itself in dialogue and interactions, these may be continuous or discrete, depending on the situation at hand.

Customer Perceived Value in a Relational Context

A focus on value for customers has emerged as an important marketing concept especially during the 1990s.

> "Value is considered to be an important constituent of relationship marketing and the ability of a company to provide superior value to its customers is regarded as one of the most successful strategies for the 1990s. This ability has become a means of differentiation and a key to the riddle of how to find a sustainable competitive advantage" (Ravald and Grönroos 1996. p. 19; cf. Heskett *et al.* 1994, Nilson 1992; Treacy and Wiersema 1993).

If transactions are the foundation for marketing, the *value* for customers is more or less totally embedded in the exchange of a product (a physical good or a service) for money. However, if relationships are the base of marketing, the role of the core product becomes blurred. In the case of canned juice, the possibility to give feedback, the feeling that the marketer and the producer care about the opinion of the consumer, add to the value perception of consumers who are interested in this. In the case of industrial robots, to take an example that is very different from a packaged consumer goods, delivery, customer training, maintenance and spare part service, information and documentation about the use of the robot, claims handling and perhaps joint development of the final robots, and a number of other activities, are necessary additions to the core solution — the robot — if the customer is to be satisfied with what has been bought. The firm needs to understand when and how much such efforts are required in a relationship and how they should be delivered to create an added value that meets the value needs of the customer.[3] It is easy to see how the value of the core of the offering becomes highly questionable if the

[3]Lele (1994; quoted in Peters 1994) divide the purchasing and consumption or usage processes into three stages — in purchase, product in use, in disposal — and demonstrates how service elements in a relationship correctly used add value over time to the total offering. In business-to-business relationships it would be meaningful to add a pre-purchase stage to the three stages suggested by Lele.

additional services are missing or not good enough. The role of the core product to the value perception of customers is indeed very much blurred in a case like this. Without the value-adding additional services it is highly questionable whether the core product, in this case the industrial robot, has any value at all.

Traditionally, the marketing and consumer behaviour literature mainly includes models of the value of a customer. The value concept from a value-to-customer perspective exists only to a limited extent in the marketing literature (Ravald and Grönroos 1996). There is, however, a growing interest in value from this point of view (cf. Monroe 1991; Peter and Olsen 1993; Zeithaml 1988). There seems to be an agreement that value is a function of what a customer gets, the solution provided by an offering, and the sacrifice of the customer to get this solution. As Zeithaml (1988) puts it "...perceived value is the consumer's overall assessment of the utility of a product based on a perception of what is received and what is given." In a relational context the offering includes both a core product and additional services of various kinds (for instance, as demonstrated by the examples of canned juice and industrial robots). The sacrifice includes a price and also additional costs for the customer that occur from the fact that one is in a relationship with another party. In a relationship context such additional sacrifice can be called *relationship costs* (Grönroos 1992). They can be divided into at least three categories: direct costs, indirect costs, and psychological costs.

Direct relationship costs are costs that follow from a decision to go into a relationship with another party. The customer may have to invest in office space or have a given number of man years available to be able to use, for example, a computer system for administrative purpose. This is a direct cost of engaging in a relationship with a supplier of such a system. *Indirect relationship costs* are costs that occur because the offering does not function as promised: e.g. costs caused by problems to make the computer system function in the intended way, costs of unexpected service needs, costs of delayed deliveries, etc. These costs resemble what in the quality literature is called quality costs, i.e., costs that are caused by quality problems. Finally, the *psychological costs* are caused by the fact that the customer fears or knows that problems in the relationship will occur, which in turn leads to a situation where he or she cannot fully concentrate on other tasks and duties. Direct and indirect relationship costs can be calculated, whereas psychological costs normally can only be perceived.

Another way of looking at value for customers is to distinguish between a core value of an offering and an added value or value added. Hence, *Customer Perceived Value* can be described with the following two equations:

$$\text{Customer Perceived Value (CPV)} = \frac{\text{Core Solution} + \text{Additional Services}}{\text{Price} + \text{Relationship Costs}} \quad [1]$$

$$\text{Customer Perceived Value (CPV)} = \text{Core Value} \pm \text{Added Value} \quad [2]$$

As a relational view is taken, Customer Perceived Value is developing and perceived over time. In Equation [1] the price has a short-term notion, in principle it is paid upon delivery of the core product. However, relationship costs occur over time as the relationship develops, the usefulness of the core solution is perceived and the additional services are experienced. In Equation [2] a long-term notion is also present. The Added Value component is experienced over time as the relationship develops. However, here it is important to observe the double signs. Often added value is treated as if something is always indeed added to a core value. This is clearly not the case, because the added value can also be negative. For example, a good core value of a machine can be decreased or even destroyed by untimely deliveries, delayed service, etc. The additional services do not add a positive value, instead they subtract from the basic core value, i.e. they provide a *negative added value*.

The objective of a successful relational marketing strategy should be to provide a customer with additional services supporting the core of the offering that minimises the indirect and psychological relationship costs. The total offering should be designed so that it does not create unnecessary direct relationship costs.

The Product in a Transactional Context

In a transactional situation the core product is exchanged for money, and not much more in terms of additional services or additional sacrifice is supposed to influence the perceived customer value of the transaction. In the marketing literature the product concept has a key position, for example, as one of the four decision making variables in the transaction-oriented 4 P model of the marketing mix management paradigm. The core product may be packaged in order to create more interest, but it remains a transactional concept. The *augmented product* notion (cf. Levitt 1969) that has been introduced in the literature includes auxiliary services such as warranties in addition to packaging. Levitt (1969) concluded almost three decades ago that:

> "the *new competition* is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value" (p.2).

This model has a relational notion, but unfortunately it has been incorporated in translational contexts.

In a relational context value for the customer is not embedded in a transactional exchange of a product for money. Instead customer perceived value is created and perceived over time as the relationship develops. Hence, because the product basically is a transaction-related concept, it becomes less valuable as a means of describing how customer perceived value is created in a relational context.

A product is a result of how various resources, such as people, technologies, raw materials, knowledge and information have been managed so that a number of features that customers in target markets are looking for are incorporated into it. Thus, a product as a more or less pre-fabricated package of resources and features that is ready to be exchanged has evolved. The task of marketing (including sales) is to find out which product features the customers are interested in and to give promises to a segment of potential customers through external marketing activities such as sales and advertising campaigns. If the product includes the features that the customers want, it will almost by itself fulfil the promises that have been given to the

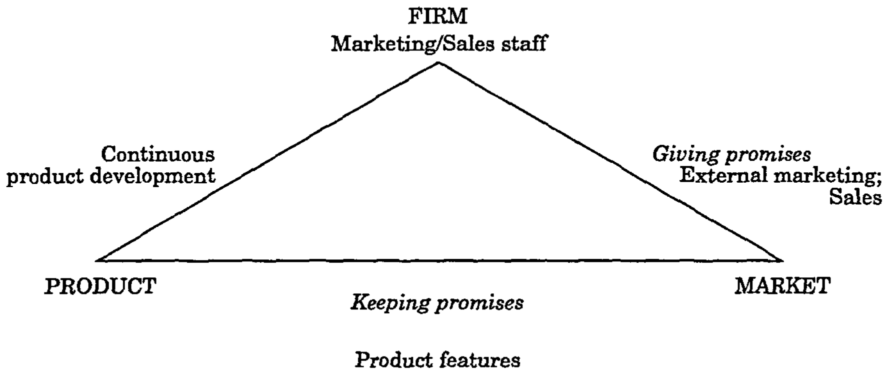

Figure 2. The product-oriented marketing perspective: the transactional marketing triangle. Source: Grönroos (1996).

customers. This marketing situation is illustrated in the *transactional marketing triangle*[4] in Figure 2.

In Figure 2 the three key parties of marketing in a transactional context are shown. These are the firms represented by a marketing and/or sales department, the market and the product. Normally, marketing (including sales) is the responsibility of a department (or departments) of specialists or the full-time marketers (and salespeople) (cf. Gummesson 1995). Customers are viewed in terms of markets of more or less anonymous individuals. The offering very much revolves around the product, goods or services, as the dominating element. Along the sides of the triangle three key functions of marketing are displayed, namely, to give promises, to fulfil promises, and to enable promises (cf. Calonius 1988; Bitner 1995).[5] Promises are normally given through mass marketing and in business-to-business contexts also through sales. Promises are fulfilled through a number of product features and enabled through the process of continuous product development based on market research performed by full-time marketers and on technological capabilities of the firm. The value customers are looking for is guaranteed by appropriate product features. "The idea of marketing as a sequence of activities giving and fulfilling promises is not expressed explicitly in the transactional marketing literature, probably because it is taken for granted that the products are developed with such features that any promises which external marketing and sales have given are kept" (Grönroos 1996, p. 9).

Beyond Products — Resources and Competencies in a Relational Context

In a relational context resources that are used over time in the relationship have to be managed throughout the relationship. The notion of a product with features that

[4]This way of illustrating the field of marketing is adapted from Philip Kotler (1991), who uses it to illustrate the holistic concept of marketing of the Nordic School approach to services marketing and management.

[5]Henrik Calonius (1988) has suggested that the promise concept, and the notion of marketing's role in giving and fulfilment of promises, should be given a central position in marketing. Recently, Mary Jo Bitner (1995) added the expression "enabling promises" in the context of internal marketing.

customers are looking for is too simplistic. In many cases it is not known in the beginning of a relationship or at any point of time during an on-going relationship what resources should be used and to what extent and in what configuration they should be used. For example, the service requirements of a machine that has been delivered to a customer may vary, the need to provide training of the customer's personnel and the need to handle claims may vary, and the firm has to adjust its resources and its way of using its resources accordingly.

In Figure 3, the *relational marketing triangle*, marketing in a relational context is illustrated in the same way as transaction marketing was in Figure 2. The relational context of Figure 3 represents marketing as it is developing in a constantly growing number of businesses. As can be seen most elements in the figure are different. The firm may still have a centralised marketing and sales staff, called here the full-time marketers, but they do not represent all the marketers and salespeople of the firm. Markets as masses of more or less anonymous individuals are considered less suitable. Customers, individual consumers and households and organisational customers alike, like to be treated on a much more individual basis. In principle, no customer must remain anonymous to the firm if this can be justified from an economic or practical standpoint (cf. Peppers and Rogers 1993) or if the customer does not want it.

Furthermore, the product becomes transparent. Instead resources that when they are used create value for the customer are in the forefront. Of course, the product is still there, but it has conceptually been divided into its basic elements, i.e. the various resources, technology, knowledge, etc., that form the product. Depending on type of offering, products as prefabricated packages of resources do exist. However, often there are so many other resources required in the relationship that cannot be prepackaged so that the notion of a product as a prefabricated package of resources becomes less meaningful. And in the case of services that are processes and not things it becomes quite unclear if a product can exist in the first place. Even if service firms try to create products they do not come up with more than to a larger or lesser

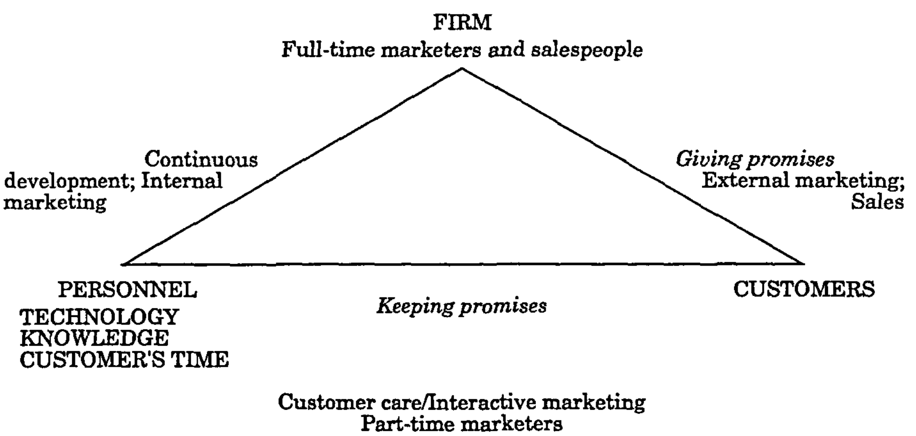

Figure 3. The resources and competency perspective: the relational marketing triangle. Source: Grönroos (1996)

degree standardised ways of using existing resources in the simultaneous service creation and delivery and service consumption processes.

> "They (service firms) only have a set of resources and, in the best case scenario, a well-planned way of using these resources as soon as the customer enters the arena" (Grönroos 1996, p. 10).

Customer-perceived value follows from a successful and customer-oriented management of resources relative to the customer sacrifice.

For marketers of other types of offerings than services a similar type of situation occurs when the marketing situation is seen from a relational perspective. Actually this follows naturally from the notion that any firm that adopts a relational strategy becomes a service business (cf. Grönroos 1996 and Webster 1994). "A growing number of (manufacturing) industries face a competitive situation for which we ... have coined the term *"service competition"*, and have to understand the nature of service management" (Grönroos 1996, p. 13; emphasis added). For a manufacturer the physical good, standardised or complicated, is a core element in the offering, because it is a prerequisite for a successful perceived customer value. Today the core is, however, very seldom enough to create successful results, competitive customer perceived value and a lasting position on the marketplace. What counts is the ability of the firm to manage its resources to create a holistic offering over time that evolves into an acceptable perceived customer value. Too many competitors can offer a similar core of the total offering, and sometimes to a lower price.

In Figure 3 the resources of a firm are divided into five groups: personnel; technology; knowledge and information; customer's time and the customer. Many of the people representing the firm are creating value for customers in manufacturing, deliveries, customer training, claims handling, service and maintenance, etc., and some of them are directly engaged in resales and cross-sales activities. Thus, they are involved in marketing as *part-time marketers* to use an expression coined by Gummesson (1991). Also, other types of resources influence the value perception of the customer, and hence are important from a marketing perspective as well. Technologies, the knowledge that employees have and that is embedded in technical solutions, and the way of managing the customer's time are such resources. Moreover, the customer himself or herself as individual consumer or representing organisations often become a value-generating resource. The impact of customers on the final development or design of a technical solution, or on the timeliness of a service activity may be critical to the value perception of the customer. In the services marketing literature the marketing effect of the performance of such resources is termed *interactive marketing* (cf. Grönroos 1982).

In summary, in a relational approach to marketing the transactional product concept becomes more complicated. The product as a pre-fabricated package of resources has to be broken down into its parts, a *set of resources* needed to create a good customer perceived value. In addition, the firm has to have *competencies* to acquire and/or develop the resources needed. Thus, a *governing system* is needed, whereby the resources are managed and used in such a way that an intended customer perceived value indeed is created for each customer.

Promises given by sales and external marketing are fulfilled through a process of managing the various types of resources. In order to prepare an appropriate set of resources continuous product development in its traditional form is not enough. Instead internal marketing and a continuous development of the competencies and resource structure of the firm are needed.

Conclusion

If marketing is to be developed based on a relational intent and geared to the creation of good customer perceived value, the simplistic concept of a product as a prefabricated package of resources is not sufficient. Instead, one has to go beyond the product concept to understand the value-creating benefits of an offering. In a relational context a core benefit — the technical solution achieved by a physical good or a service — is accompanied by additional services. The number of such services may be very limited, as in the case of canned juice, or large, as in the case of industrial robots. A well-developed and managed set of core benefits and additional services will help the customer to keep the various types of relationship costs down and thus creates a positive added value to the core value of the technical solution. On the other hand, a badly managed set of core benefits and additional services may lead to increased relationship costs and a diminishing positive added value or even a negative added value.

To be able to manage the value creation in a relational context the firm has to focus on the resources — personnel, technologies, knowledge and information, customer's time and the customer itself — as well as on the competencies of the firm to acquire and manage these resources. In this article we have focused on the relationship between a firm and its customers only. The same arguments apply also when discussing the relationship between a firm and, for example, a distributor. In the larger context, when studying the network of vertically and horizontally related partners, the situation gets more complicated. In principle, the same resource-and-competency approach to understanding the "product" in a relational context seems applicable.

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