IAN GORDON ARTICLE

Relationship Marketing Strategy

No more 4 P's of Marketing, Meet the 11Cs of Relationship Marketing

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In our last issue, we discussed key relationship marketing principles. In this issue, we continue that discussion and consider how companies can apply relationship marketing for strategic advantage. We have defined relationship marketing as follows:

"Relationship marketing is the on-going process of identifying and creating new value with individual customers and then sharing the benefits of this over a lifetime of association. It involves the understanding, focusing and management of on-going collaboration between suppliers and selected customers for mutual value creation and sharing through interdependence and organizational alignment."

So a business relationship, as in a personal one, requires we identify good customers - ones that want a relationship with us, too - and collaborate with them to create new value from which we can both benefit over the long term.

First, then, with which customers should a meaningful relationship be formed? Just the biggest? Or the most profitable? Or the ones that will be most profitable tomorrow? Or those that are most amenable to a relationship with us? Or yet others? Deciding on which customers to focus is the most important act in the New Marketing. Marketers have learned that the Old Rules, the ones they were taught in business school, do not sufficiently describe today's marketplace. Today there are signs the Old Rules could take us down the wrong road. In some markets:

- Few companies enjoy long-lasting, meaningful product or service differentiation;
- Targeting market segments provides no relief from competition nor material value creation for customers;
- "Consumer pull", where advertising and other promotion is used to foster demand, has been substantially replaced by "trade push", which relies on distribution channels to help sell the product or service. The problem is the channels are so diffuse, complex and competitive that they look as much like marketplace competition as markets themselves;
- Companies increasingly are going direct to market rather than incurring the cost and challenge of using channel intermediaries; and q Price is used tactically to help

secure short term advantage amidst chaotic competition in the marketplace.

The Old Rules - the 4 P's of marketing (product, place, promotion and price) - do not provide a way forward for today's marketer. For example, if few market segments offer shelter from the competitive storm, where is one to focus? If price competition is so intense that even low cost producers cannot be guaranteed growing sales, what is a company to do?

Increasingly marketers are thinking less about markets and more about customers. Technology and process innovation makes this possible for companies of all sizes to rethink their value chain and work with customers in new ways to create the value each wants. Dell has been doing this for years. Since 1983, Dell has had two simple ideas: sell direct to individual customers and make computers to order, rather than for inventory. Competitors have found it challenging to copy the Dell approach, because it has sometimes meant abandoning or de-emphasizing dealers, stranding assets and re-inventing their companies. Without this competition, Dell has had a cost advantage in its direct approach to market, less obsolete inventory and customers who get the computer - the exact computer - they want. This approach to consumer markets is now being applied business-to-business. Now Dell makes it easy for big companies to buy, setting up intranets that conform to the customer's procurement practices, for example.

What Dell is demonstrating is that individual customers, successfully engaged, can create tremendous value for the company and its shareholders.

If the 4 P's of marketing do not work very well, with what are they to be replaced? Consider the "11 C's", eleven areas for renewed marketing. We discuss each "C" briefly below. We also suggest what might be done in each area to develop a relationship marketing plan that could replace the traditional marketing plan:

1. Customer. Which customers will be served, which will be rejected and which will be managed to better profit? The company should determine which are its best, average and worst customers and ensure that each receives appropriate value. Absurd though it sounds, most companies reward the worst customers and penalize the best by giving both average value. Sometimes this is the result of not fully allocating customer costs. For each customer, formulate objectives and strategies, including strategies for the remaining C's, mentioned below.

2. Categories - define the scope of product and service offerings that will be provided to customers. Will you sell only what you make? Or will you sell what the customer considers appropriate to buy from you?

3. Capabilities - plan the range of capabilities that will exist within the company. Capabilities include process, technology, people and knowledge/insight. What new capabilities are needed to identify your best customers, see how they are doing, predict what they will buy next and ensure that you make life easy for them?

4. Cost, profitability and value - focus on customer profitability to improve it, rather than the tradition of measuring product, product line and divisional profitability, customer costs and customer value perceptions only. It is quite in order to sell products at a loss if the relationship is worthwhile, overall. Miss Mew cat food used to include the tuna flavour which was unprofitable, but the cats loved it and made the overall range of flavours quite profitable. For many companies, selling unprofitable products keeps the accountants awake at night, even if the relationship is profitable overall.

5. Control of the contact to cash processes - manage and control the processes associated with contacts at the account and ensure that cash is collected. Above all, take TIME out of all processes and make time one of the key metrics in the company (see measurements, below). How long does it take to go to market? How long to get the product to the customer once in receipt of order? How long to get the order? And

so on. These are non-traditional roles for the marketer, but quite appropriate for the relationship marketer.

6. Collaboration and integration - integrate the customer's technology, people and business processes with those of your company. In short, if you can tell where you firm ends and the customer's starts, you probably do not yet have relationship marketing fully implemented. Amcan Castings makes castings for companies such as Chrysler. Their engineers work alongside Chrysler's and they probably have difficulty saying when the sale is made. Design and development is collaborative and the purchase process in continuous.

7. Customization. We need to unlearn mass production and the principles of Henry Ford, et al. When we can produce mass customized products at better than mass production costs, why would we produce standardized offerings, inventory them and then discount them because they are not selling? Engage individual customers and give them the value they want. Ever wonder why the word "customer" includes the "custom"?

8. Communications, interaction and positioning - two-way communication that is tailored by the company to the ears and actions of the customer. Have a strategy for interacting with customers, not (or not just) in the traditional one-way communication of television or newspapers, but one that gives each customer an opportunity to communicate with the company as each wishes, including over the Internet. We no longer target customers without them targeting us.

9. Customer measurements. Measure time in for each aspect of customer engagement, from inquiry to order fulfillment to cash remittance. Track profitability for each customer, best average and worst, and decide who to invest in, who to reward and who to fire. Track customer satisfaction with a metric that allows simple year-to-year comparisons to be made.

10. Customer care - beyond mere customer service, a customer care philosophy removes the notion that customer service is only "after-the-sale". Have a strategy for customer care that includes a charter for the governance of the relationship to which both supplier and customer commit, which is most workable in the business-to-business markets.
11. Chain of relationships - manage all stakeholders who create the value customers want. Most importantly, ensure that your employee relationships align with customer relationships. This is the subject of our next article.

Relationship marketing requires that organizations consider issues such as these and choose the customers on which it will focus, develop meaningful insight and predict behaviors, formulate strategies for relationships and build the abilities within the company to deliver the value customers want. Companies asking themselves these questions may find that, before they can plan relationship marketing, they have more work to do to assess customers' profitability and perceptions. Some companies may need to build better databases about their customers. Others will also need to examine their HR strategies in a new, customer-centric light.

The Old Rules of marketing are mostly broken and ineffective, providing a poor basis for making the company a winner in the New Millenium. There are only so many good customers to go round and that all competitors want them. The new competition will be quite different than the historical basis for winning. Competing will increasingly be for four things: access to the best customers, being a "low-time" producer, winning the right new employees, and creating new ideas (as Apple says, "think different"). Relationship marketing can help to win this competitive war. And not just relationships with customers, important though these are. The employee relationship is in the next issue.

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