

1410031290



**SWP 35/93 RELATIONSHIP MARKETING:
THE SIX MARKETS FRAMEWORK**

PROFESSOR ADRIAN PAYNE
Marketing
Cranfield School of Management
Cranfield University
Bedfordshire MK43 0AL

Tel: +44 (0)1234 751122

Fax: +44 (0)1234 751806

The Cranfield School of Management Working Papers Series has been running since 1987, with approximately 380 papers so far from the nine academic groups of the School: Economics; Enterprise; Finance and Accounting; Human Resources; Information Systems; Logistics and Transportation; Marketing; Operations Management; and Strategic Management. Since 1992, papers have been reviewed by senior members of faculty before acceptance into the Series. A list since 1992 is included at the back of this paper.

For copies of papers (up to three free, then £2 per copy, cheques to be made payable to the Cranfield University), please contact Wayne Bulbrook, Research Administrator, at the address on the back of this booklet.

© All Rights Reserved. Cranfield School of Management, Payne, 1993

ISBN 1 85905 136 7



**Working Paper
November 1993****

**RELATIONSHIP MARKETING: THE SIX MARKETS
FRAMEWORK***

by

**Professor Adrian Payne
Cranfield School of Management
Cranfield University
CRANFIELD
Bedford
MK43 0AL**

(Tel: +44 (0) 1234 751122)

(Fax: +44 (0) 1234 751806)

* This is a revised version of Payne, A., Relationship Marketing: The Six Markets Framework, Working Paper, Cranfield School of Management 1991.

RELATIONSHIP MARKETING: THE SIX MARKETS FRAMEWORK

INTRODUCTION

The emergence of relationship marketing in the 1980s has been not so much a discovery, but a rediscovery of an approach which has long formed the cornerstone of many successful businesses. This approach emphasises the development and enhancement of relationships over the customer life cycle rather than new customer acquisition. Despite the increasing recognition of the importance of retention of existing customers, relatively little effort has been directed at developing frameworks and analytical tools to help achieve this. However, recently research activity has focused on the critical activities and issues that need to be managed in order for organisations to achieve increased performance and success in the marketplace through relationship marketing.

Concerns about the validity of the traditional marketing approach and recognition of the increasing importance of relationships in the mature and complex markets of today led to a research initiative being undertaken at Cranfield University in 1988. The Cranfield research programme in relationship marketing reflects concerns regarding the relevance of traditional marketing especially when applied to services and industrial markets. These concerns, have led to a number of ongoing research projects on relationship marketing and customer retention. This paper commences by discussing some of the key elements of the Cranfield approach to relationship marketing and then outlines a model - the six markets framework - for understanding the broadened context of relationship marketing.

Our approach to relationship marketing is summarised in Figure 1 which illustrates three key elements in the transition from transaction marketing to relationship marketing. As Figure 1 shows, these three elements include:

- a move from functionally-based marketing to cross-functionally based marketing;
- a shift from marketing activities which have an emphasis on customer acquisition to marketing activities which emphasise customer retention;
- an approach which addresses a total of six key markets, not just the traditional customer market.

It is this last element that is addressed here; it argues for a broadening in approach to marketing which recognises that the principles of marketing can, and should, be applied to a range of 'markets' or 'market domains'. The last two elements are being addressed in other ongoing work, so are only discussed briefly here.

The move to cross-functional marketing reflects the difficulties encountered by traditional hierarchically- structured and functionally-oriented organisations which adopt a departmental or functional approach to marketing. Relationship marketing emphasises the organisation of marketing activities around cross-functional processes as opposed to organisational functions. This cross-functional approach has become a major theme in relationship marketing.

The relationship marketing philosophy also stresses the need to shift from marketing strategies which are based mainly on customer acquisition to ones which focus on customer retention. Customer retention is at the heart of relationship marketing.

To achieve success in the complex and fast moving marketplace of today it is increasingly being recognised that there are a number of key market areas, six in

total, which need to be considered if the customer is to be served satisfactorily.

Central to these considerations is the need for strong internal marketing, as well as marketing activities aimed at other key markets.

THE SIX MARKETS FRAMEWORK

The six markets framework, shown in Figure 2, illustrates an expanded view of where marketing can be applied. It identifies six key market domains where organisations should direct marketing activity and where the development of detailed marketing strategies may be needed. Apart from existing and potential customers, those markets are: *referral markets*; *supplier markets*; *employee recruitment markets*; *influence markets*; and *internal markets*. Below, each market is considered in turn.

Customer Markets:

Customer markets are at the centre of the six markets framework. Customers must, of course, remain the prime focus area for marketing activity. However, marketing activities need to be less directed at transactional marketing - an emphasis on the acquiring a new customer - and more on building long-term customer relationships.

Transaction marketing has a number of specific characteristics including:

- Focus on a single sale
- Orientation on product features
- *Short time-scale*
- Little emphasis on customer service
- Limited customer commitment
- Moderate customer contact
- *Quality is primarily a concern of production*

Relationship marketing, by contrast, has a:

- Focus on customer retention
- Orientation to customer values
- *Long time-scale*

- High customer service emphasis
- High customer contact
- Quality is the concern of all

It is clear that whilst a relationship focus has been fully adopted by some businesses it is noticeably absent in others. Many companies take the transactional route. The investment made in winning a new customer, once successful, is immediately transferred to the next prospect. Little effort goes into keeping that customer.

However, organisations are now starting to recognise that existing customers are easier to sell to and are frequently more profitable. Whilst managers intellectually concur with this view, often much greater emphasis and resources are placed on attracting new customers and existing customers are taken for granted. It is only when some breakdown in service quality occurs, and the customer leaves or is on the point of defection, that the spotlight focuses more on the existing customer.

An actual example from a large city firm of solicitors provides a good illustration of how marketing effort may be misdirected. In this firm two events occurred within a short period of each other. The first involved the gaining of a contentious piece of litigation work from a new client. This work, worth around £200,000 was likely to be a once-off piece of business as the client's existing law firm did not wish to handle it. The law firm's partners were delighted with the litigation partner's brilliant coup in bringing in this new client. Six weeks later another partner persuaded a large corporate client, who dealt with several law firms, to give his firm all the company's conveyancing work. Prior to this the firm had worked only in one area of the law for this client. This represented additional work of about £300,000 in the first year and this would be a continuing and growing source of fees. There was little reaction to this news in the partnership. This conveyancing assignment represented an on-going source of work for this firm. As such it represented, in net present value terms perhaps five times as much profit yet it received little attention in the firm.

This illustration is not meant to suggest that new customers are not important, indeed they are vital to most service businesses' futures. Rather, a balance is needed between the effort directed toward existing and new customers. Often it is the existing customer who does not receive sufficient attention.

The marketing ladder of customer loyalty in Figure 3 emphasises this point. It is apparent that many organisations put their main emphasis on the lower rungs of identifying prospects and attempting to turn them into customers than on the higher "relationship" - and ultimately more rewarding - rungs of turning them into regular clients and subsequently into strong supporters and eventually active advocates for the company and its products. However, moving customers up the loyalty ladder is not simple. Organisations need to know explicitly and in depth exactly what each customer is buying - and every customer is different - and how it can continue to offer additional satisfactions that will differentiate its offering. Essentially, the only way to move someone from customer to advocate is to replace customer satisfaction with customer delight - by offering service quality that exceeds expectations.

Referral Markets:

What is the best form of marketing? Our view is that the best marketing is that done for you by your own customers, which is why the customer loyalty ladder and the creation of advocates is so important. But existing customers are not the only sources of referral - there are also other groups who can refer business to organisations. Referral markets go under many names - intermediaries, connectors, multipliers, agencies, and so on.

We will consider an example from a bank to illustrate this point. Referral sources for the bank included insurance companies, real estate brokers, accountancy and law firms as well as existing customers and internal referrals. For this bank, an internal

study was undertaken of the amount of business, (both historic and projected), which arose through referral sources. This showed how important these sources were - though the bank had traditionally done little to promote this area.

Shortly after undertaking this study the bank held a strategy retreat. This included discussions on referral sources and presentations from several important intermediaries. The bank was surprised at the criticism it received from them during these presentations. Aware through its research of the importance of this business, the bank then established a task force to develop better relations with referral sources and establish a marketing plan to deal with the referral markets. As a result, noticeable and continued improvements in business generated by referral sources followed.

Most organisations need to consider both existing customers and often intermediaries as a source of future business. The current and potential importance of referral sources should be established and a plan developed for allocating marketing resources to them. Efforts should also be made to monitor results and cost benefits. However, it is worth emphasising that the benefits of increased marketing activity in this area may take some time to come to fruition.

Supplier Markets:

Organisations' relationships with their suppliers are undergoing some fundamental changes. The old adversarial relationship - where a company tried to squeeze its suppliers to its own advantage - is giving way to one based much more on partnership and collaboration. There is good commercial sense in this. Manufacturers in the United States typically spend over 60 per cent of total revenue on goods and service from outside suppliers.

The new relationship with supplier markets is being described under a number of different names. At AT&T it is "vendorship partnership"; at electronics group Philips in Europe it is called "co-makership". In the USA it is being referred to as "reverse marketing". Whatever the term, it aims at close co-operation between customer and supplier from a very early stage, mutual concentration on quality, commitment to flexibility, lowest costs and long-term relationships.

From the marketing point of view, the concern is to "sell" the new attitudes implicit in such a collaborative arrangement both to suppliers and, equally important, inside the company as well since in the past reward systems may have been geared to a traditional antagonistic relationship.

Recruitment Markets:

Perhaps the scarcest resource for most organisations is no longer capital or raw materials - it is skilled people, a vital, perhaps the most vital, element in customer service delivery. And the situation is not getting any easier, even if unemployment levels climb to historic levels. The reason is demographic trends.

In the United States the percentage of people in the age range 16-24 is expected to fall from around 20 per cent in 1985 to 16 per cent in 2000 and in the 25-34 age group from 23 per cent to 19 per cent over the same period. The same broad pattern exists in most western countries.

Obviously these age groups represent the key markets for new skilled workers entering the labour market. If attracting the best quality recruits is important then this market will become a vital success factor. A brief case example shows the kind of effort that may have to be made.

A large and well known accountancy practice was suffering problems attracting newly qualified recruits. The reasons were not hard to discover. Its recruitment literature was old fashioned and lacked visual impact. On visits to university campuses - a traditional recruitment source - the company was represented by an old and uninspiring partner and disinterested administrative staff. A marketing plan to try to improve the situation involved redesigning recruitment literature (with the help of recent graduates), sending the brightest partners on university visits accompanied by managers with interesting experiences to recount, and sponsoring awards and prizes at target universities. As a result of this recruitment marketing plan, the firm's offers to acceptances ratio increased dramatically.

Influence Markets:

"Influence" markets cover a range of markets and tend to vary according to the type of industry or industry sector that an organisation is in. Companies involved in selling infrastructure items, such as communications or utilities, will place government departments and regulatory bodies high in importance on their lists on markets they must address. Companies listed on stock markets also face the financial community in its various forms - brokers, analysts, financial journalists and so on - and fall within the influencer market. Other examples include shareholders, standards bodies, consumer associations, environmental control authorities, etc.

A good example of the influence markets that needs to be addressed is provided by MCI Communications Corporation in the US. William G McGowan, who was Chairman and Chief Executive of MCI Communications faced some key marketing tasks, with respect to influence markets in the early days of MCI. These influence markets included:

- The venture capital business - McGowan had a start up that was a capital starved communications company, and he had to raise sufficient finance from venture capitalists.
- The regulators - who needed to be convinced that McGowan could construct and satisfactorily operate a long distance telecommunications network.
- Lobbyists - communications is an industry highly subject to regulation by the Federal Communications Commission and one which was dominated by AT&T. MCI had to become skilled as a lobbyist. It was for this reason they established their headquarters in Washington DC.
- Litigators - in challenging AT&T's domination of long distance telephone lines by way of a private anti-trust case, MCI got involved in a complex litigation business. Relationships with law firms and lawyers became critical.

MCI had to focus on their important influence markets as well as their original core mission. This suggests that involvement in other activities may be essential to protect the core business. These key activities were the principle focus of McGowan's efforts in the early stages of MCI's development.

Whilst this activity is often carried out under the heading of "public relations" or "public affairs", it is important that it is recognised as being an essential element in the overall marketing activity and that appropriate resources are devoted to it.

Internal Markets:

Internal marketing encompasses many issues of management, but has two main aspects. The first is the idea that every employee and every department in an

organisation is both an internal customer and an internal supplier. The aim is to ensure that the operation of the organisation is optimised by ensuring that every individual and department both provides and receives excellent service.

The second aspect is making sure that all staff work together in a way that is aligned with the organisation's stated mission, strategy and goals. The importance of this has become particularly transparent in service firms, where there is a close interface with the customer. In this context, internal marketing aims at ensuring that all staff provide the best representation of the organisation through successfully handling telephone, mail, electronic and personal contacts with customers (including customers from the other markets outlined above).

Internal marketing is recognised as an important activity in developing a customer-focused organisation. In practice, internal marketing is concerned with communications, with developing responsiveness, responsibility and unity of purpose. Fundamental aims of internal marketing are to develop internal and external customer awareness and remove functional barriers to organisational effectiveness.

While relatively little empirical work has been undertaken regarding internal marketing practice it is clear that a consideration of internal markets is essential. Where internal marketing is concerned with the development of a customer orientation, the alignment of internal and external marketing ensures coherent relationship marketing. Further, it plays an important role in employee motivation and retention.

DETERMINING MARKET EMPHASIS IN RELATIONSHIP MARKETING:

These six markets - customer, referral, supplier, recruitment, influence, and internal - do not necessarily each need their own formal written marketing plan, though some organisations will find it useful to do that. But companies do need to develop some form of marketing strategy to address each of them. The adoption of the relationship

philosophy as a key strategic issue is more important than a written plan. For example, a formal marketing plan for an internal market is of little value if customer contact staff are not motivated and empowered to deliver the level of service quality required. The needs of members of all these markets need to be addressed in exactly the same way as customer markets - and high levels of service quality are essential in establishing and maintaining relationships with them.

However, not all markets require equal levels of attention and resources. A decision on the appropriate level of attention can be arrived at through the following steps:

- Identification of key participants in each of the markets.
- Research to identify expectations and requirements of key participants.
- Review current and proposed level of emphasis in each market.
- Formulate desired relationship strategy and determine if a formal market plan is necessary.

To consider the present level of effort and desired level of emphasis on each market, the relationship marketing network diagram shown in Figure 4 can be used. The diagram has seven axes - two for customers (existing and new) and one each for the other five relationship markets. The division of customers into new and existing reflects the two tasks of customer attraction and customer retention.

As noted earlier many companies place too much emphasis on attention of customer and too little on retention. An objective approach to determining the level of emphasis is to examine in detail the resources, in terms of both money and executive time, expended on each of these two tasks. In a number of companies we have

studied, where a quantitative assessment was undertaken, it was clear the majority of the marketing mix, marketing expenditure and managerial time was still being directed at attraction of new customers.

The approach to the six markets shown is illustrated by reference to British Airways (BA) in Figure 4. This is based on views of a number of people including two former senior executives in British Airways, and represents an external view of developments in BA. In the 1970s British Airways was in poor shape. Its financial position was terrible and it lacked market focus. Following the appointment of Lord King and Colin Marshall in the 1980s a revolution took place in BA. Considerable emphasis was placed on the internal market and a series of customer care programmes including 'Putting the Customer First' and 'A Day in the Life' were conducted for all staff. Towards the end of the 1980s, BA recognised the importance of customer retention and this led to a number of initiatives aimed at retention including the 'Airmiles' and 'Latitudes' programmes. Marketing greatly improved to existing and new customers, and travel agents and other referral markets. Saatchi and Saatchi developed a series of outstanding global television commercials aimed at many of the relationship markets.

In the early 1990s BA might consider a number of issues in the relationship markets, as shown in "1990's proposed" in Figure 4. These involve:

- greater attention towards gaining new customers (BA has placed much emphasis on customer retention. Should more attention now be directed at new customers?)
- a reinforcement of customer care and service quality issues with internal staff.

- greater attention on "influence markets" - especially government. (The granting of rights to of several US carriers to Heathrow slots, the departure of Mrs Thatcher as Prime Minister, (with whom Lord King had a close relationship) and the failure to fully acquire a US carrier rose an important issue. Should stronger influence relationships have been forged - especially within government and the opposition?)

SUMMARY

The six markets framework illustrates how organisations have a network of relationships with different markets. Each of these interactions need to be managed, where appropriate, with a formal strategy and marketing plan. At this point the framework does not have empirically based quantification. Our next task is to develop a more rigorous means of quantifying the amount of effort, the 'quality' of that effort and the expectation on each market domain. Each market domain can then be further sub-divided into the relevant market segments within it.

The six markets framework has now been used in a diverse range of over twenty organisations to develop plans for each of the six markets and to illustrate the relationship marketing concept. This model has proved a robust means of considering the network of relationships that organisations need to address. In each of the important areas were highlighted, that were not previously receiving attention, as a result of using the approach outlined above.

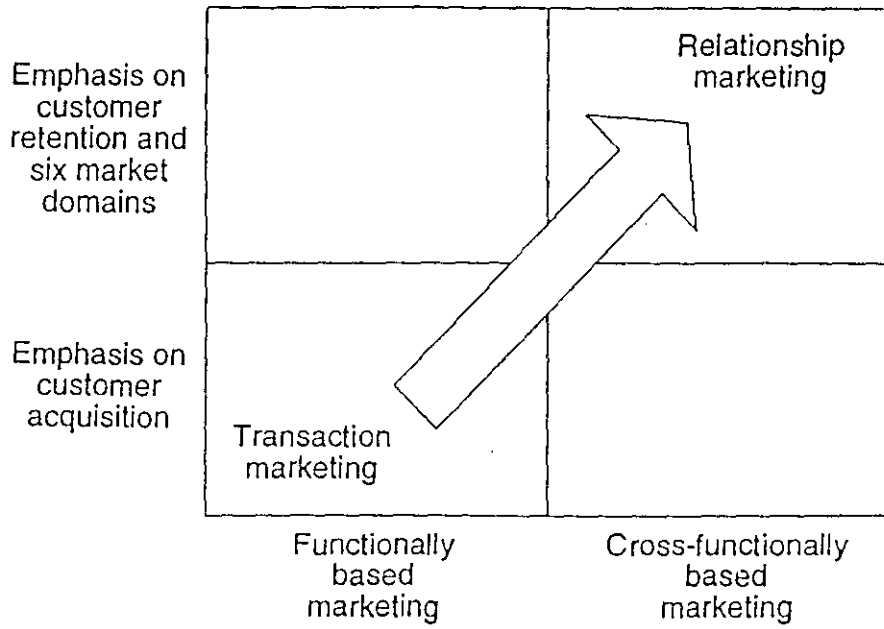


Figure 1 The transition to relationship marketing

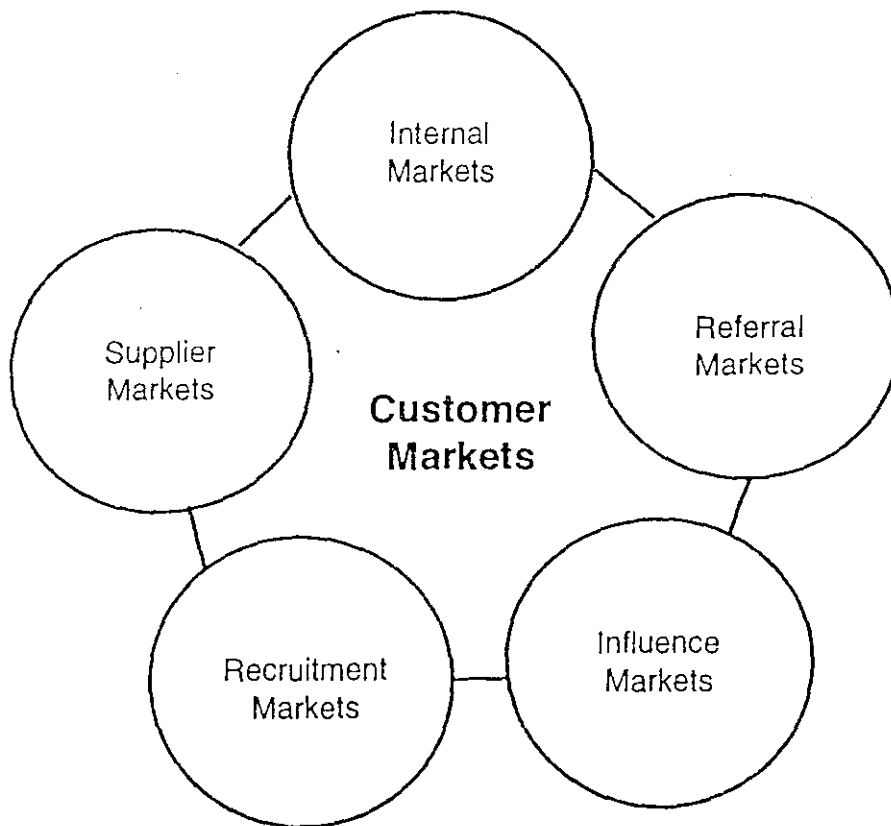


Figure 2 The relationship marketing six markets model

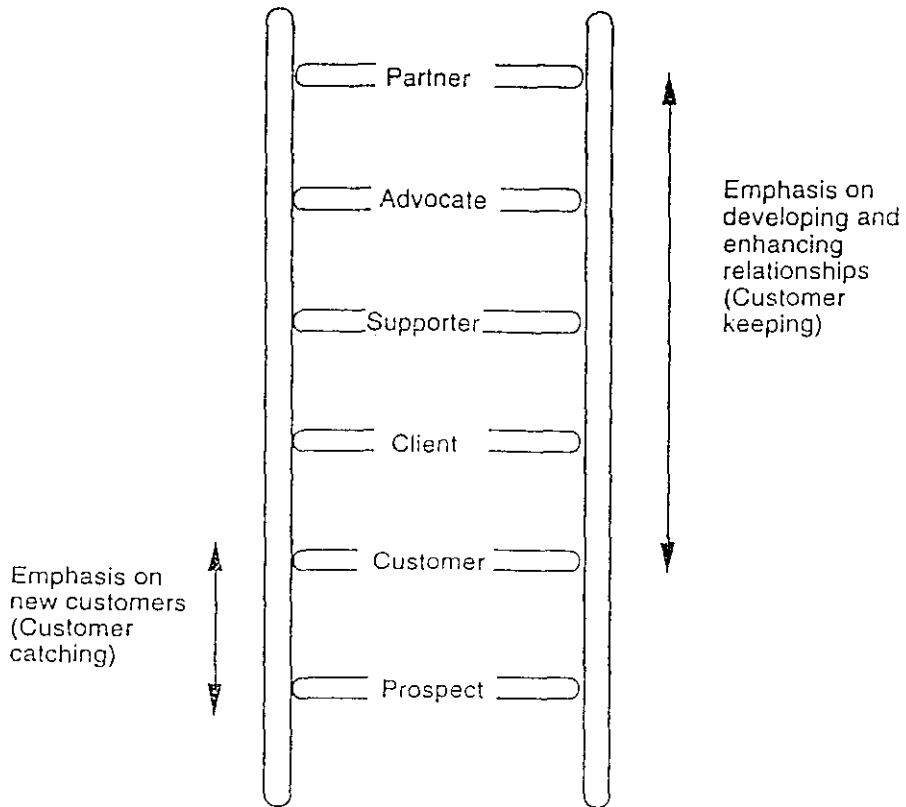


Figure 3 The relationship marketing ladder of customer loyalty

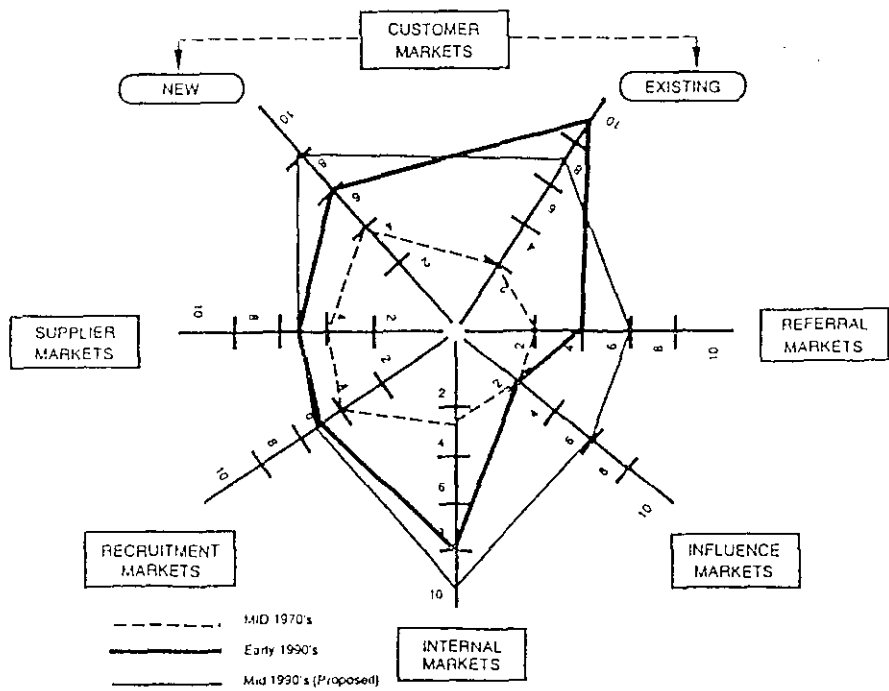


Figure 4 Relationship marketing network diagram for British Airways