CHAPTER 4

RELATIONSHIP MANAGEMENT

4.1 INTRODUCTION

There is wide spread confusion surrounding relationship marketing and relationship management and in many cases these terms are used interchangeably. This chapter will attempt to clarify the difference between these aspects and indicate why these aspects are important to the current study.

Hutt and Speh (1995:84) state that the global competitive environment has changed the nature of managerial work and has created new ways of structuring organizations and buyer-seller relationships. New organizational forms emphasize partnerships with other firms, teamwork between the organization and suppliers, responsibility sharing for developing converging technologies and less reliance on formal contracts. These new organizational forms imply different types of relationships that would require different relationship management skills and different relationship marketing strategies.

4.2 NATURE OF RELATIONSHIPS

According to the Concise Oxford Dictionary (1999) a "relationship" pertains to "*the way in which two or more people or things are connected, or the state of being connected*".

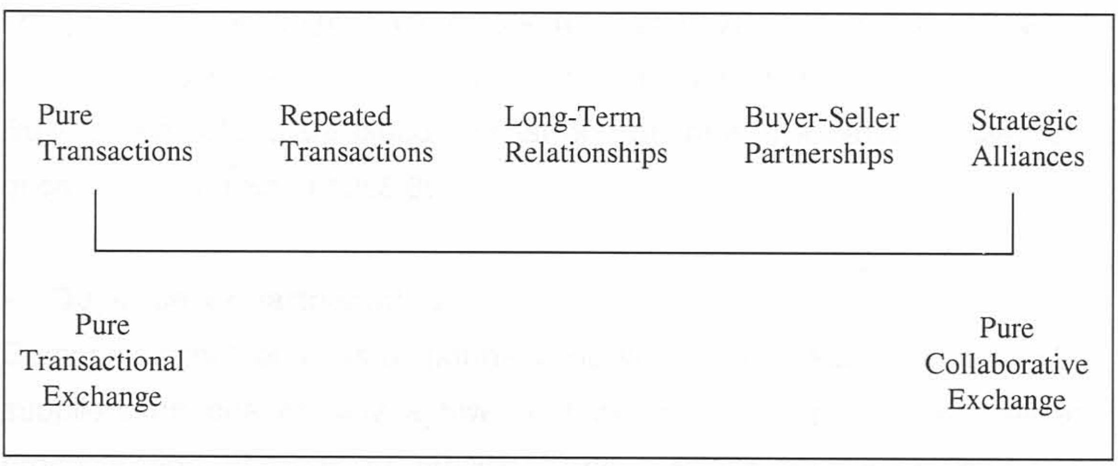
According to Liljander and Strandvik (in Ewing 1996:63) relations consist of a number of episodes. An episode is defined as "*an event of interaction that has clear starting and ending points*". Although a first purchase from a service provider would not represent a relation, it is a necessary starting point for a relation. If a service is of a discrete type, a relation is established when a second purchase is made. If a service is of a continuous type, a relation is formed when a contract is signed e.g. club membership. Commitment and choice influences the relationship strength. Therefore, a customer that has purchased from a company twice, and has a positive commitment towards that company will have a stronger relationship (bond) with the company than a customer that has purchased twice from the company but has no commitment to the company.

Miettila and Tornroos (in Ewing 1996:64) indicate three conditions that must be present in order for a relation to exist:

- Interaction is mediated through human actors, which means that their perceptions, beliefs, attitudes and behaviour are central;
- Interaction implies mutual dependability, problem solving and adaptation;
- Relationships evolve over time and include the present situation, future goals and past histories.

Hutt and Speh (1995) describe different types of relationships that are shown in Figure 4.1.

Figure 4.1 – Types of Relationships (The Spectrum of Buyer-Seller Relationships)



<u>Adapted from</u>: Hutt MD and Speh TW. 1995. Business Marketing Management: A Strategic View of Industrial and Organizational Markets, Fifth Edition. The Dryden Press: USA, p13.

Pure transactional exchanges focus on the exchange of products and services for highly competitive prices, while pure collaborative exchanges focus on a process where customers and firms form strong ties over time in order to lower cost, increase value and thereby achieve mutual benefits (Anderson and Narus in Hutt and Speh 1995:84).

The five relationship types are described in the following paragraphs:

- **Pure transactions**

This refers to a one-time exchange between the company and a customer with no previous or subsequent interaction between the parties (Hutt and Speh 1995:85)

- **Repeated transactions**

Frequent purchases of the same item reflect the preference and loyalty that a customer has towards a product or service. If trust and credibility is present, it signals the possibility of developing a long-term relationship (Hutt and Speh 1995:85).

- **Long-term relationships**

Long-term relationships involve long-term contractual commitments although the relationship is managed at an arms-length in an adversarial manner. Buyers and sellers are pitted against one another in a battle focused on low prices (Hutt and Speh 1995:86).

- **Buyer-seller partnerships**

Companies that emphasize partnerships will usually reduce their number of suppliers (to one or only a few) and the chosen suppliers will deliver the products and services at precise times. Prices are determined through negotiations based on mutual dependence. Quality, delivery, technical support and an open exchange of information are important aspects in partnerships (Hutt and Speh 1995:86).

- **Strategic alliances**

This is a form of inter-firm cooperation with the intent to move the partners toward the attainment of a strategic, long-term goal.

4.3 NATURE OF RELATIONSHIP MANAGEMENT

"Management" has to do with control and being in charge of something (Concise Oxford Dictionary 1999). Relationship management therefore has to do with controlling or being "in charge" of how people get on with each other or how people and things are related or connected to one another.

Dwyer, Schurr and Oh (1987:13) state that the difference between discrete transactions, which have a "*distinct beginning, short duration and sharp ending by performance*," and relational exchange, which "*traces to previous agreements (and) is longer in duration, reflecting an ongoing process*" must be fully appreciated in order to understand relationship management. In relational exchange, "*dependence is prolonged, uncertainty leads to deeper communication, the rudiments of co-operative planning and anticipation of conflict arise and expectations of trustworthiness may be cued by personal characteristics*" (Dwyer, Schurr, and Oh 1987:12).

"Relationship management" is a much broader term than "relationship marketing" and would encapsulate an aspect such a relationship marketing, which is discussed in the next section.

4.4 NATURE OF RELATIONSHIP MARKETING

The concept of relationship marketing encompasses relational exchange (Morgan and Hunt 1994; Dwyer, Schurr and Oh 1987), relational contracting (MacNeil 1980), relational marketing (Dwyer, Schurr and Oh 1987), working partnerships (Anderson and Narus 1990), symbiotic marketing (Varadarajan and Rajaratnam 1986), strategic alliances (Day 1990), co-marketing alliances (Bucklin and Sengupta 1993) as well as internal marketing (Berry and Parasuraman 1991; Iverson and McLeod 1996).

4.4.1 The difference between traditional marketing and relationship marketing

The American Marketing Association defines marketing as "*the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organizational objectives.*" This definition is based on the marketing mix and the four P model that has become the basic model of marketing (Grönroos 1994:1).

Traditional marketing focuses on attracting customers without any attempt to develop strategies for customer retention (Payne, Christopher, Clark and Peck 1995:ix). Sheth and Parvatiyar (1995:401) disagree and state that traditional marketing has always been concerned with the retention of profitable customers and with the corresponding future marketing activities, although the marketing practices used to achieve these goals have changed over time.

In the pas, the main focus of traditional marketing was on transactions and exchanges (Sheth and Parvatiyar 1995:1). However, the traditional marketing orientation is now changing from "transactions" to "relationships". This shift gives rise to the concept of relationship marketing.

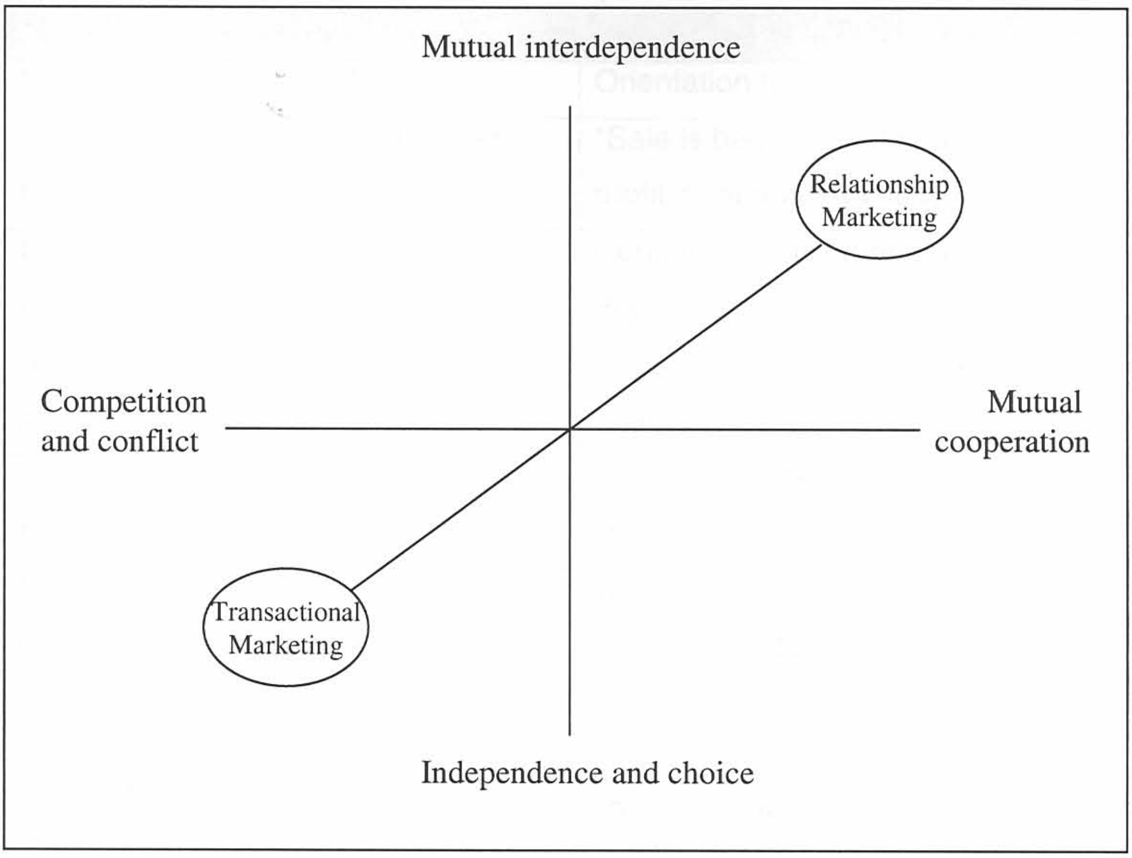
Relationship marketing is a refocusing of traditional marketing on the creation of customer value. Customer value refers to all the positive effects that a supplier has on a customer's business or his/her personal satisfaction (in the case of an end user). Relationship marketing is founded on the principal that a greater level of customer satisfaction with the relationship, will lead to a higher likelihood of customer retention (Payne, Christopher, Clark and Peck 1995:vii; Sheth and Parvatiyar 1995:413).

Morgan and Hunt (1994:22) propose the following definition of relationship marketing: "*Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges.*"

Various other definitions of relationship marketing can also be found in literature. Berry and Parasuruman (1991:133) state that "*relationship marketing concerns attracting, developing, and retaining customer relationships.*" Berry (1993:25) states that "*relationship marketing is attracting, maintaining and – in multi –service organizations – enhancing customer relationships.*" Grönroos (1994:9) defines relationship marketing as follows: "*Marketing is to establish, maintain and enhance relationships with customers and other partners, at profit, so that the objectives of the parties involved are met.*" The building and management of relationships can therefore be broadly classified as relationship marketing (Gruen 1995:449).

The concept of relationship marketing has led to a significant shift in the axioms of marketing with a change from **competition and conflict** to **mutual cooperation** and **choice independence** to **mutual interdependence** as shown in Figure 4.2 (Sheth and Parvatiyar 1995:399).

Figure 4.2 – Axioms of Transactional Marketing and Relationship Marketing



Adapted from: Sheth JN and Parvatiyar A. 1995. *The Evolution of Relationship Marketing.* International Business Review, 4(4):400.

Other differences between the traditional marketing approach (transactional approach) and relationship marketing are presented in Table 4.1.

Table 4.1 – The Traditional Marketing Approach Versus Relationship Marketing

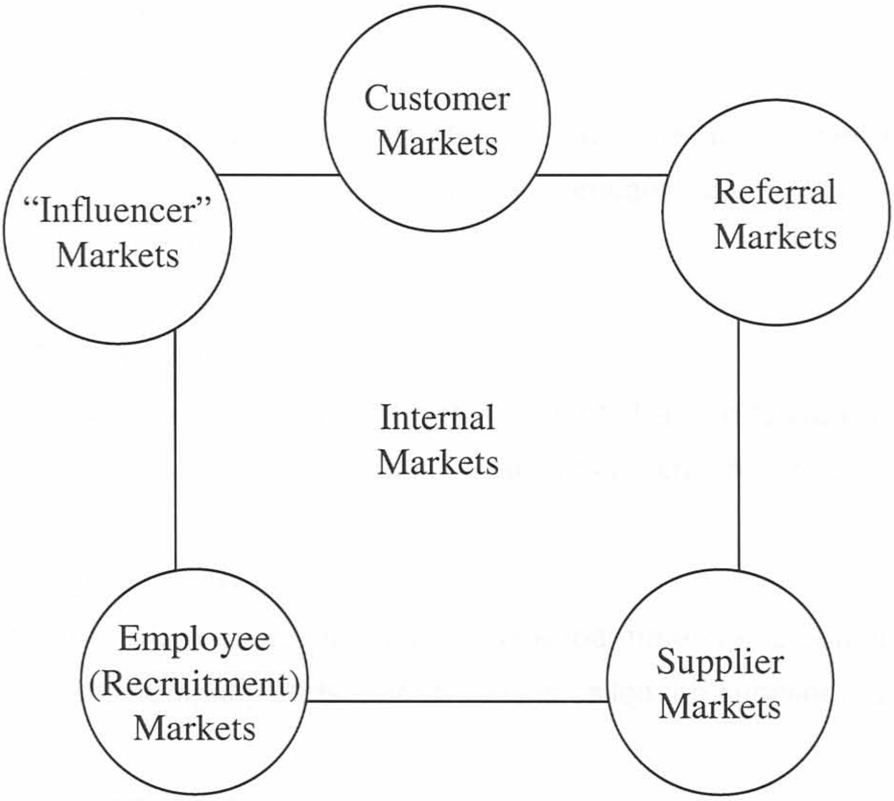
Transactional focus	Relationship focus
Orientation to single sales	Orientation to customer retention
*Sale is the result and measure of success	*Sale is beginning of relationship; profit is measure of success
Discontinuous customer contact	Continuous customer contact
Focus on product features	Focus on customer value
*Business is defined by its products and factories	*Business is defined by its customer relationships
Short time scale	Long time scale
Little emphasis on customer service	High customer service emphasis
Limited commitment to meeting customer expectations	High commitment to meeting customer expectations
Quality is the concern of production staff	Quality is the concern of all staff
*Price is determined by competitive market forces; price is an input	*Price is determined by negotiation and joint decision making; price is an outcome
*Communications are aimed at aggregates of customers	*Communications are targeted and tailored to individuals
*Marketer is valued for its products and prices	*Marketer is valued for its present and future problem solving capability
*Objective: To make the next sale; find the next customer (value exchange)	*Objective: To satisfy the customer you have by delivering superior value (value creation)

<u>Adapted from</u>: Payne P, Christopher M, Clark M and Peck H. 1995. Relationship Marketing for Competitive Advantage – Winning and Keeping Customers. Published on behalf of The Chartered Institute of Marketing. Butterworth-Heinemann Pty Ltd, p viii. And
*Hutt MD and Speh TW. 1995. Business Marketing Management – A Strategic View of Industrial and Organizational Markets, Fifth Edition. The Dryden Press: USA, p13.

Payne, Christopher, Clark and Peck (1999) also identified some differences between the traditional marketing approach and relationship marketing. Payne, et al (1999:1) state that a broader view of customer markets is taken in relationship marketing than in the traditional marketing approach (where only end users are considered).

They identify six markets (including the more broadly defined customer market) and stated that in order to add customer value, relationships would have to be built with the important markets shown in Figure 4.3.

Figure 4.3 – The Six Markets Model



Adapted from: Peck H, Payne P, Christopher M, and Clark M. 1999. Relationship Marketing - Strategy and Implementation. Published in Association with The Chartered Institute of Marketing. Butterworth-Heinemann Pty Ltd, p 5.

The six markets as identified by the authors are shortly discussed:

- **Internal markets**

Internal markets represent all the individuals and groups in an organisation that determine the culture of the organisation through their actions and beliefs.

- **Referral markets**

The referral market constitutes all sources of professional advice (doctors, lawyers, bank managers, accountants) and existing satisfied customers that promote the company through word-of-mouth recommendations.

- **Influence markets**

Companies, individuals and entities that have the power to influence the marketing environment in which the company operates (either positively or negatively) are called influence markets.

- **Employee markets**

Employee markets pertain to the recruitment and retention of employees that will fit into the company and will advance the company's goals and aims.

- **Supplier markets**

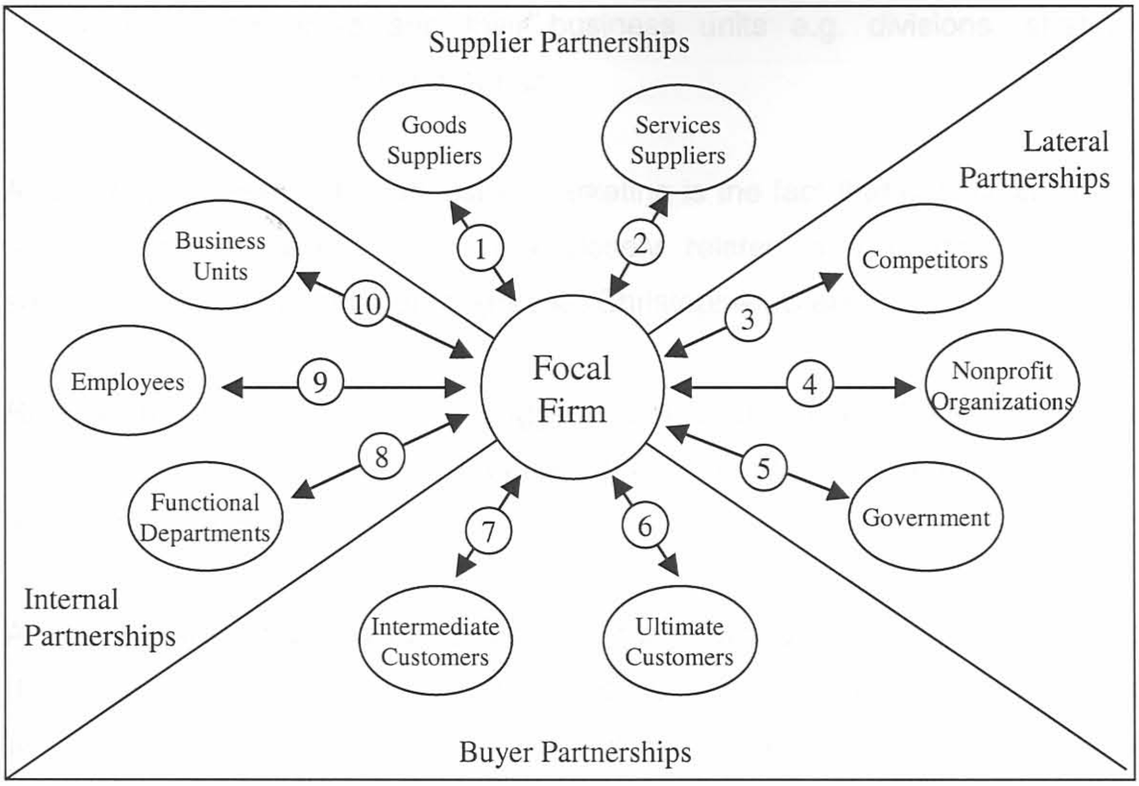
The network of companies that provide the materials, products and services to which the company adds further value is called the supplier market.

- **Customer markets**

This market refers to all individuals and companies (both end users and intermediaries) that purchase products and services from the company.

Morgan and Hunt (1994:21) identify numerous "markets" that have similarities with those identified by Peck et al (1999). The relational exchanges in relationship marketing are shown in Figure 4.4 and then described.

Figure 4.4 – The Relational Exchanges in Relationship Marketing



Adapted from: Morgan RM and Hunt SD. 1994. *The Commitment-Trust Theory of Relationship Marketing*. Journal of Marketing, July 58:21.

This figure shows ten forms of relationship marketing categorized in terms of a focal firm and internal, supplier, lateral and buyer partnerships. The relational exchanges with examples are as follows:

Relational exchanges:

1. between manufacturers and their goods supplier e.g. just in time procurement.
2. involving service providers e.g. advertising agency and the client.
3. between company and competitors e.g. technology alliances.
4. between a company and a nonprofit organization e.g. public purpose partnership.
5. for joint research and development between company and local, regional or national government.
6. between ultimate customers and the company.
7. of working partnerships e.g. channels of distribution.
8. involving functional departments.

9. between a company and its employees e.g. internal marketing.
10. within companies and their business units e.g. divisions, strategic business units and subsidiaries.

Another key element of relationship marketing is the fact that quality, customer service and marketing (which are closely related and usually managed separately) are brought together (Payne, Christopher, Clark and Peck 1999:4).

Relationship marketing therefore suggests that organizations should focus more on building relationships with all markets rather than on a short term, one-sale-at-a-time considerations.

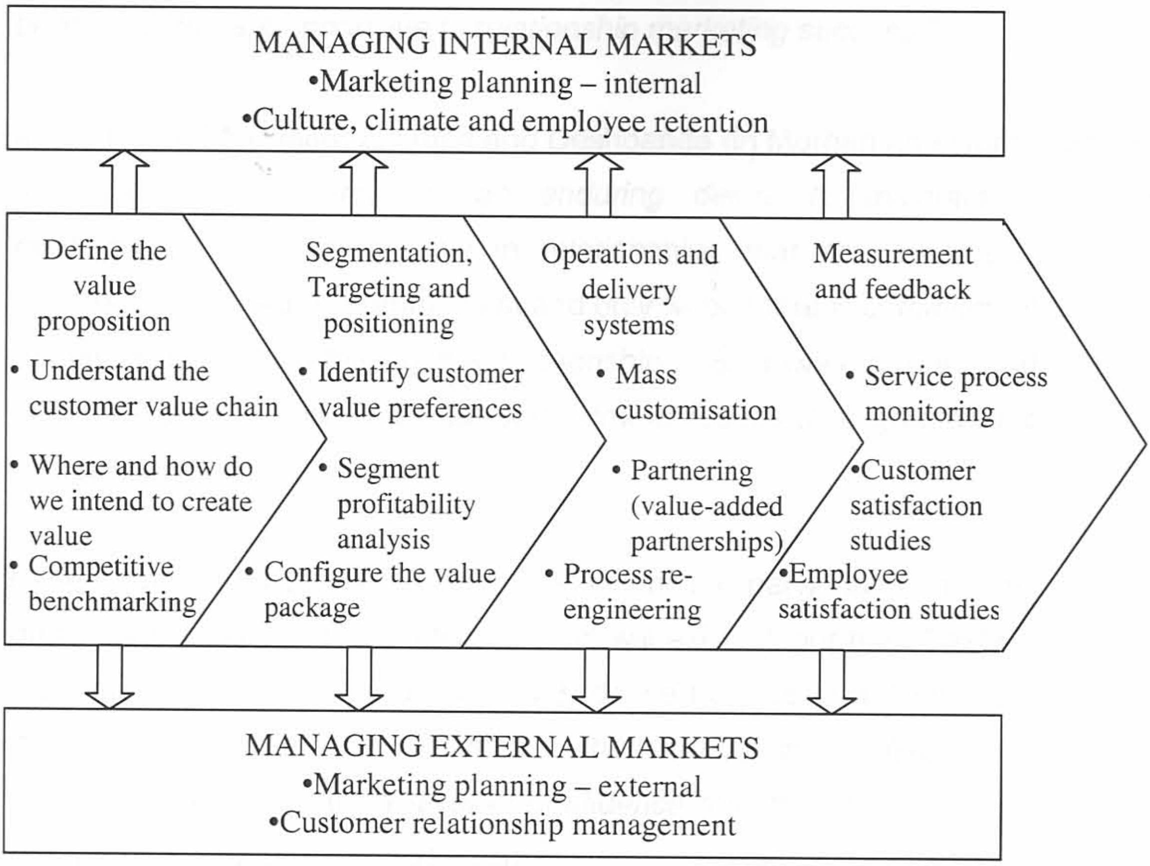
A sale therefore signifies the beginning of a relationship. According to Levitt (Payne et al 1995:21) *"a sale, then, merely consummates the courtship, at which point the marriage begins."* The success of the "marriage" is determined by how well the seller manages the relationship, while the quality of the "marriage" determines if there will be a continued business relationship or not.

4.5 RELATIONSHIP MARKETING THEORIES

4.5.1 The relationship management chain

Payne et al (1995:6) suggest the use of the relationship chain in order to create and sustain mutually advantageous relationships throughout the chain that will also enhance customer value. In Figure 4.5 a strategy for the management of relationships is suggested:

Figure 4.5 – The Relationship Management Chain



Adapted from: Payne P, Christopher M, Clark M and Peck H. 1995. Relationship Marketing for Competitive Advantage: Winning and Keeping Customers. Published on behalf of The Chartered Institute of Marketing. Butterworth-Heinemann Pty Ltd, p 7.

4.5.2 Commitment trust theory of relationship marketing

This model states that the presence of relationship commitment and trust (and not power) is central to successful relationship marketing efforts. Morgan and Hunt (1994:22) argue that "*what should be central to understanding relationship marketing is whatever distinguishes productive, effective, relational exchanges from those that are unproductive and ineffective.*"

Morgan and Hunt (1994:22) also state that "*commitment and trust are 'key' because they encourage* marketers [and in this case franchisees] *to (1) work at preserving relationship investments by co-operating with exchange partners, (2) resist attractive short-term alternatives in favor of the expected long-term benefits of staying with existing partners and (3) view potentially high-risk* *actions as being prudent because of the belief that their partners will not act opportunistically. In short, commitment and trust lead directly to cooperative behaviors that are conducive to relationship marketing success."*

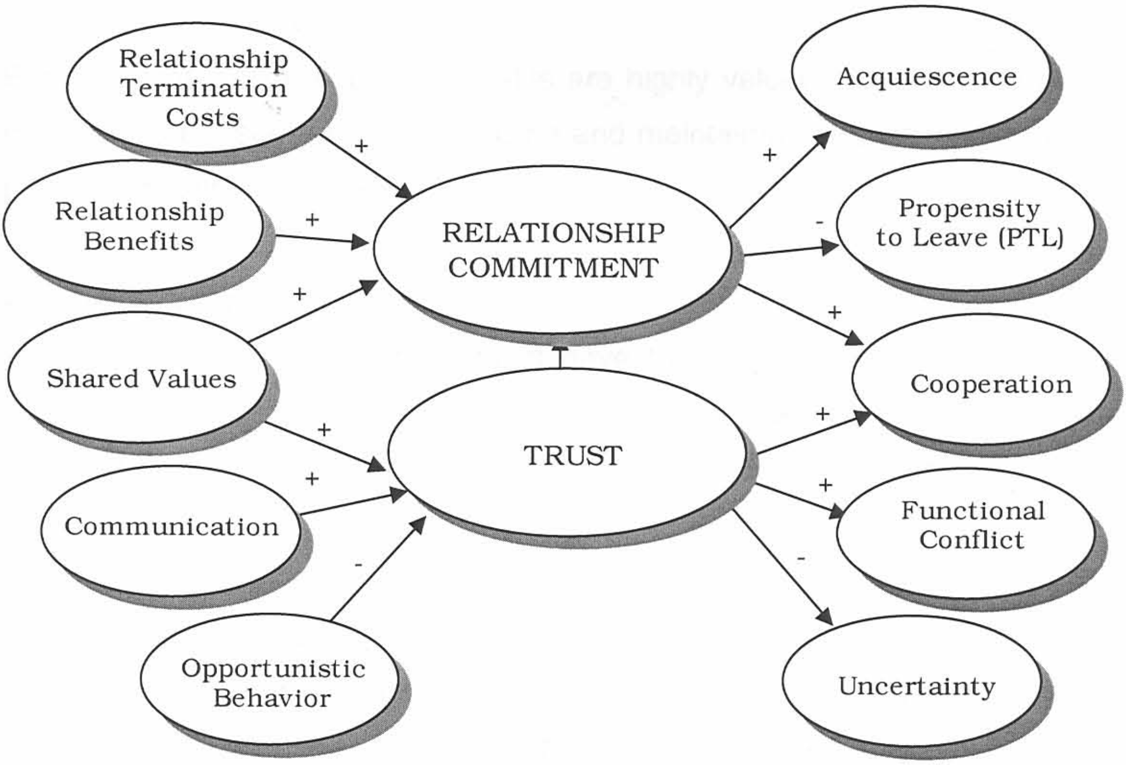
According to Moorman, Zaltman and Deshpandè (in Morgan and Hunt 1994:23) relationship commitment is *"an enduring desire to maintain a valued relationship."* Therefore, only in relationships that are considered to be important, will there be commitment and only when there is commitment, will the parties work at maintaining the relationship. Shemwell, Cronin and Bullard (1993:60) agree, and state that commitment results in a greater intention to continue a relationship.

Morgan and Hunt (1994:23) state that when one party has confidence in the other party's reliability and integrity, trust will exist. Moorman, Deshpandè and Zaltman (in Morgan and Hunt 1994:23) define trust as *"a willingness to rely on an exchange partner in whom one has confidence."* Gruen (1995:455) conceptualised trust as *"a level of confidence that the other party's expected behaviour will result in valued outcomes."*

According to Morgan and Hunt (1994:24) trust also influences relationship commitment. Trust is therefore a major determinant of commitment.

The "commitment-trust" model (Morgan and Hunt 1994:22) consists of various drivers, which are briefly mentioned after Figure 4.6:

Figure 4.6 – The KMV (Key Mediating Variable) Model of Relationship Marketing



Adapted from: Morgan RM and Hunt SD. 1994. *The Commitment-Trust Theory of Relationship Marketing*. Journal of Marketing, July 58:22.

The aspects on the left side of the figure are antecedents to trust and commitment, while the aspects on the right are outcomes for changes in either commitment and/or trust. The plus and minus signs indicate that either a positive or negative relationship exist between the aspect and trust or commitment. For example, **expected termination cost** leads to a relationship being viewed as important, thus generating **commitment** to that relationship (positive relationship).

- **Termination cost:**

"*Termination costs are all expected losses from termination and result from the perceived lack of comparable potential alternative partners, relationship dissolution expenses, and/or substantial switching costs*" (Morgan and Hunt 1994:24). Expected termination cost leads to a relationship being viewed as

important, thus generating commitment to that relationship (positive relationship).

- **Relationship benefits:**

Partners that deliver superior benefits are highly valued and firms will commit themselves to establishing, developing and maintaining relationships with such partners (positive relationship).

- **Shared values:**

This is the extent to which partners have the same beliefs in terms of the importance and appropriateness of behaviours, goals and policies. When exchange partners share values, they will be more committed to their relationships.

- **Communication:**

Communication can be defined as the "*formal as well as informal sharing of meaningful and timely information between firms*" (Anderson and Narus 1990). A major precursor of trust is communication. Communication is positively related to trust.

- **Opportunistic behaviour:**

When partners believe one another to be "engaging in opportunistic acts / behaviours", such perceptions will lead to decreased trust (negative relationship) (Morgan and Hunt 1994:25). Opportunistic behaviour is defined as follows: "*the essence of opportunistic behaviour is deceit-oriented violation of implicit or explicit promises about one's appropriate or required role behaviour*" (John in Morgan and Hunt, 1994:25).

- **Acquiescence:**

Acquiescence is "*the degree to which a partner accepts or adheres to another's specific requests or policies*" (Morgan and Hunt 1994:25). The question might be asked why companies would comply with the desires of their exchange partners. The traditional marketing answer would be that compliance is due to the use of power. Morgan and Hunt (1994:33) propose that acquiescence (compliance) is (and should be) due to the partner's commitment to the relationship. They state that the long-term success of the relationship is more likely to be associated with commitment and trust than with the use of any form of power. The commitment –trust model states that relationship commitment positively influences acquiescence.

- **Propensity to leave (PTL):**

PTL is the perceived likelihood that a partner will terminate the relationship in the near future (Morgan and Hunt 1994:26). There is a strong negative relationship between commitment and PTL.

- **Co-operation:**

Partners that are committed to the relationship will co-operate in order to make the relationship work. Co-operation refers to situations in which parties work together to achieve mutual goals (Anderson and Narus 1990).

- **Functional conflict:**

Problems and disputes that are not resolved amicably can lead to hostility and bitterness that could result in the dissolution of the relationship. When problems and disputes are resolved amicably, such agreements can be referred to as "functional conflict. Trust leads partners to perceive that future conflictual episodes will be functional.

- **Decision-making uncertainty:**

"*Trust decreases a partner's decision-making uncertainty because the trusting partner has confidence that the trustworthy party can be relied on*" (Morgan and Hunt 1994:26).

Morgan and Hunt (1994:31) found that commitment and trust are key mediating variables that contribute to relationship marketing success and they stated that this model should apply to all relational exchanges (see Figure 4.4).

According to Morgan and Hunt (1994:34), companies that would like to compete effectively in the marketplace would have to be an effective co-operator in a network of organizations. They state that networks characterized by commitment and trust, would engender cooperation as well as acquiescence, a low propensity to leave, functional conflict and reduced uncertainty. Shemwell, Cronin and Bullard (1994:58) propose that trust and commitment would lead to a higher likelihood of relationship continuation. Kumar (1996) confirm this by empirically proving that higher levels of trust will lead to higher commitment, better performance, higher likelihood of relationship continuation and higher sales levels. All of these aspects contribute to overall network (manufacturer-retailer relationships) performance.

Morgan and Hunt (1994:34) further state that commitment and trust develop when firms attend to and manage relationships with their exchange partners.

4.6 THE RELEVANCE OF RELATIONSHIP MARKETING AND THE COMMITMENT TRUST THEORY IN FRANCHISING

From the discussions in this chapter, as well as the discussions in chapter 1 (franchising), it is clear that the unique owner-franchisor relation and buyer-seller exchange relation that exist between franchisees and franchisors can be compared to exchange relations and buyer-seller relations found in the relationship management/marketing literature.

The relationship marketing concept is therefore very relevant to the franchising industry with specific reference to the relationship management between the franchisor and the franchisee. Franchisors should not just attract new franchisees, but also maintain and enhance their relationships with current franchisees to achieve success in their business ventures.

The commitment-trust theory of relationship marketing is also very relevant for the franchising industry and various authors in franchising literature have mentioned aspects used in the KMV model of Morgan and Hunt as important aspects of the relationship between franchisees and franchisors.

Hall and Dixon (1988:33) state that franchisee-franchisor relationship relies heavily on mutual "trust" between the parties. The franchisee must trust that the franchisor will provide support and assistance when this is needed, while the franchisor must "trust" that the franchisee will run the franchise according to the correct procedures. Hall and Dixon (1988:33) further state that "*the relationship will turn sour as soon as either party begins to mistrust the other.*"

Franchising is not just a commercial transaction, and to have an accurate picture of franchising there is also a need to look at the quality of communication. It has been found that the quality of communication is largely dependent on the quality of relationships between the people involved in the relationships (Nathan 1993: 7).

Halford (in Nathan 1993:25) reviewed nearly 100 research studies into marriage and partnership breakdowns, which provided useful insights into understanding the franchisee-franchisor relationship. The following aspects were found to play a significant role in relationships and these issues are also encompassed in the commitment-trust theory:

- Inability to deal with conflict,
- poor communication skills,
- unrealistic expectations and
- lack of supportive networks.

Turner in The Franchising Handbook (1993:172-178) recognises the key aspects in the managing of the franchisor-franchisee relationship over the long term and mentions aspects such as shared goals and communication, which coincide with the commitment-trust theory of Morgan and Hunt. Turner further states that franchising is based on a unique set of relationships because it is based on both business and human relationships and would therefore require a unique relationship management approach.

4.6.1 Other theories and models on relationship marketing

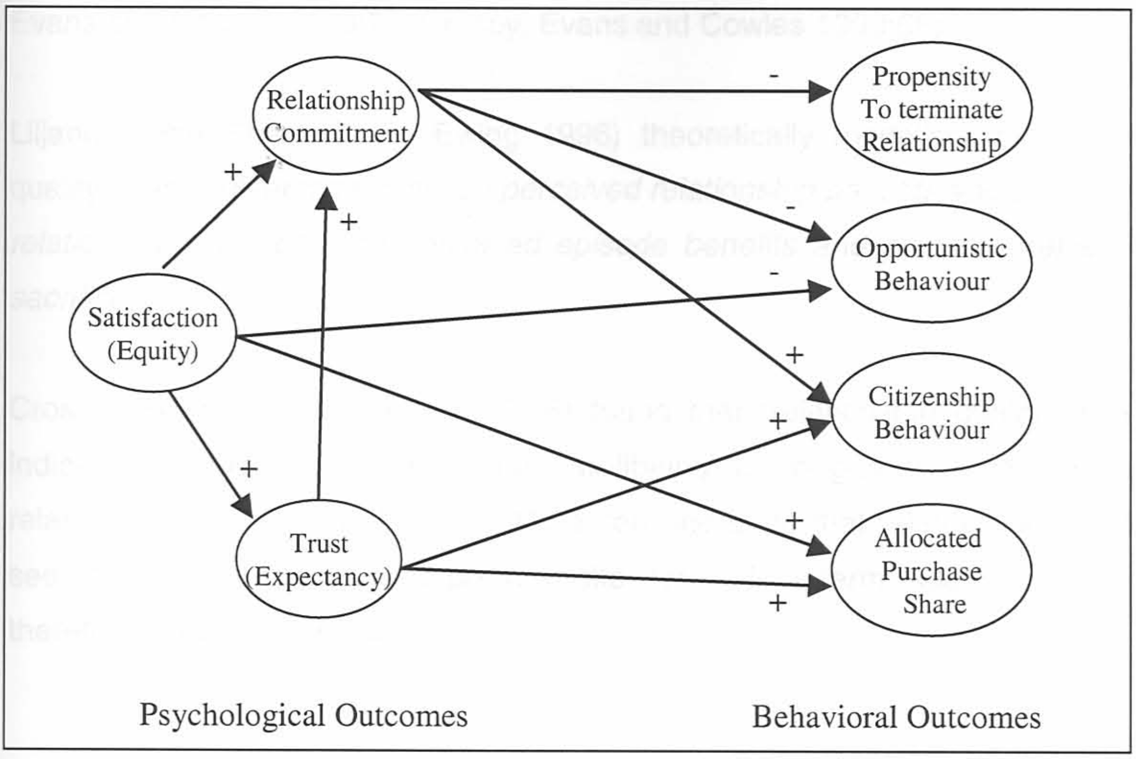
Gruen (1995) furthered the commitment-trust model of relationship marketing as proposed by Morgan and Hunt by including satisfaction into the proposed conceptual model. Satisfaction can be defined as "*a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm*" (Anderson and Narus 1990:45). Gruen (1995:456) defines satisfaction as "*the extent to which benefits actually received, meet or exceed the perceived equitable level of benefits.*" The term equitable relates to fairness, and therefore satisfaction responses represent judgments of fairness.

Satisfaction influences behaviour through the fact that exchange parties will modify their inputs into a relationship if the perceived benefits that they receive are not equitable. Satisfaction is also a more volatile construct than both "trust" and "commitment" because it develops more quickly than commitment (Gruen 1995:457).

The inclusion of satisfaction in the relationship marketing model is very important because it has been found that satisfied customers purchase more and are more likely to remain customers (Berry in Gruen 1995:456).

The focus of Gruen's study was on "business-to-consume"r relationships and not "business-to-business" relationships as Morgan and Hunt's study. This is one of the reasons that the KMV model of Morgan and Hunt was used in the study in question instead of Gruen's model. Gruen's model was also a conceptualization without quantitative research results (empirical testing) to prove the model. Gruen (1995) did however make a valuable statement regarding the inclusion of satisfaction in relationship marketing research and for this reason a relationship satisfaction measure was also included in the questionnaire (vide page 137 for more detail). Gruen's (1995) model of business to consumer relationships is shown in Figure 4.7.

Figure 4.7 – Outcome Set of Business to Consumer Relationship Marketing



<u>Adapted from</u>: Gruen TW. 1995. *The Outcome Set of Relationship Marketing in Consumer Markets.* International Business Review, 4(4):453.

4.7 NATURE OF RELATIONSHIP QUALITY

According to Bejou, Wray and Ingram (1996:137) relationship quality is an important component of relationship marketing.

Crosby, Evans and Cowles (1990:70) define relationship quality as when "*the customer is able to rely on the salesperson's integrity and has confidence in the salesperson's future performance because the level of past performance has been consistently satisfactory.*

"Trust" and "satisfaction" with the salesperson are two of the dimensions that form part of the relationship quality construct (Hutt and Speh 1995:509; Crosby, Evans and Cowles 1990:70). Other dimensions of relationship quality such as seller's expertise, seller's ethical orientation, relationship duration, customer orientation, selling orientation and service quality have also been said to influence relationship quality (Bejou, Wray and Ingram 1996:138; Crosby, Evans and Cowles 1990:70; Crosby, Evans and Cowles 1990:68).

Liljander and Strandvik (in Ewing 1996) theoretically modelled relationship quality as the "*difference between perceived relationship benefits and perceived relationship sacrifice, and perceived episode benefits and perceived episode sacrifice.*"

Crosby, Evans and Cowles (1990:76) found that "relationship quality" is an indicator of the health and future wellbeing of long-term service sales relationships. Bejou et al (1996:142) agree and state that relationship quality seems to be an important pre-requisite for a long-term relationship and therefore also for relationship marketing.

4.8 NATURE OF RELATIONSHIP SATISFACTION

Bejou, Ennew and Palmer (1998:170) state that relationship satisfaction is a multi-dimensional construct that is a prerequisite of relationship quality.

Based on the discussions in the previous paragraph on relationship quality and the statement just mentioned on relationship satisfaction, it is clear that "relationship quality" and "relationship satisfaction" cannot be a similar construct. For the purpose of this study, relationship quality and relationship satisfaction are operationalised as two distinctly different constructs. Relationship satisfaction is only one of the dimensions that form part of relationship quality and there are a number of dimensions that work together to form the relationship satisfaction construct.

Crosby and Stephens (1987) suggested that the relationship satisfaction construct consists of three dimensions, namely:

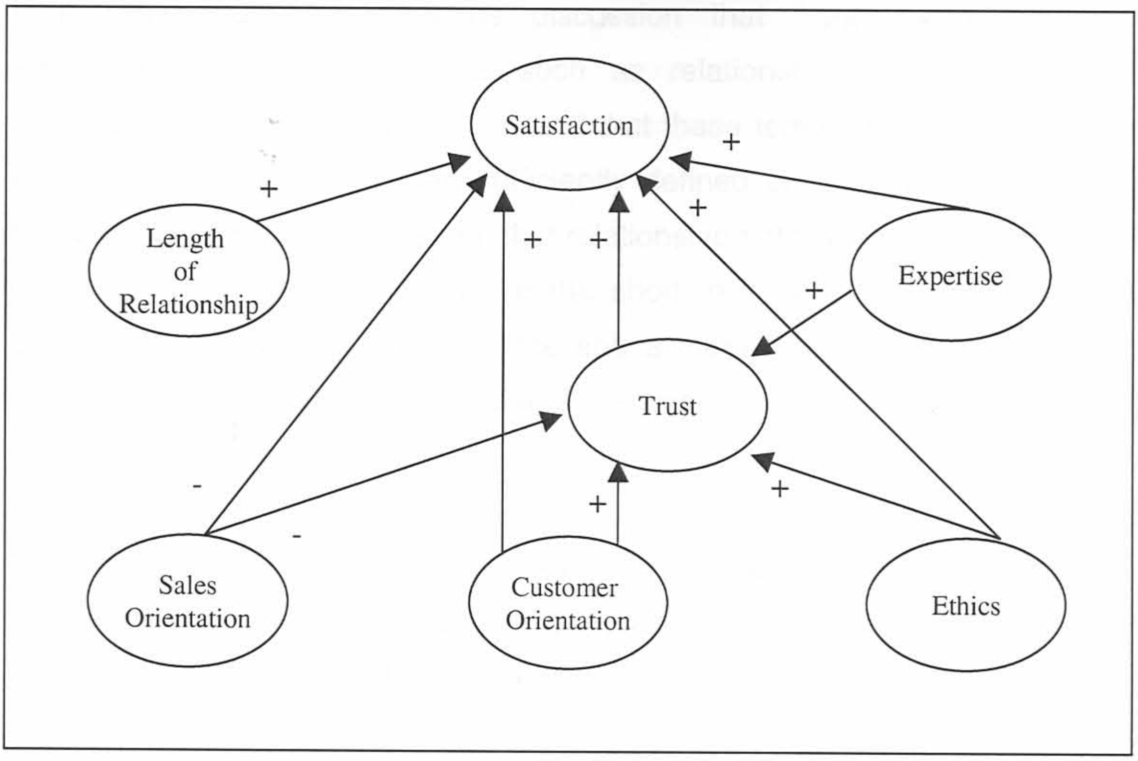
- satisfactory interactions with personnel,
- satisfaction with the core service (needs satisfying) and
- satisfaction with the organization

Bejou et al (1998:171) state that the quality of the relationship will be dependent on the quality of the interaction between a consumer and the company, the quality of the core service or product and the quality of the interaction with the organization.

Bejou, Ennew and Palmer (1998:174) found that customer orientation and trust significantly influence relationship satisfaction, but they found no significant contribution towards relationship satisfaction from the ethics of sales personnel or the duration of the relationship. They state that "*while is has been hypothesized that buyer-seller relationships – like other human relationships – go through some form of life cycle, this study has shown that relationship satisfaction did not increase in a straightforward linear manner with respect to relationship duration.*" They suggest further research on this topic.

Bejou, Ennew and Palmer's (1998) model is shown in Figure 4.8. Their model "talks about" the interactive dimensions of relationship quality. Based on the operational definitions that have been made in the study so far (and works of other authors cited in this regard), the concept that they discuss would pertain and could more easily be classified as "relationship satisfaction" rather than relationship quality. The figure has therefore been adapted to fit into this framework of thinking.

Figure 4.8 – Interactive Dimensions of Relationship Satisfaction



Adapted from: Bejou D, Ennew CT and Palmer A. 1998. *Trust, ethics and Relationship Satisfaction.* International Journal of Bank Marketing, 16(4):172.

Confirmation / Disconfirmation theory state that satisfaction is achieved when expectations are fulfilled. If expectations are **negatively disconfirmed** the result will be **dissatisfaction** and if it is **positively disconfirmed** the result will be **enhanced satisfaction** (Selnes 1996:307).

Dwyer (1980:45) states that perceived self control and cooperativeness of partners in a channel influences channel member satisfaction.

Selnes (1996) found that satisfied customers are more likely to continue a relationship with a focal supplier and enhance the scope of the relationship than dissatisfied customers. It was further stated that "*managing customer satisfaction and trust are key variables in both relationship maintenance and enhancement.*"

4.9 RELATIONSHIP MARKETING SYNOPSIS

It is clear from the previous discussion that "relationship marketing" encompasses various concepts such as relationship quality, relationship satisfaction, commitment and trust, and that these terms and the relationships between them have not been sufficiently defined or researched. From the literature available, it would seem that relationship satisfaction is a concept that could more easily be influenced in the short term, while relationship quality develops over a longer period of time and is more stable. It is however clear that all of these aspects play a role in developing and maintaining successful and profitable relationships.

Now that relationship marketing and the concepts that are involved in relationship marketing have been discussed, the question might arise as to where franchising fits into the picture.

4.10 PERSPECTIVES ON THE FRANCHISEE-FRANCHISOR RELATIONSHIP / NATURE OF RELATIONSHIP BETWEEN FRANCHISOR AND FRANCHISEE

Channel classifications are based on the acknowledgement of the dependence of participants and range from single transaction channels to conventional channels to vertical marketing systems (from least- to most open acknowledgment of dependence) (Bowersox and Cooper 1992:102).

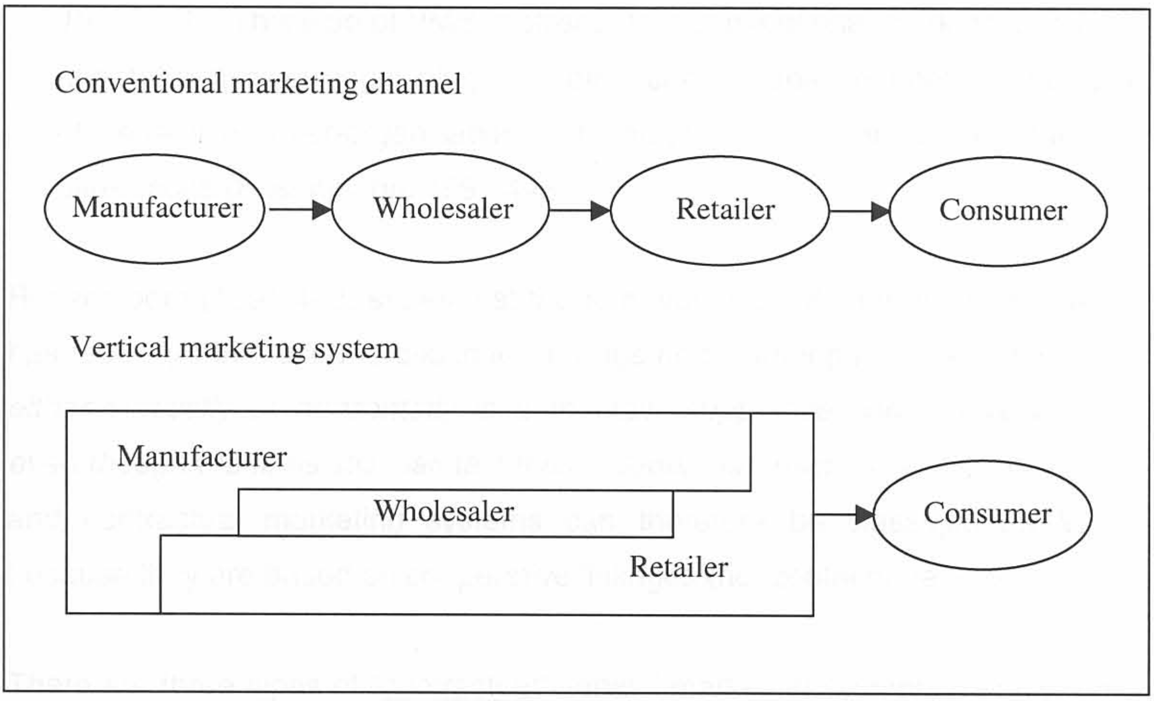
4.10.1 Vertical Marketing Systems (VMS)

This type of channel (VMS) has emerged to challenge the conventional distribution channels. A conventional distribution channel consists of independent producers, wholesalers and retailers each owning separate businesses and trying to maximize their own profits (even if it is at the expense of the profits of the whole system). In a conventional distribution channel, no member has complete or substantial control over the other members (Kotler et al 1996:817).

Bowersox and Cooper (1992:308) use the term "vertical marketing systems" *"to encompass all cooperative relationships designed to facilitate either selling or delivery of products in a timely manner."*

In a vertical marketing system (VMS) the producer, wholesaler and retailer act as a unified system. One channel member owns or franchises the other members and therefore has power to influence them to co-operate. Vertical marketing systems have the benefit of bargaining power, elimination of duplicated services and economies of scale (Kotler et al 1996:817, Kotler 1984:280). Figure 4.9 gives a visual presentation of the differences between a conventional distribution channel and a vertical marketing system.

Figure 4.9 – Comparison of a Conventional Distribution Channel With a Vertical Marketing System



Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 817.

A feature of vertical marketing systems is that parties acknowledge and desire interdependence, and that firms entering into vertical marketing systems focus on developing long-term relationships (Bowersox and Cooper 1992).

There are three types of vertical marketing systems namely corporate, contractual and administered. Although only the contractual vertical marketing system is relevant to this study a short explanation of the three types of VMS's will be given.

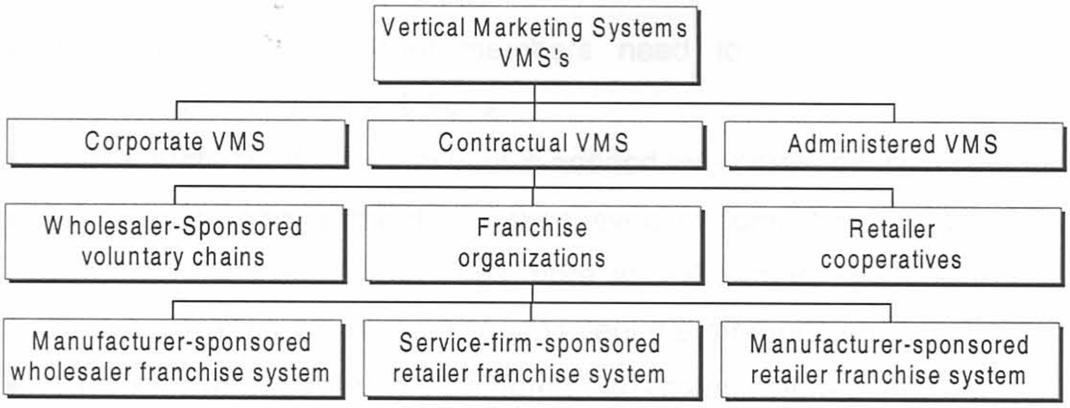
- "*A corporate VMS combines successive stages of production and distribution under single ownership*" (Rosenbloom 1991:443).
- "*A contractual VMS consists of independent firms linked by contracts, and that coordinate their programs to obtain more economies and/or sales impact than they could achieve alone*" (Rosenbloom 1991:443).
- *"An administered VMS coordinates successive stages of production and distribution* ***not through*** *common ownership* ***but through*** *the size and power of one of the parties",* for example, manufacturers of a top brand are able to gain strong cooperation and support from resellers *(Kotler et al 1996:818).* This type of VMS is closest to a conventional marketing channel and the feature distinguishing this from a conventional channel is the degree of effective inter-organisational management rather than structural differences (Rosenbloom 1991:443).

Rosenbloom (1991:442) states that the term value-added partnerships (VAP's) has recently been used to describe "*arrangements among firms linked together either vertically or horizontally in a mutually supportive cooperative network even though the firms still maintain their independent ownership.*" Administered and contractual marketing systems can therefore be classified as VAP's because they are based on cooperative linkages (horizontal or vertical).

There are three types of "<u>contractual</u>" vertical marketing systems namely, retail cooperative organizations, wholesaler-sponsored voluntary chains, and the one that is of interest in this research, franchise organisations / systems.

Franchising and its definition, types, parties involved etc. has already been discussed in chapter 1 and will therefore not be discussed again.

Figure 4.10 – Types of Vertical Marketing Systems



Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 817.

4.10.2 Contractual Vertical Marketing Systems and Channel Management

According to Rosenbloom (1991:455) power shifts in the channel which results from the growth of contractual VMS's, will have an important influencing role on the structure and management of marketing channels. In the next paragraph the influence of "power shifts" on management and structure of marketing channels will be discussed for franchise systems. Retail cooperatives and wholesaler voluntary chains will however not be considered.

Owing to the contractual basis of the relationship between franchisors and franchisees in a VMS, franchisors usually have a basis for exercising channel control (legal), which provides an important source of power to the franchisor. Government intervention in franchising and their view on limiting the powers of franchisors could play a significant role in the development of new strategies for franchisors with which to influence and control franchisees. The government's intervention in franchising reflects a trend of lessening the franchisor's legal capacity to exercise control over franchisees, which implies that franchisors will increasingly have to look to other power sources to control franchisees (Rosenbloom 1991:456-457).

4.10.3 Contractual Vertical Marketing Systems and the Reason for Failure

Bowersox and Cooper (1992:316) give six reasons why vertical marketing system arrangements fail:

- **Fuzzy goals** – channel members need to understand each other's requirements and expectations.
- **Inadequate trust** – mutual trust is needed for operational success.
- **Lip-service commitment** – uneven levels of commitment is created by the fact that one party usually has more at stake, more risk and more power than another party. Without commitment the arrangement will not succeed.
- **Human incompatibility** – different business cultures and values might make it difficult for companies to work together.
- **Inadequate operating framework** – clear role definitions and responsibilities need to be given to all parties.
- **Inadequate measurement** – the performance of parties in a VMS arrangement have to be measured in order to succeed in business.

Many of these aspects are present in the KMV model and the relevance of this model in the current study is therefore confirmed once again.

4.11 FRANCHISING AS A BUSINESS RELATIONSHIP / EXCHANGE RELATIONSHIP

Franchising can be described as a "business relationship" based on a legal structure. A franchisor grants a franchisee the right to use the franchisor's brand name, operating systems, etc. with the business purpose of getting and keeping customers (The Franchise Handbook 1993:11).

Turner (in The Franchising Handbook 1993:175) feels that franchisees are the most important customers that franchisors have in both the short and long term.

Because both the franchisor and franchisee have responsibility for the direction and development of the business, the relationship is interdependent (The Franchise Handbook 1993:11).

4.11.1 Franchising relationships and satisfaction levels

Hall and Dixon (1988:80) feel that problems experienced in the franchisee-franchisor relationship are related to the level of psychological satisfaction experienced by the franchisee. The factors that are said to influence the degree or level of satisfaction of a franchisee are:

- a balance between the psychological need for security and stability and the degree to which the business concept chosen fulfils that need. An individual that is prepared to take a limited risk will for example be better suited as a franchisee than an individual who has a very high need for security and stability (as offered by a secure job when working for someone else).
- the extent to which a person can feel part of a team. Some people derive great satisfaction from working in a team, while others prefer to keep to themselves. Between these extremes lies an individual that can derive satisfaction from working in a small team, or by working on their own as long as they feel a sense of belonging. The last type of individual would be best suited to running a franchise.
- a feeling of self esteem and achievement provided by the work situation. Some individuals (usually employees) will feel that they are just a number and that they aren't given the recognition that they need. These individuals might be attracted to the idea of owning their own business that would increase their autonomy, power and recognition. The move from an employee to an owner usually proves to be a satisfying experience.

Hing (1996:28) empirically identified why franchisee satisfaction is important in the relationship between franchisees and franchisors. Hing (1996) found that satisfied franchisees are more likely to:

- recommend the franchise to other potential franchisees.
- attribute the success of their outlet to their franchisor rather (than to themselves
- renew their contracts on expiration
- oppose governmental involvement in the legislation of franchise systems.

4.12 THE INTEGRATION OF RELATIONSHIPS AND LIFE CYCLES

Dwyer, Schurr and Oh (1997:15) suggest that buyer-seller relationships evolve through five general phases namely: Awareness, exploration, expansion, commitment and dissolution.

Awareness refers to exchange party's recognition of the feasibility of relational exchange possibilities.

Exploration refers to the search and trail that takes place in relational exchange and the fact that exchange partners will consider the obligations, benefits, burdens and possibilities of entering into an exchange relationship. The exploration phase contains five sub-processes namely attraction, communication and bargaining, development and exercise of power, norm development and expectation development.

Expansion is the third phase and refers to the increasing interdependence of parties as well as the increasing benefits obtained as a result of the exchange relationship. The fourth phase is commitment and refers to the pledge (implicit or explicit) of relational continuity between exchange partners. The last phase is that of "dissolution", and refers to the possibility of withdrawal from the exchange relationship.

Dwyer, Schurr and Oh's (1997:22) state that trust, commitment and disengagement are critical in understanding the development of a buyer-seller relationship.

The last two phases of Dwyer, Schurr and Oh's (1997:15) evolution process has aspects in common with Nathan's "Free" and "We" life cycle stages, which was discussed in the previous chapter.

4.13 SUMMARY

This chapter considered relationships, relationship management, relationship marketing and aspects such as relationship quality and satisfaction. Different models and theories of these aspects were discussed and the relevance of these aspects to franchising also received some attention.

The "commitment-trust" theory of relationship marketing was also discussed in detail because this theory forms the methodological foundation of this research study.

From this chapter as well as the previous chapters, it is clear that the relationship between franchisees and franchisors have much in common with exchange relationships and buyer-seller relationships found in the relationship marketing literature. Very little research has however been done specifically on the relationships between franchisees and franchisors and the life cycle that exist in this relationships. These facts lead to the research problem, which is discussed in the following chapter along with the rest of the research methodology.