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Customer engagement: transactional vs. relationship marketing

Tereza Šonková
Charles University in Prague
Czech Republic
tereza.sonkova@gmail.com

Monika Grabowska
Wroclaw University of Economics
Poland
monika.grabowska@ue.wroc.pl

Abstract. This paper is concerned with choosing a best way for customers' engagement, specifically we compare pros and cons of transactional and relationship marketing and provide relevant insights by analysis of data provided by 100 senior-level marketers working on the global market. Firstly, we outline the essence of transactional and relationship marketing by putting them in contrast. Afterwards, we present analysis of the study, results of which clearly indicate the growing role of the relationship marketing. Further on, historic overview of the evolution of marketing is provided so that the reader learns the context. This is followed by the description of the expanded marketing mix, which consists of seven elements – product, price, place, promotion, customer service, processes and people. The process of the proper implementation of relationship marketing strategy is then provided as a guideline for successful relationship marketing results. Finally, concrete examples of relationship marketing activities are given to support the theoretical description of relationship marketing.

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INTRODUCTION

In today's world, almost every company, and definitely each and every successful company, uses some form of marketing to reach their customers. For instance, on the Czech marketplace, businessmen began to realize, how important marketing actually is for their company's better results in sales and for the creation of a brand. Therefore, customers are nowadays witnesses of several marketing strategies. Transactional and relationship marketing strategies are one of those strategies and currently they are becoming more widely used. In order to understand which one of them is better, we shall put them in comparison.

In the 20th century, transactional marketing was the predominant trend. For this type of marketing, it is typical to focus on sales promotion and to endeavor attracting more and more new customers. It is characteristically short-term oriented with only little emphasis on customer service. Overall, the transactional marketing strategy implies rather slight relationship between a customer and the company. It is so due to the fact, that customer contact is held at minimum. Therefore, customer commitment to the brand is also not of satisfactory height.

Over the past few decades, more and more companies have started to realize, that their orientation on transactional marketing may not be enough for competing on the marketplace. Marketing is no longer just about developing, selling and delivering products. It is increasingly more concerned with the development and maintenance of mutually satisfying long-term relationships with customers (Buttle, 1996).

This paper is organized as follows: Firstly general information on the topic of the paper will be given, as well as analysis of data related to the customer lifecycle management covering pros and cons of transactional and relationship marketing, which indicates the growing role of the relationship marketing. Secondly, the relationship marketing will be described in the historical context. Thirdly, the expanded marketing mix will be introduced. Fourthly, the implementation of a relationship marketing strategy will be described. Finally, specific types of Relationship Marketing will be introduced, supported by existing examples from current marketing environment.

TRANSACTIONAL VS. RELATIONSHIP MARKETING – STATE-OF-THE-ART

Marketing specialists have slightly different views on what relationship marketing actually represents. The main disagreement lies in the answer to the basic question: which relationships does relationship marketing focus on? While some believe it orients strictly on external organizational relationships, others include the internal ones as well.

However, most of the definitions agree on three aspects of relationship marketing: 1) provision of engagement activities across stages of the relationship lifecycle, 2) naming individual customers, groups of customers, other companies and/or employees as targets of relationship marketing activities, 3) generating benefits for both parties involved. Through a combination of these aspects, Palmatier (2008) proposes the following definition of relationship marketing: "*relationship marketing is the process of identifying, developing, maintaining, and terminating relational exchanges with the purpose of enhancing performance*".

The main goal of the relationship marketing strategy is to create strong long-term relationships. Nowadays, it is believed that it cannot be narrowed only to relationships between customers and the company. Gummerson (1994) lists 32 different types of relationships that need to be taken in account. Buttle (1996) narrows them by claiming, that three different strategies must be introduced – the trade marketing strategy, the customer marketing strategy and finally the internal marketing strategy. Another point of view is provided by Christopher, Payne and Ballantyne (1991) who formulated a theory about the Six markets model in 1991. According to them, there are six markets to which companies should adjust their activities. They distinguish between customers markets, referral markets, supplier markets, employee markets, influence markets and internal markets. This model will be further described in the chapter on types of relationship marketing. The differences between transactional and relationship marketing are summarized in Figure 1.

	Transactional marketing	Relationship marketing
Focus on	Obtaining new customers	Customer retention
Orientation to	Service features	Customer benefits
Timescale	Short	Long
Customer service	Little emphasis	High emphasis
Customer commitment	Limited	High
Customer contact	Limited	High
Quality	Operations concern	The concern of all

Figure 1. The Differences between Transactional marketing and Relationship marketing
Source: Payne, Adrian (1994).

In contrast to what was mentioned about transactional marketing, relationship marketing focuses on customer retention, which means, that companies make effort to keep their existing customers rather than to attract new ones. In order to do so, they provide them with a variety of benefits. The companies also emphasize the ongoing contact with their customers so that they can effectively adapt their marketing strategy and create strong customer commitment. Some companies no longer use the term "customer", instead they prefer to name them "clients", "partners" or "associates". Some marketing specialists even compare the relationships between a customer and the company to marriage.

Christopher, Payne and Ballantyne (1991), Grundey (2009) define relationship marketing as the synthesis of customer service, quality and marketing. They claim that relationship marketing should focus on the approximation of these three fields, since they are essential for an efficient implementation of the relationship marketing strategy (see Figure 2). According to Buttle (1996), the relationships which are being created need to be built on concern for the welfare of the customers, on trust and commitment as well as on the service provided.

Since the customers of today are more demanding than they were 20 years ago, customer service has become a crucial part of the marketing strategy. Customers desire excellent service, which is empathic, responsive and of high quality (Buttle, 1996). It also needs to be adapted to the industry in which a company operates. Customer service accompanies each and every exchange a company makes, and therefore it has a great potential to influence the emerging relationships with the customers. Accordingly, it is important to improve customer service skills of the staff, to make plans in advance and to monitor the results of the implemented customer service strategy. When a customer is satisfied with the service provided, the relationship becomes stronger, which implicates it will also be long-lasting and profitable.

The role of quality is essential, because today it is mainly quality which can differentiate one company from another and which makes it unique. Companies should no longer orient only on the final outcome of the company but on the whole process of producing it as well. Employees of the purchasing department and of the distribution department need to be trained so that the highest possible quality standard can be reached.

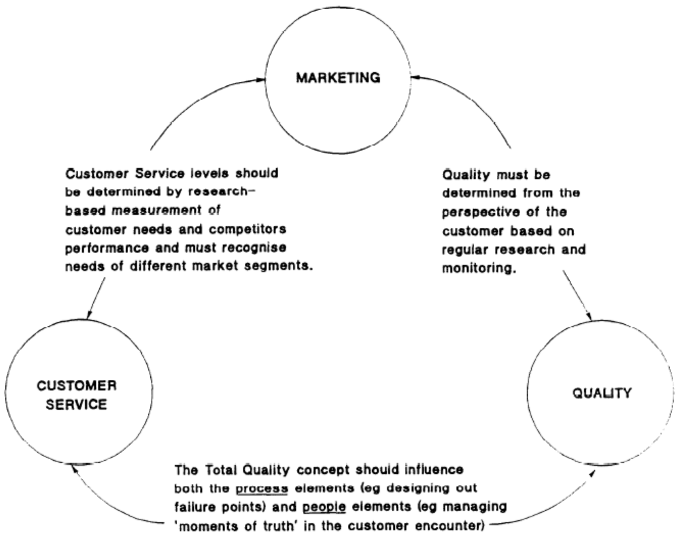

Figure 2. Linkages between Marketing, Customer Service and Quality
Source: Christopher, Payne and Ballantyne (1991).

As it was already mentioned above, the aim of marketing in a relationship marketing strategy is not just to attract new customers but also to keep them, which requires continuous improvement and innovation (Christopher, Payne, Ballantyne, 1991; Codourey, 2013). One of the greatest advantages of relationship marketing is that it is an ideal tool to target different markets by using personalized marketing content. However, relationship marketing is not necessarily the perfect choice for every industry. Moreover, not all customers appreciate when companies try to create strong relationships with them, which is why companies must be very careful and properly analyze, whether a relationship marketing strategy is a proper choice. Buttle (1996) claims, that the FMCG manufacturers market is unsuitable for this kind of strategy.

In order to keep the customers loyal to a company, the relationship needs to be characterized by trust and commitment. Customers should be convinced that it is profitable to reject alternatives that do not provide long-term benefits and that it is better for them to stay with the existing partners for the advantages their relationship brings to them. A company can for example take risks in favor of the customer, simply to show them how much they care. Marketers of the company must concentrate on preserving the existing relationships and persuade customers about their profitability in order to create a desire to maintain the relationship (Buttle, 1996).

When it comes to keeping the customers, Harris and McDonald (2004) speak of the importance of mutuality of relationships. Both sides should benefit from the interaction which has two positive outcomes. Firstly, a satisfied customer is likely to be loyal to the company. Secondly, the bonds created by a mutually beneficial relationship may be strong enough to prevent the customer from changing their preferences and choosing a competitor's product.

Considering the abovementioned, we see that relationship marketing strategy is more efficient compared to the transactional marketing strategy, but is this confirmed by any empirical data? In order to provide an answer to this question we suggest to analyze the data provided by the Gleanster and Yesmail.

This choice was made since in 2013 they conducted a survey capturing customer engagement practices from 100 senior level marketers across key industries including retail, financial services, insurance and healthcare. Moreover, targeted industries had a propensity for high volumes of customer interactions, multi-channel communication strategies, as well as online and brick-and-mortar sales models. Additionally, YoY revenue growth, click-through rates, customer satisfaction, and customer profitability were used as key performance indicators in mentioned survey. Key information on transactional and relationship marketing of obtained during the survey is aggregated in the figure 3 below.

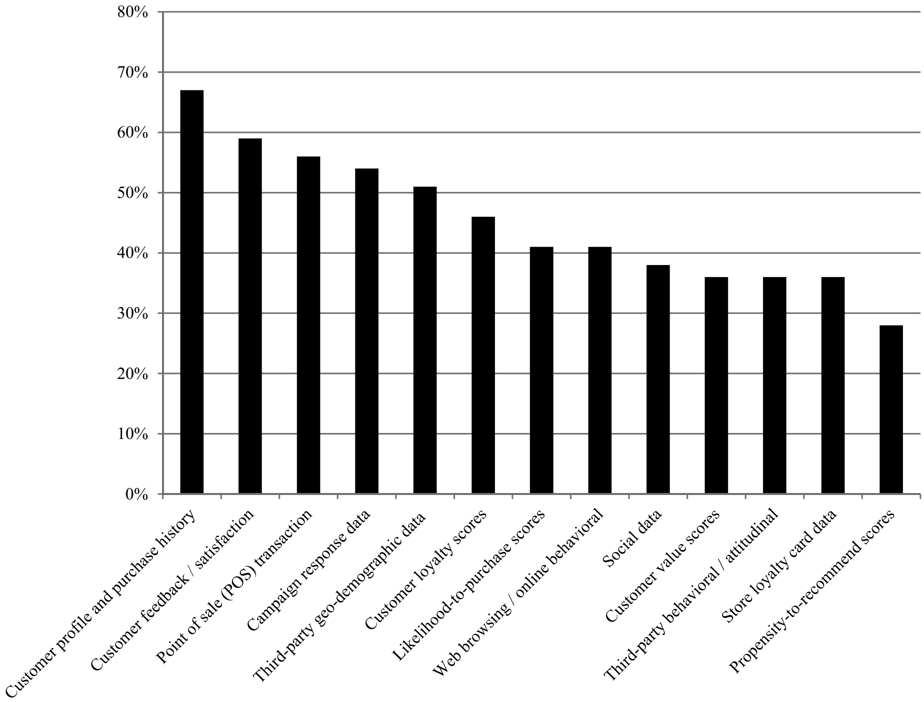

Figure 3. Aggregated data on transactional and relationship marketing indicators (% of usage)
Source: Survey of Gleanster and Yesmail (2013).

As it is seen, companies mostly use information on basic consumer needs and their purchase history in order to form their marketing strategies, i.e. they still use transactional marketing strategies. However, there is almost no room for increasing their efficiency due to high percent of such strategies implementation. Thus, there is a great potential in the development and use of relationship marketing strategies. Moreover, such potential is confirmed by the fact that only 21% of marketers have an excellent understanding of customers' channel preference and there is a lack of data-driven insights that would allow them to develop more personalized and client oriented marketing strategies for more efficient engagement of their customers. Therefore, in the text below we shall provide additional insights regarding relationship marketing for its better understanding and easy going implementation by the companies.

THE EVOLUTION OF RELATIONSHIP MARKETING

Though it may seem that relationship marketing has not been around for too long, the concept of it has already been used for hundreds of years. In fact, relational-based exchange was the norm for most of recorded history (Palmatier, 2008).

Before the Industrial revolution took place, trades appeared almost exclusively on local markets, where the farmers and craftsmen personally sold their products to customers. Moreover, some trade would only occur among groups with ongoing relationships, e.g. trade on the silk route (Sheth and Parvatiyar, 1995). The exchange was built upon mutual trust. The sellers knew what their buyers prefer and how to satisfy their needs.

The accomplishments of the Industrial revolution in the 19th century lead to both mass production and consumption of products. Producers were suddenly able to generate enormous amounts of goods at relatively low costs. Since the goods of different producers were highly interchangeable, promotion along with price adjustments became one of the most important elements of their marketing strategy. In this era, so called middlemen became an important part of the entire business. Their task was for example to store the large amounts of products or to transport them to the desired destination.

The 20th century has been very varied concerning the marketing development. The 1950s was the era of mass-marketing, focusing on consumer goods. In the 1960s, marketing focused mainly on industrial market. The 1970s represent the era of market segmentation (Buttle, 1996), non-profit or societal marketing (Christopher, Payne and Ballantyne, 1991). In the late 20th century, marketers and economists started to return to the relational-based concept of marketing. In the 1980s, first books on relationship marketing were published, making it a separate domain of marketing. In his paper on Relationship marketing, Robert Palmatier (2008) states two main reasons for the shift back to relationship oriented marketing strategy.

First of all, he argues with the shift of orientation of world's economies to service[1]. Under those circumstances, middlemen, who were so important during the industrial revolution, are no longer needed. Salespeople, on the other hand, come into personal contact with the company's customers on a daily basis. Parties to the transactions are bound on each other again and there is a direct relationship between the customer and the company.

Consequently, Palmatier (2008) states that relationship marketing is the best strategy option for service-providing companies. It is mainly because, unlike products, services are intangible and it is therefore all the more important to create strong relationships in order gain trust and be able to convince customers about the quality of the service.

Thirdly, the advances in technology support the return to relationship marketing. Thanks to the modern communication channels, companies are able to interact with their customers no matter the distance between them. Simultaneously, it is easier for customers to learn about the company and their services from different sources. Customers are well-informed and search for value. The progress in technology enables marketers to easily target at their customers, as well as to implement the strategy. Once the program is implemented, modern technology also helps with its evaluation.

Finally, the increase of global competition is stated as an influential factor on the return of relationship marketing. Its tools, such as loyalty programs, help differentiate the company from its competitors. Creating long lasting relationships is also economically reasonable, since there lower costs for retaining of customers, than for attracting new ones. In their research from 1984, Rosenberg and Czepiel claim, that it is between five to ten times more expensive to win a new customer than it is to retain an existing one (Buttle, 1996).

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[1] In the USA, service represents 85% of the economy (Palmatier , 2008).

RELATIONSHIP MARKETING AND THE MARKETING MIX

The American Marketing Association states, that: "*Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large*." [2]

In order to reach marketing goals, Kotler (2014) writes about the necessity of having a sophisticated marketing mix. The marketing mix is a term used on a daily basis on the marketing field. Originally, the marketing mix consisted of four Ps, which stood for the product, price, place and promotion. Later, some scientists included a fifth P in their definition of marketing mix, representing the *people*. We can understand the need of including people in the marketing mix as the indicator of the transition from transactional to relationship marketing.

In relationship marketing, the four Ps are perceived a little more widely than in the original conception of the marketing mix, as it was described by Philip Kotler.

First of all, companies applying relationship marketing effectively use mined data about their customers in order to customize the products according to their wishes. It is also quite common that those companies even cooperate with their customers on the development of their products. They can use focus groups or questionnaires in order to do so. Thereby, customers can for example influence the design of the products.

As for the price of the products, it is usually "made-to-measure" for each customer. The price is derived from the relationship between the company and the concrete customer. Secondly, it can be influenced by the bundle of products and services the customer buys. When talking about the business-to-business market, the price usually differs according to the specialized unique product for a company.

Regarding the third P, which stands for "place", relationship marketing also aims to satisfy the customer on a large scale. Relationship marketing offers a wide range of possibilities of how customers get the product they want. For instance, companies provide alternative ways of ordering the product (via the internet, phone call, personal order, etc.). They can also offer different paying and delivery options. What is more, some companies even provide alternative ways for the installation or a repair of a product.

Finally, while transactional marketing aims to communicate with the target group as a whole, relationship marketing prefers individual communication with the customers. Even though it uses different communication channels, they all support the same image and send out similar information to build the perception of the company by the customers. Companies applying relationship marketing create extranets for their most valuable customers in order to ease the exchange of information, as well as the ordering process and the payment (see Relationship Marketing: Kotler on Marketing).

While some relationship marketing specialist approve of the above described conception of marketing mix, others tend to customize it a little differently. Christopher, Payne and Ballantyne, for instance, have expanded the marketing mix by adding three other elements, which are customer service, processes and people (Christopher, Payne and Ballantyne 1991).

Customer service was originally incorporated in the product strategy. However, due to the evolution and transition from transactional to relationship marketing, it has become a separate element of the marketing mix. Christopher, Payne and Ballantyne (1991) state three main reasons for this. First of all, they argue that customers' expectations have become higher than they used to be. Thereby, it is increasingly important to provide on-time deliveries of the products to customers. Relatedly, customer service can today be used as a competitive weapon which differentiates the sales of a company from its competitors. Last, but not least, it is crucial to control, if the chosen customer service strategy is suitable to create a value proposition for customers when a firm that wants to build a strong relationship.

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[2] Available from: https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx.

Customer service is differentiated according to the segments which are being aimed at. There are two main terms to be defined when talking about customer service in the relationship marketing setting, the downstream and the upstream relationship. The downstream relationship represents the relationship a firm has with its customers, while the upstream relationship stands for the relationship with the company's suppliers.

Processes as an element of the marketing mix were added for their direct influence on the quality improvement. Process management involves the procedures, task schedules, mechanisms, activities and routines by which a product or service is delivered to the customer. It involves policy decisions about customer involvement and employee discretion (Christopher, Payne and Ballantyne, 1991). The failure of the process could completely ruin the whole aspiration of satisfying the customers and building a relationship with them.

As it was written above, the expanded marketing mix includes also a seventh element – the people. There is no doubt, that it is people, who are crucial for the proper implementation of a relationship marketing strategy. The employees of a company have an enormous impact on the entire marketing process and when a company recognizes their contribution they will become more motivated and the results of their work will improve increasingly.

In their book Relationship Marketing, Christopher, Payne and Ballantyne categorize the employees into four groups according to the level of their contact with the customers and according to the level of their influence on the marketing activities.

As we can read from the chart in figure 4, Contactors have a high frequency of customer contact and are also involved with the marketing mix. Therefore, their mission is to serve the customers and to satisfy their needs. Modifiers, on the other hand, are not involved in the marketing mix. Since they are often in contact with the customers, it is important that they know the marketing strategy of the company by heart in order to put it into practice.

	Involved with conventional marketing mix	Not directly involved with marketing mix
Frequency or periodic customer contact	Contactors	Modifiers
Infrequent or no customer contact	Influencers	Isolateds

Figure 4. Employee influence on customers
Source: Christopher, Payne and Ballantyne (1991).

The third category of employees, the Influencers do not have a frequent contact with the customers. Nevertheless, they cooperate on the implementation of the marketing mix by doing the research, working on development of products and services etc.

Finally, the fourth group of Isolateds is to be described. Although these employees do not have frequent customer contact nor are they involved with the marketing mix, they still have an impact on the performance of the company. They have to be familiar with the marketing strategy so that they realize their role within the company and help satisfy the needs of company's customers.

IMPLEMENTING A RELATIONSHIP MARKETING STRATEGY

While there are quite a lot of companies claiming they are relationship marketing oriented, not all of them actually are. The problem evolves from the fact, that a lot of companies that invent a relationship marketing strategy are not able to implement it properly. Companies are ready to spend a lot of money on CRM software and think this is all they need to do. In order to implement an efficient relationship marketing strategy, the entire company has to change to become customer oriented.

The main goal of a proper relationship marketing strategy is to increase customer's desire for the unique characteristics found in the relationship-based exchange (Palmatier 2008). According to Christopher, Payne and Ballantyne (1991), the implementation of a relationship marketing strategy consists of five different steps.

First of all, a mission statement must be provided. It has a strategic focus and contains the goals, beliefs and values of the company. The mission statement for a relationship marketing strategy needs to be customer oriented, provide specifications of how to differentiate the company or product from the competitors. Generally, it is important to include which products are to be marketed and for which markets. It is also right to provide a shorter copy of the mission statement for the employees of the company, so that they know about the aims and goals of their employer. According to Palmatier, it is crucial to train and motivate the staff in order to make them dedicated and competent (2008). Overall, it is often the concrete member of staff with whom customer feels to be in a relationship with.

Secondly, a strategic review and internal analysis need to be made. The analysis should concentrate on the industry as a whole as well as on particular relationships, which means that not only the competition and the power of their substitute products need to be analyzed, but also the relationships with customers, suppliers and competitors. Further on, it should include the analysis of the barriers there are to enter the business. At this point, primary activities (logistics, marketing and sales, service) and secondary activities (infrastructure, human resources management) to the strategy should be stated. The strategic review should also include the competitive advantages of the product. This stage also contains dividing the market into different submarkets, which can be done geographically, demographically, socioeconomically etc. Thanks to the segmentation, it is easier to modify the relationship relevantly for each submarket.

The next step is to formulate the strategy, above all the markets where the product will compete and which specific strategy is suitable for that market. As far as relationship marketing is concerned, the value delivery strategy seems to be the most suitable one (Christopher, Payne, Ballantyne 1991). In order to fulfill this strategy, company has to choose a value it wishes to deliver to the customer, provide the value and finally communicate it. It is not advised to use financial oriented strategies in relationship marketing. Not only do sales, discounts and other similar benefits not support long term loyalty, they can even have negative consequences among the current customers (Palmatier 2008).

The fourth stage of the implementation uses both the internal and external marketing, because it formulates, what the customer buys, when she or he buys the product. The offer should not be core; conversely, it should be augmented. An augmented offer provides an extra value for the customer and it differentiates the product from the others. Moreover, providing different bounds of products can lead to lower customer defection, since it can be considered a barrier for the customer to change a brand.

Finally, the last step is the service quality management. It is important to focus on how the provided quality leads to greater retention of customers. From this point of view, quality represents the match between what customer expects and what they experience. In order to enhance the quality, Total Quality Management (TQM) should be implemented. TQM represents the cooperation of managers from different departments of the company with the aim of providing the best possible service. Thereby, quality becomes an interest of everybody and there is high likelihood it will improve.

The aim of a relationship marketing strategy is to build a ladder of customer loyalty. That means to change prospects into customers, further on to clients, supporters and advocates. It is very profitable for the company to have a lot of advocates, who share positive word of mouth among their acquaintance. Therefore, companies must avoid conflicts and when they occur, they need to be resolved as soon as possible. Otherwise, it can lead to destruction of the relationship and to negative word of mouth.

The implementation of a relationship marketing strategy is not only about inventing a strategy and putting it into practice. It is immensely important to measure the assets of the implemented strategy on a daily basis. This should be done from both the customer perspective (perceived quality) and the internal perspective (quality of the strategy, leadership).

RELATIONSHIP MARKETING IN PRACTICE

Relationship marketing offers a wide scale of what a company can do to gain and keep customers, whether it is a customer reward program, involvement of the customers in the development of the product, live-in marketing, internal marketing or the application of the six markets model. They all help to create long-lasting mutually beneficial relationships, which is the main goal of relationship marketing.

Customer reward program is a strategy widely used among supermarkets and in the clothing industry. In practice, loyal It builds loyalty with the customers by rewarding them with discounts or by making personalized offers according to their previous purchases. When a customer fills in an application form, they become a loyalty card, which can collect data about their purchases. After they have collected enough points on their loyalty cards, customers become either some vouchers, coupons or money off their future purchases. There are quite a lot of companies applying this strategy. However, since almost every shop offers it, it is not as effective (Dowling, Uncles 1997).

Companies using relationship marketing can involve the customer in the development of the product. This cooperation is usually in the areas of design or taste of the product. A good example from the Czech environment is the Bohemia Chips company. Several times already have they made a competition for their customers to think of the best new flavor of their chips.

Another way of how to cooperate with the customers is offered by live-in marketing. Companies using live-in marketing let their customers use their product free of charge for a period of time. Thereby, customers can get used to the product in a relaxed atmosphere at home. This can have very positive consequences since it is both low-cost for the company and is likely to lead to positive word of mouth.

Internal marketing, unlike the other above mentioned types of relationship marketing, focuses on the staff of the company and it consists of all the marketing activities within an organization. Internal marketing sees every employee as a customer and a supplier at the same time. Simply put, every employee thinks of the next person as their customer and they work hard to satisfy them. Companies using internal marketing make staff climate surveys, they emphasize internal communication and collaboration, employees are rewarded for their assessments. The goal of internal marketing is that all staff work attuned to the company's mission, strategy and goals. Thanks to internal marketing, the final outputs are of suitably high, external customer-satisfying quality (Buttle 1996).

Finally, the six markets model will be described. As it was mentioned above, Christopher, Payne and Ballantyne distinguish between customer markets, referral markets, supplier markets, employees markets, influence markets and internal markets. As far as customer markets are concerned, companies should emphasize on creating strong relationships and try to turn prospects into advocates. The referral markets are represented by intermediaries, connectors and other referrals, who also need to be stimulated in order to spread positive word of mouth. For the suppliers markets, it is effective to implement a win-win strategy that could also be called partnership. Companies should prevent conflicts with their suppliers and rather compromise. As for the employees markets, companies should market themselves in order to attract motivated and trained employees. This could be done by providing recruitment brochures or by visiting university campuses. Sometimes, influence markets which include the government, regulatory and financial markets need to be addressed, simply by presenting the marketing strategy of the company. Finally the internal markets should be addressed, at best by using internal marketing as described above.

CONCLUSIONS

Relationship and transactional marketing strategies are the one that have been used ever since the first trades have occurred.

As it was revealed, despite the fact that recent studies state that there was a shift from the strategy of transactional marketing which dominated in the second half of the 20^{th} century to relationship marketing, the leading world-wide companies are still using transactional marketing strategies, but there is a strong necessity to increase the use of operational marketing strategies, since transactional one have already exhausted their potential.

Above all, the relationship marketing strategy is long-term oriented and it emphasizes providing quality customer service, which leads to customer retention. The main reasons for this shift were the growing global competition on the marketplace and development of technology.

Not all marketers agree on whose relationships should be included when describing relationship marketing. For some of them, this term includes strictly the external relationships, while the others include internal relationships as well. Nevertheless, they do agree that the mission of relationship marketing is to create value for the customer by differentiating their offer from the competitor's.

Companies using relationship marketing try to reach customer's expectations, and preferably even to exceed them. This can only be done through implementation of a proper relationship marketing strategy, which needs to be adopted on every level of the company. The employees should be concerned with the quality of the product they provide and they should be familiar with the company's mission, goals and beliefs.

It is also important to collect data about customers in order to personalize the relationship marketing strategy. The assets of an implemented relationship marketing strategy should be monitored so that the strategy can be improved if necessary. Customer reward programs, involvement in the development of a product, live-in marketing, internal marketing and the implementation of the six markets model can be listed as examples of a relationship marketing strategy.

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