# Relationship marketing builds illusionary loyalty as salespeople capture customers' hearts

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The battle to win and keep customers in an increasingly competitive and crowded marketplace has become tougher as more companies and products are available to the free world. In response to these competitive pressures, companies are increasing efforts to build customer loyalty --commonly referred to as relationship marketing -- but have these efforts been a waste of marketing dollars, or money well spent?

A team of researchers led by Robert Palmatier, an assistant professor of marketing at the University of Washington's Michael G. Foster School of Business, has found that the payoff from relationship marketing depends on who owns the customer relationship, the salesperson or the company he or she is employed by.

Most firms are unaware that relationship marketing efforts may be generating illusionary loyalty, say researchers in a recent issue of the *International Journal of Research in Marketing*. They say relational loyalty focused toward a salesperson rather than a company as a whole has a larger impact on customer behaviors and financial performance such as increasing sales, but can be worse for the business by making the company more vulnerable to salesperson defections. Palmatier says managers have to balance the higher returns generated by customer-salesperson relationships with the risk of losing salespeople.

"That's because managers typically only measure their customer's loyalty to the firm, leaving them with a false sense of security if the majority of that relational loyalty actually is owned by the salesperson and the salesperson moves to a competitor," Palmatier says.

He says a key issue facing firms is how to control where relationship-marketing-induced- customer loyalty resides.

As part of their study, the researchers merged survey data from customers and their respective salespeople across 362 different customer-salesperson pairs from industries such as electronics, industrial safety and telecommunications. Buyer relationships averaged 6.2 years with salespeople and 9.7 years with representative firms. All were business-to-business relationships. The researchers examined how the financial performance of these companies was affected by their use of a social, structural or financially-based relationship marketing program.

Social-relationship-marketing programs convey special status and entail social engagements such as meals, entertainment or gifts. Social programs lead to strong salesperson-customer relationships, with no effect on the customer-selling firm relationship. Value-added benefits that are difficult for customers to supply themselves like electronic order-processing and customized packaging are characteristics of structural relationship marketing. Structural programs lead to customer-selling firm relationships unless the customer perceives that these benefits are being allocated based on the salesperson's discretion.

Most surprisingly, he says, financial relationship marketing, or the provision of direct economic benefits in exchange for past or future customer loyalty including special discounts, free products and other incentives was found to provide little relational benefits for salespeople or firms. Even worse, when customers perceived that financially-based incentives were allocated by salespeople, these programs actually had a negative impact on customer-selling firm relationships. Palmatier believe this is because salespeople often communicate to customers that they are giving these benefits as an extra favor to the customer even though it is against their firm's policies. This has the effect of undermining the customer's relationship with their firm.

Overall, Palmatier recommends if salesforce turnover is low then firms should employ social-relationship-marketing programs because they have the largest impact on performance via customer-salesperson interpersonal relationships. In situations with high salesperson turnover, firms should invest in structural-relationship-marketing programs and control the message that is delivered in conjunction with the program. Based on this research, Palmatier says financial programs are not effective at building customer relationships, but should be used as a pricing program instead.

Source: University of Washington

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