

Market Development and Relationships with Customers. A Model and Conceptual Approach

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Abstract *The main task of the modern enterprise is to build strong, sustainable relationships with clients and business partners. Currently, the final version of the company's offer is the result of cooperation across a network of companies forming one set of values for the customer. This applies not only to suppliers and intermediaries, but also to partners of strategic alliances or joint ventures. The value of the offer to the customer depends on the "quality" of these partnerships. A good reputation makes the company attractive to potential partners and facilitates the establishment of cooperation, which allows companies to offer customers a wider range of values than the competition. The aim of this work is to present models and concepts that shape the market and customer relationships. In addition, the advantages and disadvantages of different theoretical concepts are shown by linking them to economic reality.*

Key words Relationships with consumers, market, knowledge, reputation, cooperation

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1. Introduction

Developing strong relationships with customers is a very important challenge for modern enterprises. The goal is to create lasting and profitable relationships, often in new, otherwise inaccessible markets. This requires companies to have an innovative orientation adapted to building value based on an extremely precious resource: client portfolios. The essence of marketing management is not only the selection of the right customers, but above all maintaining relationships and leading to higher levels of profitability. To achieve this goal, companies need to measure the value of their current and future customers. Developing relationships with loyal customers only has value if it contributes to fuller knowledge of their needs, and thus - to the building of marketing strategies that lead to increased customer value for the company.

The main aspect of modern management is the development of strong relationships with business partners. Past and present relationships with customers must be used to build a knowledge base about customers, which serves to increase their value for the company. In customer value management, managers are moving away from product portfolio management and transitioning to client portfolio management..

2. Research Methodology

The aim of the work is to present models and conceptual aspects of the market and customer relations. The author presents select theoretical and practical mechanisms shaping the contemporary market. Attention is paid mainly to the new opportunities of developing relationships with business partners, which are often a way of obtaining a competitive advantage in the market. Areas where the market is developing, in terms of new value for the customer, are explored. The work is also an attempt to present a new concept of personalized, customer oriented operations. The working models and concepts are interpreted (explained) through the prism of their advantages and disadvantages.

In this work, the methods used were the study of literature and source materials in their electronic version, observation, and analysis of case studies. The study method used was descriptive analysis based on

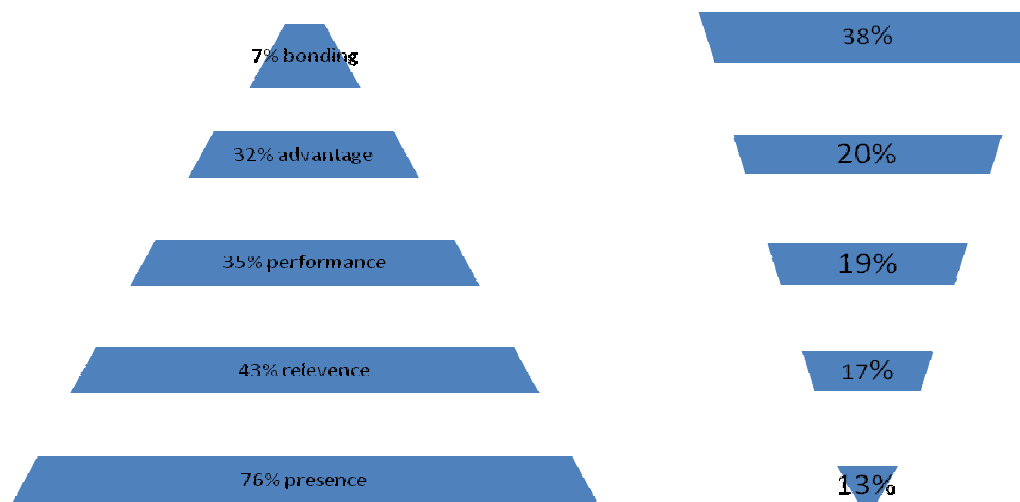
extensive literature studies. The use of foreign literature was necessary because of the dearth of Polish studies. This enriched the arguments and discussion of new aspects, and allowed to show the research problem in a broader perspective.

3. A model approach to relationships with customers

The complexity of a company's relationship with customers is described in the Brand **Dynamics Model**, created by the company Millward Brown. The model goes beyond the commonly used measures of mass marketing such as brand awareness and loyalty. The rationale for the creation of this model was in fact a need for more accurate assessment of companies' relationships with customers.

The essence of this model is to distinguish among different relationship levels between consumers and the brand, product or company. The lowest relationship level is *presence*. This stage of the relationship includes active knowledge of the company. This means spontaneous brand awareness, having tried the product in the past or understanding the value it offers. This is the lowest relationship level with the company. The consumer moves to the second level, *relevance*, if he is convinced that the product correlates with his needs and expectations.

The next level in the model is *performance*. At this stage, the client must accept the quality of the product. Sometimes, the acceptance of quality by the customer is not enough. This is especially so when many competing products are available on the market. In this case, it is best that customers perceive the product as one that offers a higher value. This level is referred to as *advantage*. The highest level in the Brand Dynamics model is *bonding*. Consumers in this level of relationship with the company are likely to be regular users. However, the degree of loyalty will depend on the extent to which consumers are loyal to other brands (consumers may be loyal to two rival companies, regularly buying the products of both). Figure 1.1 shows an example of data from the Brand Dynamics model for an American brand of FMCG products, along with information about customer spending on products in this category.



Source: Dyson, P., Farr, A., Hollis, N.S. (1996). *Understanding, Measuring, and Using Brand Equity*, Journal of Advertising Research, November–December

Figure 1. Brand Dynamics pyramid and the share of an American brand of FMCG products in customer spending

The Brand Dynamics model is presented in the shape of a pyramid. This is due to the fact that the number of customers at a higher level cannot be greater than the number of customers at a lower level. A negative answer to a question related to a lower level of the pyramid results in not asking the consumer about relationship characteristics of higher levels. Research of this type should be carried out among consumers belonging to the target group of the company. The number of respondents from the target group

for each question, and therefore the shape of the pyramid, is worth comparing with the results of competitors. Such a comparison may indicate areas of advantage or weakness for the company.

The shape of the pyramid, taking into account each section, may suggest actions the company could take in specific areas. If the pyramid is narrow at the base but only tapers slightly at the top, this may suggest that the company is less known, but its customers are convinced of the quality of its products or services, and also to a large extent declare loyalty to it. The company may choose to extend the base of the pyramid by increasing knowledge of the company and consequently serve more clients. However, there are certain risks to this approach. The company's offer may be profiled to a certain type of consumer, giving them a much greater value than to other consumers. In addition, the company may not have sufficient resources and expertise to handle a larger number of customers. What's more, research shows that servicing a smaller part of the market may have a higher level of return on assets than the leader, challenger or a company with the third largest market share.

A different shape of the pyramid - a wide base with narrow upper sections - may suggest that the company is known, but customers are not convinced of the quality of its offer and are not specifically loyal to it. Using the model approach, the company should focus on increasing value for customers to increase loyalty. Note, however, that such a pyramid shape may be due to conditions of the market sector, including its structure, and in some cases it may be a convenient solution in terms of generating financial benefits.

The Brand Dynamics model may also be used to present the rationality of applying selected Internet marketing tools. Advertising on search engines increases the company's presence primarily in the lower levels of the pyramid. In turn, the use of a newsletter or social media can translate into a better perception of the company by customers, i.e. an increase in the number of customers at higher levels.

A company's relationship with its clients may take on different forms depending on its duration and complexity. Exchange of value in its simplest form, in the shape of a transaction, is a single event characterized by low engagement of both parties. The opposite of a transactional exchange is a relationship between buyer and seller with multiple exchanges of value and is linked with a higher level of commitment than in the case of a transaction.

Relationship marketing, a model approach to company relationships with its customers, is presented by S. Hougaard and M. Bjerre. They distinguish three components of the relationship between buyer and seller. These are: exchange, interaction and integration (Hougaard, Bjerre, 2004). A relationship which is dominated by the exchange of value in the form of repetitive transactions is the simplest form of exchange. A more complex type of relationship is based on interactions - exchange of value which also includes the exchange of information. The result of exchange based on interaction can be the creation of social or structural bonds. The highest form of relationship is integration on both sides. This consists of mutually tailoring resources and ensuring the efficiency of operations.

S. Hougaard and M. Bjerre present three main areas of difference between transactional and relational exchanges of value. These are: the mobility of resources, the efficiency of the exchange and the time dimension of the exchange. The high mobility of resources occurs in the case of a transactional exchange. According to the authors, the company is free to allocate resources among all their various types of clients, without reducing the rate of return on assets. In the case of relational exchange, resources are adapted to the specific characteristics of each customer, which involves additional costs when attempting to reallocate these resources. The same situation exists for the customer – switching companies with whom they have transactional exchanges is associated with much lower costs than in the case of relational exchanges. The second area of difference between transactional and relational exchange is exchange efficiency. Transactional exchange is accompanied by higher transactional costs, which reduces its efficiency. Transactional and relational exchange is also differentiated by the time dimension. In the case of transactional exchange, efficiency is verified with the size of the transaction. In the case of relational exchange, efficiency refers to the whole relationship.

S. Hougaard and M. Bjerre propose conditions that contribute to the adoption of transactional or relational exchanges. Factors contributing to the adoption of transactional exchange include the important role of the product in the overall value composition, low cost of customer acquisition and low switching costs for the customer (Hougaard, Bjerre, 2004, pp. 43-47). By analogy, if services are the most important part of the total composition of value, with high costs of customer acquisition and high switching costs, the adoption

of a relational exchange is considered a better option. This is an important point, since it shows that not in all markets, and not in all customer groups, is it justified to invest in the development of long-term relationships with customers.

Another model showing important aspects of company relationships with their customers is the Blattberg/Deighton/Thomas Model. The core of the described model is customer equity – a concept similar to the profitability of customers. According to the authors of the model, the company may influence client equity through three types of activities carried out in the area of relationships with customers (Blattberg, Getz, Thomas, 2004). These activities are customer acquisition, customer retention and cross selling, i.e. the use of existing customer relationships to sell additional products. In practice, the advantages of this model are:

- it allows for the determination of the optimal allocation of resources for acquiring, retaining and cross selling to customers (if the company possesses the necessary information to make such decisions),
- it allows to take into account the life cycle of the customer and the assigning of company activities to each of the stages of the life cycle,
- simplicity in the concept, flexibility in the area of analysis, the ability to adapt the model to the specifics of the organization; the authors go beyond the area of customer relationships, giving recommendations on how to manage an organization focused on maximizing customer equity.

The disadvantages of the Blattberg *et al.* model are:

- the authors refer to the concept of client equity and provide a complex formula for its calculation, but do not define the concept; they also do not explain how this concept varies from others, such as the profitability of customer relationships,
- the authors introduce new concepts, such as the optimization of customer equity, which in the presented model refers to the same factors as its maximization.

4. The concept of customer relationship personalization

Peppers and Rogers are the creators of the concept of customer relationship personalization (Peppers & Rogers, 1997). This concept implies that companies should not compete by striving for the highest market share and for sales of products to the greatest number of customers. The key to success in the modern economy is in fact building long-term relationships with customers, where customers are offered products tailored to their individual needs. Rather than focusing on market share, Peppers and Rogers pay attention to the participation of the client, and instead of increasing economies of scale, the authors point to economies of scope. The role of customers in the described concept is not limited only to the acquisition of products. The essence of this concept is that customers work with the company to adjust operations to meet customer expectations.

Within this concept, customer contacts with the company should contribute to the deepening of bilateral relations through regular updating of knowledge about the customer and the customer's perceived value to the company. Every meeting with a client should be a continuation of previous interactions and, as emphasized by the authors of the model, the conversation should be taken up at the place where the last one left off. The authors recommend ensuring the profitability of customer relationships through the use of modern communication channels, capable of maintaining the unit cost of the interaction at a low level and to facilitate the acquisition of knowledge about customers. An important issue is the adjustment of the company's operations to the needs of their customers. This may not only result in a higher level of satisfaction, but also higher switching costs, which can lead to an increase in customer loyalty.

It is worth noting that the concept of collecting information about buyers, their segmentation, and the differentiation of offers, is not novel, as it was already present in mass marketing in relation to market segmentation. The Peppers and Rogers model is not a simple transfer of this concept to the sphere of relationships with individual customers. The authors modified the concept by including the stage of interaction between the company and client, suggesting a long term relationship, and thus making the process much more arduous.

The authors of this concept took into account the technological changes taking place very accurately, particularly in the field of telecommunications. Thus their model is widely used in the implementation of customer relationship management.

5. The concept of market development and customer relations

There are two competing concepts in terms of the approach to customer relations:

- market development,
- servant leadership approach to customer needs.

The first concept is the development of the market structure and the behavior of market players in such a way as to improve the competitive position of the company (Jaworski, Kohli & Sahay 2000). The essence of this concept is the creation of new customers by constructing new needs and demand. Consequently, the customer is the result of marketing activities, not its starting point.

The second concept depends on the identification and understanding of customer preferences and responding to them within the existing market structure. This orientation is characterized by service, and at its core, it is concerned with how best to meet the identified needs of the client and gain their sympathy and loyalty.

Table 1 shows a comparison of the concept of market development and the servant leadership approach to satisfying customer needs. The basic characteristics (aspects) of the market development approach and the servant leadership approach to satisfying customer needs have been isolated, so that the main differences between these two concepts could be better understood.

Table 1. Comparison of the concept of market development with the servant leadership approach to satisfying customer needs

Description	Market Development	Servant leadership approach to satisfying customer needs
Entity subject to change	Customer	Company
Customer needs	Undiscovered	Articulated
Nature of activity	Strategic	Operational, tactical
Levels of market activity	Market	Customer relations, market
Communication model	Push	Pull, push
Loyalty	Built by imposing standards, Switching costs	Built by satisfaction
Innovation	Breakthrough	Incremental
Risk	Offer does not correlate with customer needs	Blind to changes in the market
Financial Benefits	High	Low

Source: own research

In the concept of market development, it is customers who must change. They change their needs, preferences or behavior, influenced by the actions of the company. Effectiveness of the actions taken in market development depends on the persuasive ability of the company and the flexibility of customers. In the servant leadership approach to satisfying customer needs, it is the company that must allow for a degree of flexibility in order to provide the client with a composition of values to satisfy his articulated needs. Change involving the matching of the right marketing mix is therefore a necessary skill of servant leadership companies wishing to satisfy the needs of their customers. Naturally, the division outlined above is rare in practice. Companies within the market, introducing new products, do not do so in isolation from knowledge of customer needs. Furthermore, if the servant leadership approach induces customers to purchase products, shapes their loyalty, and sometimes even educates them, thereby it also encourages customers to change their behavior or preferences.

It should be emphasized that the servant leadership approach satisfies the articulated needs of customers. The servant leadership approach to meeting needs is - depending on the nature of the relationship with customers - tactical or operational in nature. In the case of market development, the company makes customers aware of needs they did not know they had, or of new ways to satisfy existing needs. Creating and developing markets is a strategic action. It is connected with long-term planning, it affects the functioning of the company, requires the use of more resources (including knowledge), is associated with a high level of risk, and the results of actions are only visible after a long period of time (Vlasic, Troilo & Kohli, 2010).

Less clear are the differences in the scale of operations. In market development, operations take place on the scale of a collection of customers, and in some cases a collection of other entities: brokers, companies

producing complementary goods, regulators. Servant leadership activities, in turn, are often targeted to individual customers, although in the case of uniform needs may also be carried out on a mass scale.

There are also differences in communication strategies. The market development approach uses the *push* model to communicate, that is, taking direct actions which influence potential customers to buy the product or change their perception of the company etc. (Kumar & Shah, 2004). Informing potential customers about the values offered appears to be necessary, since otherwise they may not be aware of new solutions. In contrast, companies using the servant leadership approach may, to a greater extent, and in some cases exclusively, use *pull*-type communication, with customers initiating contact with the company.

In the concept of market development, customer loyalty is achieved, inter alia, by offering unique value that is not offered by the competition. Another way to secure revenue for the long term is to do everything possible to make the company's solution a market standard. In this way, not only will existing customers be loyal to the company, but potential customers have no choice but to use its products. The potential abandonment of the use of the standard means incurring the often high costs of switching suppliers. In the case of the servant leadership approach, customer loyalty is often portrayed as a consequence of the satisfaction of customer needs. However, for more complex business relationships with clients, where products are fully adapted to the needs of customers, the cost of switching suppliers is also high. The cost of finding a new company, the time that elapses before it adapts to the needs of the client, and the accompanying uncertainty of whether the value offered will be obtained at a satisfactory level, may deter customers from switching companies and cause them to remain with a current provider.

The dissimilarity of the two approaches is also seen in terms of innovation. Activities in market development are based on radical innovation. In the case of the servant leadership approach to satisfying customer needs, innovations are generally incremental (Kumar, Scheer & Kotler, 2000). The customer chooses a company whose offer is correlated with his needs, and sometimes expects an adjustment of values to suit his needs.

In the case of market creation and development, there is a risk that the company's proposed solution, in spite of its technological innovation, will not be correlated with the needs of customers. A completely different risk is associated with the servant leadership approach to meeting the needs of customers. Companies that focus on meeting the needs of current customers may not see changes appearing on the market, and risk having their solutions becomes obsolete. This situation is not a problem for existing customers, because they receive value tailored to their needs, but may hinder the company's ability to compete for new customers. G. Hamel clearly writes about the tyranny of the experience, as well as the tyranny of customers and markets, which totally absorb the attention of account managers (Hamel, 1996).

Research shows that projects using solutions from the market development approach achieved greater financial success than those using the servant leadership approach to satisfy the needs of customers (Vlasic, Troilo & Kohli, 2010). This should not be surprising, since a higher level of risk is taken by companies who develop the market, and they deserve to receive higher remuneration for it. However, such a conclusion may be a shortcoming of the research. There is a risk that researchers only took into account existing firms, meaning those who took the risk of developing the market and survived, which in itself can be considered a measure of success. The omission of companies that took the risk of developing the market and failed may interfere with the research results.

The model of offering value to customers presents a different conception of customer relationships. The first element of this concept is the definition of value for the customer. At this stage, decisions are made about the specifics of the value composition and about the target group, to whom it will be delivered. The starting point for defining value can be the Ohmae strategic triangle, comprising of an analysis of the 3C's: Customers, the Company, in particular its resources and competencies, and Competition (Ohmae, 1991, p. 81).

Developing value for the customer is the next step in the process of offering value to customers. At this stage, the company performs optimization and coordination of actions to increase the value offered to customers or to reduce their costs (Ryan, 2011). Next, decisions are made about the brand and company image, customer relations, the role of customers in the process of co-creation of value and so on. Once values are shaped, the process of communicating them to customers takes place. This includes informing clients about the value offered to them, forming customer expectations and creating new needs. The purpose of

communication is the proper positioning of the company and the perception of the value it offers to its customers, as well as building confidence in the company and persuading customers to make a purchase (Pride & Ferrell, 2012). The final stage is to provide value to customers, including distribution, sales and customer service. The company's ability to skillfully deliver value to customers depends on the efficiency of marketing channels, which have a significant impact on the success of the process.

6. Conclusion

1. There is no universal theory (model) explaining the various aspects of creating and developing the market and shaping relationships with customers. Each model has its initial conditions (assumptions), which simplify economic reality. It provides a certain amount of information (data) that may be helpful for managers in making certain decisions. At the same time, it should be added that not every model (concept) works in every economic situation, due to the different conditions existing in the market.

2. Developing the market and building strong relationships with customers is now an important aspect of marketing management in the modern enterprise. The ability to build relationships and a new marketing concept - relationship marketing, which provides continuous knowledge about customers, enables the mastering of this art.

3. In view of the changes taking place in the business environment, it can be concluded that the formation of lasting relationships with customers is simply a way to gain competitive advantage. The factor for the stability of relationships is undoubtedly knowledge. It is now one of the most valuable resources; its collection and skillful use forms the basis for strategic decision making and development of marketing strategies. The greater the resource, the easier it is for the company to develop and offer valuable benefits to their clients, and this, in turn, effectively prevents clients from forming relationships with competitors.

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