

# **Exploring relationship value on the business-to-business market**

**- the case of quality management consulting -**

Competitive paper

**Zoltan VERES**, Prof., Head of Institute, Budapest School of Economics

H - 1165 Budapest, Diósy Lajos u. 22-24. Hungary

Phone: 36-1-467-7851, E-mail: mktg@kkf.hu

**Beatrix LANYI**, University of Pécs, Faculty of Business and Economics Hungary

H-7622 Pécs, Rákóczi út. 80.

Phone: 36/302379789, E-mail: beus\_lanyi@hotmail.com

**Tibor MANDJAK**, Prof., Bordeaux Business School,

and Budapest University of Economic Sciences and Public

Administration

33405 Talence CEDEX, France

Phone: 33-5-56-84-22-28, E-mail: tiber.mandjak@esc-bordeaux.fr

## **Abstract**

In our paper "relationship marketing" is analysed and considered as a specific marketing strategy to achieve a high perceived customer value of a professional service client. This value must be considered by the client as a higher one than the competing offerings (Anderson-Narus 1999). The higher the perceived value the stronger the client's commitment to develop or to maintain a long-term business relationship with the service provider. The long-term relationship has a certain type of usefulness for both the client and the supplier. For the client the consequences of a long-term business relationship are the loyalty, a higher perceived service quality, a better knowledge and the reducing of the risk. The consequences of a long-term business relationship for the service provider are more exact ideas about the customer's needs and wants and a more effective product, service and process development. The value of a long-term business relationship is depending on the presence and the intensity of these elements of usefulness for both parties. In our exploratory study based on in-depth interviews with a quality management consulting firm and its long term clients in Hungary, we have found again that a long term relationship in this professional service business could be established by a mutual developing of information exchange, communication, helpfulness and flexibility.

Client and supplier firms are increasingly engaged in co-operative inter-organisational relationships. This activity is frequently referred to as "relationship marketing", and describes a situation where customers and suppliers seek to form long-term, mutually supportive, social, economic, service and technical ties (Boughton et al. 1966). This paper discusses the relationship marketing approach on the business to business market but in a special aspect, namely from the point of view of consulting. The focus is on the interface of relationship marketing, business marketing and services marketing. Many papers have dealt with the relationship marketing in case of services (Berry 1995, Bitner 1995, Buttle 1996, Christopher et al. 1994, Colgate, Steward 1997, Grönroos 1991, 2000, Gummesson 1994, Mattson 1997, Ravald, Grönroos 1996 etc). This paper advances an empirically grounded approach to the study of relationship value in the business to business market. As a means of exploring the relationship value, a model was developed. The model will be explained through the factors observed in the case of consulting. On our findings new result variables have to be added to the relationship model and the contribution of these variables to the relationship value is significantly different.

## **Development of the concept**

Our study intends to explore the relationship value in the case of quality management consulting. The purpose of this article is to examine the issue of partnering between consulting company and its clients. First we discuss the problem statement of our paper. Second identification of key factors influencing the consulting activity follows. An adapted general model of the business relationship in the field of consulting will be introduced. Then a framework of a business relationship model will be derived from the empirical data.

Problem statement: Companies have to learn continuously about their client's needs and expectations that are ever changing and often unpredictable. Management consulting is a facilitating activity (problem identification, analysis, solving and implementation), not a direct performance of management duties. What is more, quality management is not an ad-hoc consulting, but a forced long-term relationship due to mutual interest of knowledge exchange.

## **Research process**

In our paper we present some empirical results of an exploratory research about the value of the business relationship in the quality management consulting. Our qualitative research has taken place in Hungary. We have made in depth interviews with a well-known quality consulting company and its long lasting partners. Why quality management consulting? "Quality standards are written down generally but these are only guidelines. The consultant can bring it alive," said one of our interviewed companies. This is a field of research where relationship marketing has a particular role and where the traditional marketing tools are not effective any more. The main objective of the study is to highlight those factors, which have special influence on the relationship in the studied sector of the business to business market.

Our starting point is an empirically tested model of professional service business relationships (Kenesei 1998). This model describes the determinants, the special contents and the results of a business relationships. The special content, the relationising (Kenesei 1998) has four interactive elements like information exchange, communication, helpfulness, and flexibility (figure 1.). The whole model and these constructs were tested on the Hungarian corporate financing industry (Kenesei 1998).

Based on the results of the first analysis of the interviews, in this paper we focus on the explaining of these constructs. We suppose if the elements of information exchange, communication, helpfulness, and flexibility are refund in the context of management consulting it could be interesting to try to apply the original model too. It could be not only a certain generalisation of it but also a good conceptual help for managerial decision making about the relationships.

## **Research methodology**

Original data for this study was gathered from nineteen companies. The companies interviewed operate in different industries (e.g.: telecommunication, post, delivery, manufacturing, transportation, public utility etc.). This diversity offered the opportunity to compare and analyse the differences of consulting relationship in the different branches of industries. But also it became possible to highlight the differences in and importance of the relationship value concept in companies of various types. The companies in the sample are very different both in terms of size, revenues and nature. Considering the size from SMEs employing only few people to huge multinational companies (e.g.: Schöller) can be observed and both non-profit and profit oriented companies are represented in the sample.

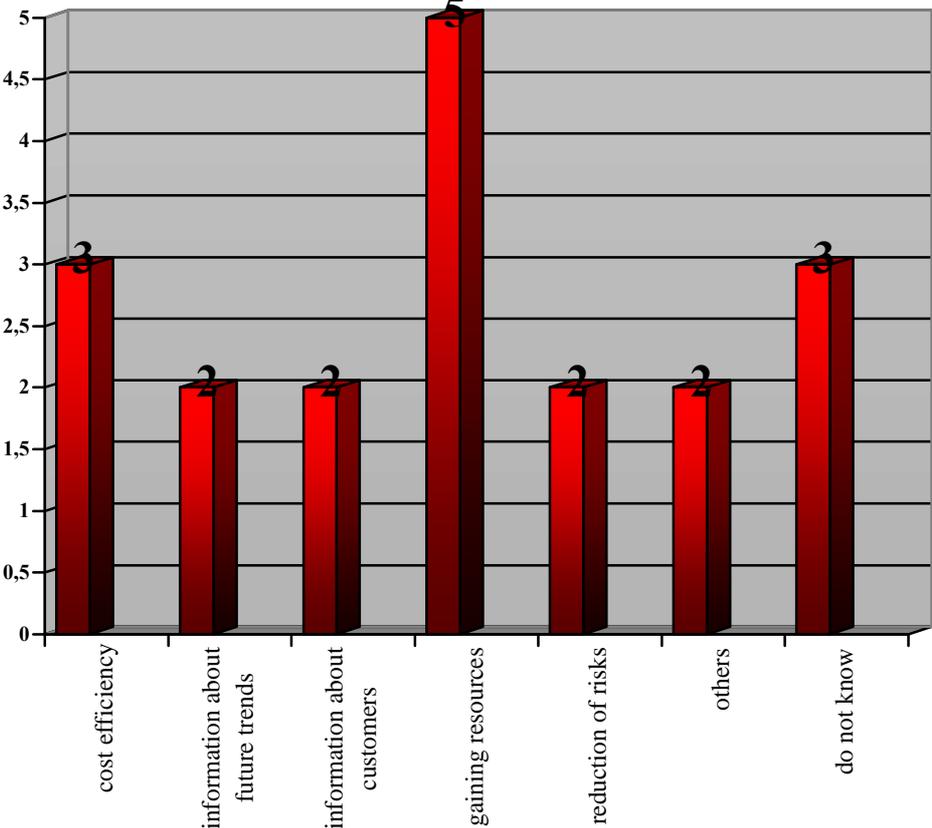
The instrument for data collection was in-depth interviews and a questionnaire. The questionnaire was designed for the purpose of descriptive research. A five point Likert scale is used to allow for comparison of means. The questionnaire layout ideally produces a “snowball effect”. This is created through giving the respondents a feel for what the study is about, even if there are not actually aware of the term “relationship marketing”.

### *Explaining information exchange*

*Information* has a particular role in business-to-business relationships. It is worth examining from both the consulting company and its partners' point of view. Information already plays a crucial role in the beginning of the relationship. They are developed to gain resources (e.g.: human resources, knowledge), to reduce risks, costs, market uncertainties and to achieve cost efficiency (see the figure). Only two of the respondent companies argued that they were unable to reduce market risks, “the consulting company did not contribute directly to the reduction of market uncertainties they only provided guidelines”. But this was due to the fact

that this company has a monopoly position in the Hungarian economy, so its market position could not be changed with relationship development.

**The main reason of choosing the consulting company as a business partner**



From the service provider firm's point of view the information leads to the reduction of the market uncertainty. Records of clients' behaviour, held and accessed on the database system, will become a primary marketing resource of many firms. For the firm, the anticipated value of customer information may facilitate future exchanges with a customer, and increase its "lifetime value" (their benefit to the firm over an extended period of time) in several ways. The relationship history and the knowledge, which the firm acquires, about each customers can itself provide opportunities to increase value. As firms acknowledge the anticipated use value of their client information, they find it necessary to move towards a longer-term orientation in their relationship with clients. They try to encourage movement from recurrent

to relational exchange activities with clients. The development of commitment, trust and long term orientation between the firm and its clients becomes key creating positive gain in the future dealings between clients and firms.

Customers can benefit from the reporting of information. The information system of the consulting company can help the partner with operational and financial management. In our case the information flow has a specific importance. In many cases even the work experience was the determinant factor that led to the decision which consultant to choose.

Information exchange has three direct consequences:

- *Reciprocity*: each partners allows to the other to condition its responses: “I influence you, you influence me”.
- *Empathy*: each party reaches out to identify with and understand the other party’s circumstances, feelings and motives.
- *Vulnerability*: both sides in the relationship “let down their guards” to some level that remains safe and comfortable yet allows information to flow and trust to build.

These three factors were mentioned by the respondents. It becomes clear that both parties in the relationship realises the “bright and black side” of the relationship. But all companies in the sample realised that they can utilise more benefits if they are partners in the interaction network.

*...knowledge is not always enough they thought us how to use it...*

Companies in the sample unanimously agreed on that the knowledge and skills of the consultant were essential. Greater openness and freer communication between buyer and supplier have been enhanced by the closer relationship.

*...they are really partners...*

It led to an easier and more effective information flow between the consultant company and its partners. According to the majority of the companies participating in the sample, the most important benefit they acquired from the relationship was the gaining of knowledge and information. Of course it partly derives from the nature of the consulting activity itself. This creates an atmosphere which allows consultants to have a greater understanding of customer

plans, minimises surprises and permits them to be more responsive to the customer's needs ("our consultants helped us to focus on the problems").

*...we had to reorganise our corporate processes...*

The bulk of the companies used the method of re-engineering. Through the relationship development corporate processes has become transparent, redundant parts could be separated and information has become up-to-date.

Every company represents a combination of human and physical resources that makes certain activities possible. These are then tied into the activities of other companies. Beneath the activities of an industrial company there is a pooling and combining of the knowledge and skills of the individuals. Sharing of information can be conducted formally and informally. Concerning the relationship approach the informal way of information exchange is more important. It is crucial component of the interaction process because it lowers the client's perceived risk and improves the suppliers credibility. Successful relationships are theorised to be high on information exchange connected to long-term planning and product-, production- and logistic related issues. With the help of close and long run relationships the opportunity presented itself to recognise the redundancies in the corporate processes.

*...consultants helped us to get rid of our blindness...*

This made it possible that the information flow between the partnering companies became up to date and transparent. Creating and managing relationships with business partners increases the possibility to predict fluctuations in demand levels, reduces operation costs and improves the quality of production by achieving an efficient scale as a result of a deepening of the relationship with the partners and the more and more correct information. A special source of income derives from competitions. Consulting companies always have the current information about conducted and advertised competitions. Through the partnering relationships they are able to transfer these valuable data directly to the clients.

Due to the continuous information flow companies know much more precisely their business environment that can contribute to the reduction of the risks and uncertainties on the market. But most respondents were unable to determine whether this kind of information helped them to anticipate the future demand. It has two reasons. The first one is that few companies in the

sample serve simply as “suppliers” of an other firm. They always know the quantity and the quality required by the partner. But the real cause lies in the historical background. Central and Eastern European countries suffer significant backlogs in many fields. It is owing to this fact as well that companies have only realised the importance of quantifying the gains of and benefits from information exchange and relationship value in the recent years. Now they do not yet have the exact and accurate methods of measuring but they recognised the significance of it. It will be the challenge to them for the future.

### *Explaining communication*

The research highlighted that *communication* is another crucial factor in connection with the relationship value, which worth examining (figure 1.). Effective communication is essential for the inter-firm strategic co-operation. The deeper the co-operation the more complex set of management consulting services will be needed by the client. After a while the partnering companies will be dependent on each other. They do not only create partnerships in the field of services but the whole operation processes are closely linked to each other. Our research results have highlighted another significant factors as well, the larger the company, the closer the relationship is between the service provider and the client. But the term size does not mean hierarchy at the same time. There is a reverse relation between the hierarchy of the company and the communication, information exchange and flexibility. The high level of hierarchy hinders the communication, flexibility and the information flow.

Theoretical framework in the negotiation literature distinguishes three types of bargaining behaviour as competitive, command, and coordinative. Competitive and command negotiating behaviours stem from a zero-sum or win-lose orientation and attempt to maximise one’s own outcomes through opportunistic behaviours such as promises, persuasive arguments, and positional commitments. These behaviours preclude development of trade-offs or alternative solutions and result in an increased level of role conflict and decreased levels of satisfaction with the negotiated outcomes. As a consequence the positive development of relationships is impeded (Dabholkar et al. 1994).

On the other hand coordinative negotiation behaviours stem from a problem-solving orientation that emphasises joint-gain over personal gain. This approach is characterised by extensive information sharing, flexibility, two-way communication and a willingness to explore alternative solutions. All these support and promote the development and maintaining the relationships with business partners.

*...we could better meet the requirements...*

The non-opportunistic and flexible nature of client-oriented behaviour allows the partnering organisations to attain their mutual goals and satisfactions through an exchange relationship. The accomplished research proved that the better and more effective the communication between the two companies was the more valuable the relationship was felt by the partners. The half of the companies in the sample experienced image improvement through the relationship development. Joint problem solving is theorised to help partners better manage an uncertain and turbulent environment than each alone could control. Most of the clients argued that one of the most important factors of remaining loyal to the consulting firm was the way of communication how they were treated.

*...it was a really friendly way of working together...*

To examine this concept first we must have a closer look at the companies' communication strategy. One of the most important part of the communication strategy is to ensure that the communication is sufficiently frequent. Frequently needs to be defined. Frequent is most likely to mean more frequent than competitors. A study of competitor communications may indicate real opportunities to get closer to the clients. If the service meets the clients' requirements they will recommend the consulting company to others as well. This is proved by the fact that more than a half of the companies in the sample got acquainted with their existing partners through the word of mouth or different advertisements. Communication should be more individual, so that the clients have a feeling of personalisation.

*...it was an adventure to work with them together...*

In our case the service consulting is always customised. Each firm has to get a personalised service. But the impact of efficient communication can be hindered by some unexpected factors. According to the usual practice in Hungary efficient communication is not enough. Sometimes the changing in the management can lead to the death of existing relationships and business partners will be substituted for new ones, which were previously closely related to.

### *Explaining helpfulness*

The next factor, which needs to be examined, is the *helpfulness* (figure 1.). None of the companies can expect to build customer loyalty unless the employees who interact with customers are willing and able to put forth a discretionary effort that underlies exemplary customer exercises. If the customers are wanted to be loyal the given company has to instil in the employees the appropriate attitudes so that they are willing to make the commitment throughout the organisation. Most of the clients came back to the examined consulting firm not because they have no other options but because they value those qualities that differentiate the examined company from its competitors.

Customer loyalty and employee loyalty are inextricably linked. Consulting companies are knowledge-based firms, which means that knowledge transfer belongs one of their most important activities. Consultant commitment and loyalty can largely determine the partnering company involvement toward the consulting firm.

In every interview we tried to highlight the strongest point of the relationship. Seven of the nineteen companies responded that helpfulness, five that knowledge, information exchange and nine argued that both information exchange and helpfulness played the most important factor in the relationship process. Reliability, selflessness, fairness and personal contact played key roles too. It was emphasised that consultants were always available, they were prepared and their knowledge was indisputably up to date. In case of consulting it is not enough to be aware of regulations, consultants must put it into practice as well. They must know how to provide a customised service to the client.

### *Explaining flexibility*

The last factor influencing the relationship value is the *flexibility* (figure 1.). From the viewpoint of client satisfaction one of the most significant component is flexibility. Time has become a strategic factor for all types of businesses. Faster product development and service delivery time relies on a corresponding increase in the speed of information acquisition and processing. Our in-depth interviews showed that partnering is perceived as advantageous when time is on the essence. The interviewed companies emphasised that they realised “firms saved time, which is crucial” in their highly competitive environment. The industrial materials manufacturers described the efficiency of less “time in the learning curve” when working with a partner. Our study has shown that greater the degree of flexibility between the parties concerned the fewer the barriers the relationship development.

*...we were very glad because consultants always tried to realise our situation and they made actions only according it...*

And the fewer the barriers of relationship development the more loyal the partners will be. Relationship development with customers can be an avenue to gaining competitive advantage. The sources of competitive advantage can be cost, time, quality and flexibility. Through flexibility the service provider is able to reduce the actual waiting time well. Moreover, a firm's competitive advantage derives from its ability to nurture long-term relationships with customers. If the partners know each other over longer period of time the service provider can understand the customer's holistic needs will be able to mix and match various products and services commensurate with customers' specific needs.

In the poll almost all respondents expressed that flexibility was crucial in their business activities. It made the immediate response possible. As a consequence of this they experienced a higher perceived service quality and they felt much more satisfied.

## **Conclusion**

Consumers can benefit from the long-term service relationship. Having a long-term relationship with a service provider can reduce consumer stress as the relationship becomes predictable, initial problems are solved, special needs are accommodated and the consumer learns what to expect.

*...relationship meant a trump card...*

Another benefit from the customer long-term relationship is that it precludes the need of change. Human nature is such that most people prefer not to change, particularly when there is considerable investment in a relationship. If the service provider knows the business partner, knows its preferences and has tailored services to suit the partner's needs over time, than to change would mean educating a new provider on all of these factors. These types of switching costs are high.

Staying in a relationship also serves to simplify one's life. They search for ways to make everything easier by reducing decision-making.

*...uncertainty was reduced and we saved considerable amount of money as well...*

The continuation of satisfying relationships frees up time for other concerns and priorities. In some long-term relationships, a service provider may actually become part of the customer's social system.

## **Summary**

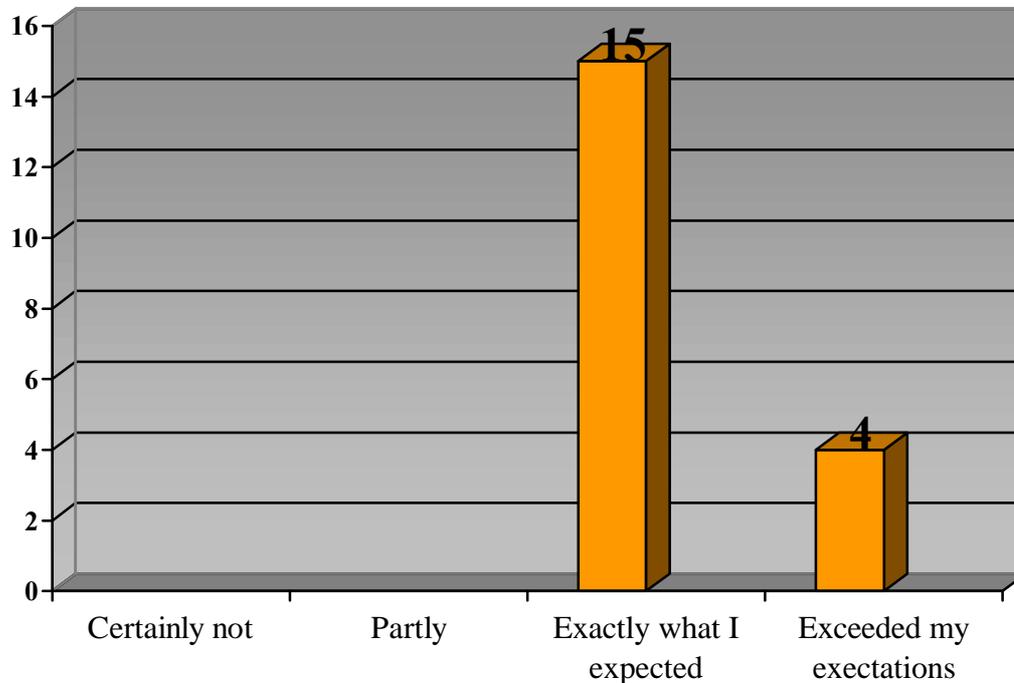
Relationship marketing focuses on getting and keeping customers. As a consequence of these customers has a perception that they gain a higher service quality and they remain loyal to the service provider. In the case of consulting one of the main reason of the loyalty is that clients got valuable information from the service provider. This kind of information helps to reduce risk and environmental uncertainty. As a consequence of this customers have a better knowledge of their business environment and they can better satisfy the needs of the final customers. Their perceived product/service quality becomes higher too.

*...consultants opened our eyes...*

Precise information contributes to the success of product, service and process innovation. With the exception of one company – which had a monopoly position on the market – every company expressed that their opportunities have broadened with the relationship development. All requirements were met or even exceeded by the consultant partner.

Sometimes these changes can contribute to image development as well. Everyone in the sample stressed that they could largely utilise the gained knowledge and information. All respondents argued that they prefer the strong relationships to the polarisation of business partners. The power of trust can be found in the focal point of the arguments which is an efficient means of avoiding or reducing risks and market uncertainties.

### Did the co-operation meet your requirement?



### Framework of a business relationship model?

Relationship marketing is concerned with customer loyalty because the benefits of retaining customers, and the activities involved in it are aimed at developing long-term, cost-effective links between an organisation and its customers. All these lead to the reduction of opportunism and contribute to the value perception of the relationship (figure 2.).

The strength of the influence was examined in the accomplished research as well. (x), (xx) and (xxx) indicate the intensity of the relationship. (xxx) means that the long-term relationship has very strong, powerful influence on the given factor. (x) show only a weak relationship. It can be easily recognised that loyalty, higher perceived service quality, effectiveness of product, service and process development and accuracy of ideas about customers' needs and wants are strongly determined by the long-term relationship. While the length of relationship and image improvement are only weakly related to each other.

Summarising our first results we have found that the long-term relationship has a certain type of usefulness for both the client and the supplier. For the client the consequences of a long-term business relationship are the loyalty, a higher perceived service quality, a better knowledge and reducing of the risk. The consequences of a long-term business relationship for the service provider are more exact ideas about the customer's needs and wants and a more effective product, service and process development. The value of a long-term business relationship is depending on the presence and the intensity of these elements of usefulness for both parties.

It has to be underlined that generalisation of the findings is very limited, for the relationship value is always specific to the industry and the firms by its nature. All what we can define as generalised managerial implication is that clients can be convinced about the advantages in the forced relationship if the relationship management is based upon the explored intensities. Taken an example of another model this relationship is very similar to Gummesson's R29, i.e. the marketing supplier nano-relationship.

As further research topics we can mention in one hand a possible quantitative broadening of the research up to the population of the whole industry and in the other hand identification of a client-typology in the relationship management.

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Figure 1.

THE RELATIONSHIP MODEL  
(Source: Kenesei 1998.)

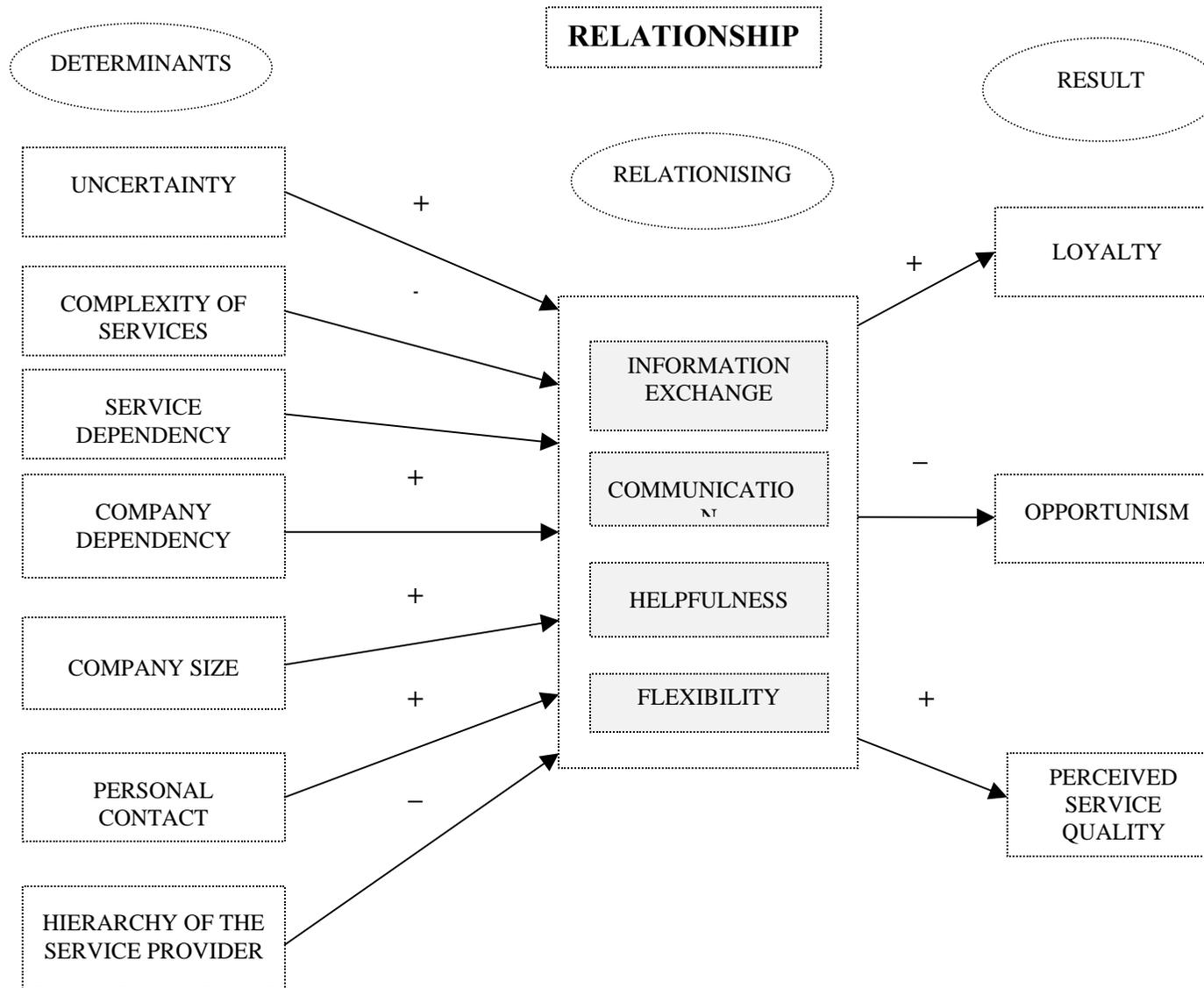


Figure 2.

FACTORS INFLUENCING THE RELATIONSHIP VALUE

