

PARADIGM SHIFT IN MARKETING THEORY & APPROACH: THE EMERGENCE OF RELATIONSHIP MARKETING

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Abstract

Marketing discipline is undergoing a change in its orientation from transactions to relationships. This change is the result of a dynamic focus of marketing that has shifted over the years. Beginning with the commodity and institutional schools, the marketing discipline has witnessed the rise and falls of functional, managerial, and exchange schools of thought over the years. The exchange view of marketing, that gained prominence in the 1970s and 80s, is currently under question as to its ability to offer a general paradigm for understanding marketing's role in the organization (Webster 1992). Current marketing practices suggest that enlightened companies are moving away from an exchange and transactions approach towards relationship marketing. Such an orientation of marketing seeks to develop close interactions with selected customers, suppliers and competitors for value creation through cooperative and collaborative efforts.

This paper examines the factors that have led to the emergence of a relationship orientation in marketing. It traces the historical development of marketing thought and establishes that early marketing thinkers were not as concerned with exchanges as they were concerned with the functions performed by marketing institutions that created value for the consumers. However, in the 1960s, proponents of the functionalist school of marketing thought, such as Wroe Alderson (Alderson and Martin 1965) and William McInnes (1964), launched the exchange perspective of marketing. This was further boosted by Kotler when he called transaction as the core concept of marketing (Kotler 1972). In a series of related articles, Bagozzi (1974, 1975, 1978, 1979) presented his conception of exchange as the fundamental foundation of marketing.

Some critics of the exchange perspective also emerged, for example, Ferrell and Perrachione (1980), but Hunt (1983), after reviewing the debate, proclaimed a decisive victory in favor of the exchange perspective by suggesting that the basic subject matter of marketing is the exchange relationship or transaction. However, the debate was not over. Sheth, Gardener and Garrett (1988) maintained that the social exchange perspective had limitations in offering concepts on which a general theory of marketing could be developed. More specifically, they argued that market transactions should not be the fundamental unit of analysis in marketing (Sheth, Gardener, and Garrett 1988).

In this paper it is argued that the exchange view of marketing is the legacy of the discipline's growth as an offshoot of economics. The concern for trade and transactions has remained in marketing due to the influence of institutional economic thinking and because of the axiom that marketing was essentially an economic activity. Even those who wanted to broaden the concept of marketing to include non-economic activities (Kotler and Levy 1969), were not willing to totally isolate themselves from the prevailing economic concerns. Bagozzi (1979) used economic equations to formalize his theory of marketing exchanges, although his theory purported to offer a social exchange perspective of marketing.

The exchange view of marketing has many inherent assumptions that may not be tenable according to our observations of current marketing practices. Most noticeable among them is the implied assumption of the exchange view that each party's market behavior is exchange driven. However, we notice in several situations that exchange is not the primary concern of all interacting parties. Some marketing interactions are devoid of any explicit or implicit expectation of exchange. For example, when two or more parties

share resources, ideas and skills to develop a new product, or carry on joint advertising, or jointly participate in a community development activity, they don't seek exchange from one another. Their goal is to create superior market value through shared activities. Exchanges, if any, are incidental and of very little significance in shaping the market behavior of the interacting parties.

Today's marketplace realities further suggest that marketers are not anymore focusing on exchanges as much they are concerned with *customer satisfaction* and *relationships*. The shift towards relationships, and away from exchanges, is the result of the emergence of global and service economies that have compelled marketers to seek greater commitment from their customers and suppliers. Also intense competition in several sectors of the business reinforced the need for retaining customers. Exchanges (or sales) as a measure of success of marketing is not anymore as popular as it was some years ago. Customer satisfaction and the share of the life-time revenue of the customer are being advocated as better measures of marketing success.

Our paper critically examines the impact of the exchange paradigm on marketing practice and thinking. It argues that some of the effects of the exchange paradigm were that it created an excessive focus on sales, functional independence, adversarial relationships, and inconsistent reward systems in the organizations. On the other hand, the relationship orientation of marketing offers the prospect of creating value through synergistic efforts of marketing institutions, cross-functional integration, short development cycles, and long term view of customers.

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