Interview

Customer first thinking.

The State of Relationship Marketing

An Interview with Jagdish Sheth, Professor of Marketing at Emory University, Goizueta Business School

Dr. Jagdish N. Sheth
As Dr. Jagdish N. Sheth is one of the leading marketing academics in the world and amongst the earliest proponents of relationship marketing. He has published more than 300 research papers and more than 30 books on various disciplines and topics including such ground-breaking books as *Firms of Endearment* and *The 4 As of Marketing.*

This interview has been edited for clarity and conciseness.

In 1983 a Professor at Texas A&M University by the name of Leonard Berry coined the term “relationship marketing” in a paper he presented at an American Marketing Association event. His premise: businesses should focus more of their marketing resources on serving existing customers. Berry never actually thought his paper was “any kind of breakthrough”; he just figured it was “foolish”, as he put it, that marketing only thought about winning new customers, rarely about retaining them. Yet at the time his argument was so far out of the mainstream that nearly a decade went by before marketers warmed to the idea.

What happened to revive interest was the unraveling of the mass market by the late 1980s. Relationship marketing became recognized as an answer to audience fragmentation. One of the earliest proponents was Jagdish Sheth, the esteemed Professor of Marketing at Emory University. Last year in a paper he authored called “Revitalizing Relationship Marketing”, Professor Sheth wrote that relationship marketing today was suffering from an “identity crisis” and that marketers needed to stop treating customers as “ID numbers”. For relationship marketing to mature into a higher order business strategy, he argued, marketing must shift toward “bonding with customers on an emotional plane”, where “the brand itself acts as a moral compass”, seeking to win a greater “share of heart”.

Professor Sheth favours a new “purpose-driven relationship” where customers feel connected to a brand based on shared values. He reasons that people today are drawn to brands offering a “transcendent” experience, a theory he first advanced twelve years ago in a book called ‘Firms of Endearment”. This more humanistic definition of relationship marketing shares many of the same thematic overtones as the brand purpose movement which is all about businesses making the world a better place.

The convergence of relationship marketing and brand purpose might end up becoming a whole new branch of academic study. And there is no one more qualified to lead that conversation than Jagdish Sheth, given his renowned scholarly work over the years, his many accolades and awards, and his widely acknowledged contribution to the advancement of marketing theory and practice.

Interview

Stephen Shaw (SS): In your book, "Firms of Endearment," you quote a line from a Tom Stoppard play, "It's the best possible time to be alive and almost everything you thought you knew was wrong." Do we need to forget everything we ever learned about marketing and hit the reset button?

Jagdish Sheth (JS): The creative destruction we're seeing today is actually making relationship marketing more relevant than ever. Back in the 90s none of us imagined the impact of the internet. With video, voice, and print coming together, it has become a very powerful medium. So it's fascinating to see how much bonding is taking place now between companies and their customers.

SS Notwithstanding the progress we've made since the 1990s, is it still tough to convince businesses to adopt relationship marketing principles? To put the customer ahead of the shareholder, not the other way around?

JS The idea of putting shareholders first dates back to the energy crisis in the 1970s and I'll tell you why: The equity market collapsed. The corporate debt ratio became outrageous. Big companies became easy takeover targets because they were cheap assets that could be bought and turned around by breaking them up or by "right sizing". That was when the interests of the shareholder became almighty compared to customers, suppliers, community, and employees. Prior to then, capitalism was always more community oriented. And let me tell you why: the great companies in the world always started in small towns. Even though you might be the head of a wealthy founder family, you cared about the community around you. But then companies began to move to capital markets like New York City. The hostile takeovers of the 80s really amplified this trend. Capitalism was serving just the shareholder instead of all stakeholders.

SS You started by referencing the internet and how it enables a closer bond with customers. But it seems to me that most marketers still default to a broadcast mode of thinking. Why do you think they're still struggling with the idea of one-to-one relationships?

JS The answer is historical. Until very recently, technology was not a great enabler of one-to-one marketing. So companies struggled to make the transition. But now you see companies converting to a subscription model where they do have a relationship and can personalize the experience.

SS Yet if we look at telcos, or banks for that matter, which have had data-driven one-to-one relationships for many years, you could argue that many are widely viewed as predatory. Does it come back to this idea of having the right values and principles to begin with?

JS I totally agree. The way to get there is to prove that being customer-centric is more cost efficient, or if you don't do it, you put yourself at a competitive disadvantage. If you understand what customers want, their aspirations, their frustrations, their frictions in life - if you just listen to them - they will become brand promoters.

SS Is another challenge that marketing still sees itself as a spear carrier for the brand? In some companies, it's still perceived as the pretty picture department. Does marketing need to redefine its role as an advocate for the customer?

JS You're absolutely right. Marketing has always been organized around buying behavior. So how does marketing become more customer centric? Consider that a customer is a seeker, a buyer, a payer and a user. Accessibility is what the buyer wants: whether the product is easily and readily available. From the payer viewpoint, the question is affordability. For the user, it is about acceptability: does the product perform as expected, and does it conform to the right brand image? And awareness is whether the customer has enough knowledge to make a purchase decision. This is what I call the 4A model and it is a powerful way of shifting thinking from brands to customers.

SS Can I offer you up another "A" which is the idea of "assistance"? Because increasingly the job of marketing is to provide help at the exact moment of need.

JS Absolutely. And I think you're so right. Some people have also suggested accountability. Customers want brands to be more accountable. Someone else said we need to add a fourth term: activation. But that's from a brand point of view. I think from a customer's viewpoint, assistance is a great, great idea.

SS In the end, what does the customer truly care about? I would argue the only thing that the customer really cares about is that the company actually cares about them.

JS You're so right. To me, brand reputation, product quality, those are now table stakes. The goal should be to win the customer's "share of heart", not share of wallet. How can a brand appeal to the heart as opposed to the brain?

SS Right. People are seeking more meaning in their lives. Brands have to connect with that greater meaning people are searching for.

JS Absolutely. People are into self-actualization. Basic needs are taken care of. Just take the share of how much we spend on food: it is the lowest in the world. And that's why every brand that I know – especially in consumer products - are all latching on to the concept of brand purpose.

SS And you see that with Unilever specifically. The CEO really advocates for companies having a social purpose. Yet he still struggles with his activist investors. That goes back to our earlier discussion about shareholders.

JS An example of their commitment is Unilever's handwashing campaign in India. It's a phenomenal success. A high number of children there die of diarrhoeal disease because most young people don't wash their hands properly. Lifebuoy runs one of the largest handwashing behaviour change programmes in the world.

SS Unilever is an interesting example. As much as I admire them, they do struggle with the balance between social good and commercial interest. For example, they have a skin lightening product, quite popular in India. But that is inconsistent with the brand purpose of Dove, which is all about female self-esteem. How do you do that dance?

JS That's Fair & Lovely. It's very successful product. If you're a purpose-driven corporation, the question of which brands to keep and which brands to let go is a tough one because customers will connect the dots.

SS We're now in this age of platform ecosystems with its walled gardens. Is it going to be increasingly difficult for brands to own the relationship with the end customer when an Amazon can outflank them and even introduce their own products at will?

JS There is a strategy book I published many years ago called, "The Rule of Three". If you want to be a volume-driven player, there is usually only room for three companies. In the automobile business at the turn of the last century there were 125 brands in North America. Now we have three: Ford, GM and Chrysler. In cloud computing, you have Amazon, Microsoft, and IBM. If you're a volume-driven company, you must have scale. Or you can be a niche player, in which case you will have to be margin driven. As a niche company, you will go direct to the consumer. But if you're a manufacturer reliant on scale, you'll want to sell through Walmart or Amazon. Once you have three brands in an industry, the market begins to break up into niche brands. Right now the beer industry is going through that. All three big beer companies are struggling to survive financially. So now you see all of these craft breweries growing.

SS So you're saying there's a long tail to exploit here. And, given that technology is cheaper than ever, it's actually feasible to serve that long tail, whereas in the past, it wasn't really.

JS Yes. Wherever the big boys are struggling, the niche players will come out of nowhere.

SS Forrester came out with a report recently saying the practice of creating an annual marketing planning model has become a vestige of a bygone era. Is the biggest obstacle facing marketers the fact that there is no new general theory of marketing to replace the old one?

JS We are in the Twilight Zone. We're searching now for a new general theory that shows how marketing can be a positive source for society: You create value for the enterprise but also for society. I believe that we will eventually emerge with a new theory of some sort, whether it's created by marketing scholars or practitioners.

Interview

SS But unless the ROI equation is resolved, the CFO is still sitting there on the top floor crossing out marketing budget line items. How do we crack the code on the funding formula for socially-conscious marketing? Or what Phil Kotler calls "holistic marketing"?

JS The problem is not with the marketing department. The problem is with generally accepted accounting principles: the GAAP formula. What marketers need is a shadow accounting system. Often what you find is that if 20% of your customers control 80% of your revenue, 10% of your customers will deliver 90% of the profit. You have cross subsidization of customers going on. The lower revenue generating customers are costing you more. So you want to allocate your resources more selectively. You do account by account budgeting, if possible. I did it for one of the large accounting companies which had 4,000 clients. Only 400 were profitable. They decided to relocate their offices around those clients, to be closer to them, and they said goodbye to hundreds and hundreds of unprofitable clients.

SS As one of the earliest proponents of relationship marketing you must be really gratified to see its broad acceptance today. Would you agree we're about to enter the golden age of relationship marketing?

JS Oh, yeah, absolutely. I think every company should create a position at a corporate level called Chief Customer Officer who is not a part of the marketing department but a corporate function like IT who would be in every board meeting speaking on behalf of the customer.

SS That would put the voice of the customer in the C-suite, explaining how the shareholders are served best by serving the stakeholders.

JS Precisely!

Stephen Shaw is the chief strategy officer of Kenna, a marketing solutions provider specializing in customer experience management. He is also the host of a regular podcast called Customer First Thinking. Stephen can be reached via e-mail at sshaw@kenna.ca.