THE APPLICATION OF RELATIONSHIP MARKETING IN THE CONSTRUCTION INDUSTRY: WORK IN PROGRESS REPORT

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Relationship Marketing (RM) embodies international, industrial and services marketing and in a business context is superseding traditional marketing theory. It is apparent from initial research into product and process industries that RM has the potential to provide construction organisations with significant benefits. These benefits include; enhanced ability to overcome problems, close coordination, process improvements; reduced risk associated with complex decision making and significant long-term value to prospective and existing clients. To determine a suitable research strategy for a PhD topic, a focus group was set up with construction industry stakeholders to discuss issues associated with RM. A brief description of the process and outcome leads to the conclusion of the merit in the research topic. A subsequent literature review formed the basis of quantitative questionnaires that were sent to a broad cross section of the Perth construction community. Interim results of the field study are presented and aligned with concurrent empirical studies of literature pertaining to RM. The final outcome provides a robust benchmark for construction organisations to consider that draws together contemporary best practice contract strategies and industrial and services marketing RM theory/ research. In conclusion an insight into how RM thinking in business services marketing may guide strategic direction for construction organisations is provided.

Keywords: Marketing, Relationship Marketing, Procurement, Tendering.

INTRODUCTION

Relationship Marketing (RM) embodies international, industrial and services marketing (Gumhouse 1999). In a business context it is superseding traditional marketing theory and becoming more important in the global economy as interconnected economies develop (Donaldson and O’Toole 2001). Driving this are two components; the first is transactional (traditional) marketing’s failure to recognise interrelationships between elements of the marketing mix, the second is RM’s ability to add dimensions to a transactional model which are particularly useful for successfully marketing in service industries (Christopher, Payne and Ballantyne 1991, Kotler and Armstrong 1993). Construction is one such service industry. RM is one part of many activities that organisations do to get work. It focuses on the relationships of parties generating and maintaining relationships; providing a flexible management approach between stakeholders underpinned with an appropriate form of governance (Australian Constructors Association (ACA) 1999). Simply speaking RM is “an interaction between a buyer and seller” (Kotler and Armstrong 1993: 499).

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Following initial research into industrial and services sectors, where the majority of RM literature resides, it is apparent that RM can provide advantages to certain construction project activities. These advantages include; reductions in stakeholder dysfunction, increased opportunity associated with value engineered decisions, quicker payments, reduced litigation and claim creation together with overall cost, time and scope success (Kubal 1994). Strategic objectives that can be accomplished through a RM program include; retaining the most desirable clients, the enhancement of the construction organisation's image and its ability to attract desirable prospective clients with repeat business (Connor and Davidson 1990).

To determine the parameters of a PhD a focus group was convened with construction industry stakeholders in Perth, Western Australia (WA) to discuss issues associated with RM. The purpose was to establish the validity of RM and determine its relevance to construction. The findings were that despite economic forces impacting upon the strength of relationships, RM appears to influence procurement thinking. Relationship building attributes including trust, commitment, performance satisfaction, cooperation and mutual goals were found to have an ability to enhance traditional procurement. Research from industrial and services sectors into RM have established common ground with specific procurement strategies currently used in construction and engineering infrastructure projects. A survey instrument designed to determine the potential and use of RM in construction initially established there are benefits to be gained from a RM approach to procurement with respondents displaying a greater commitment to up-stream relationships than downstream in the supply chain. Up-stream relationships are more highly valued.

In the interim it is suggested that by drawing together contemporary best practice contract strategies together with industrial and services RM theory/ research a new benchmark for construction organisations may be established.

RELATIONSHIP MARKETING (RM)

Transactional marketing focuses on discrete activities, short time scales, with little emphasis on client service, giving limited commitment and necessitating minor contact (Christopher, Payne and Ballantyne 1991). Transactional marketing like traditional procurement focuses primarily on price; it fails to recognise interrelationships between other important elements of the marketing mix, and the customer's concept of value (Lovelock 1984, Christopher, Payne and Ballantyne 1991, Ferguson and Brown 1991, Wilson, Woodside and Milner 1992, Nickels and Wood 1997). Essentially transaction marketing and traditional construction have similar shortcomings, the overall end result is negligible supply chain interdependence (Love et al. 2002).

concerned with interdependencies of all departments and individuals within a construction organisation and their exchanges both internally and externally. The objective is that all employees build (or) relationships (Gummesson 1995, 1998, Kotler et al. 1998). RM is characterised by phrases, that include; ‘win-win outlook’, ‘common goal attainment’ and ‘search for synergy’ (Hollingsworth 1988, Hutchinson and Gallagher 2003). This language, whilst familiar to the reader of ‘Constructing the Team’ (Latham 1994) and ‘Rethinking Construction’ (Egan 1998) are at odds with traditional construction where it is widely acknowledged that relationships are poor, characterised by lose-lose adversarial episodes, antagonistic misalignments of objectives and indifferent attitudes to long-term interaction (Leavy 1994, Lucas 1997, Pascale and Sanders 1997, Australian Constructors Association (ACA) 1999). Using RM, construction organisations develop with their clients*. Clients are likely to procure additional services in a RM environment and, importantly, they are less likely to switch to competitors. The end result of using RM is collaboration in construction projects and long term (product) interdependence (Berry and Parasuraman 1991, Nickels and Wood 1997, Donaldson and O'Toole 2001).

**RM IN CONSTRUCTION**

There are many attributes to consider in developing and applying RM in order to create innovative emerging styles of procurement. Hutchinson and Gallagher (2003: 6) use a term ‘gamebreaking’ for a team approach to procurement that is looking for opportunities to break the traditional procurement model. Accordingly gamebreaking will be used to describe various innovative styles of procurement for the balance of this paper. As an example, in Public-Private sector Initiatives (PPI) and project alliance procurement the concept of trust, a RM variable, appears consistently (Domberger and Fernandez 1999, Love et al. 2000, Jefferies, Gameson and Rowlinson 2002, Hutchinson and Gallagher 2003). Commitment, performance satisfaction, cooperation and mutual goals are also important to RM. Trust is a belief in a promise of another and understanding that an obligation will be fulfilled (Dwyer, Schurr and Oh 1987). It overcomes intangibility inherent with procurement at the same time building interpersonal and group behaviours in project teams (Dwyer, Schurr and Oh 1987, Wilson 1995, Morris, Brunyee and Page 1998). In a trusting relationship, such as gamebreaking procurement, stakeholders are able to focus on long-term benefits. The length of the relationship in itself provides predictability to the process and gives a framework for ongoing mutually beneficial interaction (Doney and Cannon 1997). Indicators of a trust building environment may become evident through a willingness to customise and adapt existing processes to meet a buyer’s needs (Doney and Cannon 1997, Gwinner, Gremler andbitner 1998). Sharing confidential information also shows good faith and this action provides tangible evidence that stakeholders are willing to make themselves vulnerable and receptive to a trusting commitment (Dwyer, Schurr and Oh 1987, Pascale and Sanders 1997).

As trust builds, stakeholders perform effectively and are seen as increasingly reliable and credible by their partners. They become more interested in welfare issues related to other stakeholders (Doney and Cannon 1997, Hennig-Thurau and Klee 1997). These important considerations differentiate agreements established through gamebreaking procurement. It is argued that saving money is the primary motivation for engaging in relationship exchanges (Peterson 1995). RM enables clients to minimise decision effort and reduce risk in a tendering scenario (Kubal 1994, Gwinner, Gremler and Bitner 1998), following this there is less emphasis on
governance and contract documents which frees up time for innovation and value-adding. Overall this reduces transaction costs and improves mutual goal attainment (Leavy 1994, Wilson 1995, Conrad, Brown and Harmon 1997, Doney and Cannon 1997, Hennig-Thurau and Klee 1997, Baker, Buttery and Richter-Buttery 1998, Dorsch, Swanson and Kelley 1998). Han (1993) and Wilson (1986) cite examples where relationships between long-term buyer-suppliers save inspection costs and consequently provide benefits in quality and reduced lead-in times (Leavy 1994). Gamebreaking projects are typified by fast rates of learning to meet production and process requirements. By maintaining relationships the learning costs associated with switching partners is reduced (Gwinner, Gremler and Bitner 1998). Several writers also agree that a relationship approach that displays high levels of trust, commitment and cooperation will ‘ride out a storm’, a slip in quality for example or a departure from the specification. Whereas a relationship that focuses on contractual governance with limited trust has less chance of surviving the same scenario; as mutual goals are set in the earliest stages of selection (Leavy 1994, Wilson 1995, Conrad, Brown and Harmon 1997, Doney and Cannon 1997, Hennig-Thurau and Klee 1997). Early trust development enables organisations to reduce the number of supplier contacts and assists in solving development and production problems in gamebreaking procurement scenarios (Zeithaml and Bitner 1996). They are often able to obtain optimum satisfaction from a relationship partner who is permitted to gain a better understanding of their needs and preferences. Other strategies that can be accomplished better through a RM program include; the retention of the most desirable clients, enhancement of the construction organisation’s image and the ability to attract desirable prospective clients (Connor and Davidson 1990).

There are some shortcomings using a RM approach with gamebreaking procurement initiatives. These have been omitted from this paper for the purpose of brevity.

**METHODOLOGY**

A concentrated effort in researching the literature that contemplates the marketing of professional services in the sub-fields of; legal, financial, associated professional, non-profit, educational and hospitality identified common ground with construction and put services marketing strategies and techniques into context.

To determine a suitable research strategy a focus group was set up with construction industry stakeholders. A brief description of the process and outcome lead to the conclusion of merit in the research. A subsequent period of literature research formed the framework of a quantitative questionnaire that was sent to a broad cross section of the Perth construction community. The following describe the focus group activity and quantitative survey.

**Focus group**

The initial problem statement revolved around the concept of RM; how the construction industry in Perth, Western Australia defined it and rationalised it in an operational sense. The purpose of the research was explorative, (Sarantakos 1993, Collis and Hussey 2003) as it had been determined from the literature that there were few examples that describe how the construction industry manages RM.

Accordingly a focus group interview was determined to be the most effective way to clarify the research question (Stewart and Shamdasani 1990, Krueger 1994, Kumar 1996, Collis and Hussey 2003). Upon completion of initial research, five discussion points were prepared based on knowledge found in the literature. A purposive/
judgmental sample of twenty one stakeholders from the Perth construction industry was selected in line with several writers (Sarantakos 1993, Creswell 1994, Kumar 1996). The sample included general contractors, sub-contractors, suppliers and consultants as it is representative of the population. Of the twenty one selected and invited, thirteen were able to participate and as expected provided a manageable group able to examine the issues in depth.

The hypothesis described to participants was:

'Construction companies that adopt a RM approach to tendering and procurement provide reduces costs to the construction process and attain higher levels of efficiency that may be converted into growth of the company and the industry as a whole.'

The discussions were catalogued and subsequently by soliciting reflective comment via telephone conversation a true record of discussions arising from the meeting were recorded for future reference. Due to the dynamic nature of a focus group discussion, it is difficult to identify substantive answers that are mutually exclusive to one particular question. Accordingly, the discussion section of the paper uses content analysis to allow an understanding of features that are important in RM (Collis and Hussey 2003).

Additional literature was reviewed and a quantitative survey instrument was developed to broaden an understanding of the parameters of the research.

**Survey instrument**

A quantitative questionnaire was devised that contained eight sets of questions. The questionnaire consisted of a series of closed questions with occasional opportunity for the respondents to add open comments. In all closed questions a seven point likert scale was used.

The 22 questions fell into 8 sections; preliminary findings are reported for the purpose and context of this paper.

The population consisted of construction stakeholders in Perth WA. A sample of 898 was selected from mail lists provided to the researcher from various Australian professional bodies, employer organisations and trade associations. The sample comprised; Project Managers (30%), Quantity Surveyors (16%), Sub-contractors (5%), Contractors (21%), Engineers (7%), Architects (21%). A total of 236 responses were received, representing a twenty six percent (26%) response rate.

In the following sections the consensus of the focus group is discussed, subsequently some initial findings from the analysis of the quantitative field study are presented.

**FOCUS GROUP FINDINGS**

In the focus group discussion several issues highlighted.

**Them and us attitudes**

The focus group considered that historically ‘them and us’ attitudes have been pervasive throughout the construction industry. The group went on to state that if there is a ‘them and us’ attitude in the industry it is between the construction team, (consisting of the general contractor and sub-contractor/s suppliers), and the design team. However, they recognised a change as the industry is heading towards recognition of mutual benefits, and a situation of working together. Mutual respect
and ‘good natured’ friendly rivalry tends to foster relationships between the stakeholders. They were interested in ‘win-win’ solutions to clients’ problems. The relationship that is fostered on or about the time of selection tends to set the agenda for the balance of the project. Power struggles that occur at the time of tender, which invariably revolve around price, will sometimes cause conflict to occur in the early stages of a project. These conflicts tend to continue at various levels throughout the project’s life.

Value adding the service
The answers that relate to this discussion point were tempered by the current market economy. It was considered that relationships evolve in a buoyant market. At the time of the meeting this was not the situation. The group’s consensus appeared to be that there was very little scope in providing value adding to their clients’ tenders if the clients were reluctant to use alternative criteria other than price in their evaluation. This currently drives the relations of the construction team. Competition is keen and whilst some general contractors would like to be able to work with particular subcontractors, where they feel some added value is available, they are unwilling to, as it will invariably cost them the job. The group was familiar with opportunities to provide value adding to their service. It may take the form of a quality product, or an ethical and honest approach to the process. However, opportunities for this approach were limited. The size (scope) of the project was also considered determinant of the type of relationship that might be realised throughout the project. A point was raised that these comments seem rather general contractor to client focussed. In answer the group suggested that similar issues are applicable to general contractor and sub-contractor relationships. It affects both up-stream and down-stream relationships.

Commitment, trust and mutual goals
The group viewed these to be important attributes of a relationship. An important ability is one of shifting the client focus toward the commitment-trust paradigm and focus on balancing this with the price. The method of procurement was a factor in relationship building. The group were unanimous that using traditional procurement, and in many instances design and construct, provided limited opportunity to establish and build on relationships of commitment and trust from an early date. Given the opportunity the contractors’ had a desire to generate their own work using people that they could trust. Using the same team repeatedly provided elements of consistency (tangibility) in the ever-changing project environment of construction. Consistency builds mutual goals, albeit unwritten, and aligned values in many cases. On the downside there are lost opportunities. As an example, sub-contractors will not attempt to price general contractors if there is the perception that established relationships cannot be topped. This scenario is the same in the client-contractor relationship. It is equally as difficult to break in-between established relationships. Trust and commitment are built up over a long period. In a client-contractor relationship the client is often looking at the team; “individuals within the company whether they are general contractors or sub-contractors, make an enormous difference”.

Collaboration
Collaboration is only viable if alternative forms of procurement are available. Given the opportunity the group indicated that they “would love to collaborate”. Traditional procurement provides limited opportunity for relationships to form or collaboration to take place. Innovation, in the form of alternative tenders associated with traditional procurement, tends to confuse the client. It makes the selection process very
complicated with difficult and often unclear documentation. Using alternative methods of procurement (i.e. gamebreaking), the contractor has the opportunity to win a tender by being clever and not just putting in an unrealistic margin (of profit). Trust was indicated to be important when collaborating on tenders. The group stated that they would only use their most “trusted” sub-contractors to ensure security of their “ideas”. The group was aware of the reciprocal nature of trust and the risk associated with it. However managed well trust can provide success in alternative procurement scenarios. Teams that are formed very early in the project life cycle provide the essential commitment to the project and mutual goals. Traditional procurement does not allow this to happen.

INTERIM ANALYSIS OF THE QUANTITATIVE FIELD STUDY

As indicated earlier, the analysis of the data arising from the quantitative survey is in its initial stages and some variation may come from subsequent iterations of the data. The respondents were asked to comment on various characteristics, intervening variables and strengths/weaknesses of RM in the supply chain, as these related to outcomes from the earlier focus group discussion.

The respondents indicated that the industry endeavours to foster up-stream relationships to a (marginally) greater extent than down-stream relationships. It was found that the propensity to foster relationships is generally high, with all categories of respondents responding positively. To match RM criteria to relationships in the construction industry the respondents were asked to identify how they benefited from recognised relationship variables from the literature that included; alignment of organisational objectives, cost and schedule reductions, value-engineered solutions, buildability and other issues that they chose to name. Collectively the responses indicated that the industry perceives benefit from variables to both up and down-stream relationships. In assessing the areas where respondents felt there are specific advantages from the relationships the sample did not generate easily identifiable strengths and weaknesses. It was found difficult to determine a primary focus as no individual variables stood out significantly. It is considered that a qualitative survey (proposed case study) that probes deeper will provide answers (Yin 1994). Further series of in-depth questions covered variables of trust, commitment and satisfaction in the relationship. The results indicated that respondents displayed a greater commitment to up-stream relationships than down-stream relationships. It appeared that respondents expected a marginally greater level of trust in up-stream relationships than down-stream relationships. Interestingly general contractors had the least tendency toward increasing up-stream client satisfaction whilst consultants had the least inclination to increasing down-stream client satisfaction. A summary overview of the foregoing indicated that benefits arising from up-stream relationships with clients were generally more valued than that from down-stream relationship. Perhaps the perception is that down-stream relationships are not worth committing to, or there is little to gain from any effort? The power base between stakeholders influences the relationship benefits perceived. Finally a comparison between two questions provided an interesting comparison. One question asked what respondents expected from up-stream organisations that they regularly work with while another asked what they actual received from the relationship. The questions were designed using variables of trust in their wording to avoid a halo effect. It was found that there was comparability in the stakeholder’s reply. The actual expectation seems to match the circumstances more closely in down-stream relationships than in up-stream relationship. It would
appear overall that expectations and actuality are slightly higher in up-stream relationships. From an analysis of the data respondents in up-stream relationships will be pleasantly surprised as the actuality response is higher in all cases than the expectation. With regard to down-stream relationships there may be some disappointment as the overall expectation is marginally higher than the actuality.

CONCLUSIONS

A focus group indicated that there was an underlying commitment to RM in the Perth WA construction industry; however selection processes currently adopted preclude its wider adoption. Following this a quantitative survey instrument provided support to the hypothesis that a RM approach is appropriate to gamebreaking (RM) procurement where an organisation’s objective are to pursue long term relationships meeting the project owner’s strategic organisational objectives. There are many things that impact upon the success of a project, the relationships of the parties is one aspect of the strategy. RM is suitable for gamebreaking initiatives due to factors that include; significant input from the client throughout project inception, overall integration with the client and the fact that the complexity of typical infrastructure project processes requiring close cooperation and continuous communication. RM offers new direction in construction management business-business marketing; it has enabled many industries in finance, automotive and industrial contexts to achieve best practice status because it has ‘customer-focus’ at its core. The RM approach goes to the heart of business dealings and allows construction stakeholders to develop long-term relationships in the uncertainty of the competitive construction environment.

REFERENCES


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