RELATIONSHIP MARKETING: PROVIDING OPPORTUNITIES AND BENEFITS FOR THE CONSTRUCTION INDUSTRY.

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ABSTRACT

Innovation and new knowledge often comes from an insight into associated areas of research or industry; relationship marketing has its roots in business and many industries have adopted a relationship approach to solicit work. An insight into marketing and in particular relationship marketing explains how construction firms can benefit from this approach in the medium and long term. A review of transactional marketing and relationship marketing is provided showing benefits that accrue to construction from a relationship approach through the project life cycle. Following this a comparison is made between relationship marketing and alliance procurement that link the two. The research finds that whilst an alliance has many attributes that will provide a successful project outcome a relationship approach will enhance procurement in many ways. In seeking to provide an understanding between the project participants' relationship marketing enhances a long-term customer focus and assists in the attainment of organisational achievement.

Key words:
Alliance procurement, Commitment, Cooperation, Performance, Relationship marketing, Satisfaction, Trust.
INTRODUCTION

It is widely acknowledged that traditional construction relationships are poor and characterised by their adversarial nature that encourages misalignments of objectives and indifferent attitudes to long-term relationships (Leavy 1994; Lucas 1997; Pascale & Sanders 1997). This leads to client/client representative dissatisfaction, process inefficiencies and budget blow-outs in project cost, time and scope (NPWC/NBCC Joint Working Party. 1990; Latham 1994). An examination of traditional procurement practices exemplified in the design then bid/tender then build (DBB) approach indicates that construction is overly concerned with price issues (Brook 1993; James 1995). This lowest-price focus also extends to design and other consultants involved in the construction project procurement process. In combination these issues prevent the client from receiving the full benefits of expertise and knowledge that can be offered by construction organisations (Kubal 1994; Latham 1994). In effect this traditional DBB environment provides little capacity for developing long-term relationships that are crucial for reciprocal gain in construction (Kotler 1994; Grönroos 1995; Zeithaml & Bitner 1996; Nickels & Wood 1997; Kotler et al. 1998; Lovelock, Patterson & Walker 1998). Alliance procurement methods aim to create a high-trust culture, good relationships and mutual gain in a similar fashion to relationship marketing (RM) by providing better quality interaction and dialogue between the client/client representative and the construction delivery team. Accordingly, this goes some way to address DBB procurement imbalance (Gray 1983; Ferguson 1989; Warne 1994; Allen 1995; Davis 1996; Pascale & Sanders 1997). However, an alliance is not always the best solution as it can be very expensive to set in place due to legal establishment costs, monitoring and probity assurance costs. Further, the client needs to be sophisticated and experienced enough to be able to participate (Walker & Hampson 2002). It can be argued that to be commercially successful, construction organisations should be concerned with the kind of customer-focus that RM
exemplifies regardless of the chosen method of procurement being offered to clients (CIDA (Construction Industry Development Agency) 1993). In order to approach clients from a relationship perspective, contractors must be aware of the difference between marketing goods and services and particularly benefits that accrue from using a RM approach to business development over a transactional marketing approach.

We argue that a RM approach to construction business activity provides a better solution than the traditional DBB approach regardless of the procurement methodology; creating mutual gain through in-depth customer focus that drives deep to the core of construction organisations. RM provides reduced costs to construction processes and attains higher levels of efficiency that may be converted into growth of the provider organisation and the industry as a whole. The models developed in the paper show how a RM emphasis leads to market achievement and overall industry leadership.

MARKETING

The essence of marketing is providing client satisfaction and value (Kotler & Armstrong 1993). There is a great deal of marketing literature and contemporary research concerned with product marketing (Cundiff, Still & Govoni 1985; Christopher, Payne & Ballantyne 1991; Kotler & Armstrong 1993). Lovelock (1984) questions whether marketing skills developed in manufacturing companies are directly transferable to service organisations, whilst other writers are more specific and maintain that service marketing requires a different approach to product marketing. They assert that established strategies suitable for product marketing cannot be transferred (Bloom 1984). Four characteristics that separate marketing services from products are identified as follows (Dawes, Dowling & Patterson 1991; Kotler & Armstrong 1993; Srivastava & Smith 1994; Boström 1995):
Intangibility

Due to the fact that services lack the physical dimensions of goods they are said to be intangible. It is relatively more difficult to define the nature of services and evaluate them against alternatives (Lovelock 1984). If construction services are unclear, then comparison and the client's ability to put a value on these services before they purchase them is difficult (Lovelock 1984; Fisher 1986).

Perishability

Construction project procurement is mainly people based; there is a large human component involved in its performance. This leads to an ever-present potential for heterogeneity and perishability, as clients are actively engaged in helping to create an outcome that involves assembling and delivering output that is of a mix of physical facilities and mental labour (Boström 1995). However, many construction industry clients view the product as being a physical output (the building and/or a design for a building) rather than an outcome. The outcome is a decision support mechanism/process that translates construction knowledge, expertise, and activity coordination leading to the physical manifestation of a building. High levels of trust need to be developed whilst performing a construction service to ensure that intended results/outcomes are realised. These may perish if mutual understanding and relationship maintenance measures are not developed.

Inseparability

Because a service is an undertaking of performance, it cannot be inventoried (Lovelock 1984). Services are immediate and are produced and consumed at the same time. Supply is difficult to quantify and define explicitly and separate from demand. In construction procurement, inseparability may be reduced with the use of highly detailed and specified schedules of deliverables; however, such an approach increases transaction costs and still does not
guarantee client satisfaction. Long project life cycles that include construction delivery often results in separation between the client intent expressed in the design brief and the production of the final product, often many years later. This process represents a major difference between services and product delivery in construction.

1. Variability

In product marketing perceived variability of products is unaffected by mode of delivery. In service industries quality relies on the construction organisation's personnel selection and training, the quality of delivery and its identification (Kotler & Bloom 1984; Christopher, Payne & Ballantyne 1991). Clients are aware of this high variability and will frequently talk to colleagues, seeking favourable comment that reduces variability, before selecting a contractor.

It is not the purpose of this paper to elaborate further on these issues. The intent of the above is to highlight the concept of a marketing continuum that exists between the two poles of marketing services (in a RM sense) and marketing products (in a transaction sense). A simple adaptation is shown in Figure 1 where it may be seen that the work of a physician is at the RM end of the continuum due to her work in an environment characterised by high levels of intangibility, perishability, inseparability and variability (Barnes 1995; Davis 1996). At the other end of the scale a supermarket relies largely on transactional marketing.

![Figure 1 Indicative service providers along a continuum from services to products, adapted from (Barnes 1995)](image-url)
The balance of this paper promotes a RM approach to the endeavour of business development. It promotes a RM approach that is supported by numerous other industries aside from construction. RM is suitable for construction due to factors that include: input from the clients throughout the project, integration between clients and contractors and the fact that complex project processes require close cooperation and continuous communication. RM will be shown to be a sub-set of marketing that provides significant benefits to transactional marketing that is largely considered ‘construction marketing.’ RM offers new thinking for construction business-to-business marketing as delivery of a 'service' rather than a 'product'. It has enabled many industries in finance, automotive and industrial contexts to achieve best practice status because it has ‘customer focus’ at its core. A RM approach goes to the heart of business dealings and allows construction companies to develop long term relationships in the uncertainty of competitive project environments.

**TRANSACTION COMPARED WITH RELATIONSHIP MARKETING (RM)**

In a construction context it becomes clear that DBB procurement mirrors a transactional marketing perspective; this may be seen with reference to Figure 2.

**Figure 2 Transactional marketing/ traditional model of procurement**

The procurement route driven through client price emphasis leads to claims and confrontation with a blame mentality through the project life cycle (PLC). Throughout the project trust, commitment, satisfaction and value are reduced, whilst at the same time stress for the project team and associated project delivery teams are increased. The outcome is the likelihood that transactions will cease creating a short span of life for relationships. Referring back to Figure 1 this is transaction marketing.

The body of knowledge associated with RM emanates from a business arena, in particular the 'Nordic School' of marketing writers, most notably Gummesson and Grönroos, who discuss product and process industries. It is described as; *initially establishing, maintaining and enhancing relationships with other project stakeholders so that objectives of all parties are met* (Berry 1983; Grönroos 1990: 265; Berry & Parasuraman 1991). RM represents a commitment to long-term mutually beneficial collaboration (Morris, Brunyee & Page 1998). At its heart is the propensity to build and maintain long-term relationships between the client
and the project delivery team\(^1\). RM introduces value adding in on-going transactions (Nickels & Wood 1997; Kotler et al. 1998; Morris, Brunyee & Page 1998) and partners to RM have a win-win outlook working toward common goals (Hollingsworth 1988; Kubal 1994; Wilson 1995; Tomer 1998). Collectively this is described as 'the search for synergy' (Hollingsworth 1988). Importantly RM is not simply concerned with relationships administered by a marketing department of an organisation, but with all employees within interrelated organisations. It is the responsibility of all employees to build (on) relationships (Gummesson 1995; Gummesson 1998; Kotler et al. 1998).

Using RM, organisations’ enable trust and commitment with clients’ that is impossible with transactional marketing, clients are likely to procure additional services and, importantly, they are unlikely to switch to competitors. They will stay with the organisation longer due to satisfaction with the process and product success received (Patterson, Johnson & Spreng 1997). High transaction costs associated with: estimating, selection and dispute resolution processes; leading to generation and disputation of claims for additional costs, can be reduced by adopting a RM approach (Coase 1937; Walker 2002). Additionally clients will provide referrals to others as a result of their satisfaction, and they may be willing to pay a premium price for quality service. The end result using RM is value adding in projects and product satisfaction for clients and project stakeholders (Berry & Parasuraman 1991; Nickels & Wood 1997).

In a construction context RM provides significant benefits over transactional marketing; this may be seen with reference to Figure 3, where it is shown that a RM procurement route

\(^1\) The focus on clients and project delivery teams in this paper does not deny the aspirations of other project stakeholders; these may include end-users, the communities in which projects are located, and others who support the project delivery teams.

reduces the importance of client price emphasis, focusing instead on demonstrated commitment, trust, confidence-building and performance satisfaction. Through the PLC supply chain collaboration and vertical integration are developed and enhanced project trust, commitment, satisfaction and value are increased, whilst at the same time stress for the project team and associated project delivery stakeholders is decreased. The outcome is the likelihood that transactions will increase, creating a long span of life for relationships and overall enhanced organisational achievement. Referring back to Figure 1 this is relationship marketing.

**Figure 3 - RM procurement approach**

There are many aspects to consider in developing a RM approach within a construction organisation. An earlier study of RM in the construction industry has identified trust, cooperation, and performance satisfaction, as most important to relationship building as they appeared consistently and feature highly (Davis 2001).

Briefly, trust is a belief that the word or promise of another is reliable and that person will fulfil their obligations in a relationship (Dwyer, Schurr & Oh 1987). It overcomes elements of intangibility in construction. It is a prerequisite to cooperation. Strategies that build trust are enablers of cooperation. In itself cooperation provides a competitive edge for construction, it is action taken by interdependent firms with a desire to achieve mutual outcomes (Christopher, Payne & Ballantyne 1991; Wilson 1995; Dorsch, Swanson & Kelley 1998). The
cost of developing trust, commitment and cooperation can be offset against the transaction costs associated with destructive conflict, misunderstanding and dysfunctional behaviour that places strain on project performance. Performance satisfaction is positively associated with repeat procurement from a purchaser's perspective. In order to be successful in a relationship it is necessary for construction organisations’ to analyse clients’ needs, and determine satisfaction. Considerable evidence suggests relationships remain intact if the parties are continually satisfied; receiving added value (Berry & Parasuraman 1991; Han, Wilson & Dant 1993; Evans & Laskin 1994; Wilson 1995; Patterson, Johnson & Spreng 1997).

Attributes of RM such as trust, commitment and cooperation were identified from a literature search of business relationship marketing together with a qualitative survey of construction professionals (Davis 1999). One important link between RM and construction procurement approaches is project alliances, where opportunities present themselves to build on potential relationships.

**CONSTRUCTION RELATIONSHIP PROCUREMENT**

Generally speaking an alliance is a group of companies working together in a cooperative arrangement with an aim to reduce overall costs and increase profits (Allen 1995; Das & Teng 1998). They have a focus on relationships (Pascale & Sanders 1997). An alliance is said to restore trust in construction business agreements (Kubal 1994). It goes further than traditional procurement; the parties involved seek to aligned objectives and collectively develop project scope from an early stage. An alliance links organisational performance of participating firms. To avoid the price imperative an agreed formulae and framework is established for gainsharing and painsharing. Thus participating organisations are not allowed to 'sink or swim' as their profit contributions are placed at risk to be realised upon meeting agreed key performance measures (Walker, Hampson & Peters 2000). Change is managed and disruption
accounted for in the earliest stages of the project life cycle (PLC) (Kubal 1994; Allen 1995; Haimes 1995; Pascale & Sanders 1997).

A study of several definitions of alliance arrangements identifies several key concepts that differentiate it from traditional procurement thinking; alliance arrangements are frequently legally informal; transcending typical contracts, and transforming relationships in a contractual and behavioural sense (Baker 1996; Construction Industry Institute Australia 1996; Schultzel & Unruh 1996; Larson & Drexler 1997). They are said to provide synergy through a collaborative, cooperative management effort (American Arbitration Association, quoted in (Stephenson 1996); (Haimes 1995). There are a number of factors that must be present if an alliance is to be successful. The most noteworthy in the context of this paper are:

*Alignment of objectives* - The parties involved in an alliance agreement seek to align objectives and become involved closely in the development of the project scope. They plan projects together from the outset and operate in a system of interdependence; understanding their partners’ business drivers (Kubal 1994; Allen 1995; Haimes 1995; Pascale & Sanders 1997; Boyd & Browning 1998).

*Win-win attitudes* - Partners in the alliance have a 'win-win' outlook and work toward common goals (Kubal 1994; Tomer 1998). This attitude is resolved through mutual commitment, equity, trust, common goals and objectives and supportive communication behaviours (Hampson & Kwok 1997).

*Risk allocation/commercial incentives* - One primary incentive for participants is the possibility of gaining enhanced rewards. Fair allocation of risk and rewards within the alliance provides motivation (KPMG Legal 1998). Risks are jointly identified and prime responsibility for their management assigned, no partner is expected to expose themselves to outcomes that could jeopardise their commercial existence (Scott 1993; Fellows 1998).
Performance indicators are agreed and there is an open book approach to costs (KPMG Legal 1998).

Other attributes of alliance success hinge on several attributes that include; trust, cooperative rather than adversarial relations, collaboration rather than competition, problem solving and innovation rather than sanctions/ contractual penalties (Boyd & Browning 1998).

From the above discussion it may be seen that successful alliances are not based on low-bid tendering (KPMG Legal 1998). They are based on ‘soft-dollar’ factors that include; the ability to work cooperatively within an agreed framework, a ‘preparedness to do business’, implicit trust, a willingness to be ‘open book’ on costs and ready to risk profit. An understanding of project culture is an imperative (KPMG Legal 1998; Thompson & Sanders 1998).

Competitive advantage stems from relationships bonded by integrity and trust. Once established, these bonds prove to be very strong and resilient to external forces. These relationships weave a net that will prevent competitors from entry into the relationship.

**CONCLUSION**

A number of government agencies and reference groups have been referred to that have called for reform of the construction industry procurement approach. Several elements to these reforms have been identified. These relate to the development of a relationship-based rather than transactional approach to project procurement. It is argued these will address dissatisfaction with many clients' project procurement experiences and include; greater customer-focus, development of win-win rather than zero-sum outcomes for project participants; and a generalisation of trust, commitment, and confidence to reduce stress levels in all parties associated with the project delivery process. It is also indicated that a RM approach in which projects are procured on a basis of a service rather than end product delivery ethos is more likely to address past disappointments with the experience of not only clients, but all teams involved in the project delivery process.
Project alliancing is identified as one manifestation of a RM approach that delivers successful projects with high levels of client and project delivery team satisfaction. However, the key issue that we have argued relevant to project procurement is that the RM approach in general and project alliancing as a particular example of an RM outcome, seeks to deliver greater understanding between project participants and hence greater customer-focus. We conclude that the benefits and opportunities that RM offers as a business development strategy should be more widely adopted by the construction industry.

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