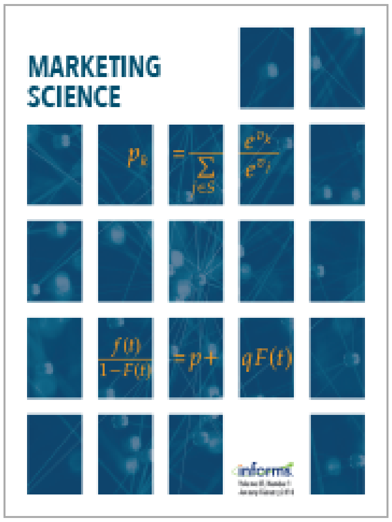

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Invited Commentary

The Implications of "Big M" Marketing for Modeling Service and Relationships

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Rust and Chung (2006) provide an excellent integration and assessment of current models of service and relationships, as well as a thought-provoking agenda for future research. In this brief essay, I identify some challenges, opportunities, and priorities for improving models of service and relationships.

Rust and Chung (2006) integrate two distinctive streams of research—models of service and relationships—that are rapidly converging. This convergence is noteworthy because it reflects a shift in the content and boundaries of the marketing discipline, as exemplified by the new definition of marketing recently adopted by the American Marketing Association:

> Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

I read Rust and Chung's (2006) manuscript shortly after the *Journal of Marketing*'s special section on customer relationship management (CRM) went to press. In their introduction to the special section, Boulding et al. (2005, p. 156) argue that "CRM is the outcome of the continuing evolution and integration of marketing ideas and newly available data, technologies and organizational forms." They observe that a common definition of CRM is emerging, articulated by Payne and Frow (2005, p. 168) as follows:

> CRM is a strategic approach concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments. CRM unites the potential of relationship marketing strategies and [information technology] to create profitable, long-term relationships with customers and other key stakeholders. CRM provides enhanced opportunities to use data and information to both understand customers and co-create value with them. This requires a cross-functional integration of processes, people, operations and marketing capabilities that is enabled through information, technology and applications.

Payne and Frow's definition suggests that models of service and relationships have the potential to play a central role in marketing science and practice. However, Hunt (2004, p. 22) offers a prescient warning about the recent shift toward a "service-dominant" logic in marketing:

> The emerging dominant logic has many implications, but not entirely what [Vargo and Lusch (2004)] have in mind. They believe marketing should be at the center of the integration and coordination of the cross-functional processes of a service-centered business model. But this depends on what is meant by marketing. It will probably not be the marketing function that is found in most firms. *Instead, it will be marketing as a general management responsibility of the top team that will play the crucial roles of* (1) *navigation through effective market sensing,* (2) *articulation of the new value proposition, and* (3) *orchestration by providing the essential glue that ensures a coherent whole* [italics mine].

The call for a return to "Big M" marketing—that is, marketing as a general management responsibility—rather than "small m" marketing—that is, marketing as an organizational function—has been reinforced by many distinguished scholars (cf., Brown, Webster, Steenkamp, Wilkie, Sheth, Sisodia, Kerin, MacInnis, McAlister, Raju, Bauerly, Johnson, Singh, Staelin 2005, pp. 1–25). I believe that this shift in the marketing discipline's priorities has three important implications for the development of models of service and relationships.

1. *Models are required that show how an organization can create, communicate, and deliver value for customers by integrating and coordinating cross-functional processes*

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to produce coherent, mutually beneficial outcomes.

Big M marketing demands that if our research is to be useful to executives with general management responsibilities, then models of service and relationships must be extended to incorporate a broader set of variables. In this way we can obtain a better understanding of how background factors or context variables moderate the effectiveness of marketing variables on business performance outcomes. By background factors, I refer to critical organizational activities that act as boundary conditions (in experimental parlance) or contingencies (in strategic parlance).

For example, there are numerous studies of how direct marketing variables (amount and timing of email, catalogs, and so forth) influence subsequent purchases in a multichannel environment. However, these studies are small m models because direct marketing variables are considered in isolation from other activities of the firm. Big M marketing takes a step back to consider how technology, network alliances, service operations, and human resource policies and practices (all of which influence customers' experiences), as well as sales or account management activities (which influence customers' perceptions of the brand and company), interact with marketing communications to create customer-firm relationships.

I do not believe that it is possible to create a comprehensive model or theory of everything. Instead, marketing scientists should be more thoughtful about including relevant context effects in our models of service and relationships. These considerations should be important for researchers who focus on certain topics identified by Rust and Chung (2005), such as "relationships with customer networks," "strategic models of customer equity," "changes in customer profitability over time," and so forth.

2. *Dynamic models are required that can describe "path-dependent" outcomes, whereby relationships are influenced by how the organization responds to customers, competitors, and markets* (*and vice versa*).

Rust and Chung (2005) identify "real-time marketing," "dynamic customer satisfaction," and "dynamic interaction and customization" as three topics that require additional research. In doing so, they are not simply proposing the development of new models that describe how multiple dependent variables (e.g., relationship outcomes) are simultaneously determined by marketing actions (e.g., service variables) over time. Rather, they are advocating the development of dynamic models in which the customer is an active rather than a passive participant to whom the organization responds. I will go one step further and argue that models of service and relationships should also be extended to incorporate the effects of competitive actions. This extension is especially challenging in the current economic environment, which is characterized by fuzzy market boundaries that allow competition to penetrate from adjacent market spaces.

Returning to my focus of Big M marketing, dynamic models that accommodate proactive customer and competitor behavior—as well as organizational actions—are essential to the development of effective organizational strategies. Hunt (2004, p. 22) observes:

> A key premise of the resource-based view is that resource and capability development is a selective and path dependent process. The need for selectivity requires an organization to concentrate attention on a few capabilities that correspond to key success factors in the target market. Thus firms have to select whether to make superior relational value a central versus a supportive element of their strategy. Many firms will not make this choice, perhaps because they have been preempted.

To offer a simple example, recent empirical work supports the notion that, holding fixed the level of CRM investment, the effectiveness of CRM activities depends on the firm's preexisting capabilities and how CRM is integrated with the existing processes of the firm (Boulding et al. 2005, p. 158). In other words, CRM activities (e.g., a loyalty program with certain characteristics) that are effective for one organization will not necessarily be effective for another organization.

With respect to dynamic modeling, an emerging frontier for models of service and relationships are models of customer portfolio management (e.g., Johnson and Selnes 2004, 2005) and customer equity. Ultimately, models relevant to Big M marketing must consider how an organization creates a unique value proposition by matching the customer and product portfolio—where both potential and current customers/products are considered. Businesses are currently preoccupied with organic growth, and we can expect that customer acquisition and relationship expansion (which alter the customer portfolio) and product innovation (which revises the product portfolio) will generate organic growth. However, our ability to identify "optimal" organizational strategies that lead to organic growth will depend on how accurately our models reflect organization, customer and competitive actions, and reactions over time.

3. *Models of service and relationships should incorporate metrics that can be meaningfully related to financial measures of organizational performance.*

In his essay introducing the *Journal of Marketing* special section on linking marketing to financial performance and firm value, Lehmann (2004, p. 74) argues that customer and product-level results (e.g., awareness, attitude, sales, share) need to be used (primarily diagnostically), along with financial measures and the value of marketing assets that have long-run value, such as brand equity and customers (primarily evaluative criteria), to assess performance. Summarizing recent research, Boulding et al. (2005, p. 160) observe that "inappropriate and incomplete use of CRM metrics can put the firm at risk of developing core rigidities, thereby leading to long-term failure."

Models of service and relationships frequently ignore two critical factors that influence organizational assessments of financial performance: risk and costs. Begin by considering risk. Principles of financial management suggest that diversification of the customer portfolio—that is, the assembly of a heterogeneous rather than a homogeneous customer base—might be optimal. In contrast, market segmentation traditionally requires the aggregation of customers who are similar in terms of behavior regarding their responsiveness to communications media, price, and channels until the marginal benefits (from economies of scale) equal the marginal costs (of foregone revenues lost due to standardization (net of any cost savings)). Consequently, fundamental notions of finance and marketing seem to be in opposition! Fortunately, recent research has established that certain marketing variables, such as customer satisfaction, can reduce volatility of cash flows (e.g., Gruca and Rego 2005)—implying that market segmentation and financial management principles can be reconciled. At present, researchers are likely to calculate a risk-adjusted rate of return for each segment and discount using it. However, more elaborate models are required that explicitly examine these tradeoffs in resource allocation decisions.

Now consider costs. Many aggregate models start by assuming specific acquisition costs per customer. However, outside simple direct marketing contexts, cost per customer is not a straightforward calculation (e.g., Niraj et al. 2001). This observation leads to three questions about Big M models of service and relationships:

(1) How should we evaluate investments in technology, training programs, alliances (e.g., changing suppliers) within the customer equity framework, thereby linking marketing actions to strategic evaluations of these investments (e.g., Srivastava et al. 1998)?

(2) How should models of service and relationships incorporate *intangibles* such as customer satisfaction, branding strategies, or new product innovation—can we extend our treatment of these investment decisions from aggregate models of shareholder value to individual level models?

(3) How should we accommodate approaches to resource allocation across organizational units (Kamakura et al. 2002) within models of customer equity approach (which typically allocate resources across customers and marketing decision variables)?

These questions suggest that modelers should be more thoughtful in their choice of metrics, selecting metrics that link to measures of long-run financial performance rather than simply using "convenient" or short-run measures.

Boulding et al. (2005) observe that "effective CRM implementation does not necessarily require sophisticated analyses, concepts, or technology." This might be considered good news for modelers (if it doesn't put us out of business), but I would quickly add the following caveat: The development of improved models of service and relationships requires that modelers address the challenges above. And, to do that, the marketing discipline will require stronger theory—that is, deeper conceptualizations—to support our model specifications. By stronger theory, I do not mean that our models must be based on concepts borrowed from other disciplines (e.g., psychology, sociology, economics, and so forth). Instead, I mean that model specification requires intellectually rigorous arguments regarding the organizational context variables, marketplace dynamics, and metrics that are relevant to understanding service and relationships.

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