Chapter I

The relationship as an intangible resource

SUMMARY:

1.1. Introduction. – 1.2. Tangible, Intangible and Human resources. – 1.2.1. Brand equity. – 1.2.2. Brand evaluation methods. – 1.2.3 Image, Identity and Reputation. – 1.3. From transactional to relationship marketing. – 1.4. Relationship marketing. – 1.5. The moments of truth. – 1.6. Costs and benefits of the relationship. – 1.7. Monitoring the results.

1.1. Introduction

The issue of managing the relationship between the company and its customers and, in general, with the various stakeholders, has always been considered an important element in achieving business success. However, over the decades, this context of analysis has undergone some changes. With regard to the company-customer relationship, the role of customers is enriched, and its co-production capacity has grown, following the digital revolution that affected all sectors of the economy. In the service sectors, it is particularly evident as a consequence of its characteristics (Intangibility, Heterogeneity, Inseparability, Perishability) that there is often the need for an interaction between customers and employees during the process of service delivery. Consumers take part in this process, they must be informed and educated to create significant benefits for both parties. In other words, the relationship must be well managed to produce the desirable positive effects. Otherwise, the benefits sought will not be acquired and both parties will have a disappointing experience. The relationship is an important intangible resource of the company, which must be considered part of the company's global resources, so that it can be managed synergistically and strategically. In addition, the Resource-based theory suggests that it is possible to achieve and maintain a competitive advantage by leveraging the specific fea-

tures of the company that relate primarily to intangible assets. Therefore, the creation of long-term economic value is linked to the increase of such type of resource. Thus, a continuous increase of resources can enable the company to maintain its market position and achieve a good economic performance, even in a critical economic situation as the current one. Companies' efforts should be directed towards this first step in order to enhance the competitive advantage. In this chapter, the relationship will be introduced as an important intangible asset in the set of resources and capabilities of enterprises. As a consequence, to the growing importance of the relationship for commercial success, a shift from transactional to relationship management approach occurred. The benefits of this change end up being numerous and significant, but it is necessary to manage its aspects in the best possible way to achieve the desired goals. All these topics will be presented and discussed in this first chapter.

1.2. Tangible, Intangible and Human resources

Growing competition in the increasingly globalized and digitized market requires clear strategic planning and a correct choice of resources and skills by companies. In the past, key resources were mostly physical assets or financial capital. In recent years, intangible resource played a critical role to achieve a competitive advantage position (Itami, 1987; McGaughey, 2002). After all, intangible resources [1] have some characteristics that allow companies to acquire these important results as they are unique, irreplaceable, tacit in nature and synergistic (Barney, 1991; Treece *et al.*, 1997). Tangible resources are easier to identify, and their value is available in the company's balance sheet. However, it should be highlighted that the book value of these resources does not give any relevant information for strategic purposes. Additional information should be added to understand their potential to create a competitive advantage (R.M. Grant, 2010). In addition, in order to identify interventions

[1] Within intangible assets it is possible to distinguish c.d. Invisible asset. Itami noted that the information gathered by the company is the center of invisible resources, as well as the channels through which it is possible to achieve such accumulation. H. Itami, *Invisible Resources*, GEA Isedi, Petrini Publisher, 1988. The main features of invisible resources are summarized in the following: sedimentality, uniqueness, difficult acquisition, multiplicity of use, transferability, perishability, incrementability and difficult copyability, although there are discordant opinions on the latter point. For further information, S. Vicari (1989) "*Invisible asset*" *and incremental behavior*, "Finanza, Marketing e Produzione", n. 1, R.P. Rumelt (1991), *How much does industry matter*? "Strategic Marketing Journal", n. 3.

aimed at creating additional value from them, it is necessary to consider existing opportunities to enter the market and make better use of existing resources. The goal is to use the least amount of resources to achieve the highest level of efficiency and at the same time, the turnover targets, profitability, market share, customer satisfaction, etc. In many companies the value associated with intangible resources is substantially higher than that of tangible, although not identified in the company's balance sheet. These resources therefore, have a high strategic importance in order to generate business value and reach competitive advantage. Reputation, Relationship, Skills, Knowledge and Technology are examples of strategic intangible assets. A brand is a way to express the company's reputation. The brand allows the company to differentiate their products/services in the market and influence the value of their corporate assets. The brand is part of these assets, belonging to the ones "capable of a process of continuous reproduction and self-feeding" (S. Vicari, 1995). In addition to tangible and intangible resources, it is possible to identify the category of human resources. The aptitudes and skills possessed by employees are fundamental to generate business value. Psychological and social characteristics of employees (D. Goleman, 1995) and organizational culture are also important for achieving this goal. The latter has been defined as a high value resource, one of great strategic importance (Barney, 1986). Generally, the resources can be classified in three main categories: tangible, intangible and human (Fig. 1.1). These resources must be properly organized with the use of organizational competence, that is, "the ability of an enterprise to allocate resources to achieve a desired goal" (Helfat and Lieberman, 2002). With the proper strategy, defined by considering critical success factors, management can promote the company to a position of competitive advantage. According to the Resource-Based View (RBV), the reasons for competitive advantage must be sought in the possession and availability (not necessarily the property) of resources, endowed with specific characteristics (Wernerfelt, 1984, 1994; Prahalad and Hamel, 1990). In this sense, intangible assets play a critical role. In particular, intangible assets related to Marketing appear to be important to achieve the following competitive advantages: associate the corporate image with the company name and its different brands, customer portfolio, product portfolio, sales networks and licenses [2].

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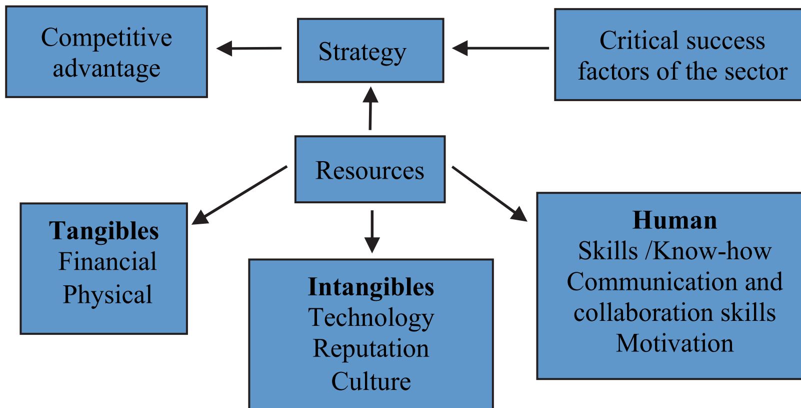
[2] This finding has been made based on critical success factors and competitive differentials of the company that have three fundamental characteristics (G. Brugger). These factors:

1. are subject to significant investment flows;
2. produce considerable differential economic benefits;
3. are transferable.

Figure 1.1. – Resources, competences and competitive advantage



Source: Adapted from M.R. Grant (2016).

More details on Brand Equity, Brand Evaluation Methods, Image, Identity and Reputation are listed below, while the value of relationships will be discussed over.

1.2.1. Brand equity

In the field of intangible assets[3] related to Marketing[4], the brand plays a leading role as is able to significantly affect the process of maintaining and in-

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This latter requirement allows you to avoid the risk of making mistakes of duplications, overlaps, but also omissions. Only the intangible asset that can be surrendered "extracting it from the company in which it is formed" (L. Guatri) can be qualified as "intangible" if the other two characteristics mentioned above also exist. G. Brugger (1989), *La valutazione dei beni immateriali legati al marketing ed alla tecnologia*, "Finanza Marketing e Produzione", n. 1. L. Guatri (1989), *Il differenziale fantasma: i beni immateriali nella determinazione del reddito e nella valutazione delle imprese*, "Finanza, Marketing e Produzione", n. 1.

[3] It has been noted that it is difficult to draw a clear line between intangible assets. L. Guatri (1989), *Il differenziale fantasma*, cit. For this reason, it is believed that it is appropriate to limit to one or a few intangible resources, to express, albeit briefly, the intangible assets of a company.

[4] "Valuable" intangible assets have been reclassified into the following categories:
- ✓ intangible assets related to marketing;
- ✓ intangible assets related to technology;
- ✓ knowledge and skills.

L. Guatri (1997), *Il valore di mercato dei beni immateriali riguardanti il marketing: la valutazione dei marchi non corre più all'impazzata?*, *La valutazione delle aziende*, n. 5.

creasing the value of the company's assets [5]. Companies that adopt a brand policy must consider the underlying factors of brand value. By leveraging on them, it is possible to produce additional value and capture all the potential tied to the brand. In this regard, the creation of brand equity is "a function of the knowledge and trust resources that the company has and accumulates [6] over time. Brand equity is the value added by the brand name to a product that does not have the brand name (Farquhar, 1989; Keller, 1993; Sriram *et al*., 2007). A more comprehensive definition of brand equity, is the value of the brand originating from high levels of brand loyalty, perceived quality, name awareness and strong brand associations, as well as assets such as trademarks, patents and distribution channels associated with the brand (Kotler and Keller, 2012; Aaker, 1991; cf. Sinclair and Keller, 2014). Aaker (1991, p. 15) also described brand equity as "a set of brand assets and liabilities linked to a brand, its name and symbol that add or subtract from the value provided by a product or service to a company and/or its customers". Instead, Srinivasan *et al.* (2005) defined brand equity as the brand's annual incremental contribution when compared to a base product. The brand equity describes the asset created by the marketing department of the company, which will "drive future cash flows from the sales of that brand" (Ambler *et al.* (2002, p. 23). Furthermore, the "brand equity" terminology notes that a brand is an asset that can be bought or sold for a certain price (Aaker *et al.*, 2004; Sinclair and Keller, 2014; Spielmann, 2014). Thus, the brand generates value if properly managed, which can take on a significant relevance in Merger & Acquisition's operations. The definitions of brand equity mentioned above, are based on different points of view. It is possible to adopt a Marketing or Financial approach and focus on the Consumer or the Company (Fig. 1.2). Nevertheless, the brand with high reputation produces benefits for the company and its customers, but requires investments and the correct use of Marketing tools by the company. In addition, management must ac-

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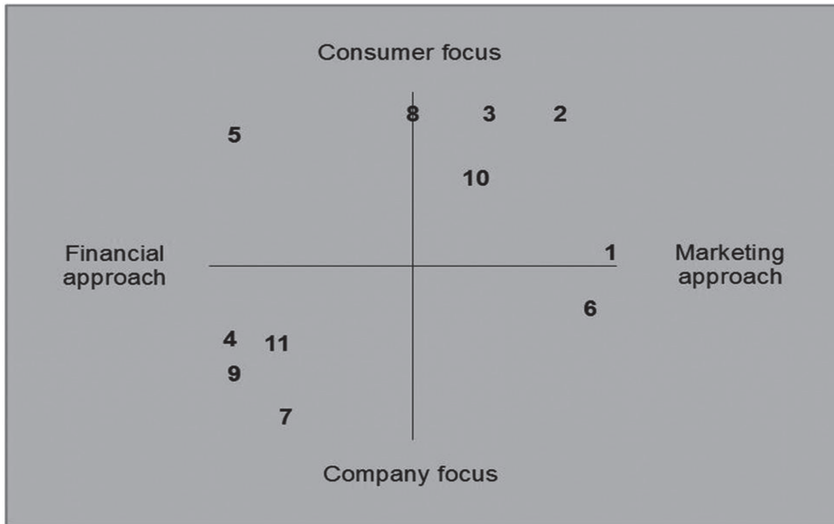
[5] Corporate assets are a "set of assets that the company uses for its operation", S. Vicari (1995), *Verso il Resource-Based Management*, in S. Vicari (a cura di), *Brand equity, il potenziale generativo della fiducia*, Egea, Milano.

[6] S. Vicari (1993), *Risorse aziendali e funzionamento d'impresa*, "Finanza Marketing e Produzione", n. 3. The company's cognitive system has set its own work on competence and trusted resources. The former has been broken down into technological, market and integrative competencies, while the latter have been classified into internal and external and, in the latter, in vertical or lateral trust resources. S. Vicari, G. Verona (2000), *La generazione del vantaggio competitivo. Recenti sviluppi e nuove implicazioni per il Resource-based management*, "Finanza Marketing e Produzione", n. 2.

quire accurate information to target the audience and monitor the decision that consumers attribute to the brand, without neglecting social networks and the virtual environment.

Figure 1.2. – Conceptual matrix of brand equity



Sources: 1. Farquhar (1989); 2. Aaker (1991); 3. Keller (1993); 4. Simon and Sullivan (1993); 5. Kamakura and Russell (1993); 6. Yoo *et al.* (2000); 7. Ailawadi *et al.* (2003); 8. Srinivasan *et al.* (2005); 9. Ambler (2008); 10. Keller and Lehhmann (2003, 2006); 11. Raggio and Leone (2009).

Source: from N.S. Davcik *et al.* (2015).

Therefore, the brand value quantification process should not be conducted by the enterprise only in M&A operations, but carried out regularly, to verify whether the investments made are producing the expected results in terms of brand-value growth as a result of the enhancements made on brand image, customer loyalty and relationship with the brand. To "fully" exploit the creation potential of the brand, the company must embrace actions to enhance its brand equity. This does not mean exploiting the results attained, but rather "feeding, on a long-term basis, the first source of intangible assets intrinsic to the brand" [7], allowing therefore, continuous self-production and supply of resources underlying the value of brand equity.

[7] B. Busacca, G. Verona (1995), *La difesa e lo sviluppo della marca*, "Economia & Management", n. 6/95.

This approach is the only one consistent with the medium and long-term growth target of the intangible asset of the “brand” and the company in general.

However, the trust relationship mentioned above should portray not only the relationship between the company and its customers, but also the relationship between the company and its stakeholders. In this way, the brand is more likely to have another brand (new, unknown or for which the level of confidence is lower) to obtain better conditions in the relationship with external parties.

In this regard, the benefits associated with the brand by consumer goods and branded industrial products, were included in 4 categories (Busacca and Verona, 1995):

1. Trade-leverage: ease of access to distribution, better product exposure, lower distribution margins, greater distribution capillarity.
2. Competitive differentiation: reduction of competitive intensity, higher sales volumes, premium price application, image creation exploitable in new competitive environments.
3. Potential relationship with consumers and financiers: improving relations with consumers and lenders while increasing customer loyalty.
4. Potential relationship with distributors: awareness and relationship enhancement.

These are significant advantages, which can only be “obtained” by marketing-oriented businesses after considerable financial, timely and organizational efforts (Busacca and Verona, 1995a, 1995b). Therefore, these benefits are linked to a higher quality of relationship with stakeholders, mostly with distributors, customers and financiers. A relationship that generates the effects mentioned, allows firms to differentiated themselves from competitors and obtain better conditions within distribution channels and the banking system in general. In fact, a strong brand is required by the distributor as it increases the degree of attractiveness of the point of sale and can help to increase his turnover. As for the banking system, it expresses a lower perceived risk linked to the ability of the firms to produce certain levels of cash flow in time and have the opportunity to pay on time due debts on maturity. It also affects the relationship with customers because it increases trust and generates positive consequences on the strength and length of the relationship itself.

These considerations lead to determine that during the purchasing pro-

cess, trust tends to replace information, “proving itself to be an alternative to them (Vicari, 1991).

Therefore, it is clear that by increasing customer loyalty and confidence, the company can increase revenue and business profitability. Moreover, companies that have invested heavily in the brand and achieved a high reputation generate a great value, which can be a significant part of its value in the case of M&A operations. Tab. 1.1 shows the Best Global Brands 2022 ranking the top 10 positions.

Table 1.1. – Ranking of Best Global Brands 2022

Positions	Brand	Brand value ($m)	Δ % (2022-21)
1	**Apple**	483,215	+18%
2	**Microsoft**	278,288	+32%
3	**Amazon**	274,819	+10%
4	**Google**	251,751	+28%
5	**Samsung**	87,689	+17%
6	**Toyota**	59,757	+10%
7	**Coca-Cola**	57,535	0%
8	**Mercedes-Benz**	56,103	+10%
9	**Disney**	50,325	+14%
10	**Nike**	50,289	+18%

Note: Brand value is calculated as the Net Present Value of the future profits generated by the brand.

Source: Interbrand

Within the Interbrand ranking, we find three Italian brands in the top 100 positions: Gucci in 30rd position, Ferrari in 75th position, and Prada in 89th position. On a global level, brands in the technology sector excel, occupying the top 5 positions in the ranking. The increasing use of digital solutions within the business model of companies and the change in consumer behaviour at every stage of the Purchasing process (from the search for purchasing information through to purchase and post-purchase) have led to an exponential growth in demand for technology products/services with effects on their brand value. Our country continues to excel in the luxury fashion and automotive sectors, true excellences recognised and appreciated worldwide.

Brand value can be considered part of reputational assets because is based on the trust customers have towards the brand itself (Čavalić, 2013). Management must develop actions to strengthen this reputational asset, which must necessarily include the brand and its stakeholders' relations. This strategy can also allow to distinguish the company from competitors and create the conditions to improve the performance. The assessment of brand value is therefore essential when creating and preserving the overall value of the company over the time (Rubio *et al.*, 2016).

The relationship between corporate reputation and financial performance will be explored in more detail in Chapter 2. Instead, some of the main brand evaluation methods will be illustrated below, with a specific focus on financial ones.

1.2.2. Brand evaluation methods

Brand valuation is a complex operation as there is a lot of information needed to carry out the process efficiently and as rationally as possible. This evaluation appears to be fundamental especially in the case where the brand is characterised by a high level of notoriety and diffusion since, in this case, it can have a significant weight on the value of the company. Moreover, it has been observed that "Brand value is one of the main reasons why the market capitalisation of a company often exceeds its book value in mergers, acquisitions, licensing, joint ventures and other financing negotiations". In 2022 the overall value of the Top 100 brands has reached US$ 3,088,930m, a 16% rise from 2021 (US$ 2,667,524m). These highlights the considerable financial relevance of the brand linked to its ability to influence consumers' purchasing decisions, their level of loyalty and, ultimately, the business results.

In the case in which it is necessary to estimate the value of the brand, whether for internal purposes or in the context of extraordinary financing operations or, in general, operations aimed at exploiting the brand itself, it is necessary to proceed to the adoption of a specific methodology. The success of any method is linked to the company's ability to use that measure to improve financial performance (Melović *et al.*, 2021; A. Pakseresht and C. Mark-Herbert, 2016). Moreover, in order to create and develop brand value, it is necessary to work from a medium to long-term perspective, pursuing a set of coherent and synergetic strategic choices.

The main brand value estimation methodologies, to be chosen according to the specific situation and context of reference, can be grouped within these three fundamental categories:

- ✓ Cost-based methods.
- ✓ Financial methods based on result flows.
- ✓ Empirical or comparative methods.

There are also marketing-based brand valuation models, including Interbrand, which are particularly relevant for internationally known brands with strong brand awareness and brand loyalty.

In general, cost-based methods aim to measure the set of future benefits that a brand at the centre of a relationship system can generate. The objective of the calculation procedure is the quantification of the value of the current assets that are able to generate a certain level of future income. Various procedures exist in this respect (historical cost method, residual historical cost method and reproduction cost method). The historical cost method is indicated for intangibles in the process of being formed, i.e. when the investments incurred for its formation are certain but at the same time the returns on them are difficult to estimate due to the difficulty of estimating the probability of success of such new business realities (Guatri, Bini, 2009)[8]. The residual historical cost method involves updating the costs incurred in the formation of the brand and taking into account the residual usefulness of the specific intangible. A reduction in value may indeed be correct in the case of strong competitive pressure and high risk of market share reduction. On the contrary, such a reduction may not be appropriate in the case of intense use of the brand, even in the context of brand development strategies, as this could mean an increase in the useful life of the brand and make a reduction in its value questionable (Mazzei, 1999). The average reproduction cost method estimates the amount the company would have to bear to create the brand at the time of its valuation.

The financial method quantifies the brand value by isolating the flows (income or financial) attributable to the brand for all the years of its useful life, flows which are then discounted and added together. The assumption underlying this procedure is that the brand produces differential benefits (Simon and Sullivan, 1993) that can be acquired by the company in the medium to long term.

In formula:

[8] The problems that have to be faced by a start-up company are numerous and it is possible to make mistakes that can even compromise the survival of the company. These include inappropriate length sources of finances and improper use of personal resources (Dunn, Cheatham, 1993).

$$\text{Wi} = \sum_{t=1}^{n} \frac{RDt * (1 - tc)}{(1 + k\,i)}$$

Where:

Wi = economic value of the asset.
RDt * (1 – *tc*) = expected differential income net of tax.
K = discount rate.

The calculation of differential incomes requires the identification of a set of companies with which to make the comparison and which must be similar to the brand-owning company in certain important aspects such as product mix, company size, markets served, strategies pursued and the set of resources and skills possessed.

With regard to the profitability measure, a choice of the indicator deemed most appropriate must be made. In practice, a choice is made between a number of profitability indicators that allow the contribution of intangible assets and other factors of a different nature to be taken into account. These include the following (Volante, 2023):

- ✓ EBIT/Revenues.
- ✓ EBIT/Cost of sales.
- ✓ EBIT/Operating Invested Capital

By comparing the data of the brand-owning company with the (average or median) data of the benchmark, the profitability differential (Delta *R*) will be obtained. The revenue differential will be calculated as follows for each year under consideration:

RDt = Delta *R* * Revenues of the brand-owning company

Then, on the basis of this value, it will be possible to apply the general formula for quantifying *Wi*.

Comparative methods are based on information from similar transactions. The main difficulty concerning the application of these methods relates precisely to the availability of information concerning such transactions. Indeed, it is not only necessary that comparable transactions have been concluded in recent years, but also that accurate information about them is available, which is not always possible. Another aspect to be considered is that intangible assets, such as brands, are unique and inimitable assets that by their nature are difficult to compare.

Among the methods falling into this category is the royalty rate. The

brand value is obtained by considering the royalties that a brand might grant to its owner. The reference is information acquired on the market and, specifically, annual royalties used on transfers of use of comparable brands. To discount these royalties, a rate is used (Bini, 2005) that also takes into account the strength of the brand linked to a series of factors such as the uniqueness and non-replicability of the brand, the possibility of exploiting it within brand extension and diversification strategies, barriers to market entry, and the stage of the life cycle of the products and services sold under that brand (Mosca, 2018).

As mentioned above, there are also so-called marketing-based methods, some of which, however, consider financial values in the calculation. Interbrand was the first to meet the international standard for monetary requirements, see ISO 10668 in 2010 (Duguleana and Duguleana, 2014), participating in its development. This methodology is particularly relevant as it integrates marketing quantities with the strength of the brand valued with a market multiple, price/earnings. It is based on observing the continuous flow of investment in the brand and its management of intangible assets (Krstić and Popvić, 2011).

This method involves multiplying the income attributable to the brand by a value expressive of the brand's strategic strength, which, according to Interbrand, is related to 7 factors (see table 1.2).

In formula:

$$W\text{brand} = RONb * Mb$$

Where:

Wbrand = economic brand value.
RONb = average-normal incremental income attributable exclusively to the specific brand after taxation.
Mb = multiplier value expressing brand 'strength'.

With regard to the multiplier, Interbrand has identified a range between 0 (lowest value) and 20 (highest value) that is assigned to each brand on the basis of a number of factors related to the strength of the brand itself (table 1.2).

Table 1.2. – Interbrand's seven indicators of brand strength

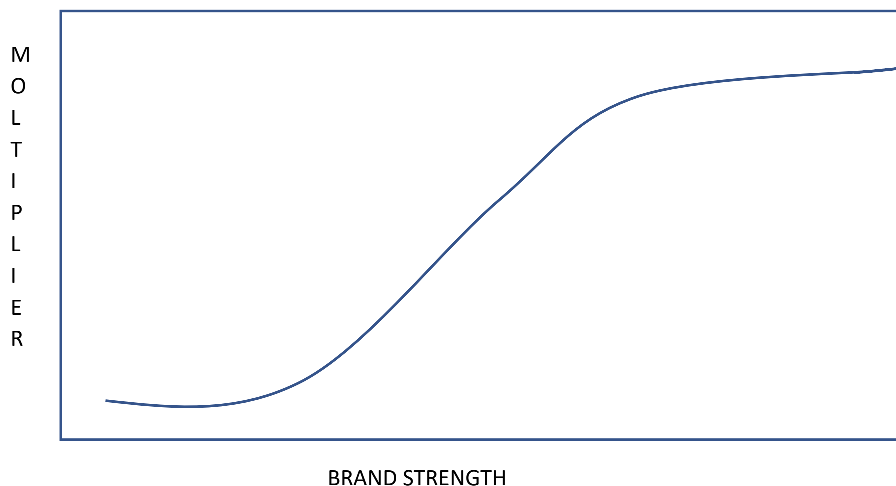
Indicator	Description	Maximum value
Leadership	Measuring the market share held by the brand in the relevant sector.	25
Stability	Level of customer loyalty.	15
Market	Assessment of the structure and characteristics of the market/sector influencing the brand.	10
Trend	Predictable brand evolution taking into account both the ability to respond effectively to market changes and the strategies of competitors.	10
Marketing activities	Consideration of the communication activities carried out in recent years to support the brand. Both the amount and the qualitative aspect is considered, e.g. the quality of the message.	10
Internationality	The degree of global brand awareness is considered, distinguishing the position at the level of individual markets.	25
Legal protection	Defensibility of the trade mark from a legal point of view.	5

Source: Our elaboration from Interbrand.

The maximum score attainable for the Brand Strength indicator is therefore 100, obtained by summing up the maximum scores for the specific factors. Each variable considers additional items which, however, Interbrand has never fully disclosed for obvious reasons of protection of its own methodology.

The score obtained, ranging between 0 and 100, is transformed into the aforementioned multiple using a logarithmic mathematical relationship. This is the well-known Interbrand S-curve as shown below.

Figure 1.3. – Interbrand's S-curve



Source: Interbrand[9].

1.2.3. Image, Identity and Reputation

Within the framework of intangible resources there are also Image, Identity and Reputation. Many studies have been conducted on these concepts trying to define the boundaries and formulate a shared definition, considering the relationship between them. The following are some of the most significant contributions in this specific field of research.

- S. Wartick (2002): the author analyse the relationship between image and identity, stating that the image relates to the perceptions of external stakeholders, while identity refers to perceptions of internal stakeholders. The company's reputation is the result of both, involving both external and internal perceptions, and so it is the aggregation of perceptions of a single stakeholder regarding the degree of satisfaction of the expectations of the various organizational stakeholders.
- Whetten and Mackey (2002): these authors take the point of view, which sees identity, image and reputation as different concepts: they state that identity is what is kept by the members of the company and aims to show the true essence of the company, the values that characterize it and what

[9] https://www.valutazionemarchi.it/VALUTAZ-ECONOM.html#:~:text=Quello%20proposto%20da%20Interbrand%20%C3%A8,determinazione%20della%20forza%20del%20brand.

makes it unique. The corporate image, instead, is treated by the authors as a projection of external stakeholders. The concept of reputation is considered a feedback, which shows if the actions carried out by the company are credible by the stakeholders themselves. It appears therefore, the credibility factor related to that of reputation.

- Chun (2005): this author follows the path traced by the previous authors presenting the concept of image as an external vision of the company by the stakeholders. It also defines reputation as the impression that the internal and external stakeholders have of the company. Unlike the image, reputation is a concept that evolves over a large period of time and above all, cannot be formed without the in-depth direct experience with the company or the products/services offered by it.
- Barnett *et al.* (2006): these authors provide a definition of image as a perception expressed by external stakeholders, which can be influenced by public relations and marketing operations. The concept of identity is found, similarly to the study of Whetten and Mackey, in the founding values of the company, in what the company really is. As for reputation, they believe that it is identified in the judgment of internal and external stakeholders on the company's financial, social and environmental commitments. From this it is also understood the link with Corporate Social Responsibility. CSR is essentially a business-driven movement, based on voluntary compliance and self-regulation (Zadek, 2001). Over the last few decades, different self-regulation instruments have appeared to help corporations adopt CSR practices. These include social and environmental performance standards and limits, social and environmental management systems, codes of conduct, best practices, instruments for certification and label, transparency guidelines, and sustainable reporting and monitoring (European Commission, 2001). These mechanisms aim to equip the private sector with tools to control and manage their operations to minimize the level of social and environmental risks implied by their activity (Albareda, 2008).
- Walker (2010): Walker takes up the definition of image of Whetten and Mackey, that is, an image as a projection of external stakeholders of the company; he also states that the image is not as stable as reputation, similarly to Chun, leads us to define reputation as a relatively stable aggregate of past actions and prospects of the company compared to certain standards represented by competitors, previous reputation or industry reputation.

From the above it is possible to identify common points which can be summarized as follows:

- reputation, image and identity are three concepts related, but distinct from each other;
- the image is understood as the set of perceptions regarding the company by external stakeholders and can be influenced in the short term;
- identity is found in the company's founding values, in the motivation for which the company was born: all this is "kept" by internal stakeholders.
- reputation is defined as a judgment on the company coming from both external and internal stakeholders. It is a concept tends to be stable over time, albeit subject to change as a result of the events that gradually affect the company over the years, partly influenced by the strategic plan developed and implemented by senior management.

As has been stated so far, reputation is defined as stable by most of the studies on the subject. On the contrary, the image, being influenced in the short term, can be damaged due to the occurrence of crises, to which it is necessary to respond effectively because otherwise the situation can worsen to the point of undermining the reputation.

In order for a company to achieve and maintain a good reputation over time, it is necessary that the needs of the various stakeholders are met, which, as is widely observed, manifest differentiated needs that sometimes conflict with each other.

1.3. From transactional to relational marketing

The ability of the firm to relate to stakeholders has been valued as an important element for the accomplishment of the company's goals and their success. However, due to the development related to this environment and its activities, the analysis approach has undergone deep changes over the years, shifting from transactional to a relational one. The transactional approach allocates the core of the action in the administration of marketing mix policies (Borden, 1964). This brought the focus on product development, pricing and the promotion and organization of distribution at points of sale. The turning point was determined by the stagflation caused by the oil crisis in the 70's, which hit the American economy (Perretti, 2010). The limits of the above-mentioned approach, revealed themselves when American companies started to obtain very low revenues while Japanese companies achieved good performances.

The transactional method determined short-term solutions to obtain the

desired revenue, preventing the company to innovate and, consequently, to keep over time, a competitive advantage position. In addition, it led to the adoption of imitation and adjustment behaviours related to the external reference environment (Wind and Robertson, 1983; Zeithaml and Zeithmal, 1984). In the following years, experts analysed the limits and the possibility of extending the standard marketing paradigm to new applications, with different conclusions. Relational marketing appears in this discussion topic. According to some researches, it is compatible with traditional theory and its basic assumptions, outlining it as a partial review (Borg, 1991). On the other, others defined this approach as completely incompatible with marketing management assumptions (Arndt, 1985). The relationship management approach, a new tool for that time, started developing in the mid-70's in the service and industrial goods sectors, to be more precise, in sectors where the transactional paradigm found major difficulties. In such competitive situations, it is imperative to recognize the importance and necessity to create stable relationships with "interest-related key groups" (Hokansson and Wootz, 1979), by stipulating long-lasting agreements with clients and suppliers. While this new approach spread out, new Partners started to appear, in addition to the original ones, introduced by McCarthy: people, process, public opinion, physical evidence and political power. The belief in the inability of a purely tactical Marketing to meet an increasingly differentiated, well-informed and dynamic demand, has spread and strengthened. The strategy of the companies started to focus on customers rather than on products.

The customer began to play a key role and interact with it in a very personalized way became very important. This led companies to start equipping themselves with appropriate technology and organizational tools. Table 1.3 summarizes the main differences between the two paradigms. The elements inducing the shift from transactional to relational marketing can be summarized as follows (Harwood, Garry 2006):

- ✓ Not all clients are equally profitable; this assumption is linked to Pareto's law [10], which supports the belief within businesses that 80% of profits originates from 20% of clients. From this, it is clear that these clients are classified as strategic and have the right to specific care (Angelini, 2005), meaning better and more intense relationships/interaction with them.
- ✓ Keeping clients rather than seeking new ones can turn to be more profita-

[10] Pareto's Law is also known as the 20/80 law. It asserts that in any kind of phenomenon, about 20% of the causes determine 80%, or similar percentage, of the effects.

ble; the industry had already recognized the importance of customer loyalty due to its contribution to profitability. For these reasons, researchers began to identify and assess the causes and consequences of customer loyalty (Bowen and Shoemaker, 1998; Baloglu, 2002), to generate more customer loyalty.

Table 1.3. – Traditional and Relationship Marketing

	Traditional marketing	Relationship marketing
Focus	Single sale	Customer retention
Orientation	Product features	Product benefits
Time scale	Short period	Long period
Service level	Little customer service	High customer service
Commitment	Limited	High
Customer contact	Moderate	High
Quality	Concern for production	Overall concern

Source: Adapted from Ballantyne *et al.* (2000).

- ✓ For a competitive advantage position, increasing importance is attributed to the Supply Chain Management System, leading to greater openness among buyers and sellers. In addition, competition nowadays, rather than among firms, among business networks (Hassini, 2008). Its global competitiveness also depends on the value of the relationships established within the network itself.
- ✓ Increased transactions involving products with high added value, inducing strategies aimed at lasting relationships between buyers and suppliers.
- ✓ The use of outsourcing is growing and, to accomplish common benefits, it is necessary to establish "co-makership" agreements.

In summary, the core of the theory of relational marketing is the creation of value through exchange processes involving more connected players thanks to the Internet and the development of Information Technology, that allows a simpler, faster and more economical way of interaction. It is important to emphasize that the studies on Relational Marketing have highlighted the importance and individuality of the customer, emphasizing the importance of a two-way communication that the company is called to activate, and feed with its customers, using, in this regard, the solutions considered most appropriate, among which are the ones taking a fundamental role, using the Internet and, in general, new technologies. The evolution of the re-

lationship between the two parties in question also foresees a change in the logic of communication because if in the early stages of the relationship a planned communication with low levels of interactivity and participation can be sufficient, in the subsequent phases the evolution of the relationship will occur, thanks to the dialogue with which the relationship can be enriched, allowing the parties to acquire new knowledge and produce greater value for both. The dialogue is defined as "an interactive process whereby you learn jointly" (Ballantyne, 2004). The latter finds something new and implies an evolutionary change in the relationship between the parties involved. The consolidation of this relationship depends on the ability of the company to "keep promises" but also to adapt itself over time thanks to the knowledge it acquires thanks to the relational exchanges with the customer. In other words, interaction and dialogue become important sources of information for the company and the client, allowing both to improve the level of mutual knowledge, enabling the company to easily achieve the targets set in terms of customer satisfaction, income and/or market performance, acquisition of inputs to improve and/or innovate the proposal to the market, etc. Relational ability is therefore an important additional element of the offer, capable of creating greater value perceived for the customer. Moreover, what drives a customer to buy a product/service from a given supplier is not only what the company offers but how it relates to the customer.

This situation is of high strategic importance today for the company, so it can stand out from the competition, achieving and maintaining a position of competitive advantage. It is evident that this latter situation requires, among other things, a careful and rigorous analysis of management costs as well as a correct investment and financing policy. In other words, the achievement of high levels of revenue is not in itself sufficient for the generation of a satisfactory operating income. If this level of revenue has indeed been reached with the diseconomies and/or in a less efficient way, compared to competitors, the economic performance will be negatively affected. This is due not so much to problems regarding the ability to meet demand, but to management problems that have exerted negative effects on costs. The result is a compression of economic returns, with negative effects in terms of self financing capacity and adequate return on the capital invested in the business.

In summary, the relationship approach sets a fundamental change of paradigm when highlights the empowerment of the customer. It is stated that: "value is created by marketers and customers who participate and contribute to the process and its result" (Grönroos, 2000). Moreover, the introduction

of RM is relevant to large, medium and small size companies (SMEs). Regardless of the size of the company, it's important for the business success to activate and develop over time, a close interaction with other individuals, such as customers and potential customers (Harwood and Garry, 2006). It is important to manage a multitude of personal relationships in a "lifelong learning network" (Kirby, 2003).

1.4. Relationship marketing

Relationship has gained a central role in the creation of value for companies. As a result, Relationship approach, focusing on the optimal management of the business and enhancing the relationship role with stakeholders, emphasizes its potential but also the issues to be addressed.

Relational management can be defined as an integrated effort to identify, maintain, and build a network with stakeholder and continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value added contacts over a long period of time (Shani and Chalasani, 1992).

To achieve important results in terms of competitive advantage and superior financial performance, firms should identify, develop and nurture a relationship portfolio (Madhavaram and Hunt, 2008). This draws the attention to the relational marketing, not only because of the relationship between companies and their customers (e.g. Berry, 1982; Berry and Parasuraman, 1991) but also because of the relationship network (e.g. Gummesson, 1994; Gronroos, 1996) as already mentioned above. In other terms, "relational marketing refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges" (Morgan and Hunt, 1994, p. 22) with or without the presence of customers. Furthermore, the authors themselves have identified ten forms of relational marketing with reference to a Focal firm and its relational exchanges with suppliers, lateral, buyer and internal partnerships (Figure 1.4). All these forms of relational marketing activities must be managed within a unique and overall strategy (RM Strategy) to generate the maximum value from all the parties involved. Furthermore, this is essential to transform an isolated transaction, which has a "distinct beginning, short duration, and sharp ending by performance" to a relational exchange, which "traces to previous agreements [and] … is longer in duration, reflecting an ongoing process" (Dwyer *et al.*, 1987, p. 13).