Chapter 1 Outline: Introduction to Relationship Selling

Value-Added Information in Chapter 1

- Expert Advice: “Follow-Up”—David B. Edmonds, Senior Vice President, Worldwide Services, FedEx
- Global Connection—“Shift to Value-Added Selling Is Biggest Challenge in Global Sales”
- Ethical Dilemma – “All Star Insurance”

- Exhibits
  - Exhibit 1.1—“Test Your Customer Mindset”
  - Exhibit 1.2—“Transactional Selling versus Relationship Selling”
  - Exhibit 1.3—“Time Investment in Each Stage of the Sale: Transactional versus Value-Added Selling”
  - Exhibit 1.4—“Components of the Internal Environment”
  - Exhibit 1.5—“Components of the External Environment”

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II. A Model for Contemporary Selling
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   B. Understanding Sellers and Buyers
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E. Selling Process
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   2. Negotiating for Win-Win Solutions
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F. Sales Management
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Discussion Questions

1. Think about the general concept of a relationship, not necessarily in a business setting, but just relationships in general between any two parties. What aspects of relationships are inherently favorable? What aspects tend to cause problems? List some specific ways one might work to minimize the problems and accentuate the favorable aspects.

Student answers to this question will vary. Here is a sample response:

Several aspects of relationships are inherently favorable:

- Mutual trust
- Loyalty
- Friendliness
- Respect
- Long-term nature
- Win-win approach – action to help one another and achieve mutual benefit
- Familiarity with needs, wants, and desires

Several aspects of relationships also cause problems:

- Win-lose approach – one side taking advantage of the relationship
- Parties not being open with one another
- Misunderstandings
- Arguments or conflicting opinions
- Familiarity sometimes breeds contempt

To minimize the problems and accentuate the favorable aspects, the parties to a relationship should:

- Clearly communicate to each other about needs, wants, and problems
• Be considerate of one another—put oneself in the other party’s shoes and treat them as you would wish to be treated.

• Clearing up misunderstandings as soon as they arise to maintain trust.

• Be respectful of the other party.

• Establishing a clear understanding of the role of both parties in the relationship.

2. What is value? In what ways does a relationship selling approach add value to your customers, to you the salesperson, and to your sales organizations?

Value is the net bundle of benefits the customer derives from the product one is selling. A relationship selling approach adds value to customers by putting them at the center of everything that happens both inside and outside the firm and by putting customer needs first so that customers are understood and satisfied. This approach adds value to the salesperson because it makes the job of selling a job focused on securing, building, and maintaining long-term relationships, rather than pushing products or services. This approach adds value to sales organizations because it establishes customers for the long-term, which provides consistent and profitable business for the organization.

3. Southwest Airlines is famous for placing its employees at the center of the organization. Unlike our model for Relationship Selling and Sales Management, Southwest has its employees in the center circle instead of customers. Former Southwest chair Herb Kelleher’s vision has always been that if a firm treats its people as though they are the center of the universe, they are bound to provide outstanding customer care. Judging from Southwest’s track record, it seems to be working. Can this model be extended beyond Southwest to other firms and industries? Why or why not? What factors would allow an organization to repeat Southwest’s success with such a model? (Visit Southwest Airlines at www.southwest.com.)
This model can be extended beyond Southwest to other firms and industries because it is really only an extension of the customer-centric model from this textbook. It is placing the internal customer, i.e., the employee, at the very center of the model. By pleasing internal customers first, it establishes a long-term relationship and provides value to them, who in turn, will do the same for external customers. In this terrific model, everyone has a customer. An organization could repeat Southwest’s success with such a model if the organization truly has a customer orientation and mindset and will:

- Instill an organizationwide focus on understanding customers’ requirements.
- Generate an understanding of the marketplace and internal customers and disseminate that knowledge to everyone in the firm.
- Align system capabilities internally so that the organization responds effectively with innovative, competitively differentiated, satisfaction-generating products and services.

Obviously for some firms this entails cultural, structural, and process changes. Such a fundamental shift requires commitment and leadership at the very top of the organization—like Herb Kelleher at Southwest Airlines.

4. When a firm shifts from traditional selling to a value-added approach, a number of changes have to take place in the way a salesperson approaches customers as well as his or her own job. List as many of these changes as you can and explain why each is important to making value-added selling work.
• The salesperson must spend more time developing an understanding of the buyer’s needs rather than on closing the sale. This is the core difference between traditional selling and value-added selling. The focus is on the front end, i.e., understanding needs, rather than the back end of closing the sale. If the customer’s needs are understood and a relationship is established, closing the sale will be an easy, natural part of the process.

• The salesperson must focus on the customer’s ways, means, and objectives rather his or her own. To add value to customers, one must build a relationship, create confidence and trust, and listen to customer needs.

• The salesperson must build the relationship for the long-term rather than pushing the customer to meet or buy. With a relationship approach, the traditional “push” strategy of salespeople is not the core of the job.

• The salesperson must listen more than talk. Understanding customer needs begins with listening to them.

• The salesperson must be open and not “hide the ball” as to sales strategy. Selling is not warfare. This approach puts the salesperson and customer on the same side and builds trust.

• The salesperson must make the relationship the goal rather than the sale itself. This relationship is built for the long-term and not attempting in the short-term to squeeze every dollar from the customers by having them purchase unnecessary items. This approach will build trust and nurture a long-term relationship.
• *The salesperson must give a useful number of options.* He or she must be considerate and not confuse the customer to the point of being unable to make a buying decision, but at the same time offer enough options to come up with a viable solution. Thus, the salesperson is a consultative problem-solver.

• *The salesperson must not write the customer off too soon.* Under the relationship selling approach, buying decisions are not always made quickly. The key is managing the customer prospect over time.

5. *Has transactional selling gone the way of the dinosaur? That is, are there ever any situations in which a transactional selling approach to selling would be an appropriate approach today? If so, what are the conditions and why?*

Transactional selling has yet not completely gone the way of the dinosaur, but frankly in many settings it is nearing extinction. As you learned in Exhibit 1.2, a transactional selling approach would be most appropriate in meeting the needs of buyers treat suppliers as a commodity and who are mainly or exclusively interested in price or convenience. Transactional selling does create value in such settings, since costs are reduced and acquisition is made easy, with neither party making much investment in the process of buying or selling.

6. *Why is it important to talk about selling solutions instead of products or services? How does selling solutions further the success of a relationship selling approach?*
When a salesperson has a relationship with a customer, it is based on trust and meeting needs, not just a hard sell. To meet the customer’s needs means to solve a problem rather than to sell a product or service. The salesperson sells value-added solutions by helping customers understand their problems and potential solutions to them in a new way. Selling solutions furthers the success of a relationship selling approach because it reinforces that the salesperson is there to meet the needs and interests of the customer as the customer’s personal advocate, not his or her own. This very much reflects a consultative approach to selling.

7. **The chapter talks about the importance of win-win outcomes in negotiation. Think of a time when you negotiated with someone over something and one of you “lost” and the other “won.” If you could do it over again, what might you do to promote a win-win approach?**

Student answers will vary. Here is a sample answer:

In a negotiation, parties have objections to the transaction, but they are not clearly communicated to one another. For example, when buying a car, a buyer may have a need to be met that is irrespective of price. If the buyer does not get the need met, she loses. If the buyer walks away from the deal, the car salesperson loses. To promote a win-win approach, both the buyer and salesperson must communicate needs and objections, and these must be realistic. By recognizing and handling objections, the parties can often come to an agreement that is mutually beneficial to everyone involved.

8. **Another salesperson in your company says to you: “Closing techniques today are moot. We know all our customers and their needs too well to have to employ ‘closing’ techniques on them. Doing so would ruin our relationships.” How do you respond to this? Is the person correct, incorrect, or both? Why?**
The person is both correct and incorrect. “Traditional” closing techniques—awkward high-pressure pushes for a sale—are indeed moot in relationship selling and inconsistent with the win-win approach. There is still a “closing” in relationship selling, but it really unfolds as a natural part of the communication process. Because the salesperson and customer have established a relationship of rapport, trust, and mutual respect and have been openly communicating throughout the process about mutual goals they would like to see fulfilled, the negotiation focuses on value rather than price, and the closing becomes easy.

9. Think about the various courses you have taken during your college career. What motivates you to work harder and perform better in some courses than others? Why? What rewards are you seeking from your college experience?

Student answers will vary. Here is a sample answer:

Motivation refers to the amount of effort one chooses to expend on an activity or task. It is based on the expectancy or probability that expending effort on a task will lead to improved performance and rewards. Students are motivated to work harder and perform better in some courses by way the instructor makes clear the goals of the course, facilitates achievement of those goals, and provides appropriate rewards for high performance. Alternatively, courses with vague or no goals, poor instruction, an arbitrary doling out of rewards are demotivating.

10. Sales managers ranked success factors for sales recruits as “listening skills” first, “follow-up skills” second, and “ability to adapt sales style from situation to situation” third. Why do you think managers find these particular success factors so important? How does each contribute to a relationship selling approach?
Sales managers attach high importance to these success factors because these factors strongly support the relationship selling model. Listening skills are of paramount importance because they allow the salesperson to understand the needs and objections of the customer. Follow-up skills are also very important because they allow the salesperson to improve customer perceptions of service quality, customer satisfaction, and customer retention and loyalty. The ability to adapt a sales style from situation to situation is important because it allows the salesperson to satisfy and delight customers, even though the customer and his or her needs and situation will vary widely.

11. Like all firms, Dell Computers operates within an external environment of factors beyond its immediate control. Consider the various aspects of the external environment portrayed in the chapter. What specific aspects have the most impact on Dell’s ability to practice successful relationship selling? Why is each important? (Visit Dell at www.dell.com.)

Although Dell must take into account all five components of the external environment (Economic, Legal-political, Technological, Socio-cultural, and Natural), one could argue that the most important aspects are the economic and technological environments. However, answers build on other external environment components can certainly be entertained so long as they are well supported.
Economic: The total potential demand for Dell’s products and services within the United States, and any other country, depends on that country’s economic conditions—the amount of growth, the unemployment rate, the level of inflation, and the gross domestic product (GDP). The better the economic conditions, the more customers will buy computers and other products from Dell. In addition, the existing distribution structure in the computer industry, such as suppliers of computer components including Intel, will impact Dell because its relationship with suppliers and its just-in-time manufacturing operation are crucial to its success. Furthermore, the amount of competition in the high-tech industry will impact Dell. For example, the merger of Compaq and Hewlett-Packard in 2002 greatly affected Dell’s business.

Technological: Technological advances are occurring faster all of the time, and new products account for an increasing percentage of total sales, especially for a company like Dell. For example, the speed of processors is constantly changing, and Dell must constantly be changing the components of its computer products to stay current. It must also keep up with the evolving technological needs of customers and develop new products and that meet customer’s business needs with the most up-to-date technology.
Ethical Dilemma—Teaching Notes

Teaching Notes

Relationship selling is about building profitable relationships with customers that endure for a long period of time (strategic alliances). By submitting policies that will most likely not be accepted harms not only the customer, but also the company. While not violating the letter of the contest Ted would be violating the spirit. The dilemma presents the opportunity for a great discussion on building trust with the customer and the company.

The pressure to perform and win the award is something younger students may or may not relate to initially. Certainly getting grades and doing well on exams gives some indication of the pressure to perform but Ted is under a different kind of pressure (job security, compensation, personal satisfaction and recognition). Helping the students understand and appreciate that kind of pressure goes along way to setting the stage for the ethical conflict inside Ted.

As you move through the ethical dilemmas in each chapter you will find they target one or two critical content areas from that chapter. In this case, the question of value creation and customer orientation drives the discussion. Do Ted’s actions create additional value for the customer or are the actions designed to selfishly reward Ted by manipulating the reward system at All Star Insurance? Clearly, if Ted submits policies he knows will not be underwritten he is not working in the best interests of the customer or the company.
This first ethical dilemma also enables you to set the stage for all ethical dilemmas in the book. It is possible to focus just on Ted’s issues here but you can move into other areas such as communication with the customer (should he be honest with the customer) and the customer. An interesting discussion can also be generated by focusing on whether Ted winning the contest will have any effect on a student’s perception of the ethics involved in the dilemma.

Answers to Questions


The answer, of course, is to submit only valid policies that have a high probability of being underwritten. In other words continue to behave in an ethical fashion. Ted has been successful with the company and to compromise his principles now would be harmful to him, the company and the customers. There are several frameworks that can be used to justify this response. First, within the chapter the discussion on value creation provides a great starting point for a focus on delivering value to the customer. Consider the waste of time for the customer and All Star Insurance if Ted submits policies that will be denied by underwriting. Other frameworks that can be used are moral arguments (lying or misleading the company is not ethical) or pragmatic arguments (in the end it is highly unlikely he can get away with cheating).

2. *What conflicts do salespeople run into when they try to balance the needs of the company and customer?*
As the students will examine in the course of the book, relationship selling demands salespeople play the role of advocate for the customer and the company. This results in many conflicts, some of which involve ethical decisions. Chapter 4 presents an in-depth discussion of ethical issues in relationship selling. A few conflicts that can be brought up at this point include: (1) pricing (higher prices mean more profits for the company but greater customer dissatisfaction without properly conveying the value proposition to the customer), (2) service levels (customers will always seek to maximize the service they receive but that may not always be in the best interests of the company), (3) information (salespeople are often in possession of information that customers, competitors, or the company would find useful but that information may be confidential and divulging it could lead to problems).

3. *Is it OK for Ted to violate the spirit of the contest so long as he does not violate the letter of the contest rules?*

There are good reasons beyond the moral arguments, for Ted to honor the spirit and letter of the contest rules. First, violating the spirit of the contest is not in the best interests of the company or Ted’s customers. It violates the value proposition by wasting the customer and company’s time without delivering any value. Second, dishonest behavior will almost always be discovered and this would put Ted’s position in immediate jeopardy. Finally, the moral argument suggests that violating the spirit is still being dishonest to the company and comes at the expense of Ted’s personal integrity. In a very real sense, this would also put Ted’s job at great risk if he chooses to engage in the dishonest behavior and was later found out by management.
4. **Who bears more of the ethical responsibility: management (for creating a contest with poorly written rules) or Ted?**

Management should work hard to create contests (and more broadly speaking compensation and reward systems) that are fair, easily understood and do not deliberately put the salesperson in a difficult situation. However, companies also have a reasonable expectation their salespeople will behave in an ethical manner. This is realistic and, as a result, Ted bears greater ethical responsibility for his actions no matter how poorly the contest rules may be written.
Mini Case — Creekside Outdoor Gear

This case blends together several aspects of the chapter into the decision situation faced by Joe Edwards. Joe’s first realization is that the environment in which his business operates is changing. Changes in the external environment are impacting various aspects of the company’s internal environment. Changing population demographics along with technological advancements and economic concerns are causing Joe to consider making fundamental changes to his business. However, when he begins to look at his business in a critical sense he realizes that he may not have the infrastructure or personnel to implement the changes he is considering. In addition, the financial resources may not be enough for Joe to acquire the needed infrastructure. Finally, if Joe decides to expand into the western states mentioned in the case, he would like to establish relationships with the store buyers. This situation highlights the difference between relationship selling, the central focus of this book, and transactional selling. As a result of all of these factors, the path that Joe should take is not clear at all. For this case, students can be encouraged to determine a path that they would recommend to Joe and to present strong, logical reasons for why they chose that path.

Answers to Questions

1. Internal and External environment factors affecting Creekside Outdoor Gear include:
   a. Personnel (internal factor)—arises from the company not having a sales force nor a sales manager. Having the right personnel to implement a strategy is key because of the time it takes to hire a sales force and get them trained to represent the company and its products.
b. Financial Resources (internal factor)—a concern for Joe because his is a relatively small company. Joe will need significant financial resources to hire a sales manager, a sales force, and to potentially upgrade his production equipment to handle the new materials.

c. Production Capabilities (internal factor)—A concern because of the new materials desired by consumers in the products Creekside produces.

d. Social and Cultural (external factor)—consumer base is coming from younger demographic age groups who demand different clothing styles, types, and materials. Consequently, Joe will have to find a way to cater to this group and their desire to participate in extreme sports.

e. Technological (external factor)—any company not staying current with technological changes occurring in its industry courts disaster. New materials used to produce the many products Creekside manufactures is causing Joe to question whether or not his company can handle those materials.

f. Economic (external factor)—if the “extreme sports consumer cohort” does not have the disposable income it takes to purchase Creekside’s premium products, Joe would be foolish to try to sell to this younger group of potential customers.
2. A salesperson relying on the transactional method of selling would be more likely to emphasize his/her “close ratio” and discuss how he/she does not need to spend much time getting to know customers and understand their business because most purchase decisions come down to lowest cost and the ability of the salesperson to convince consumers to buy. However, a salesperson who relies on the relationship method of selling will be very interested in getting to know his/her customers and their business. This “relationship sales person” will discuss the importance of spending a considerable amount of time up-front to gain an understanding of the buyer’s needs and then using this understanding to communicate a solution that is better than what the buyer would have developed on his/her own.

For Creekside’s westward expansion Joe should focus on using a relationship selling approach. Creekside sells a high-quality product most likely at a premium price. Consequently, he will not be able to pursue a low-cost strategy with his anticipated client base in the western states. Furthermore, the additional distance of the stores in the western states from the current base of operations in Philadelphia will add a layer of cost that Joe does not have currently. Finally, Creekside will be a new supplier to the outdoor gear stores in the western states. As a result, Joe will want to communicate a message to the buyers for these stores that Creekside stands behind its products and that the company is there to help develop retail solutions for each store. Thus, to position Creekside Outdoor Gear as a supplier of premium products that provides outstanding customer service, Joe should rely on the relationship method of selling.
3. If he wants to expand quickly, and develop strong relationships with his customers, Joe should hire a sales manager to hire a sales force. If he needs time to gear up his production capabilities, he might be able to postpone establishing a sales force for a while.