

## **Business relationships: an examination of the effects of buyer-salesperson relationships on customer retention and willingness to refer and recommend**

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### **Abstract:**

Examines the effect of the quality of a salesperson's relationship with a customer on the likelihood of retaining that customer's business. Assesses the effects of high/low-quality buyer-salesperson relationships on obtaining referrals and recommendations from a customer. Results indicate that buyers who rated the quality of their relationship with their salesperson as above average were more likely to remain. In addition, above average buyer-salesperson relationships were more likely to generate recommendations and referrals from customers. Suggests that a salesperson's efforts to build relationships are rewarded by greater customer retention and increased business through referrals and recommendations.

**Keywords:** buyer-seller relationships | customers | retention | salesforce

### **Article:**

#### **Introduction**

Building relationships between suppliers and customers is becoming one of the most discussed topics in the marketing literature (e.g. Berry, 1995; Wilson, 1995). This is particularly true for inter-firm relationships in business-to-business marketing (e.g. Anderson *et al.*, 1994; Jackson, 1985; Kumar *et al.*, 1995). One reason for this growing interest is the realization that getting new customers is only an "intermediate step in the marketing process" (Berry, 1995, p. 236). In the current marketing environment, increased emphasis also must be placed on retaining profitable customers (Reichheld, 1994; Reichheld and Sasser, 1990).

The importance of building customer relationships is apparent when one considers that it is much more costly to get new customers than to keep existing ones. In addition, existing customers often purchase more than new customers (Weiser, 1995). Under conditions of high purchase-related risk, a buyer is much more likely to purchase from a supplier/salesperson who has

invested the time necessary to develop a close relationship with that customer (Johnston and Lewin, 1996).

In recent years, there has been considerable research aimed at determining the outcomes of relationships at the firm level (e.g. Morgan and Hunt, 1994; Kumar *et al.*, 1995). Less attention, however, has been given to potential consequences of the dyadic relationship between a salesperson and buyer, (e.g. Crosby *et al.*, 1990; Legace *et al.*, 1991) even though this dyadic interaction is a key component of many business relationships. In business-to-business marketing environments, a firm without an effective salesforce may have little chance of developing strong relationships with customers and reaping the resulting benefits (Macintosh *et al.*, 1992). One reason for the critical nature of a salesperson’s role in developing quality relationships between their firm and the customer lies in the salesperson’s ability to develop strong lines of communication with the customer. This enables them to understand what a particular buyer expects from a supplier (Boles *et al.*, 1996).

The purpose of the current study is to examine the potential effects of buyer-salesperson relationships on several consequences of interest to suppliers. Specifically, this study will examine the effect of high- versus low-quality relationships with a supplier salesperson (as rated by the buyer) on three buyer-related attitudes and/or intentions. These are:

1. propensity to remain a customer;
2. likelihood of giving referrals; and
3. customer willingness to recommend his/her salesperson to other potential purchasers of the product.

**Table I.** Construct means and correlations

	Mean	SD	1	2	3	4
Relationship quality	32.50	16.57	(100) <sup>1</sup>			
Propensity to remain a customer	24.80	8.18	0.51	(0.85)		
Willing to recommend	5.10	1.68	0.61	0.69	(0.96)	
Willing to refer	4.01	1.78	0.47	0.36	0.59	(0.91)

**Notes:** Relationship quality was measured with one item. All constructs are significantly correlated ( $p < 0.01$ )

The effect of a buyer’s perception of the relationship quality with a supplier salesperson on these three sales-related consequences represents an extension to existing business-to-business marketing literature. Customer retention can be a major determinant of a firm’s profitability and is essential given the trend among many firms to use fewer suppliers. The buyer’s willingness to make recommendations and provide referrals is vitally important to many salespeople. Yet, the importance of the relationship with a salesperson in influencing referrals, recommendations, and customer retention has received little attention in sales research relative to other sales-related topics such as sales turnover and role stress.

### **Relationships between a buyer and salesperson**

For the purposes of this study, relationship quality can be defined as “an evaluation of the personal and business ties linked to an interaction between a buyer and salesperson in a business setting” (e.g. Crosby *et al.*, 1990). Previous research suggests that building high-quality buyer-

seller relationships offers advantages to both the supplier and customer (Berry, 1995). Supplier rewards include: increased barriers to the entry of other suppliers into their customer base, greater profitability, and the maintenance of a stable market for their products (e.g. Ganesan, 1994; Jackson, 1985; Reichheld and Sasser, 1990). Customers benefit by consistently receiving a supplier's best prices and/or specialized services, and the ability to obtain products in short supply (e.g. Boles *et al.*, 1994; Dyer and Ouchi, 1993; Frey and Schlosser, 1993; Spekman, 1991).

These relationship-related advantages may be particularly true for services, either personal or business related. This is due, at least in part, to the purchaser's inability to ascertain the quality of a service prior to purchase (Berry, 1995). Thus, an ongoing relationship with a tested provider is valued and rewarded by firms for the reliability of service that such a relationship helps insure.

In the marketplace, and particularly in service environments, salespeople often perform a vital boundary-spanning role that links their firm to customers. Given the current emphasis on relationships, and the importance of salespeople in building those relationships, it appears that the salesperson's role in business marketing is increasingly critical to a firm's long-term success. Factors identified as affecting the development and strength of buyer-salesperson relationships include: buyer's trust, satisfaction, and the buyer's perception of the lack of opportunism in the buyer-salesperson relationship (Dwyer *et al.*, 1987; Hawes *et al.*, 1989). These factors may be particularly important for customers purchasing services where, for some buyers, the salesperson may be virtually synonymous with the firm (Crosby *et al.*, 1990; Czepiel, 1990).

Despite the critical role salespeople play in the development of good customer relationships, only recently has empirical research begun to systematically examine the consequences of buyer-salesperson relationships. The role of a salesperson in creating and developing good relationships with customers is now an area of increasing interest in both academic research and managerial practice (e.g. Boles *et al.*, 1996; Crosby *et al.*, 1990; Macintosh *et al.* 1992). Specifically, the result of this interest has been a focus on the development and use of relationship-based selling behaviors designed to methodically create long-term relationships between buyers and salespeople by identifying and meeting buyer needs (e.g. Rackham, 1988; Ingram *et al.*, 1992).

One of the few studies that has examined potential outcomes of high quality buyer-salesperson relationship was conducted among buyers of life insurance (Crosby *et al.*, 1990). They found that when a customer had a good relationship with their salesperson, there was an increased likelihood of doing business with that salesperson in the future. Another study of buyer-salesperson relationships was conducted in an agri-business sales setting (Macintosh *et al.*, 1992). Results from that research suggest that top-performing salespeople focus more on building relationships with buyers initially rather than talking about their own product or making a sale.

### **Relationships and customer retention**

Customer retention is one of the most commonly mentioned outcomes of a strong buyer-seller (or buyer-salesperson) relationship (Crosby *et al.*, 1990). Retaining customers is important to a business. It is cheaper to keep current customers than to find new ones (Harley, 1984). A key

cost saving in selling to current customers is that it takes far fewer sales calls to make a sale to current customers than to prospective customers (O'Connell and Keenan, 1990). This translates into greater profit. Available evidence indicates existing customers can be much more profitable than new ones (Reichheld and Sasser, 1990). The difference in dealing with new customers and existing ones can be substantial with a current customer being up to three times more profitable compared to a new customer (Jones and Sasser, 1995).

Retaining customers is not only less expensive than finding new ones, it is also more profitable for both the supplier and buyer. Previous literature has theoretically and empirically linked customer relationships to account retention (e.g. Jackson, 1985; Kumar *et al.*, 1995). Generally speaking, when a supplier retains a customer, it is easier to find out more about the buying firm's business and how the supplier's product can help that customer. This allows the supplier to serve a customer better and, perhaps, increase sales to that account. Ajzen and Fishbein's (1980) theory of reasoned action suggests that if a buyer receives superior service, increased salesperson attention to their needs, and best prices, the positive intentions toward continuing to do business with this salesperson and firm will increase. As positive intentions increase, one would expect customers to act on those intentions. Thus, we hypothesize:

*H1. Higher levels of relationship quality will lead to greater customer intentions to stay with the current supplier.*

#### Referrals and recommendations

While account retention is very important to overall profitability, the dynamic nature of the business environment suggests that new customers also are vital to almost every supplier. Available information suggests that an average salesperson can lose 20 percent of their customer base over a year (Lapp, 1984). In fact, for some particularly volatile segments of the economy it may exceed 20 percent. Therefore, finding new accounts is very important to many, if not all, businesses.

A large body of literature in the popular press and in sales-related publications (e.g. Alessandra and Barerra, 1993; Corder, 1996) has emphasized the importance of referrals and/or recommendations from current customers. For example, one business reported 60 percent of their new business came from referrals (Jones and Sasser, 1995). Other research, examining direct salespeople, found that they perceived referrals as the most important method of obtaining new customers (Raymond and Tanner, 1994). While this study was not conducted in a business-to-business selling environment, it does suggest that referrals and/or recommendations can be extremely useful in finding new buyers.

Unfortunately, most empirical research has paid little attention to identifying these consequences of a buyer-salesperson relationship. Given the ambivalence that many individuals have toward seeing salespeople, referrals and recommendations may represent the most effective and efficient way to search for new customers to replace those that defect (Pell, 1990). It is doubtful that there is a more effective advertisement for a salesperson and a firm than a strong, positive recommendation from a satisfied customer. This is particularly true when that recommendation

is made directly to another customer without being filtered through the selling firm or its salespeople.

Maintaining high-quality relationships with a customer appears to help increase long-term salesperson performance (e.g. Crosby *et al.*, 1990; Macintosh *et al.*, 1992). In addition, having these high-quality relationships typically results in increased communication levels between the buyer and salesperson (Crosby *et al.*, 1990). This communication can help build greater trust and loyalty to that salesperson, and confidence in their firm since the salesperson can better understand what the concerns and requirements of the buyer are and, therefore, be more likely to meet those needs. These positive feelings can be expected to increase as the buyer continually experiences positive outcomes in their business dealings with that organization. Social exchange research suggests that if a salesperson helps a buyer obtain what they want/need then that buyer will be more likely to provide what the salesperson needs (i.e. referrals or recommendations) (e.g. Huston and Burgess 1979). Thus, we hypothesize that:

*H2.* Higher levels of relationship quality between a buyer and salesperson will lead to increased willingness to provide referrals.

*H3.* Higher levels of relationship quality between a buyer and salesperson will lead to increased willingness to recommend that salesperson to other businesses.

Having presented these hypotheses, we will now address the sample, measurements and analysis methods that were used in testing the proposed relationships.

## **Methods**

### **Sample**

The sample for the current study was composed of business customers of a Fortune 500 telecommunications firm. These customers on average spent over \$40,000 annually on the communication service offering of the sponsoring firm. The respondents also indicated that their primary line of business was supplying services to their own customers. Surveys were mailed to the individual in each firm that was personally contacted by the salesperson and who was responsible for purchasing the service of the sponsoring firm. Completed questionnaires were returned by 315 buyers out of approximately 1,100 which represents a 29 percent response rate. This response rate is comparable to other studies involving business purchasers (Kumar *et al.*, 1995). In addition, a comparison of early respondents with late respondents indicated that there were no significant differences in the two groups (Armstrong and Overton, 1977). Salespeople that called on these customers were approximately 60 percent male and over 80 percent had a college degree. They had on average four years of sales experience.

### **Measures**

One independent and three dependent measures were used in the research. Items used in the study are contained in the appendix. The independent measure, *relationship quality*, between the customer and their salesperson was assessed with one item consisting of a 62 mm line. The line

was anchored with “poor” at one end and “excellent” on the other. The respondent was asked to mark on the continuum where they felt their relationship was with the salesperson. Scores ranged from 1 to 62. The mean of this item for all respondents was 32.5 (which is only slightly above the expected mid-point).

The *propensity of a buyer to continue to do business* with their current supplier was assessed using four items. Three of these items were seven-point Likert-type scale items. The fourth item asked the customer what their likelihood was, on a percentage basis (0-100) of staying with their current supplier. Scores on the percentage item ranged from 0 percent (certain to leave the supplier) to 100 percent (certain to remain with the supplier). These four items were standardized and then summed. Standardization was necessary because of the different measurement scales involved. Coefficient alpha for this scale was 0.85.

*Willingness to provide referrals* was measured with three items scored on seven-point scales, anchored by 1 = strongly disagree and 7 = strongly agree. Reliability for this measure was 0.91. Customer *willingness to recommend* their salesperson to another business was assessed with using a two-item measure. Reliability for this measure was 0.96.

## Results

Survey respondents were divided into two groups based on a self-rating of their relationship quality with the salesperson. These groups were obtained using a median split. Those respondents at or above the median score were in the high-relationship quality group and those below the median were in the low-relationship quality group. This split resulted in groups of 158 and 157 respondents for high and low relationship quality respectively.

Relationship quality served as the independent variable. ANOVA was used to test for significant differences in the average value for each group on the three dependent measures. The dependent measures were:

1. willingness to refer;
2. willingness to recommend; and
3. intention to remain a customer.

Table II provides a statistical summary of our findings. Results indicate that buyers in the group reporting higher-quality relationships with their salesperson indicated significantly higher intentions to provide referrals ( $p < 0.001$ ), greater willingness to recommend ( $p < 0.001$ ), and higher intentions to remain a customer ( $p < 0.001$ ) when compared to the group with lower quality relationships.

**Table II.** ANOVA results: customers reporting high-quality relationship with salesperson versus customers reporting a low-quality relationship

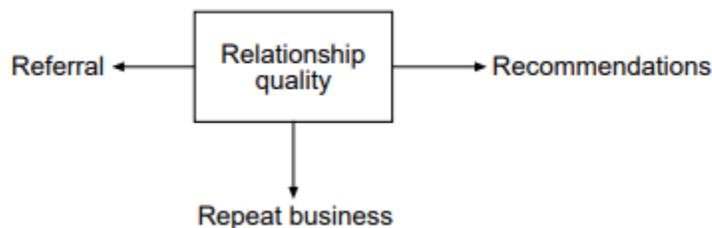
Dependent measure	F-value	High-relationship group mean	Low-relationship group mean
Propensity to remain a customer	58.3 <sup>a</sup>	28.23	21.54
Willing to refer	48.7 <sup>a</sup>	4.68	3.37
Willing to recommend	102.8 <sup>a</sup>	5.89	4.24

**Note:** <sup>a</sup> significant  $p < 0.001$

## Managerial and theoretical implications

Previous research has suggested that buyer-seller relationships evolve over time and have substantial pay-offs for the supplying firm (Dwyer *et al.*, 1987). Other studies have provided some empirical evidence that the salesperson's relationship with a customer can benefit the salesperson and their firm (Crosby *et al.*, 1990). The current study extends what has previously been known about the consequences of high-quality buyer-salesperson relationships. Results from this research verify that a high-quality relationship with a customer is very valuable in business settings. This study demonstrates this by linking relationship quality to a customer's future purchase intentions (as did Crosby *et al.*, 1990), and also to a customer's intentions to provide referrals and recommendations.

Figure 1 visually illustrates the relationships this study examined. Our findings indicate that all three linkages are significant. Establishing high-quality buyer-salesperson relationships can reap very important rewards for the supplying firm. Though these relationships are simple and straightforward, the three relationships proposed by this study are very important for firms that value a continuous stream of sales from a customer base. Findings suggest that repeat purchases from current customers, as well as referrals and recommendations to new potential customers, are linked to quality buyer-salesperson relationships. While these relationships appear almost intuitive, they have not been fully addressed in any previous empirical study.



**Figure 1.** Three Rs of quality relationships between salespeople and buyers

Obtaining referrals and recommendations is very important. In many sales environments, they are critical to continued sales success. Referrals and recommendations can result in an active, ongoing prospecting function with much less cold calling on the part of the salesforce. A referral from a customer can often open the gates and allow a salesperson to see previously “off-limits” prospects. In addition, a referral or recommendation often can help change the atmosphere of the sales presentation from confrontational to consultative (though this also is dependent on the salesperson's behavior during the call). Results from the current research demonstrate that relationship quality affects attitudes and intentions of customers. Findings also suggest that other customer beliefs and behaviors should be included in future research examining the various outcomes of relationship quality.

From a management perspective, identifying these consequences of buyer-salesperson relationships emphasizes the need for sales training that helps salespeople understand how to build relationships. Product knowledge and expertise are important, but so is the ability to understand the customer's viewpoint and to take a long-term view toward an account (Boles *et al.*, 1996; Crosby *et al.*, 1990; Macintosh *et al.*, 1992). Training programs that use scripts

concerning how sales calls should proceed and how relationships develop may be one way to help educate salespeople about relationship development and maintenance.

Results from this research also suggest that reward systems that encourage relationship building activities may be needed if a firm is to motivate salespeople to approach selling as a relationship-building activity rather than as a “selling” activity. In many firms, obtaining the sale “right now” has been, and remains, the focus of the sales effort. These sales-focused companies often base their entire reward structure on obtaining new business, rather than retaining profitable customers. Long term, such a sales-oriented approach can reduce the likelihood that a salesperson will expend the effort required to build relationships.

When salespeople are primarily rewarded for short-term results, spending time building relationships forces salespeople to take time away from their search for new business. Thus, in sales environments that focus on short-term results, a salesperson who is working with an existing customer cannot be calling on new prospects and generating sales to new accounts. In such a sales setting the salesperson who builds relationships may experience a reduced short-term income level since these existing accounts may not be ready to purchase at this time. In the long run, it is quite likely that the firm will benefit from these long-term relationships and should reward salespeople who go to the trouble of developing close, high-quality relationships with customers (Kalwani and Narayandas, 1995).

Building relationships is a process that requires commitment from the top levels of an organization if it is to be successful. Sales managers must re-focus on the long-term profitability of customers, while maintaining an acceptable level of sales in the short run. Given the short-range focus of many firms and many sales management reward systems (i.e. quota), developing a relationship perspective to selling may be difficult. It is possible that an increasing number of firms may begin to maintain separate key-account or strategic-account salesforces that focus on relationship building and management.

### **Limitations and future research**

Though the current study examines some important issues, there are several limitations that are inherent in the study. First, the sample comes from the customers of one supplier. Therefore, the generalizability of the study is limited even though these customers represent a number of different industries. Second, the study only examines a few potential consequences of buyer-salesperson relationships. In addition, we measure customer intentions rather than actual behaviors. While a customer may intend to continue to purchase from or refer other customers to that supplier, without measuring actual behavior, we cannot be sure that these intentions are really the precursors of behavior. There also are many other possible outcomes/consequences that could be studied such as change in purchase level within the account, number of suppliers used, and number of suppliers considered. Finally, the results of this study were from a sample that only purchased services. It is possible that the purchase of a complex or very simple physical product might produce different results concerning the consequences of relationship quality. These issues and others require additional research.

To date, the limited literature on the effects of relationship quality between a buyer and salesperson has been: purely conceptual; focused primarily at the firm level; or has taken place in retail settings. Also, very little of the available literature has examined the antecedents of buyer-salesperson relationship quality (see Crosby *et al.*, 1990 for an exception). Future studies of buyer-salesperson and buyer-supplier relationships may need to place additional emphasis on outcomes of the relationship in relation to their emphasis on relationship antecedents. In particular, research is needed that empirically describes the consequences for the supplier and/or customer of maintaining high-quality relationships with their trade partners. The limited research that has examined this area indicates that fostering high-quality buyer-seller relationships does pay off in increased profits and customer retention (Kalwani and Narayandas, 1995; Reichheld and Sasser, 1990; Jones and Sasser, 1995).

Our findings suggest that it may be important for a company to measure relationship quality in studies of customer intentions and future behavior just as these firms now measure customer satisfaction. Recent research indicates that assuming customer satisfaction will lead to retention is faulty. Satisfied customers often defect (Reichheld and Sasser, 1990; Jones and Sasser, 1995). Relationship quality, rather than satisfaction, is perhaps the key issue in customer retention. Future research attempting to explain customer retention and/or loyalty to a supplier needs to look beyond satisfaction as a predictor of future customer purchase intentions. One way of examining the loyalty issue is the percentage of a customer's business that a supplier has for a particular product category (Reichheld, 1994). The loyalty issue is one of great importance since loyal customers are probably less likely to defect than customers that rate themselves as very satisfied with a firm's product, yet use multiple sources for that product.

Another area where future studies are needed lies in identifying factors that lead to high-quality relationships between a salesperson and buyer. Previous studies from the customer's point of view suggest that maintaining a customer-oriented outlook, ethical behavior and expertise all may help salespeople develop relationships with buyers (Boles *et al.*, 1996; Crosby *et al.*, 1990; Dunlap *et al.*, 1988; Lagace *et al.*, 1991). At present, we know that these relationships can lead to customer retention (Crosby *et al.*, 1990) and to increased willingness to refer and recommend the salesperson to other customers. Research is now required that looks at the issues of customer retention, referrals and recommendations, as well as other relationship outcomes from the salesperson's viewpoint. What behaviors allow or help salespeople develop these relationships? What has been successful for top-level salespeople in the past? A crucial area of research is identifying those behaviors that lead to high quality relationships.

## **Conclusion**

This study examined the effects of buyer-salesperson relationships on several supplier consequences of considerable importance. We found that high-quality relationships between a salesperson and their buyer could affect all three constructs examined. Quality relationships lead to greater levels of customer intentions to remain with the supplier and greater likelihood of the salesperson receiving referrals and recommendations from the customer. These findings provide additional evidence to the growing body of knowledge concerning the importance of developing and maintaining effective customer relationships.

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### **Appendix: Items used to measure study constructs**

#### Relationship quality

Assessed by respondent rating their relationship quality with the salesperson a 62-mm line, anchored by "poor" and "excellent".

#### Propensity to remain a customer

1. About how likely is it that during the next year your firm will continue to use -- as your primary long-distance company? (Please answer with a percentage from 1 to 100 percent, where a small number means it is very unlikely you will remain with -- and a large number means it is very likely).

The next three items are scored on a seven point scale with 1 = strongly disagree and 7 = strongly agree.

2. It is very likely that my firm will drop -- as our long-distance carrier during the next year.
3. In the next year, I do not anticipate that my firm will stop doing business with --.
4. There is virtually no chance that my firm will leave -- during the coming year.

#### Willingness to refer

The next three items are scored on a seven-point scale with 1 = strongly disagree and 7 = strongly agree.

1. If my -- salesperson asked me for the names of other prospective business customers, I would be happy to provide them.
2. I would not have a problem giving referrals to my -- salesperson.
3. I would provide referrals to my -- salesperson if he/she asked for them.

#### Willingness to recommend

The next two items are scored on a seven point scale with 1 = strongly disagree and 7 = strongly agree.

1. If asked, I would definitely recommend my salesperson to any business needing the service he/she sells.
2. If someone asked me to suggest a long distance service for their business, I would suggest they talk with my -- salesperson.