

RELATIONAL MARKETING STRATEGY IN CORPORATE CHAINS-BCR'S 'CUSTOMER SPECIFIC MARKETING'

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ABSTRACT

The author investigates how a Swedish grocery corporate chain integrates centralized and decentralized chain management functions and marketing activities in applying the 'Customer Specific Marketing' as a marketing tool. It will be examined with emphasis on its theoretical and managerial implications for relationship marketing in business-to-consumer relationships (BCR's). A conceptual model of corporate chain relationships has been developed and the model illustrates the external and internal business relationships of corporate chains in a relationship marketing context.

RESEARCH PROBLEM

The European retailing sector has, during the last years, been expanding and restructured in many ways. Mostly through the entrance of new players in the competition, like the American corporate chain Wal-Mart, or mergers and acquisitions, like the Dutch company Ahold's joint-venture with the Swedish chain ICA. The leading grocery corporate chains have shown an expansion in activities and volumes based on increasing labor as well as capital productivity. One of the factors that explain the restructuring of the leading grocery corporate chains has been the ability to change and adapt to the environment in terms of authorities, consumers, competitors or suppliers, (Dupuis and Dawson, 1999).

The grocery corporate chains have changed from being passive distributors for suppliers to becoming more active and independent companies – 'the new style retailers' (Sheth and Sisodia, 1998). The new role has dramatically influenced the balance of power between the leading retail grocery chains and the suppliers of consumer goods in the BCR's. Stern and El-Ansary have called the shifting balance of power in favor of the retail chains "Power retailing" (1998, p. 58).

The shifting balance of power has been an important driving force of changing marketing management practice of the grocery corporate chains. The challenge is dual, i.e., to develop and manage the central management functions emphasizing low transaction costs and economies of scale while operating the decentralized store network with emphasis on customer relationships and store marketing, (Dupuis-Dawson, 1999).

The developments have led some researchers to re-examine the relationship between the grocery corporate chains and the manufacturers in the business-to-business relationships (BBR's) and the BCR's. Traditionally, co-operation and partnerships have characterized the BBR's in distribution and marketing channels. Corstjens and Corstjens have expressed that "Co-operation between retailers and manufacturers is possible in some areas, but fundamentally their interests conflict. Both are seeking to control the same scarce resources: mind-space (the consumers) and shelf-space (the shops). Partnership, if it is to be called that, needs to be sought from a position of strength: affecting the balance of power is a major aim of marketing strategy, for both retailers and manufacturers" (1999, p. 5).

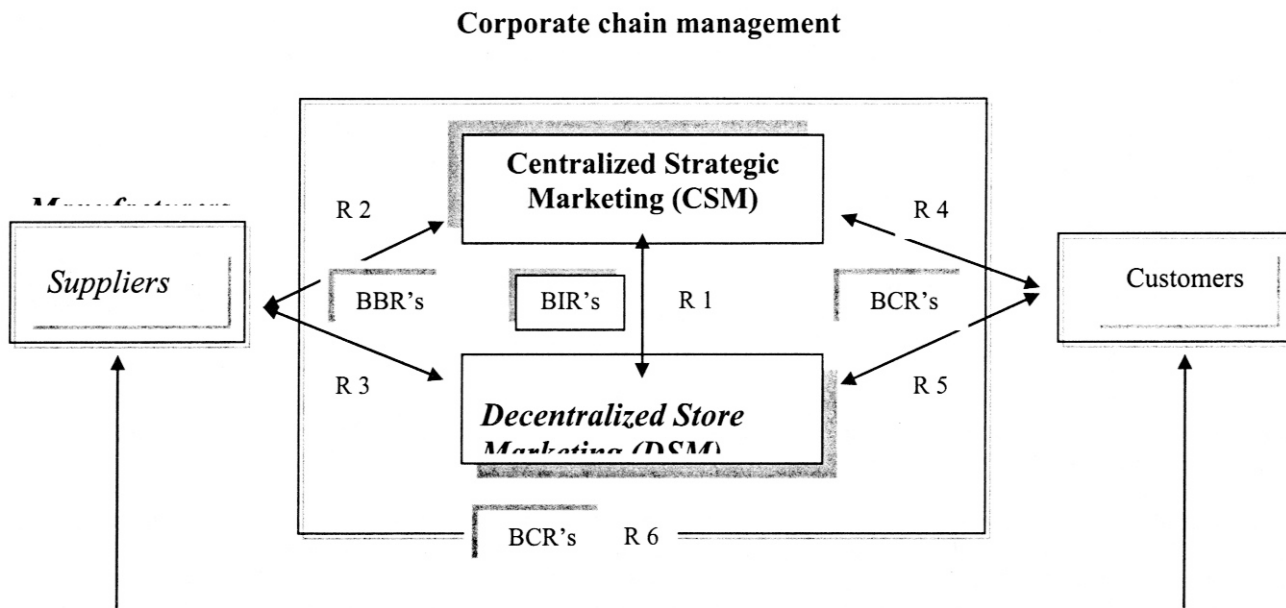
The perspective of the grocery corporate chains has been the point of departure in analyzing the relationship marketing problem in the BCR's.

RESEARCH FRAMEWORK

In order to develop a better understanding of the theoretical foundation of retail corporate chain managerial practices, the RM approach was adopted. The impetus of this approach has been suggested by Corstjens and Corstjens who think that "In a climate where retailers want to influence consumers and gain mind space, marketing theory concentrating exclusively on the relationship between manufacturer and consumer is just plain wrong. Manufacturers now have to treat the retailer as a player with objectives and preferences, as important as, sometimes more important than, the end consumer..." (1999, p. 10).

A conceptual model of corporate chain relationships has been developed in [figure 1](#). The model illustrates the external and internal business relationships of a corporate chain in a relationship marketing context.

Figure 1 The internal and external business relationships of a corporate chain



Source: The model has been further elaborated from Hultén and Ossiansson (1999, p. 71), and Hultén (2002).

The business internal relationships (BIR's) between the centralized strategic marketing (CSM) and the decentralized store marketing (DSM) are illustrated in R 1. The relationships concern e.g. internal marketing activities as category management, logistics, retail brands, store design or store management.

The external relationships between the centralized strategic marketing (CSM) and the suppliers in BBR's are illustrated in R 2. The relationships concern e.g. business negotiations, purchasing and supply of goods and services through supply chain management as well as co-operating marketing activities with the manufacturers.

The external relationships between the decentralized store marketing (DSM) and the suppliers in BBR's are illustrated in R 3. The relationships concern e.g. physical distribution as well as in-store marketing activities with the manufacturers.

The external relationships between the centralized strategic marketing (CSM) and the customers in BCR's are illustrated in R 4. The relationships concern e.g. chain branding, loyalty programs or on-line marketing as well as mass marketing activities as advertising or direct marketing.

The external relationships between the decentralized store marketing (DSM) and the customers in BCR's are illustrated in R 5. The relationships concern e.g. interactive store marketing activities and mass marketing activities as advertising or direct marketing.

Finally, the external relationships between the manufacturers (the suppliers of corporate chains) and the consumers (the customers of retail chains) in BCR's are illustrated in R 6. The relationships concern e.g. branding and mass marketing activities as advertising or on-line marketing to the consumers.

THEORETICAL FOUNDATIONS

The concept of relationship marketing (RM) has been established across different areas of marketing in BBR's as well as in BCR's (O'Malley and Tynan, 2000).

The concept of RM has been suggested to serve as a generic context for all marketing transactions concerning products or services, consumer or industrial (Mattsson, 1997).

RM has now been considered to be a suitable strategy also in mass consumer markets (Christy et al., 1996; Sheth and Parvatiyar, 1995). It has, for a long time, been evident that the transaction marketing (TM) model has no longer been viewed as suitable to handle a complex marketing world.

One of the major arguments has been that the TM-model was based mostly on short-term economic transactions as well as quantitative methods and measures. Through the TM-model customers have been treated as anonymous as well as being possible to manipulate on a short term basis. Transaction marketing has, also, been mostly concerned with attracting and creating new customers.

In contrast, relationship development over time between suppliers and customers has been seen as important. One of the major reasons for this shift has been the growing insight that the RM-concept – in comparison with the TM-model – has been based on co-production and co-operation with the customers where shared value has been a key objective (Voss and Voss, 1997, Gordon, 1998).

The customer-supplier relationship has, for that reason, been seen as the core issue of the RM-concept and across the whole marketing discipline (Möller and Halinen, 2000, p. 31).

Brodie et al (1997) have been presenting the marketing strategy continuum hypotheses and a conclusion saying that both transactional marketing and relational marketing can coexist. In the marketing continuum model, RM has to be placed at one end and the focus has to be long term on building relationships with customers. At the other end of the marketing continuum model, TM has to be placed and the focus has to be short term on one transaction each time.

The authors have, also, with reference to the marketing strategy continuum hypotheses - been suggesting that there may be four types of marketing in practice. A distinction has been made between TM and RM in terms of database marketing, interactive marketing and network marketing.

The TM/RM-continuum hypotheses has been an important theoretical notion in this research in explaining the use of relational marketing strategies in grocery corporate chain's marketing practices.

The academic debate has, for a long time, been penetrating the issue of a RM-context. One contribution to the debate has been that transaction marketing (TM) and relationship marketing (RM) are two separate approaches. But, the two approaches can, also, coexist within the same marketing paradigm from a postmodern marketing perspective, Hultén (2002).

A conclusion has been that if the two approaches can coexist, RM should not only be considered as a replacement for TM. Instead, a RM-context has to mean another perspective in marketing (Egan, 2001, p. 76).

RESEARCH AIM AND METHOD

The RM-context as a new perspective has been a methodological starting point in the conducted study and it could be a "helpful perspective", (Gummesson, 1995, p. 8).

The conceptual model in [figure 1](#) has its theoretical base in different concepts and approaches originating from industrial, service as well as consumer goods marketing.

The chosen methodology in this research is eclectic and it draws on the various interpretations of the RM-concept. For data collection, the case study method has been used following Yin (1984).

The empirical work has been based on three case studies and personal interviews with the management teams of the Swedish retail grocery chains, Axfood, Coop and ICA Ahold. The case studies were conducted during the years 2000 and 2001.

The empirical results presented have been chosen from the case study of ICA Ahold.

RESEARCH FINDINGS

During the 1960's and at the beginning of the 1970's the character of the marketing of ICA focused partly the activities of the stores, partly the store manager and the employee's relationships to the customers. In general, personal relationships have been developed to the customers and the store has been viewed as the link to the suppliers.

In the middle of the 1970's, ICA introduced cooperating marketing activities (CMA) and started to distribute leaflets to the Swedish households. In the early days, advertising in local daily newspapers was the most common activity with regard to the local stores.

The idea of a customer card developed at the end of the 1980's. In the middle of the 1990's, this new tool was introduced as a way to improve the strategic marketing of ICA. In the direct marketing, the tool was of help and used for sending invoices, coupon letters and invitations as a way to create and strengthen the relationships to the customers.

Historically, ICA has been very successful (in terms of market shares and sale) with the traditional mass marketing through the use of advertisements, leaflets and coupon letters. These messages have been delivered to the large mass of the people in a one-way communication process. The problem has been that it does not consider the question to whether the individual customer has been a good or bad customer in terms of profitability or sale. No store manager has known how much the customers have bought, when they have bought or how often they have bought. A negative effect has been that the traffic (in terms of number of customers) in the stores has been focused, but, also, that good customers have received the same offerings as bad customers. The good customers have perhaps been dissatisfied with e.g. long cash queues, products out of stock or lack of personal relationships in the stores.

At the end of the 1990's ICA started to question the traditional mass marketing and was looking for an alternative way to develop a new customer strategy. ICA has chosen to develop a loyalty program based on the tool 'Customer Specific Marketing'. The tool has had its practical background in American supermarkets described in books e.g. Woolf (1996) and Hawkins (1999). The two basic principles behind the tool have been that all customers have not been equal and that behavior had followed rewards. The mentioned authors have argued against the traditional mass marketing model with emphasis on treating all the customers as equal as well as in the same way. Instead, the authors have argued in favor of a differentiation of the customers with respect to the fact that customers have never been equal in e.g. attitudes, behavior or purchase activities.

ICA has seen the tool 'Customer Specific Marketing' as a way to build a relational marketing strategy, mainly, in emphasizing the store marketing activities. The aim of the tool has been to increase the purchase of the customers in the store as well as to maintain and develop the long term relationships with the customers.

The primary purpose in introducing the tool 'Customer Specific Marketing' has been to give the store management the possibility to communicate direct to the individual customers. Each store manager has had access to the Intranet 'Slingan' in the computer of the store. It has been developed as the customer database of the store and has in its content, also, different tools as e.g. campaign proposals, customer segment analysis, target groups analysis, different concepts, experiences from earlier campaigns and so on. Each store manager has the advantage finding and knowing e.g. the names and the postal addresses of the best as well as the most loyal customers.

As a result of the use of the marketing tool 'Customer Specific Marketing', it has been possible to analyze the customer base of each individual store. A conclusion has been that, in the typical store, 40 percent of the number of the customers corresponds to 90 percent of the turnover. For that reason, ICA has raised the question: "Is it smart to offer all the customers the same rewards?" and the answer has been: "Probably not."

CONCLUSIONS

The study demonstrates how the grocery corporate chain ICA Ahold in the centralised strategic marketing (CSM) in the BIR's R 1 has developed a relational marketing strategy based on implementing the marketing tool 'Customer Specific Marketing'. The TM-model with its emphasis on cooperative marketing activities (CMA) with the suppliers and mass marketing activities in the BBR's R 2 and R 3 as well as in the BCR's R 4 and R 5 did not fulfil the needs of the corporate chain to maintain and strengthen its BCR's in R 4 and R 5.

The introduction of the relational marketing strategy in the decentralised store marketing (DSM) and the BCR's R 5 became obvious with its store marketing focus on individual treatment of the customers. This supports the essence of the concept of RM, i.e., focus upon a flow of new customers and upon keeping the old customer base.

The study has, further, demonstrated how the corporate chain management of ICA Ahold in the centralised strategic marketing, CSM, and decentralised store marketing, DSM, is nowadays characterised by different marketing practices in the BIR's, in the BBR's as well as in the BCR's.

A theoretical conclusion is that the case illustrates how the concept of RM in a grocery corporate chain has its point of departure in both transactional marketing and relational marketing approaches.

Two theoretical implications emerged from the case study. First, the findings support the marketing strategy continuum hypothesis, Brodie et al (1997), and they also support the suggestion that in marketing practice four types of marketing exist.

Second, the findings, also, support Gummesson's (1995) assumption that the concept of RM ought to have its theoretical foundation in one or more of the existing concepts and theories within the marketing discipline.

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