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An Analysis upon Relationship Marketing and Buyer Behavior in FMCG

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Abstract – The present dissertation investigates the adequacy of relationship marketing concepts to markets for fast-moving consumer goods. Supporters of the relationship marketing approach urge companies to focus their marketing efforts on the retention of their most valuable customers. This recommendation flows from the belief that loyalty rather than penetration is the best way to grow a brand. Relationship marketing emerged in the context of service marketing, but in recent years its scope widened to the point where a number of authors consider it a new paradigm of marketing relevant for any company in any type of market. Namely, interest for relationship concepts has been growing among manufacturers of fast-moving consumer goods who try to overcome the limitations of traditional mass marketing approaches.

However, in contrast to the dominant Howard-Sheth theory of consumer buyer behavior, the NBD-Dirichlet theory of purchase behavior predicts that, when repeat-buying behavior prevails, such relationship marketing strategies will not work as expected.

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INTRODUCTION

Retailers face a dynamic and competitive environment. With increased globalization, market saturation, and increased competitiveness through mergers and acquisitions, retailers are seeking competitive advantages by better managing customer relationship. Traditionally, marketing has focussed on attracting new customers for a company. Today, however, companies recognize the importance of retaining current customers by forming relationships with them. This focus on relationships builds on the premise that it is less expensive to market to existing customers than to acquire new ones. *Relationship marketing,* a term usually used synonymously with *customer relationship management*, involves establishing, maintaining and enhancing long term relationships with customers. With this perspective, the manager's primary task is to identify profitable and non-profitable customers, focus efforts on the former and balance the cost of acquiring and retaining customers with current and potential revenue from those customers. In retailing, advances in IT and the spread of loyalty cards have provided a means for retailers to identify a particular customer and to collect customer specific data, thus enabling individualized marketing. Compared to other industries, retailing has tremendous advantages in CRM, since it is in direct contact with the consumer.

Different stages in the relationship require different marketing approaches. In the early stages, the emphasis is on *customer acquisition*. In the growth stage and through maturity, the company needs to strengthen the relationship and exploit the full sales potential (*customer retention)*. In the later stages of the relationship cycle, it is important to know which customers are at risk of defecting and to employ *customer recovery* measures. After customers are lost, it may be possible to reactivate them. Identifying the causes of such defection can help to win particular customers back, but also to avoid the same mistakes with others. Sending lost customers a special offer or calling them in order to allow them to complain about mistakes, might bring them back into the relationship. Through data analysis, defection behaviour might be predicted and those customers with the highest propensity to discontinue the relationship with the retailer, targeted proactively.

Relationship marketing started as a reaction against what was considered by some as an excessively transactional approach, characterized by an almost exclusive focus on the moment when the buyer and the salesman meet each other to operate an exchange. Within the transaction marketing approach, critics said, the main marketing effort was concentrated on the sale itself, ignoring what happened after its conclusion. As Levitt (1993) pointed out: "The relationship between a seller and a buyer seldom ends when a sale is made. Increasingly, the relationship intensifies after the sale and helps determine the buyer's choice the next time around." However, marketing departments tended to treat each buying occasion as if it were the first and last one and to ignore the peculiarities of the repeated buying process.

Relationship marketing – sometimes also known as CRM or one-to-one marketing – has its origins in four main bodies of ideas active in the marketing profession. The first one is business-to-business marketing and specially the work of the Industrial Marketing and Purchasing Group (IMP), which has always stressed the importance of relationships in the interaction between buying and selling companies (Ford, 1980; Ford, 1990; Ford et al., 2002). The second one is services marketing, with its emphasis on the intangibility of the offer and the importance it pays to service encounters at the moments when the actual brand performance is confronted with the expectations of its customers (Grönroos, 2000). The third one is total quality management, starting with the evaluation of non-quality costs and going on to the systematic identification of the main causes of customer dissatisfaction (Reichheld and Sasser, 2000). Finally, the fourth one is the old tradition of direct marketing (kept for a long time at the margins of mainstream marketing), with its insistence on the need for a personal relationship with each individual customer based on the understanding of his real value to the company (Wunderman, 2006).

RELATIONSHIPS

The November 2000 issue of the business magazine *Executive Excellence* contained four articles titled: "Customer Love," "Customer Intimacy," "Customers for Life," and "Customer Loyalty."7 Each consultant-author extolled the virtues of retaining customers for the longest period possible by developing a strong relationship with them. Against such a backdrop, few managers are prepared to say publicly that they don't want a relationship with their customers.

However, there is considerable anecdotal evidence to suggest that many customers do not want a relationship with most of the products and services (and thus the companies) that they buy. People simply don't have the time, interest, or the emotional energy to form relationships with a wide variety of products and services. The reason for this is that relationships are special. They involve two-way trust, commitment, the sharing of information, partnership among people of equal standing, and so on. This is the model of a relationship that most people carry around in their head and their heart. In B2B markets, relationships involve "having skin in the game." In addition, B2B relationships are designed on the understanding that each party contributes to the commercial success of the other.

In B2C markets, the nature of a seller-customer relationship becomes somewhat paradoxical. The paradox is the problem of trying to form a "relation-ship" with customers while at the same time trying to make a profit by selling products and services to them. The social nature of a relationship juxtaposed with commercial reality suggests that only in certain types of situations will special types of "relationship" be achievable. Recent research suggests that customers understand this paradox. They do not confuse commercial exchanges and the false intimacy proffered by companies as an interpersonal relationship.

THEORIES OF RELATIONSHIP MARKETING

The interest in relationship marketing has grown steadily in business and academic circles in the last few decades (Sheth and Parvatiyar, 2000). However, large differences of opinion remain concerning its meaning and scope, not to mention all too common misunderstandings of the definition of the concept itself (Brown, 2000). Is relationship marketing a mere passing fad like so many others, or has it come to stay? In the second alternative, which particular circumstances determined its emergence and recommend its use? Does it really differ from direct marketing, one-to-one marketing and CRM? And, above all: is it really effective? It seems that the expression relationship marketing was used for the first time by Berry (1983), although it would be fair to note that his ideas concur largely with those previously presented by Levitt (1983) in a seminal article. The concept of relationship marketing was formerly used to stress the specificity of services marketing: if services are by nature intangible, the marketing manager should therefore direct his attention to the administration of the relationship with the customer. On the other hand, it also served to criticize the limitations of the 4 Ps (or marketing-mix) model, introduced by Neil Borden in the late 40s and until very recently generally accepted as the dominant paradigm of marketing management.

A number of authors6 view relationship marketing as a new era of marketing, driven by the transformation of economic, social and technological conditions at work during the last decades. Among the most frequently mentioned causes of this transformation are: (a) more knowledgeable and demanding customers; (b) ever greater segmentation of the markets and proliferation of products and brands; (c) increasing bargaining power of distributors; (d) media fragmentation and saturation; (e) mass customization; (f) application of information technologies to marketing management; (g) emergence of interactive communications. Let us now see in turn how each of these factors contributed to undermine the effectiveness and efficiency of mass transaction marketing and pave the way to relationship marketing.

The expression relationship marketing is currently used as synonymous to CRM, one-to-one marketing, database marketing, direct marketing or loyalty marketing. Properly understood, the CRM concept is indeed very close to the relationship marketing concept: it points toward a different way of organizing a business from top to bottom, a management philosophy directly connected to an updated version of the marketing concept itself (Brown, 2000).

CUSTOMER LOYALTY AND CUSTOMER SATISFACTION

While loyalty has become more important as a marketing objective with CRM, there is no universally agreed definition of loyalty. Two basic approaches to conventionalize loyalty can be identified:

- Often, loyalty is defined with reference to a pattern of purchases. *Behavioral loyalty* is measured in terms of repeat patronage, percentage of budget allocation in a category to a store, amount of switching, or purchase likelihood.

- Many researchers argue that there must be strong commitment to a company for true loyalty to exist. Commitment refers to an emotional or psychological attachment to a company. Trust, which entails the confidence in the retailer's reliability and integrity, is often seen as closely connected to it. This *attitudinal loyalty* can be measured by asking consumers if they like and trust the store, whether they feel committed to it, and whether they would recommend it to others.

In *retailing*, CRM is closely connected to the *loyalty schemes* that are usually based on *loyalty cards*. Pioneers in Europe were *Tesco* in the United Kingdom and *Albert Heijn* in Holland. Many retailers now employ some form of loyalty scheme. Typically, loyalty programmes offer delayed, accumulated economic benefits to consumers on the basis of repeat purchases. Usually, this takes the form of points that can be exchanged for gifts, or vouchers. The discount value of points generally ranges between 1 and 4% of sales. The option of giving discounts in different "currencies" (e.g. cash, stamps, miles, reward points) can also offer perceptual advantages, e.g. for the retailer's price image. In so called *affinity programmes*, the focus is more on the emotional bond between customer and retailer.

With club memberships, preferred service, newsletters, Internet chat groups, telephone help lines and other measures, two way communication is established so that customers can interact with the company and get to know it better. Most frequently, the ability to accrue benefits in the form of discounts on purchases, as well as the promotional offers connected to the loyalty programme, are the principal motivation for consumers for joining a loyalty scheme. However, emotional bonding and psychological relationship awards might also be important. *Self actualisation* is considered a basic human need and loyalty programmes can provide recognition to selected customers by giving them an evaluated status and the feeling of being special.

PUTTING CUSTOMER RELATIONSHIPS IN PERSPECTIVE

For most of the products and services we buy on a regular basis, brand preference exists. The crucial question is whether it can be attributed to some type of relationship we develop with the brand or whether it is driven by salience (we know more about some brands than others), availability (it is in stock where we usually shop), and/or habit (the brand usually bought). Extensive empirical research for FMCG brands suggests that for most people it is these last three factors rather than a developed relationship. As noted above, there are some exceptions to this finding (such as Harley-Davidson motorbikes, the VW Beetle, Apple Macintosh personal computers, Marlboro cigarettes, and Body Shop cosmetics). However, given the tens of thousands of brands in the market, even a hundred or so such brands represent the exception not the rule. Hence, a CRM program designed to build a deep-seated relationship with the "typical" customer of a brand is more likely to be a romantic distraction than a costeffective marketing strategy.

The preference for a brand that results from a good fit between the personality of a brand (either constructed through its marketing or attributed to it by a customer) and a customer's self-concept is considerably different from a brand preference derived from the formation of a relationship between the customer and the brand.

CONCLUSION

Retail companies seek to maximize relationships with customers. Thus, a shift in organizational thinking is necessary as retailers embrace a ''customer-centric'' focus and implement strategies to support this focus. This shift in organizational culture challenges retailers to revise organizational systems and processes, identify customer-related metrics, and identify areas of strategic advantage.

Customer Relationship Management is a seductive marketing strategy. However, research suggests that many of the programs used to implement CRM should not be expected to make significant changes in customer purchasing patterns—especially for FMCG brands.

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