

Relationship marketing in the retail sector: an insight in the determination of customer loyalty

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Abstract: In recent years we see a loss of power of individual brands, despite the money and the effort invested in them. The power is now in the hands of retailers. The final challenge of an individual band is the battle it has to win in the store. One way of winning the retail battle is to grow, to expand your offer, to sell food, clothing, electronic consumer durables, luxury goods, etc., to become the mastodon of your market.

But, growing, being the easy way into bigger profits, it is sure you will be soon followed by others.

You have to differentiate; you have to expand not only the product range but also the services. This is the age of relationship marketing.

Key words: CRM, relationship marketing, retail, customer retention, customer loyalty

Competition between retailers is increasingly fierce. One of the biggest problems is that more than 74% of the customers say that all stores look alike; while a third of the customers feel that there is no difference between products and services.

The aim of any retail marketing strategy in the last few years was and it still has to be high levels of repeat purchase and greater commitment from the customer.

For retailers, retaining the customers they already have is a key to their ability to grow.

In one known study about the motivations of the customers defection is stated that:

- 69% leave because of poor customer service
- 13% leave because of poor product quality
- 9% leave because of competitive reasons
- 3% move away
- 6% leave because of other reasons

Losing customers can be expensive, as a new customer can cost a company more than

10 times than to keep an existing one and an unhappy customer can influence another 5 to 7 other people by telling of their bad experience with your company.

Frederick Reichheld, in his 1996 book *The Loyalty Effect* claimed that even small improvements in customer retention can double company profits. This is because:

- 1) It costs less to serve long-term customers;
- 2) Loyal customers will pay a price premium;
- 3) Loyal customers will generate word of mouth referral. [4]

The ability to detect changes in the marketplace is more important than ever. Consumers have the luxury of choosing from a wider assortment of products, the Internet makes it easier to shop and compare prices, and fads come and go at breakneck speed. Resolute store loyalty is a thing of the past. Today, retailers have to work much harder to please more sophisticated consumers. [7]

In January 2008 National Retail Federation (NRF) conducted an annual survey of the USA retailer market. The results were surprising.

As new competitors appear and old ones grow each year, the competition is becoming a place where growth comes from taking customers away from competitors. [6]

According to the Kanbay Research Institute, the retail industry's growth rate has slowed from 16.7 percent from 1995 through 2000, to 8.1 percent from 2001 through 2005, 6.3 percent in 2006 and 3.7 percent in 2007.

The forecast is that industry sales growth is on a declining rate.

With this in mind it is easy to see that the way of surviving and obtaining growth is taking customers away from your competitors.

This is where CRM – customer relationship marketing – comes in place.

The first step in obtaining your customer loyalty is to know what he really wants and that means marketing research. Through research you have to better understand how your business can grow by reducing customer defection and increasing customer satisfaction.

Develop research instrument that can be used on a constant basis, apply them and use the results in developing your product range, services and loyalty programs.

The strategy you use for gaining customer loyalty must be based on what matters most to your customers.

Analysis of the global top five hypermarkets has shown that they concentrate on activities and competencies that don't seem to have any relation with CRM.

They are obsessive customer focused, seeking to please customers even if it does not make short-term economic sense.

They take in account all, from the supply chain system to store operating system and integrate applications and technologies like POS – point of sale, inventory management, RFID – radio frequency identification, store-level demand, merchandising software, implemented satellite network system.

Processes like ordering, shipping, communications and logistics are automated and store-level data sales are collected, analyzed and transmitted electronically within 15 to 20 minutes delay period.

The major technology enablers for relationship marketing have been the Internet and enterprise-wide management information systems. The former allowed businesses, for the first time, to get low cost interactions with customers. The second allowed for a firm to generate a single view of a customer

across all functional areas of a firm and to improve relationship with the suppliers.

Both of these systems together allowed for customized communication with a single customer for very large firms. [5]

Another characteristic the top retailers share is innovation. By including special on-line services and ongoing, nonstop research and development programs like mystery shopping they can tailor their business according to the targeted customers.

In the past 3 years we have seen supermarkets introducing online services like online buying lists where the customer can choose the products, accessories, quantities, find out estimated prices and having their list optimized for the shortest time spend in the store.

It is also interesting to get information

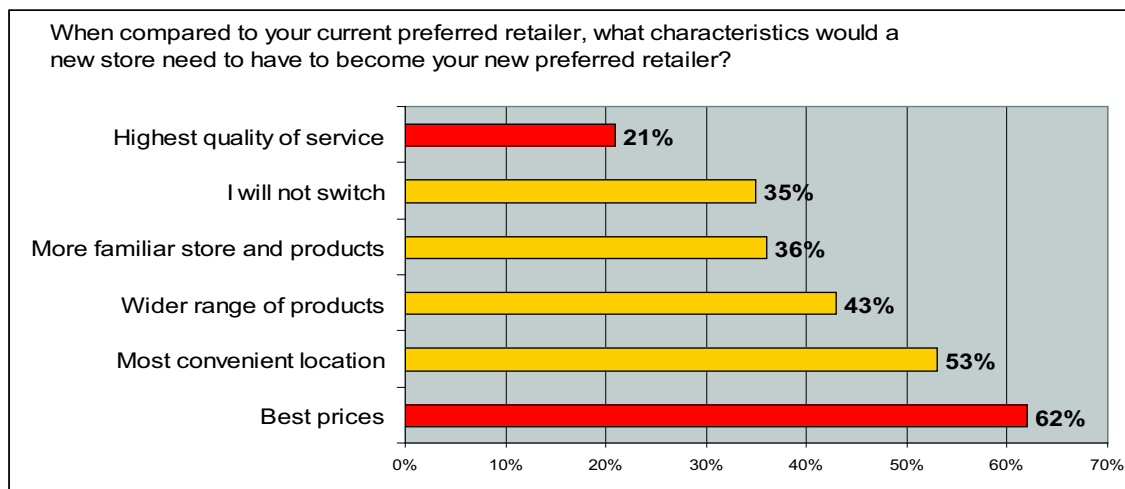
thru the eyes of the consumer, fact shown by the increase in mystery shopping programs use.

These programs can monitor and measure service performance, make employees aware of what is important in serving customers, provide feedback from front line operations, allow for competitive analysis, support promotional programs, improve customer retention and ensure positive customer relationships on the front line

When location, pricing, and product assortment are no longer unique, service is often the key to success or failure.

In a recent study from Accenture Institute for High Performance Business, when the customers were asked about their preferred characteristic in a retailer their first answer was best price.

Fig. 1: Preferred characteristics



Price is the most often cited reason behind loyal customers' willingness to defect to a different retailer. Knowing this is easy to get the false impression that low prices are the solution for your customer loyalty program.

This misconception can be often observed in retailers that have a short-term focus and strategy.

This statistic indicates that the retailer offering better prices on select goods to poached target loyal customers from a competitor isn't

assured of anything more than incremental volume. Price buys volume and service earns continued loyalty. [6]

Another implication of this misconception is the generation and usage of loyalty programs with a defensive role.

We see increase usage of warranties, extended shopping hours, loyalty cards that implicate repetitive purchase to gain some advantages or lists of benefits for loyal customers that do not include prices eliminating in this manner the price correlation that can generate defection.

CRM services can be used as an offensive action. Retailers can and do include credit cards with the possibility to pay online on a later date or in advance, delivery of large expense items, attending to customers with

special needs (teletype writer for deaf shoppers – Sears, Braille menus – McDonalds, sign language training for employee – South Town Mall, Rochester, New York).

Many features of a store can influence the customers that buy from outlet to find another. The kind and quality of services are the key factors. You have to close the gap between the service customers' expectations and the service they experience.

However, it is very important to balance likely revenue against the cost of the services.

The way to gain economic growth is to differentiate and to position yourself in line with customer needs and requests. In this increasingly crowded market with its fierce competitors, the only route to success is customer oriented strategies.

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