CHAPTER 2

BUILDING AND SUSTAINING RELATIONSHIPS IN RETAILING

CHAPTER OUTLINE

1. OPENING VIGNETTE
   A. A good social media strategy can enhance retailers' efforts to provide value and create and maintain customer relationships. Awareness, Inc. notes that building value and relationships entails factors such as these:
      - Determining who and where your customers are, the best ways to connect with them, social media goals and measuring success for them, and aligning plans with the overall business strategy.
      - Allowing consumers to share their feedback and opinions since social media are bi-directional.
      - Encouraging regular, ongoing bi-directional communication.
      - Having accurate, consumer-oriented, value-laden content.

2. OVERVIEW
   A. A retailer must understand and properly apply the concepts of "value" and "relationship" from the perspective of the customer and other channel members, as well as itself.
   B. The goal is to have customers believe the retailer offers good value for the money and to have both customers and channel members like doing business with that retailer. See Figure 2-1.

3. VALUE AND THE VALUE CHAIN
   A. From the manufacturer, wholesaler, and retailer perspectives, value is embodied by a series of activities and processes—a value chain—that provides a certain value for the consumer.
   B. From the customer's perspective, value is the perception the shopper has of a value chain. It is the customer's view of all the benefits from a purchase.
   C. Value is a meaningful concept for any retailer for several reasons:
      1. Customers must always believe they get their money's worth.
      2. Retailers must work to ensure that customers perceive the level of value provided in the manner intended.
      3. Value is desired by all customers.
      4. It is easy for customers to comparison shop through ads and the Web.
      5. Meaningful retail differentiation is essential.
      6. A specific value/price level must be set.

D. A retail value chain represents the total bundle of benefits offered to consumers through a channel of distribution. It comprises many elements:
   1. Store location and parking
   2. Retailer ambience
   3. The level of customer service
   4. The products/brands carried
   5. Product quality
   6. The retailer's in-stock position
   7. Shipping
   8. Prices
   9. The retailer's image

E. Some elements of a retail value chain are visible to shoppers. They include display windows, store hours, sales personnel, and point-of-sale equipment. Elements that are not visible include store location planning, credit processing, company warehouses, and merchandising decisions.

F. There are three aspects to a value-oriented retail strategy:
   1. An expected retail strategy represents the minimum value chain elements a given customer segment expects from a type of retailer. These are expected value chain elements:
      a. Store cleanliness
      b. Convenient hours
      c. Well-informed employees
      d. Timely service
      e. Popular products in stock
      f. Parking
      g. Return privileges
   2. An augmented retail strategy includes the extra elements in a value chain that differentiate one retailer from another. These are augmented value chain elements:
      a. Exclusive brands
      b. Superior salespeople
      c. Loyalty programs
      d. Delivery
      e. Personal shoppers and other special services
      f. Valet parking
   3. A potential retail strategy comprises value chain elements not yet perfected by a competing firm in the retailer's industry category.

G. There are five pitfalls to avoid when applying value-oriented retailing principles:
   1. Planning value with just a price perspective.
   2. Providing value-enhancing services that customers do not want or will not pay extra for.
   3. Competing in the wrong value/price segment.
   4. Believing augmented elements alone create value.
   5. Paying lip service to customer service.

Figure 2-2 is a checklist retailers could use to sidestep these pitfalls.

4. RETAILER RELATIONSHIPS
   A. For relationship retailing to work, enduring value-driven relationships are needed with other channel members, as well as with customers. See Figure 2-3.
   B. As to customer relationships, there are four factors to keep in mind in applying relationship retailing:
      1. The Customer Base
         a. This needs to be analyzed in terms of population and lifestyle trends, attitudes toward and reasons for shopping, the level of loyalty, and the mix of new versus loyal customers.
         b. Gender roles are changing, shoppers demand more, consumers are more diverse, there is less interest in shopping, and time-saving goods and services are desired.
         c. Core customers are a retailer's best customers, the ones with whom it is worth nurturing relationships.
         d. A retailer's desired mix of new versus loyal customers depends on that firm's stage in its life cycle, goals, and resources, as well as competitors' actions.
            i. A mature firm is more apt to rely on core customers.
            ii. A new firm faces the dual tasks of attracting shoppers and building a loyal following.
            iii. If goals are growth-oriented, the customer base must be expanded by adding stores, increasing advertising, etc.
            iv. Attracting new customers is more costly than serving existing ones.
            v. If competitors try to take away a firm's existing customers, a retailer may feel it must pursue competitors' customers in the same way.
      2. Customer Service
         a. Customer service refers to the identifiable, but sometimes intangible, activities undertaken by a retailer in conjunction with the goods and services it sells.
         b. Firms must view customer service as comprising two components:
            i. Expected customer service is the service level that customers want to receive from any retailer, such as basic employee courtesy.
            ii. Augmented customer service encompasses the activities that enhance the shopping experience and give retailers a competitive advantage.
         c. The attributes of personnel who interact with customers (e.g., politeness), as well as the number and variety of customer services offered, have a strong effect on the relationship created.
         d. Planning the best customer service strategy can be complex.

e. Employee empowerment, whereby workers have discretion to do what they believe is necessary to satisfy the customer, can improve customer service.
f. To apply customer service effectively, a firm must first develop an overall service strategy and then plan individual services. See Figure 2-4.
g. In devising a strategy, a retailer has to answer these questions:
    i. What customer services are expected and what customer services are augmented for a particular retailer? See Figure 2-5.
    ii. What level of customer service is proper to complement a firm's image?
    iii. Should there be a choice of customer services?
    iv. Should customer services be free?
    v. How can a retailer measure the benefits of providing customer services against their costs?
    vi. How can customer services be terminated?
h. The range of typical customer services is shown in Table 2-1. They include the following:
    i. Credit—Most retailers allow credit purchases, and many accept personal checks. Both retailer-sponsored, as well as bank and other commercial credit cards, are used. All bank cards and most retailer cards involve revolving accounts.
    ii. Delivery—For retailers that offer delivery, there are three decisions in setting up service: the transportation method, equipment ownership versus rental, and timing.
    iii. Alterations and installations—These are expected services for some firms, though more retailers now charge fees. Some discounters feel they are ancillary and not worth the effort.
    iv. Packaging (gift wrapping) and complaints and returns handling—These can be centrally located or decentralized.
    v. Gift certificates—They encourage new and existing customers to shop with a given retailer.
    vi. Other services are trade-ins, trial purchases, special sales for regular customers, extended store hours, mail and phone orders, etc.

3. Customer Satisfaction
    a. Customer satisfaction occurs when the value and customer service provided through a retailing experience meet or exceed consumer expectations. See Figure 2-6.
    b. Unfortunately for retailers, most consumers do not complain when dissatisfied. They just shop elsewhere.

c. To remedy the lack of consumer feedback, retailers can do the following:
   i. Make it easier for shoppers to complain.
   ii. Make sure shoppers believe their concerns are addressed.
   iii. Sponsor ongoing customer satisfaction surveys.

4. Loyalty Programs
   a. Consumer loyalty (frequent shopper) programs reward a retailer's best customers, those with whom it wants long-lasting relationships.
   b. From the shopper's perspective, there are five types of reward category:
      i. Economic rewards.
      ii. Hedonistic rewards.
      iii. Social-relational rewards.
      iv. Informational rewards.
      v. Functional rewards.
   c. Good programs have these elements in common:
      i. Their rewards are useful and appealing, and they are attainable in a reasonable time frame.
      ii. They honor shopping behavior.
      iii. A data base tracks behavior.
      iv. They have features unique to particular retailers.
      v. Rewards stimulate both short- and long-run purchases.
      vi. Communications with customers are personalized.
      vii. Frequent shoppers are made to feel "special."
      viii. Participation rules are publicized and rarely change.
   d. Studying customer defections contributes valuable information: how many customers a retailer is losing and why shoppers are no longer patronizing a given retailer.

C. Regarding channel relationships, members of a distribution channel (manufacturers, wholesalers, and retailers) jointly represent a value delivery system, which comprises all the parties that develop, produce, deliver, and sell and service particular goods and services.

1. This has ramifications for retailers:
   a. Each channel member is dependent on the other.
   b. All value delivery systems activity must be enumerated and responsibility assigned for them.
   c. Small retailers may have to use suppliers outside the normal distribution channel to get the products they want and gain adequate supplier support.
   d. A value delivery system is only as good as its weakest link.
   e. The nature of a given value delivery system must be related to target market expectations.

f. Channel member costs and functions are influenced by each party's role.
g. Value delivery systems are complex due to the vast product assortment of superstores, the many forms of retailing, and the use of multiple distribution channels by some manufacturers.
h. Nonstore retailing requires a different delivery system than store retailing.
i. Due to conflicting goals, some channel members are adversarial.

2. When they forge positive relationships, members of a value delivery system better serve each other and the final consumer. The textbook explains how.
3. One relationship-oriented practice that some manufacturers and retailers use, especially supermarkets, is category management. With this approach, channel members collaborate to manage products by category rather than individual item. It is based on these principles:
   a. Retailers listen better to customers and stock what they want.
   b. Profitability is improved because inventory matches demand more closely.
   c. By being better focused, each department can become more desirable for shoppers.
   d. Retail buyers have more responsibility and accountability for results.
   e. Retailers and suppliers share data and are more computerized.
   f. Retailers and suppliers must plan together. See Figure 2-7.

5. <u>THE DIFFERENCES IN RELATIONSHIP BUILDING BETWEEN GOODS AND SERVICE RETAILERS</u>

A. It is now more crucial than ever to understand the differences in relationship building between retailers that market services and those that market goods.
   1. This applies to store- and nonstore-based retailers.
   2. It also applies to firms offering only goods *or* services, and those offering goods *and* services.

B. Goods retailing focuses on the sale of tangible (physical) products, while service retailing involves transactions in which consumers do not purchase or acquire ownership of tangible products.

C. Service retailing encompasses such diverse businesses as personal services, hotels and motels, auto repair and rental, and recreational services.

D. There are three kinds of service retailing:
   1. Rented-goods services, whereby consumers lease and use goods for specified periods of time (e.g., Hertz car rental).
   2. Owned-goods services, whereby goods owned by consumers are repaired, improved, or maintained (e.g., watch repair).

3. Nongoods services, whereby intangible personal services are offered to consumers who then experience the services rather than possess them (e.g., stockbroker).

E. These are the unique aspects of services that influence relationship building and customer retention:
1. The intangible nature of many services, which makes it harder for a firm to develop a clear consumer-oriented strategy.
2. The inseparability of the service provider and his or her services, which means the owner-operator is often indispensable.
3. The perishability of many services, which often cannot be overcome.
4. The variability of services, which means service quality may differ for each shopping experience, store, or service provider. See Figure 2-8.

F. Service retailing is much more dependent on personal interactions and word-of-mouth communication than goods retailing. Figure 2-9 highlights factors that consumers may consider in forming their perceptions of the caliber of relationship experiences.

6. <u>TECHNOLOGY AND RELATIONSHIPS IN RETAILING</u>

A. Technology is beneficial to retailing relationships if the result is a better information flow between retailers and customers, as well as between retailers and suppliers; and there are faster, more dependable transactions.

B. These two points should be kept in mind when studying technology and its impact on relationships in retailing:
1. In each firm, the roles of technology and “humans” must be clear and consistent with the goals and style of business.
2. Shoppers expect certain operations to be in place so they can rapidly complete credit transactions, get feedback on product availability, etc.

C. Electronic banking involves both the use of automatic teller machines (ATMs) and the instant processing of retail purchases.
1. It allows centralized recordkeeping and lets customers complete transactions at any time at bank and nonbank locations.
2. Many retailers accept some form of electronic debit payment plan.
3. Worldwide, there are more than 2.4 billion ATMs. There are 425,000 ATMs in the United States.
   a. People make billions of ATM transactions per year.
   b. ATMs are located in banks, shopping centers, department stores, supermarkets, convenience stores, hotels, airports, college campuses, etc.
   c. With sharing systems, consumers can make transactions at ATMs outside their local banking areas and around the world.
4. A new version of electronic payment is the smart card, which contains an electronic strip that stores and modifies information as transactions occur.
   a. Its acceptance is important for both retailers and shoppers. The textbook explains how.

D. Technology is changing the nature of retailer-customer and retailer-supplier interactions. See Figure 2-10.
   1. Point-of-sale scanning equipment is widely utilized because by electronically scanning products, retailers can quickly complete transactions, amass sales data, give feedback to suppliers, place and receive orders faster, reduce costs, and adjust inventory.
      a. The downside to scanning is the error rate, which can be upsetting to customers.
      b. Ironically, although consumer perceptions are that most errors cause overcharges, it has been found that undercharges are equally likely.
      c. One type of point-of-sale system involves self-scanning. About one-sixth of U.S. supermarkets utilize self-scanning equipment.
   2. Other technological innovations are also influencing retail interactions. These include the following:
      a. Electronic gift cards.
      b. Interactive electronic kiosks.
      c. Web portals.

7. <u>ETHICAL PERFORMANCE AND RELATIONSHIPS IN RETAILING</u>
   A. Ethical challenges fall into three interconnected categories:
      1. Ethics relates to the retailer's moral principles and values.
      2. Social responsibility involves acts benefiting society.
      3. Consumerism entails protecting consumer rights.
   B. Ethics
      1. Retailers have a moral obligation to act ethically.
         a. Heightened societal and media attention is being paid to firms' behavior.
         b. A failure to be ethical may lead to adverse publicity, lawsuits, the loss of customers, and a lack of self-respect among employees.
      2. A retailer with a sense of ethics acts in a trustworthy, fair, honest, and respectful manner with each of its constituencies.
         a. Executives must articulate to employees and channel partners what kinds of behaviors are acceptable and which are not.
         b. The best way to avoid unethical acts is for firms to have written ethics codes, distribute them to employees and channel partners, monitor behavior, and punish poor behavior. See Figure 2-11.
      3. The following practices are unethical (and sometimes illegal, too):
         a. Raising prices on scarce products after a natural disaster.
         b. Not having adequate merchandise on hand when a sale is advertised.
         c. Charging high prices in low-income areas because consumers there do not have the transportation mobility to shop out of their neighborhoods.

d. Selling alcohol and tobacco products to children.
e. Having a salesperson pose as a market researcher when engaged in telemarketing.
f. Defaming competitors.
g. Selling refurbished merchandise as new.
h. Pressuring employees to push high-profit items, even if these items are not the best products.
i. Selling information from a customer data base to other parties.

4. Many trade associations, such as the Direct Marketing Association (DMA), promote ethics codes to member firms. These are some of the DMA's provisions:
   a. All offers should be clear, honest, and complete (Article 1).
   b. All contacts should disclose the name of the sponsor and each purpose of the contact (Article 8).
   c. Firms should be sensitive to the issue of concumer privacy (Article 32).

C. Social Responsibility
1. A retailer exhibiting social responsibility acts in the best interests of society, as well as itself.
   a. The challenge is to balance corporate citizenship with a fair level of profits for stockholders, management, and employees.
   b. Some forms of social responsibility are virtually cost-free (e.g., having employees participate in community events); others are more costly (e.g., making donations to charitable groups).
2. Most retailers know socially responsible acts do not go unnoticed by consumers.
3. Examples of socially responsible actions by various retailers are provided.

D. Consumerism
1. Consumerism involves the activities of government, business, and other organizations to protect people from practices infringing upon their rights as consumers.
2. About 50 years ago, President Kennedy said consumers have these rights:
   a. The right to safety
   b. The right to be informed
   c. The right to choose
   d. The right to be heard
3. Retailers and their channel partners need to avoid business practices that violate these rights. These are some reasons why:
   a. Some retail practices are covered by legislation. One major law is the Americans with Disabilities Act. See Figure 2-12.
   b. People are more apt to patronize firms perceived as customer-oriented and not to shop with ones seen as "greedy."
   c. Consumers are more knowledgeable, price-conscious, and selective than in the past.

d. Large retailers may be viewed as indifferent to consumers.
e. For some shoppers, the increasing use of self-service causes frustration.
f. Innovative technology is unsettling to many consumers.
g. Retailers are in direct customer contact, so they are often blamed for and asked to resolve problems caused by manufacturers.

4. One troublesome issue for consumers involves how retailers handle customer privacy. A consumer-oriented approach comprising these elements can reduce negative shopper feelings:
   a. Notice
   b. Consumer choice
   c. Access and correction
   d. Security
   e. Enforcement
5. To avoid customer relations problems, many retailers have devised programs to protect consumer rights without waiting for government or consumer pressure to do so. These are examples:
   a. J.C. Penney has adhered to the seven basic concepts of the "Penney Idea" for 100 years.
   b. Giant Food devised a consumer bill of rights more than 40 years ago, patterned on President Kennedy's. Beside the rights stated by Kennedy, it also includes the right to redress and the right to service.
   c. A number of retailers have voluntarily enacted product-testing programs. They include Sears, Wal-Mart, A&P, Macy's, and Target.
   d. Other consumerism activities undertaken by retailers are setting clear procedures for handling complaints, sponsoring consumer education programs, and training personnel to interact properly with customers.
6. Consumer-oriented activities are not limited to large chains; small firms can also be involved.

8. <u>APPENDIX ON PLANNING FOR THE UNIQUE ASPECTS OF SERVICE RETAILING</u>

A. Service retailing in the United States and around the world is growing steadily and represents a large portion of overall retailing.
   1. In the United States, consumers spend 60 percent of their after-tax income on services.
   2. About 80 percent of the labor force works in the services sector.
   3. Consumers spend billions of dollars annually to rent products and maintain their cars.
   4. Many services remain labor-intensive due to their personal nature.

B. Abilities Required to Be a Successful Retailer

1. With service retailing, the major value provided to a customer is some type of service, not ownership of a physical product.
2. Specific skills are often required, and may not be transferable.
3. More service operators must be licensed or certified, and must pass exams.
4. Service business owners must enjoy their jobs and have the aptitude for them.
5. Many service retailers can operate on lower overall investments and succeed on less yearly revenues than goods retailers.
6. The time commitment of a service retailer differs by type of business opportunity.
    a. Some require a low time commitment (e.g., self-service laundromat).
    b. Others require a large commitment (e.g., house painting) because personal service is the key to profitability.
    c. More service retailers fall into the high time-investment category.

C. Improving the Performance of Service Retailers

1. Service tangibility can be increased by the following:
    a. Stressing service provider reliability.
    b. Promoting a continuous theme.
    c. Describing specific results.
    d. Offering warranties.
2. Demand and supply can be better matched by offering similar services to market segments with different demand patterns, new services with demand patterns that are countercyclical from existing services, new services that complement existing ones, special deals during nonpeak times, and new services not subject to existing capacity constraints.
3. Standardizing services reduces their variability, makes it easier to set prices, and improves efficiency.
    a. Services can be standardized by clearly defining each task, determining the minimum and maximum times needed to complete each task, selecting the best order for tasks to be done, and noting the optimum time and quality of the entire service.
    b. The trade-off is that more consistent quality and convenience means less of a personal touch.
4. Besides standardization, efficiency may be increased by automating services (substituting machinery for labor).
5. One way that services can increase customer loyalty is by better understanding and reacting to shopper complaints.
6. Research has found that a retailer's service support, service-related training, and rewards and recognition for good service motivate employees to provide higher levels of service quality.
7. Store location must be carefully considered. Sometimes, though, the service is "delivered" to the customer (e.g., lawn care).
8. Three principles for service pricing can help firms communicate value.

a. Satisfaction-based pricing recognizes and reduces customer perceptions of uncertainty.
b. Relationship pricing encourages long-term relationships with valuable customers.
c. Efficiency pricing shares cost savings with customers.

9. Negotiated pricing occurs when a retailer works out pricing arrangements with individual customers because a unique or complex service is involved and a one-time price must be agreed on.
10. Contingency pricing is an arrangement whereby the retailer does not get paid until after the service is performed and payment is contingent on the service's being satisfactory.
11. The do-it-yourselfer is often beyond the reach of some service firms.
12. Figure A2-1 highlights ten lessons that service retailers can learn from the best in the business.

D. The Strategy of Pal's Sudden Service: A Baldrige Award Winner

1. Pal's Sudden Service is one of few retailers to win the coveted Baldrige award, based on the company being judged outstanding in seven areas: leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and business results.
2. This company is a privately owned, quick-service restaurant chain with 23 locations. It is based in Kingsport, Tennessee.
3. The Pal's Business Excellence Process spans all aspects of operations from strategic planning to online quality control and has allowed it to rise to the challenge of providing the "quickest, friendliest, most accurate service available."
   a. Turnover of front-line and service personnel has been reduced and is a key advantage.
   b. Employees must demonstrate 100 percent competence before they can work at a specific job task.
   c. Order handout speed has improved more than 30 percent since 1995.
   d. Errors in orders are rare, averaging less than 1 for every 3,500 transactions.
   e. Health inspection scores are consistently high.