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Impleme	nting, Monitoring and Measuring a Programme of Relationship Marketing
•	Revised paper
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retention, cu	stomer share and employee satisfaction

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ABSTRACT

This single, embedded case study examined the marketing activities of Flensted Catering A/S, a Danish food company. The case is the first one in a series of case studies constituting a larger research project with the overall objective of understanding how to implement relationship marketing, how to monitor the outputs and how to measure the returns. In 1996, the company embarked on a three-phase programme directed at building relations with customers. As a prelude to the implementation, Flensted Catering A/S conducted focus groups and issued questionnaires to determine customer perceptions of how the company could meliorate its performance. Subsequently, the Danish firm established project teams, instituted customer-focused staff training and sought to improve communications with customers. Following the implementation, the monitoring revealed that Flensted Catering A/S was rated as a better supplier by 43 per cent of its customers and that customer retention had risen to 94 per cent. Other returns included increased employee satisfaction and reformed service and administrative procedures. This study points toward the need for corporate commitment and the involvement of front-line people in the development of marketing relationships. It also yields empirical examples of methods and techniques that can be used to design a programme of relationship marketing and to measure its effects. Finally, the study supports models that have expanded the traditional buyer-seller dyad with other relationships. These findings are interesting in their own right but the case study has also served to shape the overall design of the larger research project by leading to a more precise articulation of the research questions to be addressed and the hypotheses to be tested.

INTRODUCTION

Despite a large relationship marketing literature, there is as yet no consensus as to what it constitutes (e.g., Brodie *et al.*, 1997; Gummesson, 1994). Relationship marketing is often described with respect to its purposes as opposed to its instruments or defining characteristics. This being the case, it follows that there are related gaps in our knowledge with regard to how to develop effective programmes of relationship marketing and how to measure the level of effectiveness of such programmes. Hence a research project was established with the primary aim of developing the theory of relationship marketing. Four of the research questions comprising this project are:

- (1) Are there identifiable activities that, if practised, can be presented as substantive evidence of the practice of relationship marketing itself?
- (2) Are there identifiable patterns in the way activities of relationship marketing are implemented?
- (3) How, if at all, are programmes of relationship marketing monitored?
- (4) In what way(s), if at all, might returns on relationship marketing be measured?

The paper reports on the first case study in a series of case studies designed to explore these and other research questions. The findings and hypotheses from this case study will serve to guide and improve the overall design of the larger research project. Understandably, some might question the veracity of drawing even tentative conclusions from a single case study. Later, we shall discuss the pedagogical aspects of this concern. For the moment it is enough to point out that even a single occurrence is sufficient to confirm a systematic approach to implementing relationship marketing (Question 1 and 2). It is also sufficient to conclude that programmes of relationship marketing are

monitored (Question 3) and that the returns on these programmes are measured (Question 4).

The main body of this paper begins with a consideration of how the concept of relationship marketing has come to occupy so much of the contemporary marketing literature. This discussion gives rise to the identification of areas where more empirical work needs to be done into both the nature of relationship marketing and the factors that are likely to determine the effectiveness with which it is practised. There then follows a detailed description of the methodology employed in this study before moving on to the reporting and discussion of its results. The paper concludes by suggesting directions for future research.

RELATIONSHIP MARKETING

Relationship marketing has often been contrasted to transaction marketing (e.g., Baye, 1995; Jackson, 1985) which is about developing, selling and delivering products by means of short-term, discrete economic transactions. Because the lifetime value of the customer is not taken into account, customer attraction but *not* customer retention is at the heart of transaction marketing exchanges. However, it is now proposed that closer attention is paid to the long-term financial benefits, and other benefits, of retained customers the main reason being that competition in the marketplace has intensified (e.g., Crainer, 1996; Newell, 1997). To achieve growth, it is argued, organisations must change their paradigm to that of relationship marketing (e.g., Berry, 1983; Grönroos, 1994; Gummesson, 1995).

In spite of the intense interest, relationship marketing remains ambiguous, and we find that many marketing activities in widely differing ways attempt to provide a model of its nature. Sometimes relationship marketing is described as one of several forms of marketing, such as database marketing, quality management, services marketing, customer partnering and 'catch-all phrases' embracing almost every marketing discipline (Berry, 1983; Copulsky *et al.*, 1990; Gummesson, 1988; Magrath *et al.*, 1994; Morgan *et al.*, 1994). On other occasions, relationship marketing is specified in terms of marketing objectives, for example customer retention, customer share and customer loyalty (Dawkins *et al.*, 1990; Peppers *et al.*, 1995; Reichheld, 1996). To provide insight into the debate whether relationship marketing indeed constitutes a new paradigm in marketing it is important to identify activities, if any, which can be presented as substantive evidence of the practice of relationship marketing itself.

Also, even though several approaches to implementing activities of relationship marketing have been advocated (e.g., Baye, 1995; DeSouza, 1992; Rosenberg *et al.*, 1984) no "code" or set of "best practice" has been promoted. Grande (1996) and Pinto (1996) even suggest that indeed no guidelines exist that guarantee an effective implementation. In the light of this, more information is needed on how programmes of relationship marketing are implemented in real life.

As mentioned above, different performance indicators have been introduced to monitor programmes of relationship marketing but have not been clearly defined. For example, Buchanan *et al.* (1990: 523) merely describe customer retention as "the percentage of customers at the beginning of the year that still remains at the end of the year". In contrast, Ennew *et al.* (1996) distinguish between two dimensions of retention: (1) the continuance of a particular contract and (2) the retention of the customer and the ability to sell an increasing number and variety of products. But are these indicators just "hot air" or are they indeed used? It becomes necessary to look into how, if at all, programmes of relationship marketing are monitored.

Finally, measuring returns on relationship marketing is still in its infancy (Gummesson, 1997). By and large, it focuses on the lifetime value of the customer (Rosenberg *et al.*, 1984; Sellers, 1989), customer and employee satisfaction (Heskett, 1987; Reichheld, 1993), benefits from a reduced supplier base and the possibility of entering into cooperative buyer-seller partnerships that facilitates the development of new products (Cram, 1994; Newell, 1997). However, some evidence seem to suggest that returns on relationship marketing are not well correlated to customer satisfaction, let alone customer loyalty (Jones *et al.*, 1995; Stewart, 1997). Research should therefore investigate in what way(s), if at all, returns on relationship marketing might be measured.

METHODOLOGY

The case research method was chosen as appropriate for probing into the research questions. It is recommended where the phenomenon under study is on-going and has to be investigated within its real-life context which allows little prospect of simplifying matters by excluding some variables whilst controlling and manipulating others. Moreover, the case method facilitates the exploration of complex social processes by taking a holistic perspective on real-life events with all of their potentially rich and meaningful characteristics intact. Uniquely, the method avoids the need to pre-select the context type variables to be included in the investigations. Instead the researcher observes the important contextual variables impinging on the behaviour of interest, over time (Yin, 1994). This is essential because the Danish business culture, the structure of Denmark's production and marketing systems and the diverse nature of its major markets for food products are all contextual variables with a possible significant effect on both the adoption and implementation of relationship marketing. Within the case research method the authors started with detailed observations and not until concepts and their

relationships were identified did they proceed with propositions, hypotheses and theory development which will be tested in later stages of the larger research project.

Contact was made with the Danish food company Flensted Catering A/S which was known to have implemented a relationship marketing programme (Christensen, 1998; Hvidt *et al.*, 1998; Laursen, 1997). This approach is consistent with the principles of the case research method because case studies are generalisable to theoretical propositions and not to populations, and the aim is to expand and generalise theories, not to enumerate frequencies (Neuman, 1997).

In addition to semi-structured, face-to-face interviews, a variety of other sources provided information for the case: observations, customer records, business documents, articles and company newsletters. The data gathered were of two types: characteristics of Flensted Catering A/S (e.g., size, markets and product lines) and of its marketing practices. Following the guidelines of Crawford (1997) and Yin (1994), an interview protocol was developed. Although the sequence of topics and questions had been set up in a logical flow the interview was allowed to proceed in the interviewees' own sequence as far as possible so as to obtain a more accurate and clear picture of their position or behaviour.

Case Study Specifications

It should be understood that whilst the paper reports on the results obtained from Flensted Catering A/S, this case is but a constituent part of the larger research project. Since the study examined the marketing activities of Flensted Catering A/S, directed at

building relations with customers, this can be considered a single, embedded case study design. The case is further defined by the unit-of-analysis used by the researcher; in this instance, the unit-of-analysis is the marketing philosophy and activities practised by Flensted Catering A/S with respect to customer retention.

Reliability and Validity

Reliability tells about an indicator's dependability and consistency. The measures applied to increase the reliability of the data, and its subsequent analysis, included: (1) the development of clearly conceptualised constructs, (2) the use of multiple indicators and (3) the execution of pilot tests. Overall, the interviews were conducted and analysed by the first author (using a specific coding scheme) who then passed it on to the second author who in turn carried out an independent analysis of the raw interview data. The two sets of analysis were then compared for "goodness-of-fit" and disparities reconciled through a third data interpreter.

Validity is concerned with whether an indicator captures the meaning of the construct of interest. In order to increase the validity of the data the interviewees were first asked what they understood by the term relationship marketing before probed to determine which activities they saw as part of relationship marketing. These procedures were used to "bridge" any confusion between definition and measures. (Refer also to Figure I.)

Construct validity	Construct validity was secured through the use of multiple sources of evidence, and key informants were invited to review drafts of the case study report. Also, subsequent studies will seek to replicate and extend the research findings from this case study
Content validity	Content validity was pursued by first asking the interviewees what they understood by the term relationship marketing before probing them to determine which activities they saw as part of relationship marketing. These procedures were used to "bridge" any confusion between definition and measures.
Internal validity	Internal validity is a concern only for explanatory case studies, not for exploratory or descriptive case studies that do not attempt to make causal statements. In broad outline, this first case study was exploratory/descriptive whereas the later case studies will move toward making explanatory statements.
Interpretative validity	Interpretative validity was accomplished by approaching key informants for a second, or even

	third, interview when points raised in a discussion of a programme were ambiguous, as well as by inviting the informants to review a draft of the case study report.
Contextual validity	Contextual validity was sought by tape-recording the interviews for later transcription.
External validity	External validity was sharpened with the specification of the particular population of interest.

Figure I. Types of validity

Overall, there were six steps in developing theory from the case study data (refer to Figure II).

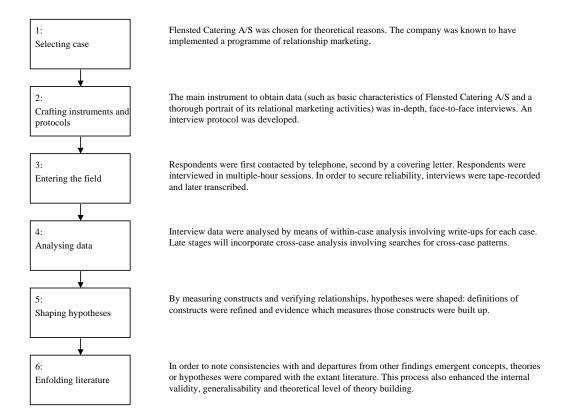


Figure II. Steps in developing theory from case study data

With regard to the within-case analysis, this analysis employed the four-stage procedure developed by Miles *et al.* (1994). The analysis involved coding (i.e., labelling data), memoing (i.e., theorising ideas about codes and their relationships) and developing propositions.

REPORT ON CASE STUDY

Founded in 1966, Ole Flensted Holding A/S is among the 500 fastest growing companies in Europe. It is one of the key actors in the Danish and Swedish salad and potato industry but operates in Britain and Germany, too. Recently, a range of fish, pasta and pizza products was added to the assortment. Its six subsidiary companies (Flensted A/S, Flensted Catering A/S, Flensted Konserves A/S, Flensted Potatis A/S, Flensted Skurna Grönsaker A/S and Vätternpotatis A/S) have a combined annual turnover of DKK 350 million and a workforce of more than 300. Flensted Catering A/S caters for some 4,000 customers who include hospitals, prisons, hotels and canteens. It has an annual turnover of DKK 190 million and a workforce of 77 employees. Among the workforce are 34 'sales chauffeurs' (i.e., in addition to delivering the goods the chauffeurs do selling and advising) and 17 sales consultants, geographically based at 7 sales offices throughout Denmark. (All figures are for 1996/97.)

Competition in the food industry is becoming fiercer not only because the number of possible customers are declining and demand has reached saturation but advances in technology have reduced the potential for unique product differentiation, too (Hughes, 1994; Tansey *et al.*, 1995; Woolven, 1996). Said marketing director Jesper Christensen:

"The strategy for success - Flensted Catering A/S finds - is to maintain relationships (i.e., customer retention) and to enhance relationships (i.e., customer share) with customers so that both parties gain from the relationship. And this is our definition of relationship marketing."

Flensted Catering A/S chose this particular strategy because the cost of serving existing customers is considerably less than that of new customers since transactions become routinised with both the buyer and seller building upon their past experiences and knowledge of service and administrative procedures. Moreover, the monitoring of sales

and customer retention shows that profits increase with retained customers who also buy more of the other products that the company offers. Finally, the close buyer-seller relationship is considered a pre-requisite for new generations of products to be innovated and produced. Thus customer suggestions often result in improved products and procedures.

According to the marketing director the firm's relationship marketing philosophy and its objectives can be summarised as follows:

"Marketing activities need to be directed to a number of different markets because there is a relationship between profitability, the customer market and the internal market. When customer retention is high, customers *and* employees are satisfied which means that employee retention goes up - personal relationships between customers and employees can then be formed and customer retention rises even further. But there are other benefits: for example, the value of customer-focused staff training is increased. Overall, value is added to the products which can be sold at premium prices."

However, in the early 1990s, the management at Flensted Catering A/S recognised that while they had paid sufficient attention to customer attraction, customer retention had received inadequate consideration. Indeed, a 1996 company audit, carried out by a consultancy company, revealed that although Flensted Catering A/S was good at winning customers it retained only 80 per cent losing 20 per cent every year. That is, on an average, every five years the original customer base was lost (see later discussion). To address the question of how to maintain, and enhance, relationships with its customers, Flensted Catering A/S embarked on a three-phase programme of relationship marketing (Figure III).



Figure III. Three-phase programme of relationship marketing

1: The Design Phase

To gain a better understanding of why Flensted Catering A/S lost 20 per cent of its customer base every year, 140 customers (20 customers from each sales office so as to get a representative sample) attended focus groups to discuss the strengths and weaknesses of the company. Strengths included a good assortment to choose from, helpful and knowledgeable staff, and 'inspiration leaflets'. Weaknesses included late or wrong deliveries, no updated products and price lists, and inefficient distribution of samples. Points raised from the 7 two-hour meetings were analysed and put into a 115issues questionnaire that was sent to all 4,000 customers - typically the purchasing manager within that particular company. Some 1,200 questionnaires were returned. After an initial analysis the responses were ranked according to their perceived importance. Although a response rate below 50 per cent often is said to be poor, Flensted Catering A/S did not find it too worrying that "only" 30 per cent of the customers sent back the questionnaire. However, in an effort to learn about the remaining 70 per cent the company invited all of its customers to complete a somewhat reduced questionnaire a year later. To increase the response rate further, this time all contributors participated in a lottery draw. This case study is based upon the reduced questionnaire sample - together with other documents and interviews.

2: The Implementation Phase

To deal with some of the more substantive problems identified in the design phase small project teams were put together. Teams, consisting of 'sales chauffeurs', sales consultants, sales office leaders and administrative personnel, were provided with the necessary support and resources. For illustration, team members were discharged from their normal duties that meant that fellow colleagues experienced additional work pressure. When members thus can devote themselves entirely to a customer complaint everyone knows that the management is serious about the whole programme. In order for employee empowerment to work there have been investments in proper customer-focused staff training enhancing such different skills as industry knowledge, customer service, communication, presentation and team work. Project teams were steered by a special committee, *Frit Forum* (i.e., Free Forum), composed of the management at Ole Flensted Holding A/S and Flensted Catering A/S.

Frequent, effective communication is seen as one of the main reasons why Flensted Catering A/S has been more successful than its closest competitors: communication builds trust. It was decided to publish a quarterly company newsletter, *Frit Nyt* (i.e., Free News), informing both customers and employees of current and planned progress. Furthermore, customers were invited to attend a site visit at Flensted Catering A/S, and regular telephone contact was maintained with customers by the sales consultants while 'sales chauffeurs' met with the customers twice a week. Finally, each customer has been provided with a stock of green and yellow post-free 'To the Managing Director' coupons the idea being that in the event of a complaint the yellow coupon is mailed and in the case of an extraordinary positive experience the green coupon is posted. Both compliments and complaints are communicated to the sales leader who has no more than

one hour to rectify a 'yellow' situation. In every issue of *Frit Nyt* a number of these green and yellow customer remarks appear with a discussion of what action was taken.

3: The Assessment Phase

To assess the design and the implementation phases three measurements were used: customer loyalty; customer retention and customer share; and employee satisfaction.

Customer loyalty: Customer loyalty was measured employing a loyalty accounting matrix that follows a customer's relative attraction to, and satisfaction with, Flensted Catering A/S. Every customer is categorised according to a colour scheme: green, yellow and red. In contrast to 'yellow customers' and 'red customers', 'green customers' are generally more attracted to, and satisfied with, the company than competing businesses. Although 'red customers' and 'yellow customers' have the potential of turning green, experience has taught Flensted Catering A/S that 'red customers' are strongly deal-oriented and will usually move their business around to suppliers of lower priced products. With that knowledge, Flensted Catering A/S concentrated its efforts on the 'green customers' and 'yellow customers'. Customer records show that in 1996, 14 per cent of the customers were 'green' but already a year after the implementation of the programme the number had risen to 20 per cent. Indeed, following the two-year programme, 43 per cent of the customers believed that Flensted Catering A/S had become a better supplier with only 3 per cent having the opposite view.

Customer retention and customer share: In the case of customer retention, most customers have products delivered twice a week and Flensted Catering A/S considered them lost if they have not had their usual shipments in the last two weeks. A retained customer is thus defined as one who over a two-week period buys the same (or more)

amount of products from the company. In the case of customer retention, because Flensted Catering A/S knew which products the customer buys, it could calculate its sales as a percentage of total possible sales thus giving the share of the customers' business that Flensted Catering A/S was capturing. Results from the programme are impressive: an analysis of customer records reveal that customer retention has gone up from 80 per cent to 94 per cent which means that the average length of a customer relationship has increased from 5 years to 20 years. Provided that customer retention stays at 94 per cent, the value of an average customer will have gone up by 300 per cent.

Employee satisfaction: Flensted Catering A/S has adopted a simple philosophy: 'green employees result in green customers.' 'Green employees' are those who can answer and respond to customer queries competently and who are helpful, eager and committed to the company. The approach to achieve employee satisfaction has been a fivefold process (Figure IV).



Figure IV. Approach to achieve employee satisfaction

First, the so-called 10 Flensted Commandments set out the standards for the company and its employees. The commandments are displayed throughout the organisation. Second, only personnel with the capacity to actually "live" these commandments were employed; as can be seen in job descriptions in newspapers, sales office leaders were usually recruited from within the company after having shown commitment to the high principles for a number of years. Third, staff was trained so that their knowledge and skills met customer requirements; all employees thus participated in several intensive customer-focused training and development programmes throughout the year. Fourth,

staff performance was monitored annually in so-called 'climate check-ups'. Fifth, staff competence was rewarded; for instance, sales consultants were paid according to customer retention and not solely customer attraction. Findings from the two-year old programme implied that sales offices with a majority of 'green sales consultants' have seen the number of 'green customers' increase; in addition, these employees have acted as role models for less green employees.

A new data system is currently being set up which will allow sales consultants to monitor sales to a given customer in two ways. First, sales for a particular month are compared to the sales for the same month in the previous year. Second, daily sales in the current year are contrasted to the corresponding daily sales for the previous year. Whenever there is a fall in sales in the current year, compared to the previous year, the sales office leader will contact the customer to determine the reason. Interestingly, no customer has found this inquiry intrusive; if anything, customers think of the initiative as confidence-inspiring and trust-building. Another initiative will seek to underline senior management's commitment to relationship marketing: the marketing director will visit all the sales offices and speak personally with each of the 'sales chauffeurs' explaining to them how they can increase customer loyalty and thus customer retention.

DISCUSSION OF CASE STUDY

The overall objective of this case study was to explore four research questions that are all part of a larger research project. The study has reported on a successful customer retention programme, directed at building relations with customers, and overall it can be concluded that in the food catering business (sometimes) it is possible to implement, monitor and measure a programme of relationship marketing. The study thus identified a number of activities that are part of relationship marketing (Question 1):

- Listening to customers (focus groups and questionnaires).
- Project teams of employees from different departments within the company.
- Market communications (company newsletters, telephone and 'sales chauffeur' contact).
- Trust-building activities and customer care activities (company newsletters and 'To the Managing Director' coupons).
- System to monitor and measure a programme (customer loyalty, customer retention, customer share, and employee satisfaction).

The study also identified what Flensted Catering A/S believes is a 'best practice' to implementing a programme of relationship marketing (Question 2), namely a three-phase approach consisting of a design phase, an implementation phase and an assessment phase. This approach includes a fivefold procedure for achieving employee satisfaction: set standards, hire the right personnel, provide training, monitor performance and give rewards.

Moreover, the study found that a programme of relationship marketing might be monitored using the following measurements: customer loyalty, customer retention, customer share and employee satisfaction (Question 3). And, finally, returns on relationship marketing are measured in terms of customer retention, customer satisfaction and employee satisfaction which all increase (Question 4).

There is a number of other interesting findings. Thus it may be that it is the nature of the business that dictates whether relationship marketing is an option. For example, the programme at Flensted Catering A/S was built around a questionnaire to 4,000 customers; companies with a smaller customer base may find this approach inappropriate or even intrusive to its customers. Also, it is interesting that Flensted Catering A/S embarked on relationship marketing at a time when it was losing 20 per cent of its

customer base each year. Perhaps relationship marketing is taken on board only in times of a "crisis". And that decision may be triggered by serendipity: at a conference the managing director of Ole Flensted Holding A/S met with the consultancy company and became convinced that its approach offered the best solution to the challenges. Or the decision may be influenced by the marketing director's educational background: In this case the marketing director has a 'cand. merc.' (in English: MBA).

The company's interpretation of relationship marketing gave empirical evidence to authors who have expanded the buyer-seller dyad with ancillary supply and other relationships. For example, according to the 'Six Markets Model' relationships must be built with a number of different but equally important markets, namely the internal, the referral, the influence, the employee, the supplier and the customer market (Christopher *et al.* 1991). So far Flensted Catering A/S has concentrated on just two of those markets (i.e., the customer and employee markets). But now the company will extend its relational activities to include the supplier market because according to company policy a customer complaint must be solved within an hour but since the product is being supplied from outside there is only so much Flensted Catering A/S can do.

Corporate commitment was found to be key to the implementation of a relationship marketing programme. This observation supports the findings of those authors who note that the presence of the managerial leadership, the level of back-up and resources given to project teams and the personal involvement of the marketing director in communicating the importance of relationship marketing are paramount. Furthermore, the key role of front-line people in the development of marketing relationships was underlined. The marketing director explained that when 'sales chauffeurs' are competent, helpful, eager and committed, customer retention inevitably goes up. The employees were deeply involved in the implementation of the programme that meant that they felt committed to the changes. In addition, the programme became difficult to copy because

employees at other companies did not know how to operate in a relationship marketing setting.

The study upholds the notion of a close relationship between customers, employees and increased volume of business. In addition to a fourfold increase in the average length of a business relationship a number of other returns on the programme were identified such as growing employee satisfaction and reformed service and administrative procedures. With a prolonged buyer-seller relationship Flensted Catering A/S can reform its service and administrative procedures and innovate new generations of products. There are also additional sales to retained customers perhaps because customers have been so satisfied with the products and service that they find it safe to take the relationship one step further.

In contrast to some research findings, the monitoring system at Flensted Catering A/S suggested returns on relationship marketing are correlated to customer loyalty and customer satisfaction. Can these findings be re-confirmed in other settings?

Flensted Catering A/S believed that performance measures should be simple. However, any monitoring system must relate incurred costs of a programme to increased customer profitability. It is likely that costs of activities such as site visits and post-free 'To the Managing Director' coupons cannot be linked directly to increased profitability. Also, costs incurred in implementing the change to relationship marketing should be distinguished from costs of maintaining relationship marketing activities, and these costs should be compared to profits. Finally, Flensted Catering A/S must profile its customer base better one reason being that it cannot claim that everyone will on average move once in five years. Some customers may be more "promiscuous" than others and so keep moving.

DIRECTIONS FOR FUTURE RESEARCH

To enrich the results it is proposed to include the Danish-British and New Zealand-British food supply chains. Although the British food market is of great importance to both Denmark and New Zealand significant changes have happened in the last decade. For one thing, market power has shifted toward British retailers and consumers which has resulted in interesting bargaining and social relationships. For another, access for New Zealand farmers to the British market for their agricultural commodities has been reduced. And although Denmark and New Zealand thus share a number of similarities it has been noted that the marketing philosophy and way of conducting business in the two countries may be different from one another (Coviello *et al.*, 1998; Rasmussen, 1998).

With regard to the methodology, this study collected data from a *single* partner in a dyad. It is suggested that future studies on the nature of relationships in buyer-seller partnerships involve both sides of the dyad in order to avoid possible discrepancies.

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