

**Cranfield University at Silsoe
Institute of Water and Environment
PhD
2006**

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Pricing as a relationship marketing instrument

*An empirical investigation into the use of pricing
mechanisms as an instrument to build relationships
between supply chain partners*

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6th of March, 2006

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Abstract

Although the principles of relationship marketing are well understood, the role of pricing in building relationships between supply chain partners has not been researched. This study was designed to determine the role, if any, of pricing as a tool for building relationships between suppliers and distributors.

A relationship pricing model (RPM) was developed and tested among 83 distributors in the Swiss beverage market, to explore how businesses can define, operationalise and implement a relational pricing system.

The research shows that both the process of developing a relational pricing system as well as the output it produces support the adoption of relationship marketing between supplier and distributors.

The conclusion reached is that businesses can turn their pricing practices into a relationship marketing instrument if they are dyadic in focus and create mutual long-term benefits for both supply chain partners. An RPM needs to be a pricing mechanism which is fair, transparent, empowers customers to participate in determining pricing conditions and encourages ongoing interaction and communication between supply chain partners. With this research, a major instrument and a step-by-step approach has been created that enables businesses to adopt relational pricing.

Directions for future research have been identified. One direction is to set up a long-term study, to investigate the impact of a relationship pricing model over time. Another direction is to build an RPM, which incorporates non-financial incentives and/or additional variables to those investigated during this study.

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Acknowledgements

There are many people to thank for their help, support and encouragement over the past four years. A very special thank you goes to the following two people:

My academic supervisor, Ian Crawford: It is difficult to find the right words to express my gratitude for all the help, encouragement and support you have given me. You always had an open ear for my problems and worries and your advice and help was invaluable in sailing through the rough spots during the research. For this I am very grateful. Thousand thanks for everything.

My boyfriend, Jim McKenna: Jim, thanks for always being there for me over the past years. I do not know how I could have completed this study, without your patience, understanding and support.

This research would not have been possible without the sponsorship of Heineken Switzerland. You helped me realise a very important mile stone in my life. Thank you. I also use this opportunity to say a special thanks to Markus Bossart, Marcus von Blottnitz and Stefan Planzer for all their support and encouragement.

Without naming each one of them, a warm thank you to all my friends in Switzerland and abroad for their help and support in various forms.

Chapter 1

Background, Aims And Objectives Of The Study

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1. Background, Aims And Objectives Of The Study

1.1 Background To The Research Problem

Initially, this research started not as an academic study but as a commercial project on behalf of Heineken Switzerland. This company is part of the Heineken Group, the fourth largest brewer in the world operating in more than 170 countries around the globe. Heineken Switzerland is the second largest brewing group in Switzerland, with a market share of 18%. Heineken Switzerland brews and sells well-known international brands such as Heineken and Amstel as well as a number of regional brands including “Calanda”, “Haldengut” and “Ittinger Klosterbräu”. In addition, Heineken’s product portfolio includes a number of speciality beers such as “Erdinger” and “Desperados”, which are distributed by Heineken on behalf of foreign breweries.

Recent market developments and growing competition encouraged the organisation to reappraise its marketing activities. In the early nineties the Swiss beer market was characterised by anti-competitive practices. Each brewery sold its beers only in designated areas and was free to pursue its own pricing policies within their sales regions unimpeded by competition. However, new government regulations resulted in the break up of these structures. Consequently, the Swiss beer market changed considerably. Many small breweries were soon established and these are successfully selling beer within each of their own regions of the country and so present the larger breweries with a new reality in the form of increased and open competition. Customers can now choose between a wider range of beer brands than ever before. Competitive pressure has further increased in the Swiss market due to the take over of the market leader by a large international brewery whose principal brand is among the market leaders in many countries across the world.

As part of this reappraisal process the researcher was asked to critically review the organisation's pricing system. A group discussion was conducted with the board members of the supplier, including the Commercial Director, the Sales Director and the Financial Director. This group of people explained the broad difficulties with the current pricing system at the beginning of the project. The main problem from the managers' point of view was that having 8 different price lists made pricing a complicated and time consuming task that they wished to simplify by reducing the number of price lists. In addition, the directors were concerned whether or not current discount levels result in competitive prices for the customers in relation to other players in the market.

Whilst discussing the purpose of the 8 different price lists with sales managers, it was learned that the company charged different prices to distributors, depending on which market segment they belong to. However, the company's pricing system was not quite as rational as it first appeared. In some instances, there were good reasons for the existence of some of the different price lists, for example the location of a distributor. Customers in mountainous areas were charged higher prices than those living in cities due to higher delivery costs. In other instances, the preponderance of price lists was a hangover from a take over by the supplier. As local Swiss breweries have been absorbed by the multinational, some previous pricing arrangements have been continued and others dismissed without a systematic review of the pricing system. As a result, the rationale of many of the price lists was indefensible and there was no consistency in the way different distributors were dealt with.

Sales records and invoices of distributors across Switzerland were then consulted to gain an overall understanding about the nature and magnitude of discounts allocated under the current pricing system. This review indicated that the way in which discounts were allocated to the organisation's distributors seemed far from systematic and lacked consistency. The nature and magnitude of discounts varied considerably not only for the same brands, but also across the product portfolio, the sales regions and the distributors without an apparent logic and consistency. In order to gain a better understanding about these differences in discount practice, informal discussions with some of the

organisation's sales managers and sales representatives were initiated. During the course of these discussions it became apparent that there were no clearly defined criteria, which provided guidance to the sales people on how discounts ought to be allocated in such a way as to maximise the business performance of the organisation. Instead, sales volumes were the main criterion used by sales people to set discount levels. Longstanding social relationships between distributor and salesperson, and/or pressure to increase sales were sometimes used as additional determinants of current discount decisions. This insight from the discussions explained the lack of consistency and why some distributors received much more favourable prices than others.

The conclusion one could have presented to management at this point in time was simply to explain that the different price lists and the allocation of discounts were neither systematic nor consistent. Moreover, customers were treated differently in terms of the discounts they received, depending on their location, the product mix they purchased and the personal relationship they maintained with the sales people. This lack of system, consistency and different treatment of customers jeopardises the competitiveness of the existing pricing system in the market.

However, based on the informal information retrieved from the discussions with sales people, it was suspected that there were further far reaching issues hidden in the current pricing system beyond just disproportionate discount practices. Whilst exploring the reasons why certain discounts were given, it emerged that one or two of the more forward thinking sales people deviated from the general practice of their colleagues. These sales people talked about incidents in which customers were given especially high discounts because they held other values for the business than just volumes. On further probing, such values were described as the provision of market intelligence, delivery of sales statistics or willingness to define and realise sales targets. This indicated that the supplier already had established some relations with their customers. The interaction between these sales people and their customers went beyond what was necessary to conclude the product transaction. Instead, there was evidence of closer cooperation, as customers shared information and were willing to participate in

developing the sales of the supplier's products. Further informal enquiries were made with other sales people to learn if this was just an isolated incident or more widely part of the business conduct between sales people and customers. Sales people confirmed that some of their customers shared information or participated in setting sales targets. They mentioned, however, that customers in general were not given discounts for doing so. During these enquiries it was explored if sales people had any concept of a "relationship". Almost all of them described their understanding of a relationship from a social point of view in terms of "getting on well with the customer" or "having no trouble with the customer". Only one or two of the sales people described a relationship from a business point of view; these described a relationship in terms of customers being willing to participate in activities, which help to generate more sales.

The overall impression one got from talking to sales people was that the supplier already had quite good relations with its customers, but had not yet adopted a relationship marketing approach. That is the business was run on the principles of transaction marketing. The question arising is if the supplier can gain from adopting a relationship marketing approach.

This question was explored during a group discussion with the Board of Management which included the sales, finance and commercial director. The discussion started by exploring the managers' understanding of what they consider "a good relationship". Managers described "a good working relationship" as one where they had "no trouble" with the customer or where that customer consistently contributed towards sales volumes. Afterwards, a short introduction about the purpose and principles of relationship marketing was given to the management during a half hour presentation. Whilst doing so, findings from the pricing system review were used as examples, to illustrate the weaknesses of the current pricing system for building long-term relationships. In particular, managers were made aware that the current pricing system had grown without control, purpose or design into a schedule that lacked consistency, fairness and transparency and failed to recognise the importance of the long term value of the customer. The managers were challenged to evaluate the concept of relationship

marketing and contemplate the possibility of a pricing system which rewards customers based on the long-term value they create for the business. The sharing of information or a customer's participation in activities which help to promote the firm's products, were given as examples of a customer's potential long-term contribution. These directors did not have a comprehensive understanding of the value-contribution of distributors. After all, they work at a strategic level and do not have day-to-day contact with customers. They could be convinced, however, to explore the possibility of developing a pricing model which rewards customers for the long-term value in addition to the sales they create for the organisation. The managers stated their interest in the relationship marketing concept and asked that this should be taken into consideration, whilst developing the pricing model. These outcomes from the group discussion with the Board of Management, initiated the process of developing a relationship pricing model, referred to throughout this research as RPM.

In order to get an idea how to conceptualise a relationship pricing system that incorporates the long-term value of customers, the literature was reviewed. The main aim was to get a better understanding of what value is and how it might be incorporated within an RPM. This brief review revealed that a wide range of different types of value arising from business interaction exist. These types of value range from volumes and profits to more intangible benefits, such as joint product development or information exchange. However, the dominant theme discovered in the literature whilst searching for a better understanding of value appeared not to be the type of value per se, but the benefits arising from relationship marketing. The literature suggests that businesses which engage in relationships with customers, benefit from customer satisfaction, customer retention and long term commitment (Evans and Laskin, 1994; Sin *et al.*, 2002; Walter, *et al.*, 2003).

This raised the questions, can a pricing system make a contribution to help develop relationship marketing and what is this contribution likely to be. Current literature investigated up to this point in time was insufficient to provide an answer. Pricing literature mainly focused on types of pricing, strategy of pricing and factors impinging

on organisations' pricing decisions. The role of pricing to contribute towards relationship marketing within business-to-business markets is, however, is not contemplated. This was the point in time when it became clear that the role of pricing within relationship marketing is not just of interest to a single organisation but to the wider audience of academics and practitioners. This was the decisive factor to transform the initial commercial project into an action research project. The techniques and procedures of action research can be followed to generate data and insight for enhancing the understanding of the role of pricing in relationship marketing.

1.2 Broad Uncertainties Of Solving The Problem

The main uncertainty identified in relation to solving the problem, is that the potential role that pricing could play in helping develop business relationships is not well understood in the pricing literature as well as the literature on relationship marketing.

The pricing literature defines the role of pricing to improve profit margins (Kotler, 1994), to establish strategic market positioning (Porter, 1985) and to communicate the value of a product to consumers (Thompson and Coe, 1997). Responding to the market's competitive situation and demand are further purposes attached to pricing (Proctor, 2000). Thus, the role of pricing according to the pricing literature is assisting organisations in pursuing financial and strategic aims. However, no evidence could be found establishing a relationship between the role of pricing and business relationship development.

This lack of attention towards the possibility of a relationship between pricing and relationship management is equally evident in the other main literature streams of pricing such as the strategy of pricing (Bourdon, 1992; Cannon and Morgan, 1991; Kaushik and Capella, 1997), methods of pricing (Holdren and Hollingshead, 1999; Lere, 2000; Ogenyi, 1997) and factors influencing pricing decisions (Groth, 1995; Morris and Schurink, 1993; Yoon and Kijewski, 1997). No evidence was found that the

role of pricing as part of developing relationships in business markets was purposefully considered by academics.

In contrast, pricing is considered in the relationship marketing literature but research is primarily restricted to outline the effects rather than the role of pricing in business relationships. These effects include that in long-term relationships prices change less frequently than in transaction type relationships (Chappell *et al.* 1993), and can be lower (Kalwani and Narayandas, 1995) as collaboration with suppliers reduces costs (Gadde *et al.* 2002). No insight was provided however, into what processes and activities an organisation needs to initiate in order to capitalise on these effects. Despite the focus of empirical research on the effects rather than the role of pricing, Grönroos (1999) does, however, provide a hint that the role of pricing within the marketing mix has to be reviewed. He contemplates that the wide spread conception of marketing activities being based on a set of predetermined marketing variables (known as the 4 P's) has to be challenged by an organisation wishing to adopt relationship marketing. Instead, in relationship marketing the firm has to include all activities and resources of the firm, which assist in creating value and satisfaction for the varied customer base of a firm. Taking the contemplation of Grönroos (1999) a step further, it appears that the inclusion of a wider range of activities and resources in creating value for customers is likely to change the way in which pricing is managed as part of a firm's marketing activities. Hence, the line of thought instigated by Grönroos (1999) confirms that investigating the role of pricing within relationship marketing is not only justified but necessary, to enhance the understanding about the role of the traditional marketing mix within relationship marketing theory.

Further uncertainties of the research problem relate to the difficulties of getting insight on the set up, the implementation and the measurement of pricing system as a tool for relationship marketing.

The first task in setting up a pricing system is to recognize the components of such a system, which for this research, is to understand what constitutes value for supply chain partners. The literature does aid in this process by offering a wide range of variables which are considered as value such as profit (Kumar *et al.*, 1992; Spencer, 1999), sales volumes (Ryals, 2002; Walter *et. al*, 2001), information exchange (Weber, 2001) or technology transfer (Hogan, 2001). However, the literature shows, that value arising from relationships among supply chain partners is generally very specific to the organisation's business activities, customers and market environment. Thus, the understanding of value might differ from organisation to organisation depending on their specific situation. It is not the differences in understanding the types of value that exists which is the problem. The difficulty arises from the lack of knowledge about the ways in which value can be identified, measured and made part of the organisation's pricing system.

Due to businesses' sensitivity not to disclose their pricing policies it is difficult to get access to knowledge about existing pricing systems in the industry. Existing academic research about pricing systems is generally limited to empirical investigations on quantity discount schedules and anecdotal evidence of dealer and incentive programmes on the Internet. Academic research on quantity discount schedules does demonstrate how businesses can allocate measurements to the value they gain from ordering practices of customers. However, this stream of research explicitly considers order quantities as the unit of analysis and thus fails to provide insight as to how other types of value can be identified and measured. In contrast, anecdotal illustrations on the Internet provide insight about the types of value incorporated in dealer and incentive programmes. The worth of different types of value activities is often shown, generally expressed as a percentage reduction off a predetermined list price. The variety of types of value incorporated in different dealership and incentive programmes do prevent, however, the identification of a meaningful pattern or systematic approach. Moreover, such anecdotal illustrations fail to outline the process and activities adopted in the set up of specific dealership and incentive programmes. Considering the shortage of insights on the identification and measurement of value and how these could be embedded within a pricing system, emphasises the relevance and potential of this research to make

a contribution to existing knowledge in this area. The difficulties were not only restricted to gaining insight into the identification and measurement of value but also how to implement the pricing system as part of a relationship marketing programme. The literature on relationship marketing focuses primarily on theoretical contributions of classifying relationships (Dwyer *et al.*, 1987; Fontenot and Wilson, 1997; Ford, 1980) and outlining the conditions and activities to be in place to develop long-lasting interactions including commitment and trust (Morgan and Hunt, 1994), joint action (Heide and John, 1990), shared goals and objectives (McQuiston, 2001), communication and interaction (Fontenot and Wilson, 1997; Grönroos, 2000), information exchange (Weber, 2001) and relationship investments (Ring and Van de Ven, 1994, Wilson and Jantrania, 1994).

Despite this rich body of knowledge about the characteristics of business relationship development, surprisingly little attention has been directed towards understanding how relationship marketing programmes are effectively implemented within organisations. Guidance on implementing relationship marketing programmes is generally limited to advice on the factors organisations ought to consider when setting up such programmes. These include the need for a clear strategy and a structured planning process (O'Toole and Donaldson, 2002b), the development of relationship marketing consciousness throughout the organisation (Grönroos, 1999) and the integration of internal markets (employees) and external markets (customers) in the development process (Frieze and Funck, 2001; Gummesson, 1987). The case study of Lindgreen and Crawford (1999), reporting on the design, implementation and measurement of a relationship marketing programme by a Danish Food manufacturer, has been the sole attempt to fill this gap in knowledge. This represents an opportunity to further develop the knowledge about the implementation of relationship marketing programmes among academics and practitioners.

1.3 Definition Of Key Terms

1.3.1 Definition of Value

Many different definitions of the term “value” can be identified in academic research. This is not surprising, as the perception of value is “personal and idiosyncratic” (Zeithaml, 1988) and is derived from the perception and belief system of the value recipient – the person doing the valuation (Ford and McDowell, 1999; Simpson *et al.* 2001). Nevertheless, on closer investigation, one property can be identified, which is common to all attempts at describing the term value. This common property reflects the general understanding that value represents benefits arising from activities and interaction between two or more parties. It is the nature of the benefits, activities, interactions and parties, which are interpreted differently by academics and which results in what Ford and McDowell (1999) describe as lack of clarity of what is meant by value.

Value has been described by academics to include anything from financial benefits such as profit to technical, service and social benefits (Anderson *et al.*, 1993; Kumar *et al.*, 1992; Hogan, 2001). Some researchers look at value arising from the activities and interactions taking place between two business partners (Wilson and Jantrania, 1994; Mohr and Spekman, 1996) or alternatively from the wider network (Kothandaraman and Wilson, 2001). Some studies investigate the value as perceived by customers (Ulaga, 2003; Zeithaml, 1988), while for others, the value as considered by suppliers is of interest (Simon and Mandjak, 2004; Walter *et al.*, 2001).

Because of these different considerations of value, it seems unlikely that a common definition can ever be agreed upon. This, however, may not be necessary. The purpose is not to define the basic properties of the term value. These are recognized to refer to the benefits arising from business activities. What is needed are clear definitions defining the scope of what is referred to by value in terms of benefits, activities, interaction and parties.

The definition of the term value for the purpose of this research is an attempt to provide an example of how this can be achieved. Value in the context of this research refers to:

“all tangible and intangible benefits arising from the interaction and activities between distributors, sales people and the supplier’s top management.”

Admittedly, tangible and intangible benefits are rather vaguely defined; it reflects a statement, which does not allow for a firm conclusion what types of benefits are exactly referred to. However, at this stage of the research, it has not yet been established what type of value will be of relevance. Thus, the above description of value should be treated as a working definition, which will be further developed during the course of this research.

1.4 Definition Of A Pricing System

The literature offers a range of definitions for all sorts of aspects of pricing including methods of pricing (Kotler, 1994), pricing strategies (Schoell and Gultinan, 1987) or components of pricing such as discounts and rebates (Stern and El-Ansary, 1988). What is missing from this selection of definitions is a clarification of what is understood under the term “pricing system”. This absence of a clear description calls for the development of a working definition of a pricing system to guide the further development of this research. This working definition ought to provide a clear understanding about the core properties, of a pricing system and the purpose it is to achieve.

Pricing systems can take many formats. Some pricing systems are quite simple and rely entirely on quantity discounts to arrive at the final selling prices. In other instances, pricing systems incorporate a selection of different types of discounts and rebates. This is typical for dealer incentive schemes within the car or computer industry. Yet other pricing systems, particularly in the service industry are frequently combined with loyalty schemes and include non-financial benefits such as free flights or ‘buy two get the third one for free’ offers. This brief contemplation of some types of pricing systems

shows that despite their different format, pricing systems share some core characteristics. These core characteristics can be described as components, mechanisms, and processes. Components of a pricing system can be viewed as the variables which represent a price reduction or create a non-financial benefit to the buyer. Discounts, rebates or non-financial benefits such as free flights are typical examples of such decisive factors. The mechanism of a pricing system refers to the manner in which the final selling price to the buyer is determined. For instance, the strictly mathematical calculation model underlying quantity discount schemes may be referred to as one example of a mechanism of a pricing system. Finally, processes refer to all the activities pursued in the task of arriving at the definitions and measurements of the components. Thus, making a decision about the magnitude of discounts would be a typical example of such a process.

However, what also needs to be clarified is the way in which pricing systems are managed by organisations. As outlined previously, the pricing system at Heineken Switzerland is primarily managed on the basis of volume estimates, the need of sales people to meet sales targets and personal relationships. Therefore, the pricing system relies strongly on personal judgement rather than on rational, systematic and consistent decision-making as implied by the term “system”. As a result the organisation’s pricing system fails to deliver fair treatment of customers. This suggests that organisations ought to manage their pricing system in a consistent, transparent and systematic manner if they are to avoid the outcome of pricing systems managed on the basis of personal judgement. So far the understanding of a pricing system has progressed to the point, where its core characteristics and the way in which they are managed, has been defined.

What is not yet clearly specified is defining a pricing system in terms of what it is to achieve. Maximizing financial gains, such as profits and margins, can be viewed as the ultimate aim of any business decision and thus also applies to pricing decisions. However, limiting the purpose of a pricing system entirely to realising financial gains is considered too narrow a view, and fails to provide an appropriate working definition for this research. As discussed previously, this study aims to determine the role of pricing

in developing business relationships. Therefore, the possibility of using pricing systems as a tool for relationship development also needs to be contemplated as a potential purpose of pricing in addition to the realisation of financial gains.

Based on the previous discussions about the characteristics and purpose of a pricing system the following working definition will be used for the context of this study:

“A pricing system represents all processes, mechanisms and components involved in arriving at the final selling price to the buyer in a consistent and systematic way, with the aim of creating long-term sustainable benefits from developing and maintaining business relationships.”

1.5 Aim Of This Research

The aim of this research is to determine to what extent, if any, pricing can be used as a tool for relationship development within industrial markets.

1.6 Objectives Of This Research

The main objectives of this research include:

1. To understand the processes and factors resulting in relationship development
2. To investigate how, if at all, business relationship development is and can be combined with pricing practices of organisations
3. To define the inputs, process and outputs needed for developing a relationship pricing model
4. To test the relationship pricing model and assess its potential effectiveness in developing business relationships

In order to set out the scope of this research, it seems appropriate to briefly explain some of these objectives in more detail. The processes and factors resulting in business relationship development will specifically relate to those, which influence interaction between sales personnel, management and distributors. Therefore, additional factors and processes impacting on business relationships, which are connected to other organisational functions, the market environment and competitors, will not be explicitly considered by this research. Moreover, one has to bear in mind that this focus on specific types of business interaction will also play a role in how the inputs, processes and outputs for the pricing model are defined. The pricing model takes the form of a model, which will be tested among a selected sample of distributors. Therefore, this pricing model is expected to provide insight about its potential effectiveness in developing business relationships. Relationships evolve over time and often take years to be established. Thus, considering the time span of this research the model can only make predictions regarding its effectiveness on short- rather than long-term relationship development.

1.7 Purpose Of This Research

The purpose of this research is to develop a relationship pricing model to investigate how the activities and processes related to its development and implementation support relationship development primarily between the buyer and the seller (external) and secondarily among employees (internal).

Chapter 2

Context Of The Study

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2. Context Of The Study

Relationship marketing offers businesses an opportunity to build long-term sustainable relationships with customers. This is particularly important for Heineken in view of the challenges arising from the market structure, the competitive environment and the organisation's distribution structure in the Swiss market.

2.1 Structure Of The Swiss Beer Market

The Swiss market is markedly divided by demographic, topographic, language and cultural differences across different regions. As illustrated in figure 1, Switzerland is a predominantly rural and mountainous country with three main urban population centres around Zurich, Bern and Geneva.

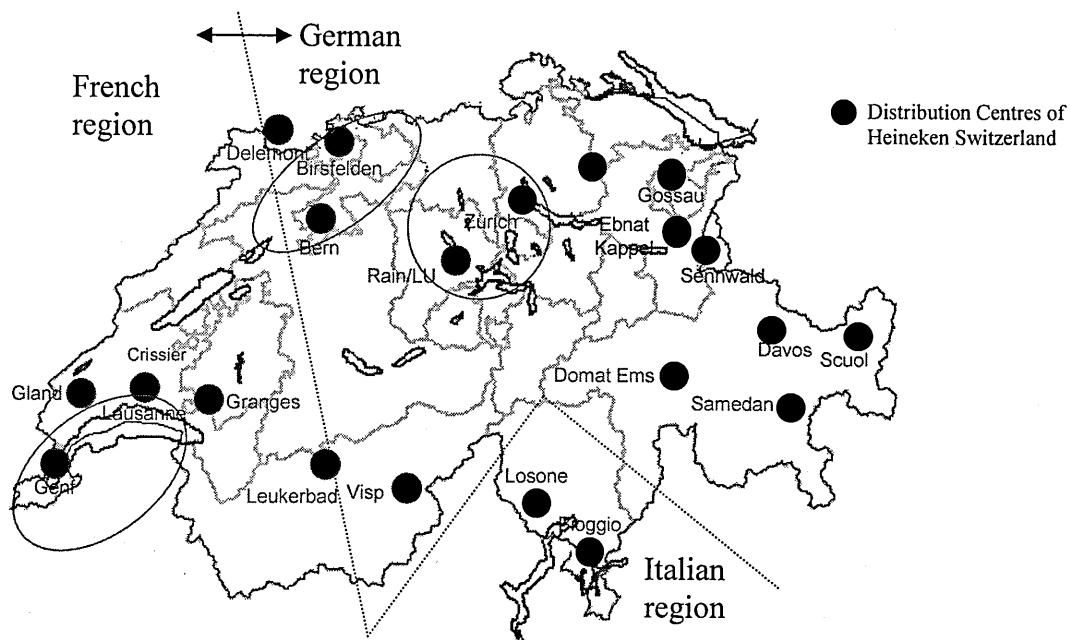


Figure 1: Structure of the Swiss Beer Market

The topography of Switzerland is a logistical challenge for Heineken. As shown in figure 1, the organisation has to maintain 21 different distribution centres across the country, in order to safeguard a primary distribution network across the main rural sub-regions of the country. Distributors play an important role in complementing

Heineken's own distribution structure in the market. In the French speaking region and in remote mountainous areas of the country, distributors are taking responsibility for the distribution function. By so doing, they distribute products in areas where Heineken lacks its own distribution centres and/or where delivery is costly and time consuming. For all these reasons, it is in the best interest of Heineken to intensify cooperation with these customers in order to safeguard product availability in the market.

As depicted in Figure 1, Switzerland is divided into three general regions, characterised by different languages, culture and beer drinking behaviour. For instance, annual consumer surveys show that brand preference among consumers in the French speaking part of Switzerland is divided among 5 major brands. Two of these brands, including the market leader, are distributed by the Heineken. By contrast, consumers in the German speaking region tend to choose from a wide range of regional beers. Building closer relations with customers is important, particularly in the German region. By so doing, distributors are more likely to cooperate in implementing brand loyalty programmes, encouraging consumers to switch from regional brands to Heineken products.

2.2 Competitive Environment Of The Swiss Beer Market

As can be seen in figure 2, the Swiss beer market has three major players and a large number of small breweries, mainly in the German speaking region of the country.

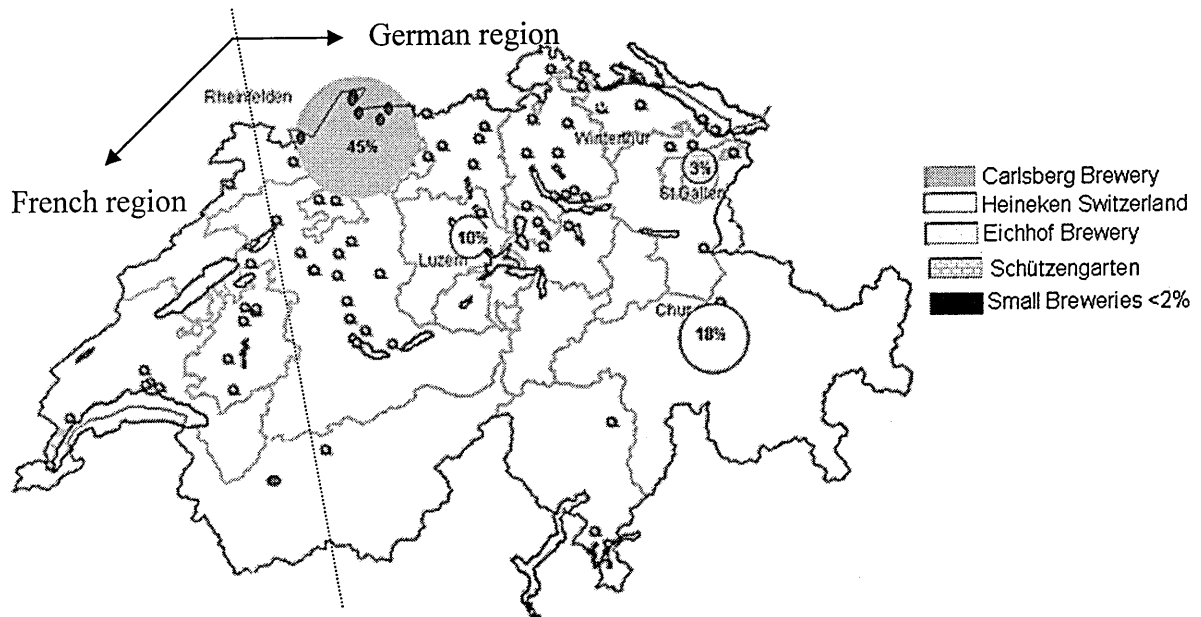


Figure 2: Location and market share of Swiss breweries in 2003

Maintaining and developing market share within this competitive environment is a key challenge for Heineken. With a share of 18%, Heineken is not as strong in Switzerland as it is in other countries and lacks some key competitive advantages of other breweries. Carlsberg can capitalise on economy of scale due to its market dominance. Eichhof is the only remaining large Swiss brewery and for this reason enjoys the sympathy of many consumers who dislike multinationals. The number of small regional breweries has grown substantially over the past few years further increasing competitive pressure in the market. These breweries benefit from strong consumer loyalty due to their offer of specialised regional beers and their support of the regional economy. In view of this competitive environment, long-term cooperation with distributors is a pre-requisite for Heineken to maintain and strengthen its presence within this competitive environment.

2.3 Distribution Structure Of Heineken Switzerland

Beer in the Swiss market is sold to consumers through two main channels, namely retailers and the gastronomy sector. The former includes supermarket chains and independent retailers and the later incorporates all places of out-of home consumption such as restaurants, hotels, pubs and fast-food outlets. This study took place within the context of the gastronomy sector, due to the strategic importance of this channel to the Heineken organisation. That is, delivery to the gastronomy sector accounts for more than half of total beer sold by Heineken in the Swiss market. During recent years, sales have declined. It is through building closer relationships with distributors that Heineken could encourage the participation of supply chain partners to actively develop beer sales in the gastronomy sector.

Figure 3 gives an overview of the distribution structure of Heineken Switzerland. Beer delivery to the gastronomy sector takes place either through one of Heineken’s own distributor centres or via the 488 independent distributors across Switzerland.

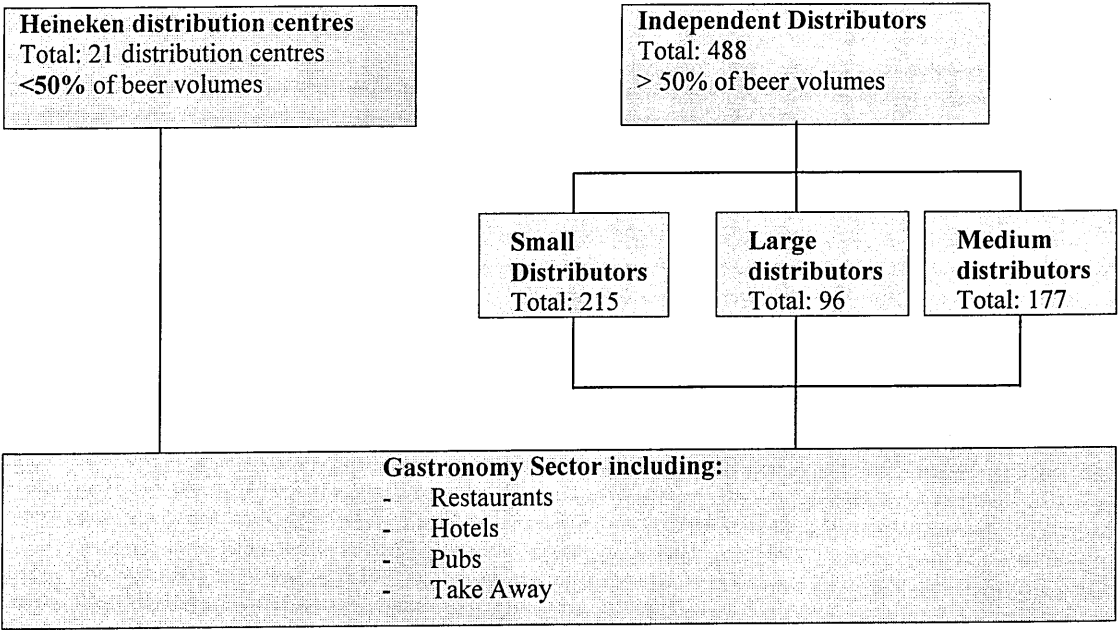


Figure 3: Distribution structure of Heineken Switzerland

As depicted in figure 3, more than 50% of all beer is sold to the gastronomy sector by independent distributors. This reflects the strong dependency of Heineken on

independent distributors to safe guard product availability in the market and their need to maintain good relations to secure their cooperation as important supply chain partners.

In summary, within the context of the Swiss market, building closer relationships with distributors is in the best interest of Heineken to a) maintain and develop its competitive position, b) to win distributor’s participation in brand loyalty programmes and c) to safeguard cooperation of distributors as long-term supply chain partners. This is yet another justification to explore the role of pricing in relationship marketing.

In order to develop an RPM to explore the role of pricing, the active participation and involvement of Heineken employees was needed. An overview of the Heineken employees who participated in the process of developing and implementing a relational pricing system can be seen in figure 4.

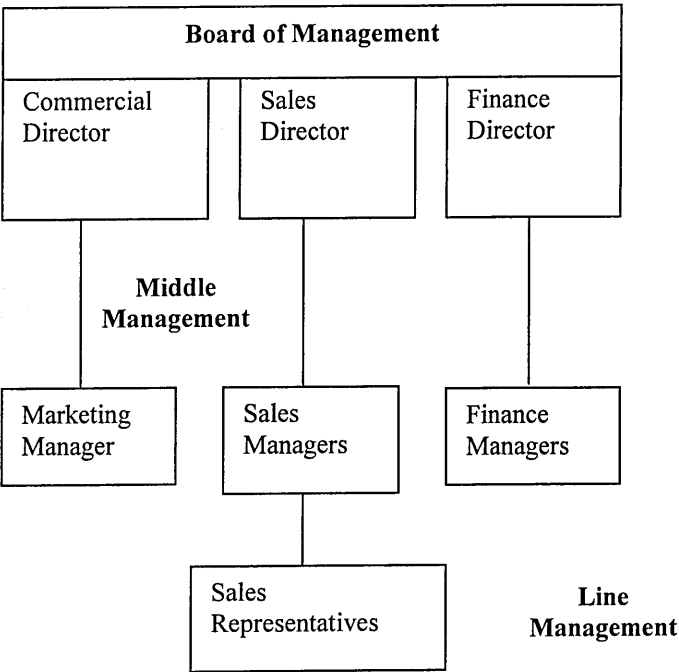
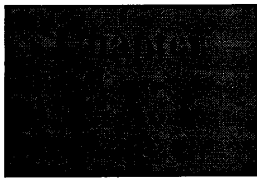


Figure 4: Overview of Heineken employees participating in the RPM development

The concept of relationship marketing was new to employees across different levels of the Heineken organisation. As discussed in chapter 1, the Board of Management were convinced about the merits of relationship marketing to the organisation. In so doing, a necessary pre-condition to manage the change process resulting from the RPM development was put in place. That is, the commitment of the board of management sent a clear signal to the organisation that the change from a transitional to a relational pricing system was both necessary and important. This signal was needed to encourage middle and line managers to view their relationship with distributors from a relational rather than a transactional perspective. Prior to this study, all middle managers as well as most sales people judged the value of distributors in terms of sales and profits. Sales volumes, longstanding social relationships with the distributor and/or pressure to increase sales, were the main criteria used by sales people to set discount levels. In short, Heineken employees were transaction marketing orientated and needed to be familiarised with relationship marketing principles whilst building and testing the RPM.



Literature Review

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3. Literature Review

3.1 Introduction To The Literature Review

As discussed in chapter 1, the aim of this research is to determine the extent, if any, to which pricing can be used as a tool for relationship development between supply chain partners. In order to do so, a relationship pricing model (RPM) is to be developed. The purpose is to use such a model, to test the potential contribution, a pricing system can make towards the adoption of relationship marketing.

Before the development of the RPM could be started, the research problem needed to be further refined, in order to begin the fieldwork with the best problem definition possible. The set of objectives introduced in chapter 1, represent the key areas where further refinement of the problem definition was necessary. That is, the literature was reviewed, to explore what is already known and to identify gaps in knowledge about:

- a) How relationship marketing is and can be combined with pricing practices of organisations;
- b) What are the processes and factors, which support relationship marketing practice;
- c) What are the inputs, processes and outputs of an RPM and how can these be defined and measured;
- d) How the effectiveness of relationship marketing programmes can be monitored and measured;

It was with these objectives in mind, that different pools of literature were identified as being relevant to this study as summarised in figure 5.

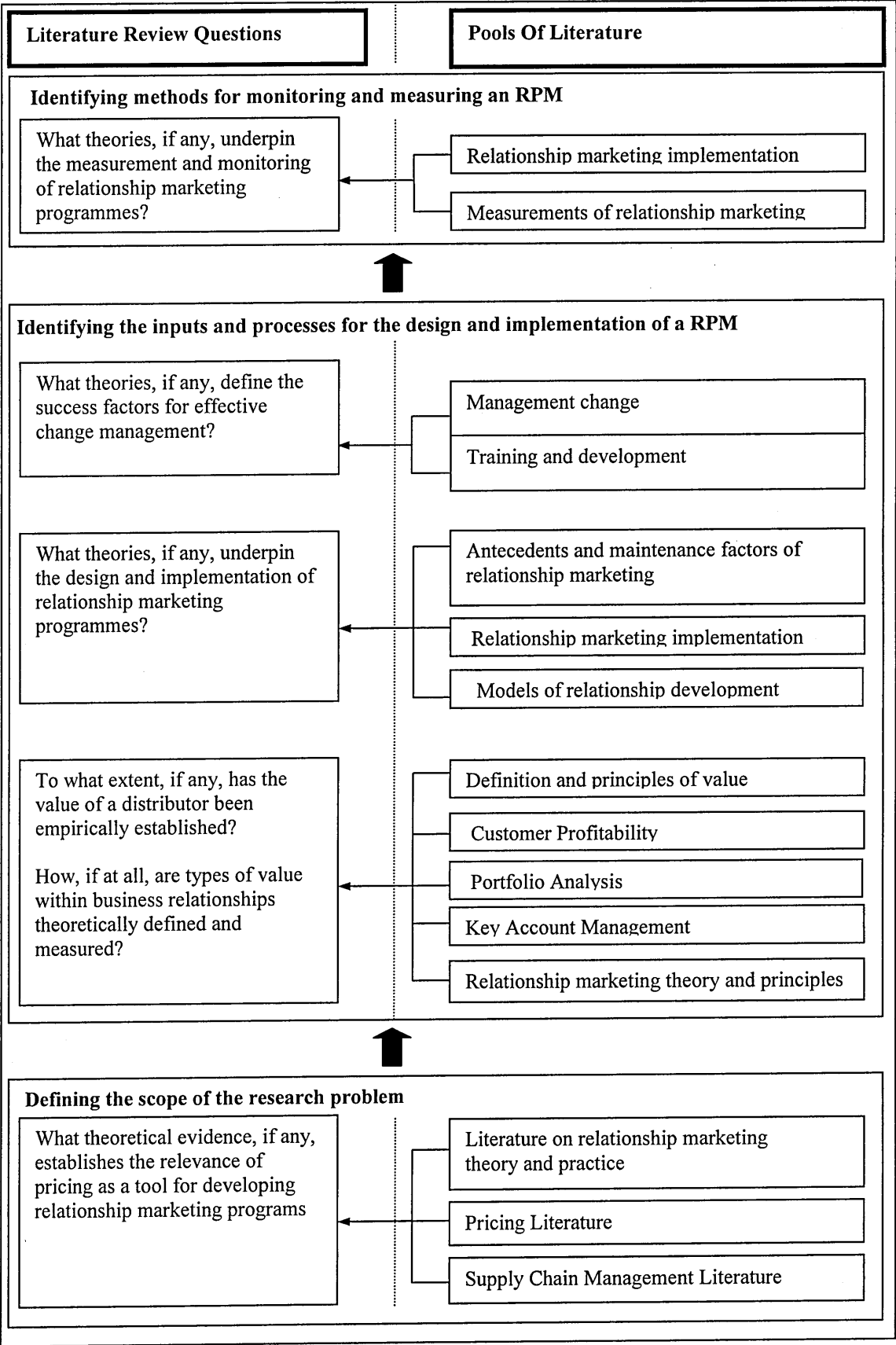


Figure 5: Overview of literature pools and questions

As depicted in figure 5, the first task of the literature review was to establish what theoretical basis, if any, exists of pricing as a relationship marketing tool. In order to do so, the pricing literature was consulted to learn more about the rationale, the set up and mechanism of pricing systems between suppliers and their customers. Literature on supply chain management was reviewed to gain a better understanding about the types and nature of channel incentives. The relationship marketing literature was consulted to put the insight from the two previously reviewed literature pools, into the perspective of relationship marketing. That is, findings from reviewing the pricing and supply chain management literature were critically assessed for their alignment with the theory and principles of relationship marketing. For instance, it was explored, if channel incentives fulfil the tenets of relationship marketing by creating mutual and long-term sustainable benefits for supply chain partners. It was learnt from this assessment, that there was no theoretical basis demonstrating the potential contribution of a firm's pricing practices towards the development of supply chain relationships. This finding was critical. It ascertained that this study would make a justifiable contribution to advance the understanding of pricing as a relationship marketing instrument. This finding allowed to establish as well as to more accurately determine the overall scope of the research problem. This was necessary in order to move on in reviewing the literature for evidence of how best to set up and implement relationship marketing programmes.

One of the premises of the RPM was its purpose to incorporate the broader value arising from businesses' relationships with their customers. Therefore, variables as input to the RPM needed to be identified, which reflected customers' value contribution to a relationship. Research on the definition and principles of value was consulted to learn what is understood under the term "value" and how it relates to the context of buyers and sellers. Different literature streams were then identified, which provided more specific insight about different facets of customer value. Research on "customer profitability" reveals the financial nature of customer value, whilst the strategic value of customers is discussed in the literature on "portfolio analysis" and "key account management". The relationship marketing literature discusses customer value within the context of benefits arising from developing long-term, mutual beneficial supply chain relationships.

The review of literature pools discussing the value concept, proved helpful to identify the problems, which needed to be addressed empirically, in order to determine and define the RPM variables. Therefore, it was possible to identify the research processes which needed to be initiated in order to determine the variables as inputs to the RPM.

As can be seen in figure 5 on page 25, a range of additional literature pools were reviewed to identify the theoretical basis for designing and implementing relationship marketing programmes.

Research on antecedents and maintenance factors of relationship marketing revealed the different factors, which need to be in place, for relationships to develop. This proved valuable to understand, how the set up and the pricing mechanism of the RPM could be aligned with the tenets of relationship marketing. For instance, the literature review suggested that a pricing mechanism could support relationship marketing, if it encourages communication and interaction between supply chain partners. In addition, understanding the types of antecedents and maintenance factors of relationship marketing, helped to further refine the criteria that needed to be met by the RPM variables. That is, the variables, not only had to incorporate the value contribution of customers. Instead, they also had to share the characteristics of antecedents and maintenance factors, such as for example information exchange or relationship specific investments.

The literature on relationship marketing implementation was consulted, to establish the theoretical basis for the effective execution of relationship marketing programmes. In so doing, insight was obtained about the different conditions, which facilitate relationship marketing implementation, such as for example, the commitment of management. In addition, one was made aware of the different steps a firm has followed, to plan, implement and measure a relationship marketing programme. The review of this type of literature offered valuable guidance how the RPM could be put into practice. It became also evident, that the implementation of relationship marketing has not yet been established to any great extent within the literature. This offered an opportunity to develop a set of research questions, which would make an additional contribution

towards advancing the understanding on how relationship marketing programmes can be implemented.

The understanding of relationship marketing implementation was complemented by a review of the management change literature. This kind of research illustrated the processes that need to be initiated in order to implement change within an organisation. Among others, it was learnt that training is one of the key processes, to support this development. Training has also been identified as being important to implement relationship marketing programmes. Therefore, it became clear, that training employees to understand and apply an RPM is an integral part of this study. It was for this reason, that the training literature was reviewed, to gain an understanding about the principles of training and the effective development of training programmes.

As shown in figure 5, the final part of the literature review focused upon exploring the theoretical basis on how relationship marketing programmes can be monitored and measured. This was done, by consulting research which specifically focused upon identifying relevant and appropriate measures to assess the effectiveness of relationship marketing programmes.

3.1.1 Instruments For Reviewing The Literature

Due to the cross-disciplinary nature of this study, a number of literature streams within the research on pricing, relationship marketing, value, management change and human resources needed to be reviewed. In order to remain focused and approach the task at hand in a consistent and systematic manner, a key word list was drafted and applied.

A list of key words, initially containing broad search terms was drawn up to scan for articles in multiple databases available in university systems. The most useful database for this particular piece of research was EBSCO as it provides full text view of journals back more years than most other databases. Additional key words were added to the list and existing terms refined, as the literature search progressed over time. This approach ensured that different sources of information were investigated in a systematic and

consistent manner, whilst keeping track of the overall literature search process. An overview of the literature sources and the key word list is shown in appendix 1 and 2.

In order to manage and review the literature in a systematic way, a reading protocol was drafted and applied. The problems addressed by each source of literature together with key findings, strengths and limitations was noted as a summary. This protocol can be viewed in appendix 3.

3.2 Pricing Systems As A Tool For Developing Business Relationships

Investigating the extent to which pricing systems can serve as a tool to build and maintain long-term relationships between business partners, was a major focus of this research. The literature recognises that relationships develop through the interaction between business partners over time, and that they create mutual benefits for each of the participants (Dwyer *et al.*, 1987, Grönroos, 1999). Therefore, what was of particular interest to this study is how the mechanisms of pricing (for example the use of discounts or other kind of incentives) and the processes by which these are defined and implemented can foster “interaction” and “mutual benefits” between business partners. A review of the literature is therefore merited to explore the characteristics and processes of pricing mechanisms and the extent to which these may contribute towards developing business relationships.

A large number of different pricing mechanisms can be found in the literature, falling into two broad categories, namely financial and non-financial incentives. An overview and description of some of the frequently discussed financial incentives are listed in table 1.

Table 1: Overview of financial incentives

Type of discounts	Description:
Quantity discounts	Price reduction for large quantity volume purchases
Cash discounts	Price reduction for timely payment of bills
Functional discounts	Price reduction offered to trading partners for performing certain functions such as selling, storing or record keeping
Seasonal discounts	Price reduction for purchasing products & services out of season
Allowances	Price reductions from list price to reward trading partner for example for the participation in advertising and sales-support programmes
Channel rebates	Payment from the manufacturer to a reseller based on the reseller's sales to end consumers

Sources: Kotler, 1994; Stern and El Ansary, 1988; Taylor, 2002

Table 1 illustrates, that financial incentives reflect monetary rewards suppliers give to their customers to encourage them to act and behave in a certain way. For instance, a vendor granting quantity discounts reduces the price per unit to entice customers to purchase larger annual volumes or to increase the size of each order (Viswanathan and Wang, 2003). The effect suppliers attempt to achieve with quantity discounts is typical of other financial incentives. That is suppliers use financial rewards to influence and control buyer behaviour and channel outcomes (Gilliland, 2003). Yet another typical feature of financial discounts to be identified from table 1 is that their effects appear to be short-term in nature. That is, customers are only rewarded as long as they fulfil the conditions determined by the supplier such as purchasing large volumes or timely payment of bills. This illustrates, that suppliers use financial incentives as a means for manipulating customers to behave in ways, which are beneficial for them. Thus, financial incentives are about manipulation rather than building relationships. The conditions tied to financial incentives are supplier driven thus neglecting basic elements of relationship development such as creating customer value or encouraging interaction through for instance active customer participation.

Turning now the attention towards the second broad category of pricing mechanism, Gilliland (2003) compiled a useful overview of the wide range of non-financial incentives to be found in the literature. This author developed a classification scheme of business-to-business channel incentives based on 59 profiles of supplier channel programmes. These profiles were compiled by VarBusiness (a trade publication) based

on a phone survey covering 3736 companies. Gilliland (2003) identified 170 unique incidents of channel incentives, which he then divided into 5 general and 16 sub-categories according to facets of control. The author referred to facets of control as the kind of reseller practices the supplier wants to control by using incentives as a means to motivate resellers to support the supplier's marketing objectives. An overview of these incentive categories and facets of control is listed in table 2.

Table 2: Overview of a classification scheme of business-to-business channel incentives

General category	Facets of control	Sub-categories
Credible Channel Policies Incentives to encourage reseller participation in its channel programme e.g. - resellers are compensated for account development efforts if sales are stolen by channel rival - compensation of reseller even if customer buys directly from the seller	Control of the reseller participation in the supplier's channel programme	Pledges to the channel Conflict Resolution Strategies
Market Development Support Incentives for the reseller to promote the brand e.g. - training, seminars, technology workshops - customer care hotline for reseller - provision of product information/case study applications - promotional materials, trade show support	Control of specific tasks performed by resellers	Sales Support Information Market Development Tools Personal Assistance Discretionary Funds Certification Programmes
Supplemental Contact Incentives to enhance reseller capabilities with extra-high levels of information and communication e.g. - quarterly meetings on the state of the company - online tool for pricing, quoting and configuring orders - communication programmes including fax, newsletters, channel broadcasts, e-mail announcements	Control of the reseller's quality and efficiency of task performance	Communication Programmes Automated Information Automated Transactions
High-Powered Incentives Incentives to offer direct monetary reward for performing specific tasks e.g. - cash bonuses for introducing new services to customers - cash rebates linked to sales growth - new sellable service and leasing programmes	Control of reseller output	Unique sellable solutions Immediate incentives to sell Financial Programmes
End-User Encouragements Incentives for building unique channel value through joint activities of suppliers and resellers e.g. - nationally market reseller-developed solutions - work with resellers to create bundled solutions for targeted vertical markets - enterprise sales force works with resellers to stimulate customer demand in new markets	Control of the length of reseller relationships	Reseller Marketing Comarketing Risk reduction programmes

Source: Gilliland, 2003

Table 2 shows that different incentives are being used by suppliers to influence some specific aspects of the reseller's behaviour and practice. For instance, as can be seen from the category named "High-Powered Incentives", direct monetary rewards are used to control the performance of resellers. By contrast, non-financial benefits mentioned in the remaining categories are generally used by suppliers to control different aspects of the reseller's behaviour. The classification scheme as developed and presented by Gilliland (2003) suggests that suppliers use both financial as well as non-financial incentives as a weapon of control. That is, suppliers use incentive schemes as tools to manipulate and influence resellers to behave and act in ways which contribute towards the realisation of the supplier's goals and objectives.

However, some of the suggestions and comments made by Gilliland (2003), hint implicitly or explicitly towards the possibility that incentive schemes may have some potential to support the development of business relationships. The author suggested, for example, that theoretically, incentives within the category "End-User Encouragements" can set the context for suppliers to establish more partner-based, bilateral relationships with the reseller. Gilliland (2003) argued that incentives in this category promote joint actions between the business partners and signal the supplier's intention for establishing long-term business transactions. Considering the author's description of some of the incentives within the category of "End-User Encouragement" one could be tempted to agree with this argumentation. For instance, suppliers who actively promote the reseller and its products (Reseller Marketing) or initiate joint efforts to pursue targeted accounts (Comarketing) can be regarded as processes encouraging interaction and the creation of mutual benefits between business partners.

However, the author did not specify in any detail how suppliers developed and implemented activities which fall under the categories of "Reseller Marketing" or "Comarketing". This would have been helpful however, to judge the extent to which these kinds of incentives have a true potential for developing business relationships or reflect yet another attempt by the supplier to manipulate the customers. It needs to be further pointed out, however, that the methodology chosen by Gilliland (2003) acts as an impediment to make an informed judgement about the strength of the author's

argumentation. Gilliland (2003) relied on secondary data to develop the incentive classification scheme. Therefore the author's work is only as good as the quality of the primary data on which it is based. However, the author did not provide a transcript of the questions used to collect the primary data. Thus, no assessment can be made about the quality and relevance of the primary data and consequently the strength of the incentive classification scheme itself.

Gilliland (2003) also provided some implicit indications regarding the possibility of pricing schemes being supportive in relationship development. The author commented for instance, that "Market Development Support Incentives" may assist in developing trust through information, whilst "Credible Channel Policies Incentives" reflect a supplier's commitment to the relationship and the interest and concern for the wellbeing of the reseller. Communication and information exchange delivered by "Supplemental Contact Incentives" was viewed by the author as a supplier's attempt to enhance a reseller's capabilities and provide a supportive climate for learning to take place. These comments are valuable in as much as they provide yet another hint that incentives may have a potential role in developing business relationships. Trust, communication, commitment or joint actions between business partners touch upon the relationship marketing philosophy. The literature recognises that these are all activities supporting the initiation and maintenance of long-term relationships (Morgan and Hunt, 1994; Wilson, 1995).

It needs to be pointed out, however, that Gilliland (2003) did not link the proposed implications of incentives to the development of business relationships. Instead, Gilliland made these comments as part of developing a set of research propositions. These propositions detail the kind of incentives which may be most relevant to serve businesses' concern for a) realising goals, b) maintaining stability and coordination within the channel, c) maintaining channel harmony and d) maintaining the channel's flexibility and responsiveness to create new value in view of changing market demands. However, the author did not link his research proposals to a businesses' concern for developing relationships. Therefore, the work of Gilliland (2003) did only go as far as

offering implicit and explicit indications that incentive schemes may have a potential role to play in building relationships.

Discussing pricing systems as a tool for developing business relationships draws the attention naturally to price setting. Although not a major focus of this research, the literature review would be incomplete if one forwent the opportunity of looking at price setting and its possible role in developing business relationships. In so doing, it became evident that the issue of price setting in relationship marketing is not a widely discussed topic in the literature. It is mainly mentioned in academic text books (Ford *et al.*, 1998 and 2002; Hollensen, 2003) but has not been a major focus of published research in academic journals.

The discussions by Ford *et al.* (2002) on pricing in relationship marketing are among the more comprehensive ones and overlap to some extent with the observations made by other authors (e.g. Ford *et al.*, 1998; Hollensen, 2003). Therefore, particular focus is given to the views of Ford *et al.* (2002) complemented by insight of other authors, when these differed, in a major way.

According to Ford *et al.* (2002) pricing in a relationship is not concerned with making a profit from every transaction. Instead, the task of pricing is to maximize the rate of return on each customer over the lifetime of the relationship (Ford *et al.*, 2002). The authors further pointed out that the relationship strategy and pricing policy must take into account that the costs of keeping customers are far lower than acquiring new customers. They did, however, neither provide hard empirical evidence to support their claim, nor indicate how this might be done. In fact, this discussion need not to be taken any further, as it does not add anything to the understanding of how price setting influences the development of business relationships. Instead, Ford *et al.* (2002) contemplations suggest, that the role of pricing in relationship marketing is to aid businesses to maximise profits and recovering costs over time.

The authors further focused attention upon the role of pricing not only in the dyad between a firm and a customer but within the overall relationship portfolio of an organisation. They pointed out that businesses maintain a range of different kinds of relationships with their customers, each of them offering different value contributions. Some relationships for example have potential for sales growth, while others may be an important source of learning or merely a source for current revenues without long-term potential. It is worthwhile pointing out, that Ford *et al.* (2002) did not explain how the proposed contributions of customers are specific to relationships as opposed to business transactions. After all, even if customers do not extend their involvement with the supplier beyond mere product transactions, they can still have a sales growth potential or be a source of learning. Therefore, it is not quiet clear to what extent Ford *et al.* (2002) referred their discussion specifically to pricing in relationship marketing or contemplated pricing practices in general.

Because of a seller's different types of customer relationships, Ford *et al.* (2002) suggested that businesses cannot fix prices or view the value of a relationship in isolation but rather they need to consider their contribution to the overall relationship portfolio. To illustrate the point, the authors noted that businesses may want to set prices based on the customer's potential rather than on their actual value or imminent costs. Organisations, may, for example, charge a low price to encourage a customer to develop a relationship, or a high price to maximise profit from a customer which has a low potential to engage in long-term business interaction. However, one can question the authors' reasoning. Using price as an encouragement for the customer to do business with a supplier may work only as long as an alternative supplier doesn't offer better price conditions. Moreover, it is questionable that a low price alone is sufficient enough for a buyer to develop a relationship. Scholars have proposed that a range of other factors such as trust, communication or social bonds support relationship development (Morgan and Hunt, 1994; Wilson, 1995).

Ford *et al.* (2002) contended that pricing each relationship separately would be the ideal. They further elaborated, that this cannot be put in place by businesses because it is costly, impractical or might even be illegal. However, it needs to be pointed out that

the authors' reasoning appears to be ill-considered. Many businesses already pursue the practice of offering different prices for the same product to various consumers. An example would be where customers are charged a higher price per unit when purchasing a magazine from a newsagent as opposed to obtaining a yearly subscription. Hollensen (2003) even suggested that the practice of charging different prices to various customers becomes of increasing importance in the future. The author argued that the fixed one-price strategy of the past has been eroded over recent years. In the future "dynamic pricing" is asked for, which instantly adjusts to prevailing market conditions. Hollensen pointed out, for example, that supermarkets now have the technology to vary prices at specific times of the day or tailor discounts and coupons to individuals' past purchasing patterns. The author, however, did not comment how this practice of flexible pricing helps to build relationships between supermarkets and customers despite discussing this topic under the heading of "relationship pricing". In fact, the author's example suggests the opposite. Altering prices or offering discounts appear to reflect manipulative practices by a seller to encourage customers to make purchases rather than relationship development practices.

Hollensen (2003) challenged the views of Ford *et al.* (2002) in yet another way. The author commented that setting low prices is not the best approach for organisations, wishing to attract customers who will remain loyal over time. Instead, the author contended that, businesses should use pricing strategies incorporating both price and non-price incentives, which encourage customers to consolidate their business with a particular supplier. Hollensen pointed out that the discounting of prices for large purchases can often be profitable for both parties since the customer benefits from lower prices while the supplier may enjoy lower variable costs resulting from economies of scale. Another pricing strategy which may help to develop closer relationships consists of offering the customer discounts when two or more services are purchased together. The author's underlying reasoning is that the relationship is likely to become close the more a customer purchases from a single supplier and the parties get to know each other. This appears to be a weak argumentation. As one remembers, prices can be undercut by other suppliers encouraging the buyers to switch and as an entity on their own may not be sufficient to encourage buyers to enter a relationship.

In conclusion, the literature review revealed that scholars think that pricing has a role to play in building relationships (Ford *et al.* 2002; Gilliland, 2003; Hollensen, 2003) but do so mainly for the wrong reasons. For instance, it has been proposed that businesses need to take into account a range of aspects in their price setting decisions such as for example the long-term relationship benefits, costs, customer potential and the overall portfolio of relationships (Ford *et al.* 2002). Furthermore, scholars agree that ideally price setting needs to be flexible and customised to each individual relationship (Ford *et al.*, 2002; Hollensen, 2003). However, the main thrust of the arguments of these scholars is to illustrate how flexible pricing setting can be used by the seller to extrapolate some kind of benefits from a relationship. These benefits include for instance cost recovery or encouraging customer purchases. Thus, pricing, although debated under the heading of relationship marketing, is presented as a tool of manipulation rather than a means to build true relationships, characterised by joint interaction and value creation. Moreover, scholars made the assumption that price per se can act as an encouragement to customers to enter a relationship (Ford *et al.*, 2002; Hollensen, 2003). As has been repeatedly pointed out, not price alone but a range of other factors contribute towards relationship development including for instance trust, communication or social bonds (Morgan and Hunt, 1994; Wilson, 1995).

In contrast, a more relevant reasoning as to how pricing can contribute towards building relationships has been provided by Gilliland (2003). This author recognised that in theory incentive schemes may have some potential to support the development of business relationships. In so doing, Gilliland (2003) offered implicit and explicit indications how different incentives could theoretically encourage activities recognised in the literature as being supportive of relationship building and maintenance, such as trust, joint action, communication or commitment (Morgan and Hunt, 1994; Wilson, 1995). Although this author's contemplations are a step in the right direction, they remain theoretical in nature. This shows that the understanding about the extent to which pricing systems can contribute towards building relationships is at an early stage and has in fact not yet been firmly established.

A number of issues have been identified from the literature, which, if clarified, could help to fill the current gap about the feasibility as well as the nature, application and the effects of pricing systems as tools for relationship marketing.

For instance, the way in which pricing flexibility is discussed in the literature suggests that this concept does not completely embrace the tenets of relationship marketing. The literature has repeatedly shown that building long-term relationships requires interaction between two parties over time (Blois and Wilson, 2000; Hakansson, 1982; Rao and Perry, 2000). However, the way in which scholars describe flexible pricing suggests, that this practice reflects unilateral decision taken by the seller, to encourage customers to participate in a relationship (Ford *et al.* 2002, Hollensen, 2003). Thus, flexible pricing does, at this point in time, not consider any interaction between parties in the price setting process. It can be argued however, that the involvement and participation of the buyer in the price setting process may play an important role in developing and maintaining relationships. Pricing then no longer remains a unilateral but becomes a bilateral process, thus acting as a communication device between relationship partners. As is well documented in the literature, communication is a key factor in developing and maintaining relationships over time (Anderson and Narus, 1990; Morgan and Hunt, 1994; Wilson, 1995). Moreover, interactive pricing may also act as a strong signal to the customer that the supplier is serious about developing a relationship. The supplier can demonstrate, for example, that he is prepared to no longer make pricing decisions with mainly his own objectives in mind. Instead the supplier shows that he is willing to share his previous pricing power with the customer, in order to pursue a price setting process, which fulfils the needs and objectives of both parties.

Furthermore, there is a paucity of literature to guide practitioners who inherit a given pricing system but need to change to an alternative system with altogether different tenets. The literature assumes that managers can start with “a clean sheet” when faced with pricing decisions. This is obviously not the case where a business and, *de facto*, its pricing systems are acquired as a going-concern. Similarly, businesses planning to implement relationship marketing are likely to already have a pricing system in place and thus cannot start with a ‘clean sheet’. Instead, practitioners need to understand how

they can assess the suitability of their pricing systems and, where necessary, move to change it to meet the tenets of relationship marketing.

The following research questions can be helpful to gain a better understanding about the extent to which pricing systems facilitate relationship development.

- a) How, if at all, can companies assess the suitability of existing pricing systems for building and maintaining business relationships and implement corrective actions if needed?
- b) How, if at all, can pricing systems be developed and implemented in order to encourage cooperation, interaction and communication between business partners?
- c) How, if at all, does the involvement and participation of customers in the pricing process contribute towards building and maintaining relationships?

Looking at the value of a customer is a key element of this research. As one remembers, it has been found that a beverage supplier's pricing practice did not adequately reflect the value of its distributors and was not consistent, transparent and fair in dealings with customers. It has been proposed that the supplier is in need of a systematic approach to pricing; an approach where the characteristics and extent of discounts are directly linked to the value distributors generate for a business, whilst providing sufficient motivation to adopt value-enhancing behaviour and business practices. Moreover, it has been discussed that the supplier needs to take a broader perspective on customer value. That includes looking at value not only in terms of sales volumes and financial gains but also considering other ways in which customers create benefits, for example through establishing customer relationships. Therefore, adopting such an approach to pricing, the scope of the supplier's pricing practices changes. Pricing no longer predominantly focuses on the mechanics of handing out discounts to distributors. Instead pricing takes a broader perspective in becoming a tool for creating value for both partners in the dyad. Joint value creation is one of the characteristics distinguishing business relationships from other kinds of business transactions. Therefore, such a systematic approach to pricing is expected to provide insight about the extent to which a pricing system may be used as a tool by the manufacturer to develop and maintain long-term business relationships with its distributors. A review of the literature is expected to reveal insight about a broad range of customer value, including its nature, characteristics and possible role in developing and implementing relationship marketing programmes.

A large body of literature draws attention to different facets of value. At a generic level, the value chain analysis model by Porter (1985) provides an integral framework for understanding the value creation of different organizational activities. At a more specific level, the literature looks at value from the perspective of the customer (e.g. Ulaga, 2003; Zeithaml, 1988) the supplier (e.g. Simon and Mandjak, 2004; Walter *et al.*, 2001) or value arising from relationships (e.g. Mohr and Spekman, 1996; Ravald and Grönroos, 1996; Wilson and Jantrania, 1994).

A decision was made to specifically focus on the value customers create for suppliers and the value arising from business relationships. One of the problems to be addressed by this research is to explore what benefits, other than sales and profits, customers create for a firm. This merits looking specifically at the ways in which customers create value for a supplier. If a pricing system is to take a relationship perspective, it is critical that it creates mutual benefits for suppliers and buyers. This justifies exploring the literature, for evidence about the type of value which arises for business partners from long-term relationships.

At first sight, the body of literature on customer value appears small. Only two studies (Simon and Mandjak, 2004, Walter *et al.*, 2001) were identified, which explicitly explore the value created by customers for a supplier. However, if one looks at different definitions of value, one can see that value represents benefits arising from activities and interaction between two or more parties.

From this point of view, three main pools of literature were identified, which discuss value created by customers. These pools are illustrated in figure 6.

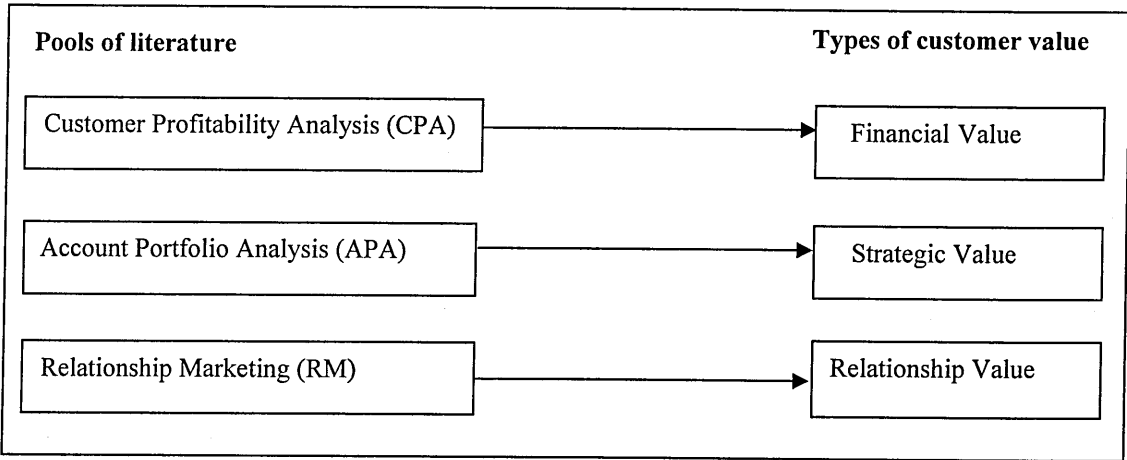


Figure 6: Overview of type of customer value discussed in different literature pools

The literature on Customer Profitability Analysis (CPA) takes the narrowest view by specifically focusing on the financial value created by customers. Studies in the broader field of Account Portfolio Analysis (APA) take a wider perspective. These consider mainly the strategic value of a customer, which is reflected by both financial as well as

a range of other customer specific factors including for example market and technological factors. The literature on relationship marketing (RM) takes the broadest perspective on customer value of all three approaches. In comparison to the other literature pools, scholars within this field rely less on financial benefits. Instead they tend to focus on the value suppliers can gain from customer relationships. Relationship value, however, is mainly characterised by non-financial benefits such as access to market intelligence or collaborations.

It has been observed that the three literature pools overlap -to varying extents- since each involves measures such as sales volumes, margins and other sales and finance criteria. There appears to be however, less of an overlap between “relationship value” and the other two because (a) it uses significantly fewer sales/finance measures than either of the other two and (b) it includes more non-sales/finance variables.

3.3.1 Financial Value Of A Customer

“Customer Profitability Analysis” (CPA) is a frequently mentioned concept in the literature to identify and assess the financial value of a customer. The purpose of CPA has been described to measure the difference between the revenues generated through the sales of products or services to specific customers or trade sectors and costs incurred in trading with these entities (IGD, 1993). Thus, the worth or value of a customer is viewed as the financial gain a supplier obtains when dealing with customers. There are two main ways in which scholars talk about the financial value of a customer. Some studies focused on outlining the kind of cost criteria businesses need to consider when calculating the profitability of customers (e.g. IGD, 1993; Mulhern, 1999; Rakesh *et al.*, 2001, Smith and Dikolli, 1995, Van Raaija *et al.*, 2003). The Institute of Grocery Distribution (IGD) for example compiled a report on best practices in measuring customer account profitability, which incorporates many of the suggestions from the wider CPA literature. Thus, the work of IGD (1993) offers a useful and comprehensive overview of the kind of costs factors, which are part of calculating customer profitability. The cost framework developed by IGD complemented with additional cost factors identified within the wider CPA literature is listed and described in table 3.

Table 3: Overview of cost categories and cost factors as part of calculating customer profitability

Cost Categories	Description	Examples of cost factors
Trade Discounts	Off invoice discounts or the “ongoing” cost of doing business	- long-term negotiated discounts - quantity/volume discounts
Cost of Producing	The product costs calculated to include all product related direct costs (and attributable overheads)	- raw material costs - packaging costs - labour costs - margin of customer’s product mix
Overrides	Performance related payments linked to the customers’ turnover	- incremental discounts allocated to customers for realising agreed levels of sales
Account Specific Promotional Costs	Promotional payments/costs attributable to the account	- listing allowances - coupons redemptions - point of sales material
Cost of Distribution	Costs of handling and storing products in the warehousing and transportation function	- costs of receiving goods-in - cost of physical handling the goods - waiting time at customer premise - compatibility with the firm’s delivery schedule - delivery predictability
Cost of Financing	The internal cost of financing the trading relationship	- settlement discounts - sales credits
Account Specific Selling & Support Costs	The cost of all direct resources within a sales function and any associated functions where activities can be attributed to specific customers	- cost of a national account manager - cost of order processing - administration costs - sales support costs

Source: IGD, 1993

Table 3 shows the range of cost factors that businesses are encouraged to take into account in order to assess the financial value of customers. However, other studies took a broader view by proposing that businesses not only need to assess the current but also future value of a customer (e.g. Berger and Nasr, 1998; Dipak and Siddharta, 2002; Hoekstra and Huizingh, 1999; Jacobs *et al.*, 2001; Kumar *et al.*, 2004). The rationale behind the concept of Customer Lifetime Value (CLV) rests on the belief that customers create value to a firm in the form of future revenues and margins to be earned (Jacobs *et al.* 2001). A range of reasons has been proposed in the literature as to how customers create future value. These include for example a) added profit from sales through referrals b) profit from cost savings obtained whilst serving existing customers and c) revenue growth due to increasing sales over time (Berger and Nasr, 1998; Dipak and Siddharta, 2002; Storbacka *et al.*, 1994). However, scholars have pointed out that empirical studies provide conflicting evidence about the extent to which these

underlying assumption of future value creation are justified (Dipak and Siddharta, 2002; Reinartz and Kumar, 2000).

A large number of studies can be found in the literature on the topic of CLV, many of them providing some mathematical models for calculating a customers' lifetime value to a supplier. These models differ in some ways in their approach to calculate CLV. The basic structural models, for example, calculate CLV on the basis of a customer's generated cash flow and revenue in a given period the total cost incurred to the firm of generating the revenue and the total number of periods of the projected life of the customer under consideration (Dipak and Siddharta, 2002). Yet other models rely on customer's purchasing patterns to predict the probability of future sales (Dwyer, 1997) or include a firm's costs for acquiring and retaining customers in the CLV calculation (Blattberg and Deighton, 1996). The implication of all this is that the literature has been helpful to show practitioners the financial value they can gain from their customers. Moreover, scholars offer an array of guidelines to businesses how they can go about calculating not only the current but also the future value of customers. Such insight helps practitioners to distinguish between profitable and less profitable customers and thus facilitates their decision making on the design of current and future marketing strategies and the effective allocation of resources. However, it will be remembered that generating financial gains is just one way in which customers provide value to a firm. Therefore, practitioners might be well advised to contemplate the wider value benefits they might derive from customers prior to making any kind of strategic decisions.

3.3.2 Strategic Value Of A Customer

Whilst the CAP literature considers the value of customers mainly from a financial point of view, studies in the broad field of Account Portfolio Analysis (APA) look at a wider range of factors to determine not only the financial but also the strategic value of a customer.

In essence APA has been described as a strategic planning method, which is used for analysing and segmenting a firm's overall customer base according to a set of criteria such as strategic importance (Campbell and Cunningham, 1983) or customer attractiveness (Fiocca, 1982). The underlying rationale of APA is to view a firm's customer base as a portfolio where customers are placed in a matrix according to their strategic importance to the business. Such a matrix guides businesses in their decision making on how to manage different customer segments through effective resource allocation. Thus, the criteria proposed by scholars to segment customers according to their potential worth and importance reflect the value of a customer to a firm from a strategic point of view. Over the past decade the concept of APA has been adopted by scholars to develop portfolio models, which propose a range of criteria for segmenting not only a firm's strategically important customers, but also a firm's relationships and suppliers (Bensaou, 1999; Krapfel *et al.*, 1991; Olsen and Ellram, 1997; Yorke and Droussiotis, 1994).

The early studies on APA (e.g. Campbell and Cunningham, 1983; Fiocca, 1982) provide insight about the nature of portfolio analysis and the kind of criteria businesses apply in assessing the strategic value of customers. Fiocca (1982) for example suggests that APA consists of a two-step approach. The first step involves the analysis of a firm's customer base according to the strategic importance of the accounts and difficulty in managing the accounts. The range of criteria which, according to the author, reflect these two measures of analysis are listed in table 4.

Table 4: Overview of criteria reflecting “strategic importance” and “difficulty in managing accounts”

<u>Strategic importance of an account</u>	<u>Difficulty in managing an account</u>
Volume or dollar value of purchase Potential of the account Prestige of the account Customer market leadership Overall account desirability including - company’s business diversification - open new markets - improve technological strength - improve/spoil other relationships	Product characteristics (e.g. novelty and complexity) Account characteristics including - customer’s needs and requirements - customer’s buying behaviour - customer’s technical and commercial competence - customer’s power Competition for the account including - number of competitors - strengths and weaknesses of competitors - competitors position vis-à-vis the customer

Source: Fiocca (1982)

Fiocca (1982) noted that this first step in APA gives businesses a clear and immediate picture of their entire customer portfolio. It allows them to identify those accounts which are of high strategic importance and thus merit further in-depth analysis. The author then proposes that in a second step these identified key accounts are reviewed in more detail according to two broad dimensions, namely a customer’s business attractiveness and relative stage of the present buyer/seller relationship. Business attractiveness is assessed according to a range of criteria reflecting the attractiveness of the customer’s market and the status/position of the customer’s business. The present stage of buyer/seller relationship is analysed, according to a set of criteria representing the relative strength of relationships between the firm and its customers. The kind of criteria proposed by the author to assess customers according to these two dimensions, are listed in table 5.

Table 5: Overview of criteria reflecting “business attractiveness” and “strength of buyer/seller relationships”

<u>Business attractiveness of customers</u>	<u>Strength of buyer/seller relationship</u>
Market factors e.g. size of dollars, units, key segments, growth rate	Length of relationship
Competition e.g. types of competitors	Volume or dollar value of purchase
Financial and economic factors e.g. capacity utilization, customer’s margins	Importance of the customer
Technological factors e.g. types of customer’s technological skills	Power of the participants (one or both)
Sociopolitical factors e.g. customer’s ability to cope and to fit with environmental changes	Friendship
	Cooperation
	Geographic distance
	Management “distance” (language and culture)

Source: Fiocca, 1982

The author proposes that such an analysis enables businesses to plot the strategic importance of their key customers on an account portfolio matrix. The customer’s business attractiveness is placed on one axis and relative strength of buyer/seller relationship on the other axis. Fiocca (1982) concludes that such a matrix provides businesses with information about the profitability of each of the key customers and the possible marketing strategies to be employed for managing different segments of key customers. The account portfolio model developed by Fiocca (1982) suggests that the value of a customer cannot solely be assessed in monetary terms. Instead, a range of additional factors have been proposed, which reflect a customers’ strategic value to a firm. The work of Fiocca (1982) further indicates that customer value may result not solely from the purchasing activities of a buyer with the seller. Instead, it appears that a customer’s position in the market, technical competence or degree of interaction with the seller, are just some of other proposed ways in which customers create value.

A review and comparison of more recent studies on portfolio analysis shows that a range of additional criteria have been suggested by scholars over time, to assess the strategic value not only of customers but also business relationships. An overview of these criteria is listed in table 6.

Table 6: Overview of criteria for judging the strategic value of customers / business relationships

Authors / Criteria	Fiocca (1982)	Campbell and Cunningham (1983)	Krapfel <i>et al.</i> (1991)	Yorke and Droussiotis, (1994)	Olsen and Ellram (1997)	Turnbull and Zolkiewski (1997)
Strategic importance	x			x	x	
Difficulty in managing relationships	x			x	x	
Business attractiveness	x	x			x	
Strength of relationship	x			x	x	
Growth rate of customer's market		x				
Competitive position		x				
Net price						x
Cost to serve						x
Interest commonality			x			
Relationship value			x			x
Customer profitability				x		

Source: Adopted from Leek *et al.* 2002¹

Table 6 shows that the strategic value of a customer can be assessed according to a range of financial and non-financial criteria. This confirms previous suggestions that the value of a customer cannot be determined on the basis of a buyer's financial performance alone. Table 6 also highlights that scholars use differing terminology and propose varying criteria for assessing the strategic value of a customer relationship. As is evident from table 6, scholars frequently include criteria such as "relationship value" or "strength of relationships" to judge the value of customers. In so doing, scholars have been helpful by indicating that relationships are yet another source of customer value, which may take the form of, for example, trust (Yorke and Droussiotis, 1994) or level of cooperation (Krapfel *et al.*, 1991; Yorke and Droussiotis, 1994). However, a closer review of the criteria used by scholars to define the "strength of relationship" or "relationship value" reveals, that some of these criteria appear to overlap with criteria reflecting a customer's financial or strategic value. Typical examples of such criteria

¹ The work of Yorke and Droussiotis (1994) was added for further completion to the original overview presented by Leek *et al.* (2002).

include for instance, volume or dollar value of purchase (Fiocca, 1982), technical ability (Yorke and Droussiotis, 1994) or quantity of purchases (Krapfel *et al.*, 1991). Thus it is not entirely clear whether or not these kinds of criteria are typical for reflecting relationship value or simply represent benefits a seller can obtain from any kind of business transaction.

3.3.3 Relationship Value Of A Customer

The literature frequently promotes the benefits suppliers can obtain from engaging in long-term relationships with customers. It has been suggested for example that building and maintaining relationships with business partners enhances a company's competitiveness (Anderson and Narus, 1990), through building cooperation, loyalty and enhancing operational effectiveness (Weber, 2001), technology transfer (Hogan, 2001), and insight into customer preferences (Sudharshan and Sanchez, 1998). Furthermore, one remembers that long-term customers have been proposed to add to a firm's future profit due to sales through referrals, lower servicing costs, and increasing sales over time (Berger and Nasr, 1998; Dipak and Siddharta, 2002; Storbacka *et al.*, 1994).

However, whilst the benefits of building relationships is widely discussed in the relationship marketing literature, only few studies could be found, which specifically and empirically investigate how suppliers judge the value arising from relationships with customers. Among these is the work of Walter *et al.* (2001), who developed and empirically tested a model to identify how suppliers judge the value arising from relationships with customers. In their model, the authors defined the value of a customer relationship along two dimensions, named as direct and indirect functions. These two dimensions are listed in table 7.

Table 7: Dimensions of value creating functions of customers

Direct functions	Indirect functions
Profit generation	Market functions (benefits from referrals and recommendations to enter new markets)
Volume creation	Scout function (customers provide useful information about the market development)
Safe-guard function (improve cost-efficiency of operations)	Access function (customer’s experience and know-how assists in dealing with official authorities, banks or trade associations)
	Innovation function (capitalization of the supplier on innovation development of customers)

Source: Walter *et al.*, 2001

Direct functions according to the authors relate to those activities and resources employed by the customer, which create direct value to the supplier without any dependency or connectedness to other relationships. Indirect functions on the other hand

“capture connected effects in the future and / or in other relationships – the wider network.” (Walter *et al.*, 2001:368)

To illustrate the point, the authors explain that referrals or recommendations made by current customers, for example, may be valuable to establish commercial relationships with other customers. Thus, the activity of the customer may only become valuable at some future point in time.

In a second step, Walter *et al.* (2001) developed a set of criteria which reflect each of the different functions based on 49 partly structured interviews with CEOs, sales managers and purchasing managers of supplier businesses in Germany, France and Great Britain. Thereafter, 247 suppliers within the mechanical engineering, electronics, metal-processing and chemical industry were asked, by means of standardized personal interviews, to rate the benefits/utility the company gains from each of the criteria reflecting the different functions. The authors concluded from their research that the more a customer relationship fulfills direct and indirect functions the greater the value of the relationship perceived by the supplier.

The study of Walter *et al.* (2001) is helpful in two main ways. Firstly, the authors established that customers create value for a supplier by performing a number of different functions. Moreover, the authors empirically identified the kind of criteria suppliers use to describe how customers create value for each of the different functions. These criteria are listed in table 8.

Table 8: Overview of criteria reflecting customer value

Functions	Criteria
Profit function	Margin per product Overall profit
Volume function	Amount of deliveries Long-term supply agreements Sales Volumes
Safe-guard function	Possibility of short notice deliveries Possibility to sell over-capacities Reduction of dependency on other customers
Market function	Information of contacts with new customers Information about potential new customers References to potential new customers
Scout function	Information about the market Information about competitors Information about relevant third organizations such as further suppliers and customers
Access function	Support by handling contacts with governmental agencies Initiation of contacts to important persons Promotion in influential institutions and committees
Innovation function	Joint development of production processes Joint concept development of new products Adoption of new technologies Prototype testing

Source: Walter *et al.*, 2001

However, as can be viewed from table 8, many of these value criteria were described in broad and general terms. For instance, no insight was offered regarding the kind of market, competitor, customer or other information provided by the customer, which are

of value to the supplier. Therefore, this is a restriction to make an informed judgment about the exact nature of customer value.

Moreover, the methodology chosen by the authors also has its limitations. For example, suppliers were asked to rate customer value on the basis of its benefits/utility but not its importance to the firm. Thus, the study shows the relevance of different kinds of customer value to suppliers within a given industry but not its importance to a firm. It can be argued, that the relevance and importance of various types of customer value may differ in some ways depending on the kind of industry. Within the service industry, for example, customer recommendation and referrals is likely to be a relevant and important source of customer value. Due to the absence of production facilities, joint development of production processes for example would be neither a relevant nor an important way in which customers create value to suppliers in the service industry.

Yet another drawback of the authors' chosen methodology is that suppliers were specifically asked to describe and rate the value of relationships within the context of predetermined categories, namely, direct and indirect functions. Therefore, other potential ways in which customers may create value for a supplier are not captured by the study of Walter *et al.* (2001). This limitation has been acknowledged by the authors. They observed that suppliers sometimes deal with customers because of good feelings or good past history. Based on this observation the authors conclude that customer value is not always assessed according to economic or rational reasons. They propose that customer value may also have to be considered from a third dimension named "social function".

The work of Simon and Mandjak (2004) complements the understanding of customer value derived from the work of Walter *et al.* (2001) in two ways. Based on a series of in-depth interviews with suppliers, the authors identified some of the value factors, which may fall into the broad category of "social functions". Simon and Mandjak (2004) report that suppliers described customer value in terms of mutual confidence, trustworthiness, persistence, probability of keeping a promise, honesty as well as a buyers' competence such as professionalism and ability to solve problems for the

supplier. Moreover, the authors found that customer value arises for suppliers from different levels, namely from individual exchange episodes, from the overall relationship and from the wider network of relationships. This insight is useful and suggests that businesses need to take a broad perspective when contemplating the value they can derive from customer relationships. However, as has been shown in both studies, suppliers' tend to view customer value mainly in terms of the outcomes and benefits they can obtain when dealing with customers. In contrast, suppliers tend not to take into account the value customers create for the relationship as a whole. As has been frequently pointed out by scholars, long-term relationships develop through the interaction and cooperation of buyer and seller over time. Suppliers may only enjoy the benefits discussed previously, if customers actively participate in the process of developing and maintaining relationships. Therefore, it is suggested that businesses may also have to view customer value in terms of the buyers' contribution towards actively developing and maintaining a relationship.

So far, each of the reviewed pools of literature looked at customer value from a very specific perspective, namely from a financial, strategic or relational point of view. The literature on Key Account Management (KAM) can be considered as yet another pool of literature providing insight about the strategic value of customers. Key accounts have been defined as:

“customers in a business-to-business market, identified by selling companies as of strategic importance.” (McDonald et al. 1997:737)

However, the KAM literature takes a slightly different approach. Scholars are less concerned about identifying and/or assessing the value of a customer to the supplier. Instead, researchers discuss how businesses can and do apply criteria reflecting a customer's strategic value to produce categories of key accounts and determine the activities needed to manage each of them (McDonald *et al.*, 1996, Ojasalo, 2001; Schröder, 1999; Spencer, 1999). These activities include for example the development of objectives and strategies for each account, as well as the definition of the role and skills to be employed by key account managers.

An overview of the kind of criteria proposed in the literature to identify categories of key accounts is listed in table 9.

Table 9: List of criteria to identify key accounts

Ojasalo (2001)	Schröder (1999)	McDonald et al. (1996)	Spencer (1999)
Turnover	Shelf space and positioning	Volumes	Sales volumes
Profitability	Degree of product distribution	Status	Reference customers for promotions in the market
Cost savings	Assortment in the shop	Financial considerations	Profitability
Image			Source of information on market segment requirements
Organizational efficiency and effectiveness			

Looking at the overview of criteria listed in table 9, it appears that scholars borrowed many of the criteria of customer value (especially sales and finance criteria) from other literature streams and applied them in a key account setting. Moreover, the KAM approach appears to overlap with the concept of portfolio analysis to some extent. Both the KAM and the APA literature view the strategic value of a customer as criteria for segmenting a firm’s customers/relationships. Furthermore, both the KAM and APA literature illustrate how customer segmentation can be helpful to practitioners to make decisions about resource allocation and strategies developed for each of the segments. However, the KAM literature differs in as much as it views customer segmentation, and thus the strategic value of customers, in the wider context of the overall process of managing key accounts. This includes not only developing objectives and strategies for each account. Instead, businesses are advised to consider, for example the role and skills of key account managers, the degree of cooperation, information exchange, changes of the organization’s structure or investments needed to effectively manage different customer segments (McDonald *et al.*, 1996; Ojasalo, 2001; Spencer, 1999). It can be seen that the KAM view of customer value overlaps but also differs to some extent with findings derived from other pools of literature. Thus, it is not quite clear, if the view presented in the KAM literature should be treated as a fourth separate perspective or an aggregation and operational application of customer value viewed in other areas in the literature.

In conclusion, the brief review of a number of literature pools clearly demonstrates the wide range of value customers might deliver for a supplier. Therefore, the literature has been helpful to broaden the understanding of what might constitute customer value for a supplier. Each of these approaches has also yielded criteria that can be useful in implementing a true relationship programme. Especially the increasing inclusion of non-financial criteria has been welcomed. This reminds practitioners that customers may not be viewed as mere “profit providers”. Instead, businesses are encouraged to recognise and acknowledge that customers can contribute towards current and future business development in a number of ways, including the development of relationships. Triggering this way of thinking is an important contribution from the literature. It marks the first step of guiding practitioner’s thinking and acting away from transaction towards relationship marketing. However, the literature stops short of helping businesses to develop implementable programmes that will motivate “customers” to become “partners”. Indeed most of the methods, models and approaches described by scholars to identify and apply customer value stop short in becoming tools for establishing/maintaining relationships. These implicitly, and in some cases explicitly, focus only upon the supplier side of the supplier-customer dichotomy. That is, they contribute to suppliers’ attempts to categorise customers for the purpose of more effectively targeting tailored marketing programmes at the most “attractive” (be that in financial or non-financial terms) customers. True relationship marketing, however, demands that relationship marketing programmes must be built on the twin premises of “mutual gain” and “partnership”: Or put more succinctly, “mutual gain through partnership”. Quasi- or pseudo- relationship marketing programmes betray themselves through their blatant monadic focus on the interests of the supplier; relationship marketing programmes that are dyadic in their focus suggest a purer and fuller embracing of the relationship marketing philosophy.

It is therefore proposed, that businesses aiming to adopt the relationship marketing philosophy need to develop programmes that are both value based and dyadic in focus. A relationship marketing programme can take a dyadic focus when both the buyer and the seller jointly participate and cooperate in the development and implementation of such schemes. Moreover, a dyadic focus is tenable in a programme, which creates equal

value for both parties and motivates them to intensify and maintain the relationship over time.

The literature shows that some progress has been made by scholars towards understanding the development and implementation of such relationship marketing programmes. As will be outlined in more detail in section 3.4, the literature discusses to a great extent the kind of antecedents and maintenance factors that need to be in place in order to develop and maintain business relationships. Thus, scholars offer insight about the basic characteristics of relationship marketing programmes that are dyadic in focus and create mutual benefits for both parties. Such basic characteristics include for example trust, cooperation, commitment or communication (e.g. Anderson and Narus, 1990; Anderson and Weitz, 1989; Ganesan 1994; Morgan and Hunt, 1994). Yet, other scholars make a contribution by describing the kind of organisational changes businesses may have to initiate as part of implementing relationship marketing programmes. Such changes include for example the adaptation of an organisation's system, structure, policies and processes (Kothandaraman and Wilson, 2000; O'Toole and Donaldson, 2002b) in line with the relationship marketing philosophy. The literature discussing customer value contributes to the understanding of a value based programme in several ways. Scholars proposed a range of factors that reflect the value of a customer to a supplier – thus discussing value from the viewpoint of one partner of the dyad. Moreover, researchers also show how businesses can link value to strategic decisions regarding the management of different types of relationships. Arguably, the approach rather than its current application can be helpful in developing a value based relationship marketing programme creating value for both partners in the dyad. Buyers and sellers can jointly identify and assess the value each of them expects from a relationship thus treating the range of value criteria as a broad direction to discuss the way in which organisations work together. Based on this assessment, both parties can then jointly define strategic goals, objectives and the activities each needs to pursue to realise expected value from the relationship.

However, what is less well established in the literature is how businesses can operationalise and thus put into practice relationship marketing programmes which are dyadic in focus and create mutual benefits. Whilst the literature discusses a range of factors to be in place for developing and maintaining relationship marketing programmes, these factors are sometimes only broadly described and thus cannot be operationalised. This applies for example to an uncertainty about the kinds of activities which reflect “effective communication” or “trust” between organisations. Moreover, most studies look at some specific aspects i.e. the characteristics or value of relationship marketing. In contrast, few studies empirically investigate how businesses in practice go about developing and implementing relationship marketing programmes. Thus, there is scarce evidence from case study research as to the overall processes and activities businesses can and do pursue as part of relationship marketing implementation. Another issue which has rarely been considered in the literature is the practicality for businesses in developing and implementing multiple relationship marketing programmes for varying types of relationships. One would imagine that administering different relationship marketing programmes is not very practical and likely to incur considerable investments in terms of cost, time and human resources. Thus, what would be helpful is insight about the extent to which relationships can be developed and maintained with a range of customers through the set up of a single relationship marketing programme.

3.4 Antecedents And Maintenance Factors Of Relationship Marketing

The main purpose of this study was to determine the extent to which pricing systems can make a contribution towards the development and maintenance of long-term relationships. This necessitated the development and implementation of a pricing model which satisfies the criterion of being supportive to the development and maintenance of business relationships. Therefore, a literature review is merited to gain an understanding about the antecedents of relationship marketing.

A wide range of different factors have been suggested by scholars, which influence the development and outcome of long-term relationships. Literature reviews which focused on empirical studies predicting channel relationships (Wilson, 1995) and on the characteristics of strong buyer-seller relationships (Fontenot and Wilson, 1997; Lindgreen, 2000) permit the drawing up of a list of factors that are widely considered to play an important role in the way in which relationships develop. These factors are summarised in table 10.

Table 10: List of relationship factors

Factors	Explanations	Reference
Commitment	An exchange partner's belief that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it.	Morgan and Hunt, 1994:23
Trust	A firm's belief that another company will perform actions that will result in positive outcomes for the firm, and to avoid taking unexpected actions that would result in negative outcomes for the firm.	Anderson and Narus, 1990:45
Cooperation	Similar or complementary coordinated actions taken by businesses in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time.	Anderson and Narus, 1990:45
Mutual goals	Degree to which partners share goals that can only be accomplished through joint action and the maintenance of the relationship.	Wilson, 1995:338
Interdependence	Belief that cooperation and close interaction is necessary in order to become part of a mutually beneficial exchange relationship.	Lindgreen, 2000:68
Performance satisfaction	Degree to which the business transaction meets the business performance expectations of the partner	Wilson, 1995:338
Comparison levels of alternatives	A standard that represents the average quality of outcomes available to a relationship party from the best alternative exchange relationship.	Anderson and Narus, 1984:64
Adaptation	Adaptation occurs when relationship parties make changes to either the item exchanged or their processes to accommodate the other party.	Hakansson, 1982
Non-retrievable investments	Resources that a partner invests in a relationship such as capital investments, training or equipment, which cannot be retrieved once the relationship is terminated.	Wilson, 1995:339
Shared technology	Degree to which one partner values the technology contributed by the other partner to the relationship.	Wilson, 1995:339
Social bonds/ties	Degree of mutual personal friendship and liking shared by relationship parties.	Wilson, 1995
Mechanisms for conflict resolution	Procedures developed to resolve disputes and disagreements in an amicable way.	Mohr and Spekman, 1996
Power	Refraining from the inappropriate use of power (the ability to influence the actions and decisions of the other partner)	Dwyer <i>et al.</i> , 1987 Fontenot and Wilson, 1997
Opportunistic Behaviour	A party is acting opportunistically by seeking short-term alternatives in favour of expected long-term benefits.	Lindgreen, 2000:68
Shared values	The extent to which partners have common beliefs as to the importance and appropriateness of certain behaviours, goals and policies	Fontenot and Wilson, 1997:8
Communication	The formal and informal sharing of meaningful and timely information between businesses	Anderson and Narus, 1984:
Relationship outcomes	Expected value of a relationship as the outcome of incurred cost versus realised benefits.	Fontenot and Wilson, 1997:8

However, the literature does not generally distinguish between those factors which need to be in place prior to implementing relationships and those variables that are critical in maintaining business interactions over time. Such a distinction would be very helpful to organisations in planning relationship marketing implementation. Some actions need to be in place to get a first transaction from which one can establish the relationship later on e.g. trust. Other factors then become important to develop and maintain the relationship over time e.g. commitment. Therefore, for the purpose of this thesis a decision was made to draw a distinction between the relationship variables and put them into two categories namely, antecedents and maintenance factors. Antecedents refer to those variables that need to be in place before relationships can be established. Maintenance factors are those variables which are necessary to maintain and strengthen relationships over time. Some of the distinctions between the different relationship variables are listed in table 11 and discussed in more detail in the section that follows.

Table 11: List of antecedents and maintenance factors

Antecedents	Maintenance variables
Communication	Communication
Social bonds /ties	Mechanisms for conflict resolution
Trust	Adaptation
Restraint from the inappropriate use of power	Non-retrievable investments
	Commitment
	Trust
	Cooperation

3.4.1 Antecedents of Relationship Marketing

3.4.1.1 Communication

Communication is an appropriate starting point to discuss the antecedents of relationship marketing as this variable is closely tied together with other factors that need to be in place before relationships can be developed. As depicted in figure 7, the literature suggests that communication is both an antecedent on its own as well as an integral part of other antecedents such as trust and social bonds.

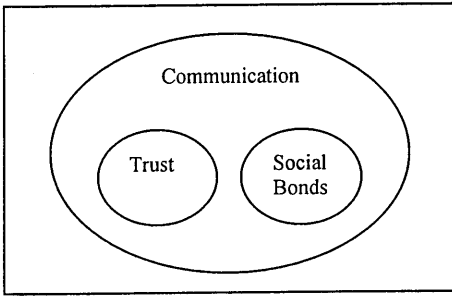


Figure 7: Communication as a determinant of trust and social bonding

The literature shows that effective communication makes a significant contribution towards the development of trust (Anderson *et al.*, 1987; Anderson and Narus, 1990; Morgan and Hunt, 1994). Effective communication has been described to help organisations obtain information about a partner’s expertise or resources (Canning and Hammer-Lloyd, 2002) and goals and future projections (Etgar, 1979). This allows businesses to assess the partner’s credibility, competence and willingness to act in the mutual interest of both organisations. A firm’s belief in the partner’s credibility and benevolence has been defined as key elements of trust (Anderson and Narus, 1990; Dwyer *et al.*, 1987; Ganesan, 1994).

The discussion of social bonds need not be any more than cursory since much of what is said in the literature could be described as rather obvious. The literature basically states that close personal and professional social interaction between persons representing the parties to a commercial relationship will increase the probability of an enduring relationship (Blois and Wilson, 2000; Hakansson, 1982; Rao and Perry, 2000).

The literature shows that scholars generally talk about “communication” rather than “effective communication”. Communication is an amorphous term that needs to be operationally defined but so often studies are reported without such definitions (e.g. Fontenot and Wilson, 1997; Selnes, 1998; Zineldin and Jonsson, 2000). Communication takes place for a purpose. In the context of relationship marketing the purpose of communication can be broadly defined as the instigation and development of relations between commercial parties. Moreover, effective communication contributes towards the longevity of such relations.

The literature indicates that effective communication consists of several elements including:

a) **Quality of information:**

The literature points out that information needs to be relevant (Stern and ElAnsary, 1988), meaningful (Anderson and Narus, 1990), valuable (Morgan and Hunt, 1994) and fulfil the criteria of accuracy, timeliness, adequacy and credibility (Mohr and Spekman, 1994). What is less well defined is the precise meaning of *relevant* and *meaningful* information.

b) **Purpose of communication:** The purpose of effective communication has been reported to include information sharing (Mohr and Spekman, 1996) providing feedback (Anderson *et al.*, 1987), conducting performance reviews (Anderson and Narus, 1990; joint planning (Mohr and Spekman, 1996) and establishing common goals (Anderson *et al.*, 1987; Mohr and Spekman, 1996).

c) **Means of communication:** The literature suggests that effective communication, which may be formal or informal, constitutes of a two-way personal information exchange which is open (Anderson and Weitz, 1992; Mohr and Spekman, 1996; Morgan and Hunt, 1994) and takes place on a regular basis (Anderson and Narus, 1990; Mohr and Spekman, 1996). Unfortunately, neither *open* communication nor what is meant by *regular* communication is generally specified within the literature.

In summary, effective communication has been described in the literature to provide a number of benefits. These include insight about a partner's wants, issues, inputs and priorities (Dwyer *et al.*, 1987); an understanding of the expertise or resources to which parties have access (Canning and Lloyd, 2002); the identification of the behaviour and role of the other partner (Stern and ElAnsary, 1988); clarification and alignment of channel member's expectations and perceptions (Etgar, 1979), signalling future intentions (Mohr and Spekman, 1996) and an understanding of the compatibility of values and principles between organisations (Kanter, 1994).

Empirically based studies claim that effective communication positively influences for example the development of trust (Anderson and Weitz, 1992; Morgan and Hunt, 1994; Zineldin and Jonsson, 2000), cooperation (Metcalf *et al.*, 1992), commitment (Anderson and Weitz, 1992) and social bonds (Smith, 1998).

3.4.1.2 Trust

Trust according to the literature reflects

- a) a party's confidence in an exchange partner's reliability and integrity (Morgan and Hunt, 1994:23)
- b) a party's belief that the other party has the required expertise to perform the job effectively and reliably (Ganesan, 1994:3)
- c) a party's belief that the other party has intentions and motives beneficial to the seller when new conditions arise, conditions for which a commitment was not made (Ganesan, 1994:3)
- d) the belief that a party's word or promise is reliable and a party will fulfil his/her obligations in an exchange relationship (Dwyer *et al.*, 1987:18)
- e) a firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not to take unexpected actions that would result in negative outcomes for the firm" (Anderson and Narus, 1990:45)

These definitions suggest that trust is an antecedent to any exchange of products and services. Without trust, organisations wouldn't even consider an initial transaction let alone engage in a relationship. If businesses believe that the other relationship party can reliably meet its requirements, expectations and will act in its best interest in the future they are more likely to enter into a relationship.

The literature shows that before parties will invest time, effort, and other resources to the establishment of relationships there must be a perception that there will be longevity in those relationships. The literature also illustrates that trust is a prerequisite to the perception that relationships will prove to be lasting (Anderson and Narus, 1990; Anderson and Weitz, 1989; Ganesan 1994).

Scholars further pointed out that trust influences an organisation's perception that conflict is functional (Morgan and Hunt, 1994) and is a prerequisite for joint planning and joint problem solving (Claro *et al.*, 2003).

Activities which have been suggested by the literature to encourage trust include for example communication (Anderson and Narus, 1990; Anderson and Weitz, 1989; Morgan and Hunt, 1994; Selnes, 1998), building a reputation for fairness (Anderson and Weitz, 1992), establishing common goals (Anderson and Weitz, 1992; Zineldin and Jonsson, 2000), shared values (Morgan and Hunt, 1994, Zineldin and Jonsson, 2000), offering support (Anderson and Weitz, 1992) or making investments for the benefit of the relationship (Ganesan, 1994). Unfortunately, neither the nature and form of support nor the kind of common goals, which help to establish trust, have been specified in more detail. The influence of communication in establishing trust has been claimed by several empirical studies (e.g. Morgan and Hunt, 1994; Selnes, 1998; Zineldin and Jonsson, 2000). However, there appears to be little agreement among scholars regarding the kind of communication activities, which are most effective in building trust. A wide range of different measurements have been used by scholars to establish the link between communication and trust for instance "keeping each other informed about new developments" (Morgan and Hunt, 1994; Zineldin and Jonsson, 2000), "communicating performance expectations" (Morgan and Hunt, 1994), "providing information about unexpected problems" (Anderson and Narus, 1990; Selnes, 1998), "discussing new possibilities" or "opportunity to participate in setting goal performance" (Zineldin and Jonsson, 2000). This shows that the literature recognises that communication positively influences trust but stops short of detailing the kind of communication activities which are most effective in building trust between business partners.

3.4.1.3 Power

The literature shows that power is a core concept in business-to-business marketing and is rarely if ever mentioned in consumer marketing. Power in essence is about the capacity of one party to exert its will on the other (Fontenot and Wilson, 1997) and has been extensively studied within the channel management literature.

The nature of power, however, is contrary to the ethos of relationship marketing. In essence, relationship marketing has been described in the literature to aim at establishing, maintaining and enhancing relationships for the mutual benefit of both parties through the mutual exchange and fulfilment of promises. Therefore, relationship marketing is not about controlling or influencing a business partner. On the contrary, both parties cooperate with each other to make the relationship work and achieve mutual benefits. This is however, not always reflected in the relationship marketing literature.

The literature tends to promote that power should not be used in a negative way i.e. coercively. Dwyer *et al.* (1987) for example, proposed that power needs to be exercised successfully. Businesses are more likely to develop relationships if they refrain from using power in a negative way i.e. coercively. Skinner *et al.* (1992) suggested that more cooperative relationships can be developed by avoiding the use of coercive power. Scholars studying the characteristic of relational exchange suggest that the restraint of using power is an attitude typically evident in relationships as opposed to other kind of business exchanges (Cannon *et al.*, 2000; Krapfel *et al.*, 1991; Young *et al.*, 1996).

One could argue that the way in which power is reported in the literature is not an appropriate line of thinking within the philosophy of relationship marketing. After all, restraint is only about holding back. Businesses can always reverse that restraint if the more powerful party does not get its way. However, relationships between organisations develop not through the use of power to pursue self-interest, but through cooperation to realise mutual benefits.

The literature further suggests that interdependence and power imbalance are important relationship variables (Wilson, 1995). The underlying assumption is that if power is not distributed equally between the parties the dependency of one party over the other increases (Wilson, 1995). This has been suggested for example to positively affect a party's ability to influence the other (Anderson and Narus, 1990). In essence, the general message derived from the literature is that interdependency and thus an equal distribution of power between organisations is desirable to build business relationships. It could be argued however, that even if parties are dependent on one another they still could develop a relationship as long as they do so in a cooperative way and with mutual benefits in mind rather than exploiting its power.

3.4.2 Maintenance Factors Of Relationship Marketing

3.4.2.1 Effective Communication

The literature points out that effective communication is an important element of securing the smooth working of a relationship once it has been established. Effective communication has been described as a means to keep the relationship partner informed about what is going on (Anderson and Weitz, 1992), communicate changing needs and changes that affect the other party (Mohr and Spekman, 1994) or provide information about unexpected problems (Anderson and Narus, 1990).

The literature further claims that effective communication is a means by which businesses can further develop and strengthen relationships. Effective communication has been suggested to support the development of trust (Anderson and Narus, 1990; Anderson and Weitz, 1989; Morgan and Hunt, 1994; Selnes, 1998), cooperation (Metcalf *et al.*, 1992, Morgan and Hunt, 1994) and commitment (Anderson and Weitz, 1992).

However, as one remembers from previous discussions the literature generally treats communication as an amorphous term, as studies often fail to specify and define the meaning of what constitutes effective communication.

3.4.2.2 Adaptation And Non-Retrieveable Investments

The literature shows that different approaches are used among scholars to study adaptation and non-retrieveable investments in the context of business relationships. Some studies talk about adaptation thereby referring to changes organisations make to processes, products or procedures to accommodate the other party (Cannon and Perreault, 1999; Wilson, 1995). Other studies confer about non-retrieveable investments, referring to resources organisations invest in a relationship, which generally cannot be retrieved once the relationship is terminated (Wilson, 1995). Other terms being used among scholars to talk about non-retrieveable investments include for example relationship specific investments (Campbell, 1997) or idiosyncratic investment (Ring and Van de Ven, 1994). Yet other scholars talk about adaptation more generically, referring to both, the investment of resources as well as making changes to processes, products or procedures to accommodate the other party (Cann, 1998; Wilson and Mummalaneni, 1986).

In essence, the key message common to these different approaches, is that investments and adaptations are considered a necessary prerequisite for developing relationships over time (Hakansson, 1982; Wilson and Mummalaneni, 1986). By investing resources, for example in research and development to customise a product, businesses show that they are committed to the relationship (Hallen *et al.*, 1991; Wilson and Mummalaneni, 1986; Zineldin and Jonsson, 2000). The literature further suggests that organisations' investments on behalf of the relationship signal sincerity and long-term intentions (Gundlach *et al.* 1995), communicate a partner's credibility (Ganesan, 1994), assist in building trust (Ganesan, 1994, Hallen *et al.* 1991; Wilson and Jantrania, 1994), and encourage reciprocal behaviour (Campbell, 1997, Hallen *et al.*, 1991).

3.4.2.3 Mechanisms For Conflict Resolution

The literature points out that a certain degree of conflict will always exist in relational exchanges (Anderson and Narus, 1990; Dwyer *et al.*, 1987). Conflict as discussed by the relationship marketing literature is generally not promoted as a negative influence. Instead the view prevails that conflicts is functional (constructive) and thus has a positive influence on the relationship (de Ruyter *et al.*, 2001; Ford, 1997). According to the literature functional conflict for example assists in strengthening personal relationships (Smith, 1998) and cultivating greater trust, communication, relationship satisfaction and stability (Weitz and Jap, 1995).

Several studies have described the broad mechanisms through which conflict can become functional. Such mechanisms include for example resolving disagreements in an amicable way (Morgan and Hunt, 1994), reaching mutually satisfactory compromises without having to resort to formal procedures, (Gundlach *et al.*, 1995), seeking agreement via informal means and social interaction (de Ruyter *et al.*, 2001) or resolve conflicts productively to clear the air of tensions and ill-will (Anderson and Narus, 1990). However, no further explanations were offered by scholars detailing the nature and meaning of “formal procedures”, “informal means” or “productive conflict resolution”. The literature further suggests that communication, trust, cooperation or joint problem solving contribute towards conflict being considered as functional by relationship parties (Ford, 1997; Mohr and Spekman, 1996; Morgan and Hunt, 1994). However, neither the nature nor the form of communication, cooperation or joint problem solving has been clearly specified within the literature.

3.4.2.4 Commitment

The literature indicates that commitment is an important factor in developing and maintaining relationships. Commitment has been defined to reflect the relationship parties' belief that the relationship is important (Wilson, 1995), provides future value or benefits to partners (Hardwick and Ford, 1986) and thus warrants maximum efforts at maintaining it (Morgan and Hunt, 1994). Scholars have found that commitment by one

party positively influences the commitment of the other party (Anderson and Weitz, 1992) and in combination with trust encourages cooperation (Morgan and Hunt, 1994).

Empirical studies draw attention to a number of factors, which contribute towards organisations' commitment to a relationship. These include, for instance trust, shared values, relationship specific investments, functional conflict and communication (Anderson and Weitz, 1989, 1992; deRuyter *et al.* 2001; Ganesan, 1994; Morgan and Hunt, 1994; Zineldin and Jonsson, 2000). Moreover, Gundlach *et al.* (1995) found that accepted and shared sentiments and behaviours (social norms) between businesses strengthen long-term commitment. According to the authors, such social norms include for instance mutuality (establishing mutual benefits and trust), flexibility (accommodating the other party if needs or problems arise) or harmonization of conflicts (reaching mutually satisfactory compromises).

The literature has been helpful to find out the kind of factors influencing commitment in a relationship. However, scholars do not always agree about the causal order of commitment and other relationship variables. Morgan and Hunt (1994) for example suggested that trust is a pre-requisite of commitment, while other scholars proposed that commitment assists in building trust (Ganesan, 1994). Moreover, although the literature shows that commitment is influenced by a range of different variables, these have to the best of my knowledge not been integrated together within one single study. Therefore, no conclusion can be drawn regarding the relative importance of the individual variables as predictors of commitment.

3.4.2.5 Cooperation

The literature points out, that cooperation plays a key role in developing relationships (Anderson and Narus, 1990; Hakansson, 1982; Morgan and Hunt, 1994;). Cooperation has been defined as:

“similar or complementary coordinated actions to achieve mutual outcomes or singular outcomes with expected reciprocation over time.” (Anderson and Narus, 1990:45)

Scholars pointed out that cooperation encourages businesses to seek common goals and exert joint efforts (Campbell, 1985), facilitates the coordination of channel activities (Anderson and Narus, 1990; Morgan and Hunt, 1994) and acts as a mechanism to deal with functional conflict (Ford, 1997). Empirical studies suggest that cooperation positively influences commitment (Zineldin and Jonsson, 2000), trust (Anderson and Narus, 1990; Zineldin and Jonsson, 2000) and enhances organisations' willingness to adapt to one another (Metcalf *et al.*, 1992). However, it needs to be pointed out that researchers seem to disagree about the causal relationship between cooperation and other relationship variables. Morgan and Hunt (1994) for example found that cooperation is the outcome rather than an antecedent of trust and commitment.

Attempts have been made by scholars to understand the kind of factors which need to be in place for relationship partners to cooperate. It has been found that trust and commitment (Morgan and Hunt, 1994) as well as information exchange and social interaction (Metcalf *et al.* 1992) positively influence cooperation. Other studies suggest that a set of "cooperative norms" characterise cooperation in a relationship. "Cooperative norms" in essence are the expectations relationship parties hold about the way they work together to achieve mutual as well as individual goals jointly (Cannon and Perreault, 1999). Manifestations of such norms have been reported to include flexibility in response to changing conditions (Campbell, 1997; Cannon and Perreault, 1999), treating problems as joint responsibilities (Campbell, 1997; Cannon and Perreault, 1999), information sharing (Campbell, 1997) or relationship specific investments (Campbell, 1997). "Cooperative norms" are in general mentioned in studies which focus on classifying different types of business interactions. A general understanding prevails among scholars that such norms are evidence of a relational exchange between business partners.

However, "cooperative norms" are usually not integrated in studies which attempt to explain the role, antecedents and effects of cooperation in business relationships. Instead, scholars treat cooperation as an amorphous term (e.g. Metcalf *et al.* 1992; Morgan and Hunt, 1994) without clearly specifying its nature. Therefore, no firm

conclusion can be drawn regarding the relative importance of “cooperative norms” in building relationships.

3.4.2.6 Trust

The literature recognises that trust is an important element in maintaining relationships over time. Selnes (1998) pointed out that organisations learn to trust each other based on past experience. Over time businesses gradually increase their commitment by making investments (people, products or processes) dedicated to a particular relationship. Scholars support this line of thinking. It will be remembered that trust has been claimed as an antecedent of commitment (Morgan and Hunt, 1994). Adaptations and non-retrievable investments on the other hand were viewed as activities which show organisations’ commitment to a relationship (Hallen *et al.*, 1991; Wilson and Mummаланeni, 1986; Zineldin and Jonsson, 2000). Additionally, previous discussions have outlined that trust positively influences cooperation and has been proposed as a mechanism for conflict resolution (Morgan and Hunt, 1994). All this illustrates that trust is a necessary prerequisite for many of the “maintenance factors” to become functional and thus actively encourages the continuity of relationships between business partners. Trust being relevant for maintaining relationships is further supported by scholars, proposing that trust is not only an antecedent but also an outcome of many of the maintenance factors. As one remembers, the literature shows that cooperation, commitment as well as investments and adaptations are all maintenance factors considered to assist in building trust between organisations. Thus, what becomes apparent is that trust initiates a reiterative maintenance process between relationship parties over time.

In summary, it becomes apparent, as one reads the literature on antecedents to relationships, that whilst many have been identified, a large number have not been defined. Examples have included open and regular communication or vagueness of trust building activities. As a consequence, these antecedents cannot be made operational. Obviously, this is an impediment to implementing relationship marketing programmes.

Furthermore, it is evident from consulting the literature that a large number of maintenance factors have been identified to contribute towards developing and nurturing business relationships. However, the literature has been rather vague in specifying the antecedents which need to be in place prior to the establishment of maintenance factors. For instance, neither the nature of mechanisms for conflict resolution nor the activities which encourage cooperation, effective communication or trust have been clearly defined in the literature. Therefore, these antecedents cannot be made operational. This too is an impediment for implementing relationship marketing programmes.

Moreover, it has to be pointed out that scholars generally studied antecedents and maintenance factors by investigating business relationships at one point in time. Therefore, the literature goes as far as indicating the kind of antecedents and maintenance factors which are in place at a specific time. However, the literature falls short in providing insight how antecedents and maintenance factors have been established between business partners over time.

It can therefore be concluded, that this offers an opportunity for this study to make a contribution to existing knowledge by addressing the following research questions, namely:

- a) How, if at all, can antecedents and maintenance factors be operationalised?
- b) How, if at all, are antecedents and maintenance factors established between relationship partners?

3.5 Models Of Relationship Development

While many academics focused their attention on individual relationship variables, others looked at the overall process of relationship development. A number of models have been developed to illustrate how relationships between organisations evolve.

Among these is the interaction model developed by researchers of the IMP (Industrial Marketing and Purchasing) group. The model rests on the premise that relationships are the result of four main factors. These include the interaction process, the interacting parties, the interaction environment and the atmosphere in which the interaction takes place (Hakansson, 1982). The IMP group formulated this model as a descriptive theoretical framework to study more than 800 relationships between businesses involved in industrial purchasing. The model has not moved beyond being a conceptual framework for studying relationships within industrial markets.

Whilst the interaction model looks at the basic concept of how relationships operate, a number of other models looked at the evolution of relationships over time. Among the more frequently cited models are those developed by Dwyer *et al.* (1987), Ford (1980) or Wilson (1995).

Dwyer *et al.* (1987) for example proposed that relationships develop in a series of five consecutive phases, namely:

Awareness: Businesses recognise that the other partner is a feasible exchange partner but no interaction has yet taken place.

Exploration: Businesses make efforts to attract potential relationship partners. Communication and bargaining takes place to understand the needs, priorities, issues and inputs of each party. Norms and standards are defined to establish the rules for future business conduct. Expectations are discussed to understand possible conflicts of interest. The degree of

power the other partner holds is evaluated to understand possible dependence, which may arise from doing business.

Expansion: The interdependence between organisations as well as the benefits they obtain from the business interaction continuously increase. Businesses experience greater motivation to maintain the relationship as satisfactory outputs reduce the desire of seeking alternative exchange partners.

Commitment: Businesses pledge implicitly or explicitly their belief in the continuity of the relationship. Organisations provide high levels of inputs to the relationship. They allocate resources purposefully and consistently in order to maintain the relationship. The parties believe in the durability of the relationship which gives them the confidence to obtain benefits from continued investments.

Dissolution: Businesses disengage from the exchange with one another as they become aware that their objectives can be better achieved outside the relationship.

The models developed by Ford (1980) and Wilson (1995) share some commonalities with the work of Dwyer *et al.* (1987). All the models are based on the assumption that relationships evolve as a number of consecutive stages over time. Three broad phases of relationship development are common to all of the models. Relationships start with the initiation phase (getting to know each other), continue with the transition phase (defining and testing the purpose of the relationship) and move on to the maintenance phase (preserve the continuity of the relationship).

The models differ in some significant ways in terms of the approach academics followed to describe the relationship development process. Ford (1980) for example focused on how the interaction between organisations over time influences the degree of experience, distance (degree of familiarity), uncertainty, commitment and adaptation

during different stages of a relationship. In contrast, Dwyer *et al.* (1987) concentrated on outlining the processes and activities, which reflect a major transition from one stage in the relationship to the next. Wilson (1995) on the other hand, focused on proposing the kind of relationship variables, such as cooperation, adaptation or social bonds, which are the particular focus of partner interaction during each stage of a relationship. In contrast to other process models, Wilson made an attempt to integrate empirical knowledge about successful relationship variables within the conceptual framework of relationship development.

However, all of the process models are conceptual and have not yet been tested empirically. This being the case, the thinking underlying the conceptual models remains interesting and a step in the right direction but is ahead of its time. As one knows from previous discussions, many of the antecedents to relationship implementation have not yet been clearly defined and thus cannot be operationalised. Therefore, more fundamental groundwork is needed before these models can be put into place.

3.6 Implementation Of Relationship Marketing Programmes

Much of relationship marketing research focuses on understanding the benefits of its adoption and how relationships are built and maintained (Morgan and Hunt, 1994). From the outset of research into relationship marketing, considerable effort has been devoted to identifying the nature and characteristics of different types of relationships (Dwyer *et al.*, 1987; Ford, 1980). In comparison, relative little attention has been devoted towards understanding how relationship marketing programmes are implemented within organisations. Indeed, Friese and Funck (2001: 2) point out that:

“academic research lacks clear advice as to the implementation of Relationship Marketing into a company’s value base, strategies and structures.”

The thinking underlying those academic contributions, which have focused on providing insights on the implementation of relationship marketing programmes, can be divided into three distinct categories.

One school of thought, led by scholars such as Grönroos (1999) and Gummesson (1987), focuses on the mind change that has to take place within organisations to enable the successful implementation of relationship marketing. In this respect, these academics have compared theories on traditional marketing and relationship marketing. They then make a number of suggestions regarding the factors, they believe, will determine whether or not an organisation’s implementation of relationship marketing will prove successful. It should be pointed out, that these authors support their suggestions with existing academic research rather than with their own empirical evidence. Their ideas are nonetheless worth exploring.

Gummesson (1987) challenges the traditional view of the marketing concept, and believes it to be incompatible with the implementation of relationship marketing. He specifies several changes in perspective if relationship marketing is to be adopted with success.

First, he contends that the dyadic buyer – seller model does not represent the reality of industrial marketing. Gummeson suggests that, instead, we borrow from network/interaction theory. This operates on the premise that there may be multiple points of contact between a set of buying and selling companies and therefore, multiple relationships will exist between any two trading entities. The figure below illustrates the point. It depicts possible multiple interactions between a food manufacturer and a supermarket chain.

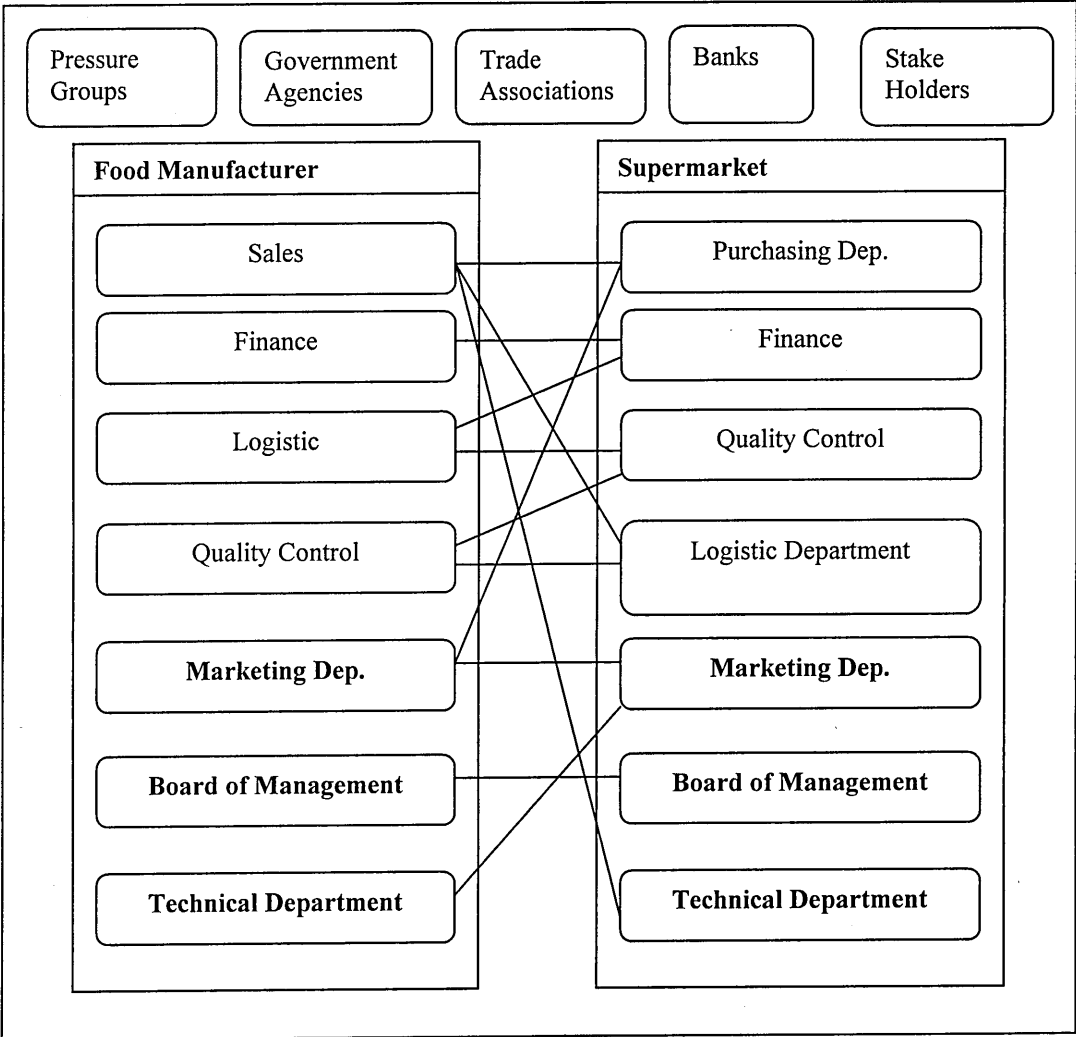


Figure 8: Multiple relationships between a food manufacturer and a supermarket

Here we see relationships between sales and purchasing personnel but the sales people may well interact with the supermarket's technical and logistics staff. Similarly, there may be contact between the most senior executives in each organisation where transactions have strategic implications for one or both parties. Finance staff within the

supermarket organisation may have frequent contact with the supplier's logistics department to query the compatibility of delivery notes with invoices.

This figure also indicates that "the customer" should be defined, not simply in terms of who buys from us but who can have an impact upon our performance. Thus in the diagram the relationships that a firm may have with government agencies, pressure groups, trade associations and other external bodies are portrayed.

The implication of all this is that before relationship marketing programmes are designed there needs to be an audit of relationships between entities. The number of relationships and the purpose or nature of each must be known. This allows for appropriate courses of action and/or protocols to be built into the relationship marketing programme to underpin the whole network of relations between the businesses. Thus, the implication of accepting Gummesson's argument against the buyer – seller dyad, is that a relationship audit is a necessary precursor to the successful implementation of relationship marketing.

Both Gummesson (1987) and Grönroos (1999) observe that it is not only the direct contact points between companies that have to be mapped. The roles of others who never come into direct contact with customers whose performance can have a direct impact upon relationships with customers have to be taken into account in the formulation and implementation of any relationship marketing programme. These might include personnel operating within finance, quality control and production, for instance.

Gummesson's treatise on the marketing concept also challenges the notion of the "single cell" company in which everyone within the company is seeking to achieve the same corporate objectives. Were this the case, then management merely needs to communicate that a proposed course of action will help attain those objectives – including the implementation of, or amendment to, a relationship marketing programme- and employees will pursue the plan with vigour. The fact is that organisations are *de facto* departmentalised or compartmentalised. This immediately

creates the tension of a sense of being a member of one subgroup and not belonging to another. The tension itself is between cooperation and competition.

For instance, a simple example would be where a firm is compartmentalised into three parts: CEO and a Board of Directors, operational units including marketing, production, finance, internal service units, such as IT and Personnel Department. It should be the case, and may well be the case, that their efforts are all in concert with one another but this rarely appears to be the case to individuals as they go about their daily work. To start with, they seem to differ in their primary audiences and the currencies in which their performances are measured. Executive management is focused upon shareholders, other investors and regulatory bodies. Their success is measured in terms of return-on-investment and share price. At the operational level the various functions have differing perspectives but are chiefly focused on suppliers and customers. They are judged in relation to efficiency, market share, turnover and profitability. Support staff are more inwardly focused and their contribution tends to be assessed in less precise terms. Each of these parties is more likely to be conscious of the differences between themselves than of the commonality of their purposes.

Psychological divisions are exacerbated by the adoption of certain business structures including designating subgroups or activities as cost or profit centres, dividing an enterprise into separate companies, business areas or divisions.

What emerges from all of this is that it is naïve to assume that an enterprise will operate as a single entity without any form of intervention. Rather, one needs to recognise that most organisations suffer from the “us- and-them” syndrome and that this adoption of relationship marketing must include the development of marketing strategies to handle these internal tensions. Gummesson (1987) also observes that traditional marketing theory fails to accommodate both internal barriers and the interdependency between functions within a firm. Relationship marketing should work to encourage everybody within a company to see themselves as a customer of colleagues, and as marketers to customers.

Grönroos (1999) says that implementing relationship marketing involves changes in the marketing planning process. He states that the formulation of the marketing mix, in particular, must be approached in a completely different way. In relationship marketing, the marketing mix cannot be pre-designed, as it is in traditional marketing. Instead, the firm must be prepared and able to adjust the market offering whenever necessary, in accordance with the importance and/or potential of the relationship with a given customer.

Grönroos does not develop this line of argument to any great extent. He makes some observations about how product offerings need to be modified.

Grönroos (1999) argues that the tradition of prefabricating the marketing mix is unsustainable in the era of relationship marketing (McKenna, 1991; Rapp and Collins, 1990). Instead, he advocates the adjustment of the marketing mix on a case-by-case basis. He is none too clear, however, on how this is to be done in practice. Indeed of the four traditional elements of the marketing mix Grönroos only considers one –the product- and then not in any detail. He simply reiterates the point made by Levitt (1969) i.e. that the ‘the product’ is more than its physical characteristics. By adding services to the product this acts to enhance its value to customers.

As has already been noted, Grönroos (1999) is in agreement with Gummesson (1987) on the fact that non-marketing personnel, more often than not, carry out marketing tasks. Grönroos goes on to explore what this means for the marketing planning activity. His conclusion is that it makes no sense to give the marketing department, where it exists, the exclusive right to produce the marketing plan when a significant amount of marketing is done in other parts of the organisation. If this is not acknowledged then only part of the firm’s marketing resources are *planned*. In such circumstances, it can happen that not all the firm’s marketing activities are focused on the same objectives or are impacting upon customers in a consistent way. According to Grönroos (1999) the solution rests in constructing the marketing plan at the corporate level –where the plans of several functions can be integrated- rather than at the functional level of a marketing department.

Grönroos (1999), points out that relationship marketing is still at an early stage of development. Whilst the concepts of relationship marketing are widely attractive many of the tools that are required to apply these concepts are yet to be developed. For example, whilst the notion of adjusting the marketing mix on a customer-by-customer basis may seem the right thing to do, the mechanisms for doing this are not yet in place. Similarly, the idea of developing marketing plans at the corporate level so that these can be coordinated with other functional plans is intuitively attractive but how to do this has yet to be worked out in practice. Grönroos says that it is because relationship marketing cannot presently offer implementation tools in all areas that practitioners so readily fall back on the marketing mix and other traditional tools of transaction marketing.

There is a second school of academics who rely upon models upon which they base their thinking on the implementation of relationship marketing. Foremost among these are Friese and Funck (2001), Kothandaraman and Wilson (2000) and O'Toole and Donaldson (2002b). They use these models to highlight the antecedents to the successful implementation of relationship marketing.

Friese and Funck (2001), for example, have sought to apply the European Foundation for Quality Model (EFQM). The EFQM Excellence Model is a non-prescriptive framework. It comprises 9 basic criteria, which are used to judge businesses which apply for the European Quality Award. These criteria are divided into "Enablers" (Five) and "Results" (Four). Enabling criteria describe what an organisation does. "Results" criteria express what an organisation achieves. "Enablers" produce "Results". Feedback from results helps to improve "Enablers". Friese and Funck (2001) critically evaluated the EFQM to assess whether or not it might be used as a tool for implementing relationship marketing. In order to do so, the authors analysed the statements which describe the principles of each of the 9 criteria of the EFQM. Drawing from the literature, they selected 7 key factors which are critical to the success of relationship marketing. Clarification with the authors revealed that the "success of relationship marketing" refers to organisations building long-term relationships for the benefits of both parties. The 7 key factors are listed in table 12.

Table 12: Seven success factors of relationship marketing

Success factor	Description
Interaction	Relational exchange which occurs over time as opposed to single, one off transaction
Cultivation of relationships	The cultivation of relationships refers to the need to identify, establish, maintain and enhance promising relationships with customers and stakeholders
Longevity	Longevity refers to the need to take a long-term perspective of relationships. Growing interdependence between relationship parties or joint planning is evidence of longevity.
Trust / Commitment	Trust is defined as having confidence in another party and that parties rely on trust in exchange situations. Commitment has been defined as the belief that ongoing relationships with other parties are so important that this justifies maximum efforts at maintaining them (Morgan and Hunt, 1994).
Mutual profitability	Relationships should be mutually satisfactory, create win-win situations and give the involved parties the impression that relationships are meaningful and worthwhile to maintain and enhance.
Cooperation	Cooperation refers to activities which result in higher value creation for business partners due to reduced transaction costs.
Integration	Integration refers to the management of interfaces across organisational boundaries so that external partners are becoming part of the organisation.

Source: Friese and Funck (2001:26-29)

The authors then used these factors as criteria to assess the extent to which each of the statements describing the principles of the EFQM acknowledges relationship marketing.

Although Friese and Funck (2001) talk about 7 success factors of relationship marketing, one could also argue that there are 8 such factors if trust and commitment are counted separately. Friese and Funck put these two criteria together based on the argument that trust and commitment are related variables. They suggest that any relationship builds on trust and that relationship parties rely on it in exchange situations to reduce uncertainty and vulnerability in the relationship. Friese and Funck point out that dependency increases as relationship parties begin to rely on each other. Therefore, strong commitment is needed to make the relationship work. A counter argument would be that trust on its own is not always sufficient to bring about commitment. A customer with a faulty car, for example, may trust the mechanic in the garage to fix the problem. However, the customer may only have chosen the garage because the car is still under warranty. In such an instance, there is not necessarily any longer term commitment, to the relationship, on the part of the customer.

Critically evaluating the authors' description of each of the success factors, one can conclude, that some of the terms do overlap. Friese and Funck for example describe interaction to include all relational exchanges, which occur over time as opposed to single, once off transactions. It is however, reasonable to assume, and has been shown in the literature, that interaction is also a requirement for cooperation, cultivation of relationships or integration to take place. As one knows, any relationship is built on trust. Therefore, this construct is also an antecedent for cooperation and integration.

What the authors found is that relationship marketing is not strongly embedded as part of EFQM philosophy. The authors' finding appears somewhat surprising. Relationship marketing is considered important among both academics and practitioners and is a subject taught at MBA courses throughout the world. This suggests that people who set up standards and measure performance of business excellence have not yet grasped the importance of relationship marketing in promoting excellence.

The implication of all this is that the work of Friese and Funck (2001) is potentially useful for organisations wishing to implement relationship marketing programmes.

By selecting the principles of the EFQM as their unit of analysis the authors remind organisations that the philosophy and practice of relationship marketing needs to be applied to everything the organisation does (enabler criteria) and achieves (results criteria).

The study further shows that Friese and Funck (2001) have used some of the antecedents mentioned in the literature to evaluate how strongly relationship marketing is reflected by EFQM. Therefore, it could be argued that the proposed success factors are relevant criteria by which to critically assess and evaluate the nature and strength of relationships businesses maintain with different relationship parties. Such an understanding is necessary in order for appropriate courses of action and/or protocols to be built into the relationship marketing programme.

Moreover, Friese and Funck (2001) propose one possible approach businesses can follow to assess the extent to which relationship marketing is an integral part of an

organisation's business philosophy and practice. Such an assessment helps organisations to identify possible discrepancies between current business philosophy/practice and relationship marketing thinking. This gives businesses the opportunity to formulate and execute specific activities to overcome any such discrepancies as part of their relationship marketing programmes.

It should be noted, however, that a clearer understanding of the success factors of relationship marketing is needed than that provided by Friese and Funck (2001) if their framework is to become operational. For example, the authors considered joint-planning as part of longevity (i.e. the need for a long-term perspective of a relationship). However, one could argue that it is unrealistic to think that a buyer will be willing to get involved in joint planning. A seller might only deliver part of the overall product assortment sold by the buyer. Thus, joint planning in the sense of covering all of the buyer's planning activities is not possible. Joint planning may be a relevant opportunity in those instances, when a buyer merges with a seller. Even in this case joint planning might be difficult. There are different cultures within organisations and getting them to engage in joint planning activities might be difficult. Thus, corporate rather than joint planning might be realistic as this relates to planning specific business activities rather than including all of the planning.

The work of Friese and Funck (2001) has the potential for identifying discrepancies between current business practice/philosophy and relationship marketing thinking within organisations. A better understanding is needed, however, of the kind of actions businesses need to pursue to address such discrepancies as part of their relationship marketing programme.

In contrast to Friese and Funck (2001) other scholars have developed models to illustrate what kind of changes and adaptations firms may have to make to the way in which they currently work and operate, in order to facilitate relationship marketing implementation. O'Toole and Donaldson (2002b) for example suggested that organisations need a planning framework as a link between the relationship marketing strategy and the programme designed to implement relationship marketing within the

company. The authors proposed that such a planning framework consists of three core elements. The first step in the planning framework consists of analysing an organisation's relationships with customers, suppliers, competitors and other stakeholders. Such an analysis according to O'Toole and Donaldson (2002b) provides the required input for the second stage in the planning framework which is concerned with the formulation and selection of relationship strategies. The authors contended that businesses need to make choices about which relationship to develop, what resources to allocate to relationships and how to deliver relationship benefits. The third and final stage in the planning framework proposed by O'Toole and Donaldson (2002b) refers to the implementation of relationship marketing strategies by the firm.

It is nothing new that any kind of planning requires the three core elements of analysis, selection and formulation of the courses of action and implementation. Nevertheless, the planning framework proposed by O'Toole and Donaldson (2002b) is worth exploring. It offers potentially valuable insight into how businesses can go about analysing relationships and facilitating the implementation of relationship marketing programmes.

In line with the thinking of Gummesson (1987) the authors recognised the importance of carrying out an audit of relationships between entities. However, O'Toole and Donaldson (2002b) were more specific in as much as they describe the factors which help organisations to understand the nature and strength of relationships. Drawing from the IMP model, O'Toole and Donaldson noted that these factors include the following:

The interaction parties - Understanding the attitudes, behaviour, competences, resources and strategic focus of the interaction parties as part of analysing their relationships.

The interaction process - Understanding how the parties to the relationship interact. This includes insight about the length and frequency of interaction, the type of exchange component (i.e. products, services, information or others) and the value to be obtained from interacting with relationship partners.

The relationship atmosphere – Understanding how relationships are influenced by power, trust, commitment, loyalty, closeness, cooperation, expectations, norms and commitment.

The relationship environment - Understanding how changes in the organisation's environment may affect business relationships.

The contemplations of O'Toole and Donaldson (2002b) expand the understanding of how evidence of relationship marketing practice between businesses can be identified and analysed. In addition to the success factors proposed by Friese and Funck (2001), these authors proposed that businesses consider the interaction between businesses, as well as the atmosphere and environment in which relationships take place, as sources for analysing the strengths and characteristics of relationship marketing practice. It needs to be pointed out, however, that the four factors proposed by O'Toole and Donaldson (2002b) were only described in very broad terms. The authors did not specify for example the nature of attitudes, behaviour or competences of the interaction parties. Therefore, businesses may be able to identify the attitudes, behaviour or competences of the parties they interact with, but lack guidance to judge how these affect the nature and strength of a relationship.

With regards to the implementation of a relationship marketing strategy, O'Toole and Donaldson (2002b) proposed five key dimensions which play a major role in this undertaking. These dimensions according to the authors include an organisation's structure, schemes, staff, style of management and systems.

The first dimension relates to the way in which organisations set up their structure. O'Toole and Donaldson (2002b) suggested that organisations need a structure which combines the skills from different functions and allows internal and external partners to participate in the decision making process. One example of this practice cited by the author concerns IBM, which introduced a key account management system where key customer relationships are managed by a team of people.

Schemes were described by O'Toole and Donaldson (2002b) as tools which assist organisations to create switching costs in such a way that customers may not have a desire to seek alternative relationships. According to the authors such tools include for example modifying a product or process to meet customers' needs, or the implementation of loyalty programmes or customer relationship management (CRM) programmes. One may, however, not entirely agree with the authors' reasoning. Considering that nearly every large supermarket chain in the UK uses loyalty card schemes, the effect of these cards to create switching costs remains doubtful. Moreover, the purpose of schemes as described by the authors appears not to be in line with relationship marketing thinking. The aim of relationship marketing is not to tie a customer to an organisation by creating switching costs but by creating mutual benefits for both parties. This suggests that the role of schemes in relationship marketing implementation might be relevant if it succeeds in creating mutual benefits for both parties.

O'Toole and Donaldson (2002b) talked about people being yet another dimension which plays an important role in implementing relationship marketing. They pointed out that it is through their employees that organisations communicate with one another, develop personal relationships and thus strengthen the bonds between parties to the relationship. The authors pointed out, that businesses must recognise the importance of employees and offer them training, support and flexibility to make policy changes in order to respond to customer requirements. The authors, however, failed to specify the kind of training and support businesses need to give their employees. Moreover, it could be argued that in practice, businesses always have and will need certain policies and guidelines in order to coordinate business activities. Without them there would be chaos. The challenge for organisations therefore appears not to be about giving or not giving employees flexibility in decision making. Instead, it seems a matter of defining organisational policies and guidelines in such a way that employees can respond to customer requests without having to break the rules.

O'Toole and Donaldson (2002b) pointed out that the style of management is yet another dimension that can influence the success of implementing a firm's relationship strategy.

The authors suggested that all of the firm's programmes and policies need to be focused on relationship marketing, to ensure that managers infuse relationship marketing thinking into the organisation. This is needed because the attitudes and beliefs of managers are taken as cues by employees on how to act. The authors pointed out that manager's beliefs and actions can be resistant to change and that this can jeopardise relationship marketing implementation. They failed, however, to indicate how resistance to change can be overcome. It can be agreed that the way in which managers act and behave can signal expected behaviour and attitudes to employees. This, however, does not necessarily guarantee that employees adopt expected behaviour and attitudes. Employees just as managers may resist the notion of change. This indicates that learning how to manage change is one additional task businesses need to pursue as part of implementing relationship marketing programmes.

Systems are yet another dimension described by O'Toole and Donaldson (2002b) to facilitate the implementation of relationship strategy. They suggested that businesses must build their systems around relationships. The authors talked about sales, supply chain management and customer service systems. They did, however, neither specify the nature of these systems nor the ways in which these support relationship marketing implementation. Moreover, the authors gave no indications how businesses should go about building their systems around relationships or how businesses can assess whether the systems they have in place are suitable to support relationship marketing implementation. Without such insight businesses lack an understanding of how to introduce new, respectively modify existing systems in such a way that they actively contribute towards the development of relationships.

There are several implications to be drawn from the work of O'Toole and Donaldson (2002b) for organisations planning to implement relationship marketing. The authors reminded businesses not to view the implementation of relationship marketing in isolation but as part of an overall relationship planning process. In so doing, O'Toole and Donaldson (2002b) confirmed previous conclusions drawn from the literature that conducting a thorough analysis of a firm's relationship network is a key part of relationship marketing implementation. In line with Grönroos (1999) and Gummesson

(1987), O'Toole and Donaldson (2002b) indicated that the presence of antecedents and maintenance factors of relationship marketing on their own are not sufficient for successful relationship marketing implementation. Instead, an organisation's structure, style of management, people, schemes and systems have to be regarded as additional factors businesses need to take into account when planning and implementing relationship marketing programmes.

Moreover, O'Toole and Donaldson (2002b) provided organisations some insight on how they can put the thinking of relationship marketing philosophy as proposed by Grönroos (1999) and Gummesson (1987) into practice. It will be remembered for example that Grönroos (1999) advocated that the adjustment of the marketing mix on a case-by-case basis is part of the implementation of relationship marketing. The author is none too clear, however, on how this is to be done in practice. The work of O'Toole and Donaldson (2002b) suggested that schemes, geared towards modifying products or processes in line with customers' requirements, can assist organisations to adjust the marketing mix to the needs of the relationship partners. Furthermore, both Grönroos (1999) and Gummesson (1987) pointed out that with relationship marketing the responsibilities for marketing no longer rest entirely within the marketing department but with employees throughout the organisation. O'Toole and Donaldson (2002b) explained how an organisation's management style or structure can contribute towards infusing relationship marketing thinking among a firm's employees.

It should be noted, however, that the five key dimensions of relationship marketing implementation proposed by O'Toole and Donaldson (2002b) are mostly reported as broad descriptive statements and not supported by empirical evidence. As has been frequently pointed out, the nature and role of the five dimensions of relationship marketing implementation were not always clearly defined and explained by the authors. The work of O'Toole and Donaldson goes as far as raising awareness about the factors which can assist businesses in implementing relationship marketing. However, O'Toole and Donaldson stop short in providing evidence if and how each of the proposed dimensions contribute towards the successful implementation of relationship marketing. Such clarification, together with a better insight of how each of the

dimensions can be operationalised and implemented would be helpful to guide businesses how to successfully implement relationship marketing programmes.

Whilst O'Toole and Donaldson (2002b) looked at broad categories of antecedents, Kothandaraman and Wilson, (2000) specifically focused upon the role of managers as part of relationship marketing implementation. These authors developed a conceptual model outlining how beliefs and attitudes of managers within organisations contribute towards successful implementation of relationship marketing strategy. Kothandaraman and Wilson, (2000) pointed out that internal commitment to relationship performance and success is critical and closely related to manager's beliefs and attitudes. Managers must buy into the relationship paradigm and acknowledge the need for trust, cooperation and interdependence whilst dealing with business partners.

Kothandaraman and Wilson (2000) suggested that managers' relational beliefs and attitudes may only be effective if supported by appropriate internal processes and policies. Sharing goals, skills and tasks with individuals and across departments as well as inter-functional interaction were examples provided by the author to illustrate how processes and policies could support relationship thinking within the organisation.

The authors recommended that managers can be encouraged to adopt relational behaviour and attitudes by creating conducive conditions within the organisation. These include for example setting up structures, which support the individual's attitude towards cooperation with internal as well as external partners. Kothandaraman and Wilson (2000) suggested that such structural changes may include integrating a partner's internal group leaders into relationship development teams, which are in charge of managing the relationship. This has been considered useful to combine the skills from a variety of functions as well as to define and shape the exchange in such a way, that each party can support it successfully. It has, however, not been reported how effective such project teams are in working together and managing the relationship. A better understanding is also needed about how such project teams can be managed successfully. Arguably, there is likely to be a cultural mismatch between employees from different organisations due to different business philosophies and ways of

working. Thus it would be helpful for businesses to understand how attitudes and behaviour of employees from different organisations can be aligned in such a way that they are most effective in managing a relationship.

Kothandaraman and Wilson (2000) further pointed out that organisations may also want to use their systems in order to manage attitudes and relational behaviour. Organisations should develop for example interdependent reward systems where internal and external partners share benefits and incentives on the basis of joint rather than of individual achievements. The underlying reasoning is that managers may not be committed to work for the benefits of a relationship with an external partner, if the reward system encourages selfish behaviour. However, the authors did not further elaborate on the nature, mechanisms or the effectiveness of such reward systems.

The work of Kothandaraman and Wilson (2000) has been valuable in confirming previous findings from the literature that an organisation's employees, systems and structure play an important role in implementing relationship marketing programmes (Grönroos, 1999; Gummesson, 1987; O'Toole and Donaldson, 2002b). Moreover, the authors elaborated that an organisation's internal processes and policies play an important role in managing employees' attitudes and behaviour. Setting internal policies and processes in place which encourage relationship thinking among employees can thus be regarded by organisations as yet another potential antecedent of relationship marketing implementation. However, it has to be noted that the work of Kothandaraman and Wilson (2000) is of a conceptual nature thus providing mere examples rather than strong evidence of how processes and policies could support relationship thinking within an organisation. Moreover, no further details were provided by the authors regarding the nature, development, implementation and effectiveness of internal processes and policies.

The work of Kothandaraman and Wilson (2000) further adds to existing knowledge by drawing attention to the role of external partners as part of relationship marketing implementation. In contrast to other scholars, Kothandaraman and Wilson (2000) explicitly discussed how the behaviour of external partners might influence the effective

implementation of relationship marketing. They proposed that external partners need to exhibit a set of relational norms if the implementation of a relationship strategy is to prove successful. These norms refer to managers' behaviour when dealing with their partners and include information sharing, flexibility and solidarity. External partners are expected to communicate frequently, informally and with full disclosure. Flexibility has been described as the relationship partner's willingness to re-negotiate the original terms of contract if the other is facing an unanticipated crisis. Solidarity refers to partners acting in the best interest of the relationship instead of taking action to pursue and secure self-interest.

Whilst the authors' contemplations add yet another dimension to the thinking of relationship marketing implementation, it is worthwhile considering that relationship marketing develops from interactions among several parties. Therefore, it would be reasonable to assume that all parties need to adopt relational norms to make the relationship work. This indicates that managers, if they are to effectively support relationship marketing implementation, need to adopt a broad range of behaviour and attitudes whilst dealing with their business partners in addition to trust, cooperation and interdependence as previously suggested by Kothandaraman and Wilson (2000). However, no insight was provided, how the nature of relational norms and attitudes manifests itself as part of building relationships between organisations. Moreover, the authors did not discuss how, if at all, relationship marketing programmes can be set up and implemented to encourage parties in the relationship to adopt relational norms and attitudes. Such an understanding, however, would be helpful to better anticipate how attitudes and behaviour of relationship parties influence the implementation of relationship marketing. This in turn would provide valuable indications how relationship marketing programmes can contribute towards encouraging managers to develop and adopt attitudes and behaviour that are supportive of the implementation process.

Whilst the literature discussed so far looked at relationship marketing implementation from a conceptual point of view, a third category of thinking is about to form which looks at how businesses in practice go about implementing relationship marketing

programmes. Lindgreen and Crawford (1999) for example used a case study approach to investigate how a Danish food catering company went about implementing a relationship marketing programme. These authors described that the organisation they studied recognised that sufficient attention was paid to attracting customers while inadequate consideration was directed to customer retention. A company audit revealed that the firm was successful in winning customers, but that it could only retain 80% of these customers. In other words, the company lost 20% of its customers every year. In order to address the problem of how relationships with customers can be enhanced and maintained, the organisation set up a three-phase relationship marketing programme.

During the design phase the organisation asked customers to participate in focus groups and fill in a large-scale questionnaire to help them identify the firm's strengths and weaknesses. The organisation's purpose for doing so was to understand why it was losing 20% of its customers every year. The food manufacturer discovered that weaknesses identified by customers included late or wrong deliveries, inefficient distribution of samples and lack of updated products and price lists. What makes this first step part of relationship marketing practice, according to Lindgreen and Crawford (1999) is that the company was listening to its customers. The authors, however, did not further specify how exactly they arrived at this conclusion. Nevertheless, their conclusion may still be considered valid as long as listening was used to gain information about the behaviour, attitudes and expectations of interaction parties (O'Toole and Donaldson, 2002b) and such insight is applied to manage the customer base (Grönroos, 1999).

During the implementation phase, the Danish food company focused on dealing with some of the substantive problems identified during the design phase. In order to do so, the firm set up project teams consisting of employees from different functions which were allocated the task of dealing with the customers' complaints. Management released these project teams from their normal duty. This allowed the project teams to divide their attention fully to the task at hand and communicated to the rest of the organisation the importance placed in improving customer relationships. The project teams were further supported by training, which aimed at developing different skills such as

communication, presentation or industry knowledge. Believing in the importance of communication as part of developing relationship marketing, the firm informed customers and employees about the current and planned progress of the project teams. Moreover, project teams were in regular contact in person or by phone with the customers throughout the implementation phase. Customers were encouraged to communicate both compliments and complaints to the firm, whereby the sales leader had no more than an hour to rectify the situation that resulted in a customer complaint.

The third phase of the programme focused on assessing the design and implementation phase. The firm used three measurements, namely customer loyalty, customer retention and customer share as well as employee satisfaction to assess the design and implementation phase. Customer loyalty was measured based on the customers' relative attraction to and satisfaction with the firm. Customer retention was assessed based on the buyer's purchase pattern. In this respect, a customer is considered retained if it maintains or increases its product purchases at regular intervals. The share of the customer's business was calculated by estimating the overall sales potential of the customer based on company records and thus to identify the percentage of sales it could capture with any given customer. Based on the philosophy that satisfied employees result in satisfied customers the Danish food company has introduced a five-step process to create employee satisfaction. The firm introduced a set of guidelines which set the standards for the company and its employees. New staff were only employed if they appeared capable of living these guidelines. Employees received training so that they have the necessary skills to deal with customer requirements. Finally, performance of the staff was monitored and rewarded in relation to their competence displayed in dealing with customers. The authors did, however, not report how the organisation carried out staff training or assessed whether people new to the organisation are capable of living with the firm's guidelines.

Lindgreen and Crawford (1999) concluded from their findings that it is (sometimes) possible to implement and monitor a relationship marketing programme in a food catering company. They identified a number of activities in the firm's programme which are part of relationship marketing. These activities according to the authors

include listening to customers, cross-functional project teams, market communications, trust-building and customer-care activities as well as systems to monitor and measure the programme. As a result, the authors reported that the firm's average length of a business relationship is four times longer than it was prior to the introduction of the relationship marketing programme. Other returns of this programme reported by the authors include additional sales to retained customers, growing employee satisfaction and reformed service and administrative procedures.

The case study approach of Lindgreen and Crawford (1999) is valuable, as unlike other studies, it describes how businesses can go about setting up and implementing relationship marketing programmes. In so doing the authors illustrated how businesses put the academic thinking of relationship marketing into practice. Lindgreen and Crawford (1999) for instance observed that customers were asked by the firm to participate in identifying the underlying problems resulting in unsatisfactory customer retention. By listening to customers, the Danish food manufacturer has taken a first step towards obtaining a better understanding about the needs, expectations and behaviour of its customers. Gaining a good understanding about the interaction between parties has been suggested by O'Toole and Donaldson (2002b) as part of analysing the strengths and weaknesses of relationships. Furthermore, it has been described that the Danish food manufacturer set up project teams consisting of employees from different functions in order to deal with customers' complaints. This is in line with the thinking of Grönroos (1999) and Gummesson (1987). These authors pointed out, that to implement relationship marketing businesses must spread the responsibility for marketing throughout the organisation. Moreover, by setting up project teams, the Danish food manufacturer showed how an organisation's structure can be modified to support relationship marketing. Modifying a firm's organisational structure has been identified by scholars as part of the implementation of relationship marketing (Kothandaraman and Wilson, 2001; O'Toole and Donaldson, 2002b).

The work of Lindgreen and Crawford (1999) goes as far as outlining one possible approach businesses can pursue in implementing relationship marketing programmes. Thus businesses can learn that relationship marketing implementation involves a step-

by-step approach including the design, implementation and assessment of relationship marketing programmes. Moreover, Lindgreen and Crawford (1999) have illustrated the type of activities that are pursued by a firm throughout the development and implementation process. However, due to the absence of other case studies in the literature, no judgement can be made if the approach and activities followed by the Danish food manufacturer is typical of relationship marketing practice. Therefore, no assessment can be made if there are other ways in which businesses can effectively develop and implement relationship marketing programmes.

Whilst Lindgreen and Crawford (1999) have described the activities which contribute towards relationship marketing implementation, the authors did not focus upon providing a detailed account of the processes preceding the realisation of relationship marketing activities internal and external to the organisation. For instance, the authors reported that the Danish food manufacturer has set up project teams to deal with customer complaints. They did, however, not expand upon the criteria the firm applied for the selection of project team members or how the organisation arrived at determining the task of the project team. Moreover, Lindgreen and Crawford (1999) did not talk about the kind of difficulties the Danish food manufacturer experienced during the design and the implementation of relationship marketing programmes and the corrective actions and measures to overcome these problems. This, however, would have been helpful, to give businesses guidance on the processes to be put in place for initiating relationship marketing implementation and to offer some indication of the difficulties organisations might experience and how such can be overcome.

Further, the case study as presented by Lindgreen and Crawford (1999) also proves valuable in illustrating how an organisation's marketing programme can be set up to implement relationship marketing not only with customers but also with employees. For instance, Lindgreen and Crawford (1999) reported that the Danish food manufacturer has, for example, focused on achieving employee satisfaction by setting clear standards in the form of commandments, hiring personnel capable of living these standards, providing training, monitoring performance and giving rewards based on the level of customer retention rather than customer attraction. Thus, the case study findings

confirmed the relevance of some of the factors proposed by conceptual models in the literature which facilitate the integration of employees as part of a relationship marketing programme. These factors include for example altering an organisations' structure by forming project teams, training or introducing a reward system, whose benefits are linked to relationship marketing thinking (Kothandaraman and Wilson, 2001; O'Toole and Donaldson 2002b). It needs to be noted, however, that the authors provided little insight into how these factors can be put into practice. For instance, no insight was offered about the nature of the standards or how the Danish food manufacturer trains its employees or monitors their performance.

Furthermore, the way in which Lindgreen and Crawford (1999) reported the case study is such that one tends to believe that the Danish food manufacturer did not encounter any problems whatsoever whilst implementing the relationship marketing programme. This seems rather unlikely considering that employees were confronted with a new way of working. As the literature has proposed, there are likely to be some employees who are resistant to change and reluctant to alter the way they are performing their job (Bovey and Hede, 2001; Mento *et al.* 2002). Moreover, integrating people from different functions within one project team is also likely to cause some problems. Employees have to change their thinking in terms of no longer pursuing functional goals but to work towards the project team's goal of relationship marketing implementation. Thus, practitioners could benefit by having a better understanding about the kind of problems they are likely to encounter when introducing relationship marketing practice among their employee base and the kind of activities they can pursue to avoid or overcome any such problems.

A review of the literature has shown that the understanding of how businesses can effectively implement relationship marketing programmes is at an early stage of development. The literature has illustrated that scholars agree upon some basic requirements that are part of or at least aid relationship marketing implementation. These requirements include for instance the need for businesses to adopt the relationship marketing philosophy, to set up programmes for developing internal relationship marketing among employees or to bring their planning, structure, policies,

processes and systems in line with relationship marketing thinking. Whilst scholars have been helpful in providing illustrative examples of how these basic requirements can be put in place by businesses, their suggestions were generally based upon conceptual models or derived from existing academic research. Only one study could be identified, which provided empirical evidence of how a firm actually designed, implemented and assessed a relationship marketing programme. Therefore, more research is needed to confirm the findings of this study as well as to provide additional insight about the effective implementation of relationship marketing by addressing a number of research questions:

- a) How can relationship marketing programmes be designed, implemented and measured?
- b) What are the processes, which facilitate and contribute towards the effective implementation of relationship marketing programmes?
- c) How can businesses set up and implement programmes which aid the adoption of relationship marketing philosophy among employees and customers?

The main purpose of this study was to determine the extent, if any, to which pricing systems can serve as instruments of relationship marketing. This necessitated the identification of performance criteria, which if applied, would facilitate the measurement of the effects and thus the success, or otherwise, of the pricing system as a programme of relationship marketing. Therefore a literature review was carried out to gain an insight into how the effects of relationship marketing on a firm can be measured.

In order to understand how the effectiveness of relationship marketing programmes can be measured a three step approach in reviewing the literature has been pursued. Before one can look at measurements it is necessary to know what exactly is being measured (Neuman, 1997). This is a prerequisite to make an informed judgement about the validity and reliability of measurements (Neuman, 1997). The second step involved identifying the kind of performance criteria that have been proposed to measure the effects of relationship marketing. The third step focused on evaluating how accurate (valid) and effective (reliable) proposed measures are in assessing the outcomes of relationship marketing.

This literature review focuses on measurements of relationship marketing implementation. Therefore, to understand what is to be measured requires a review of what is the precise nature of relationship marketing. This draws the attention to the definition of relationship marketing.

The literature shows that there exist a large number of different definitions and understandings of relationship marketing. Harker (1999) for instance identified 26 different definitions of relationship marketing as part of a content analysis of existing literature. Lindgreen and Crawford (1999) on the other hand noted that relationship marketing is sometimes defined in terms of marketing objectives such as customer retention, customer share and customer loyalty (Dawkins and Reichheld, 1990; Peppers and Rogers, 1995; Reichheld, 1996). The authors further elaborated that relationship

marketing is also described as one of several forms of marketing including for instance database marketing, quality management, services marketing or customer partnering (Berry, 1983; Copulsky and Wolf, 1990; Gummesson, 1988; Magrath and Hardy, 1994; Morgan and Hunt, 1994).

As one reads the literature it also becomes evident that scholars use different terminologies to describe relationships. Relationships have for instance also been referred to as partnerships (Mohr and Spekman, 1994) or strategic alliances (Young *et al.*, 1996). This makes it difficult to comprehend and judge whether or not scholars talk about relationship marketing or other kind of business practices. All this shows, and has been acknowledged by scholars, that there is no commonly agreed upon understanding of what constitutes relationship marketing (Evans and Laskin, 1994; Lindgreen and Crawford, 1999). The lack of a commonly accepted definition however, is an impediment for measuring the effects of relationship marketing implementation. That is, any kind of measurement will be difficult to judge in terms of its relevance and effectiveness, when it is not clear what exactly it is supposed to measure. In the absence of a common definition one has to rely on some basic criteria, appearing in definitions of RM as indicators of what to measure. These include for instance that a) relationships are longitudinal and interactive in nature, b) create mutual benefits for both parties and c) focus on individual buyer-seller relationships. Arguably other criteria could have been selected too. However, these criteria appear to be relevant for several reasons. They fit in the scope of this research, are among the more frequently mentioned concepts in relationship marketing definitions compiled by Harker (1999) and have been used at least in one instance to define relationship marketing in the context of performance measurement (Sin *et al.*, 2002).

Turning the attention now towards the identification of possible measurements of relationship marketing, a number of studies can be found in the literature, discussing performance outcomes of business relationships. A summary of some of these studies is listed in table 13.

Table 13: Overview of empirical studies on relationship performance

Author(s)	Performance indicators included	Relationship perspective
Sin <i>et al.</i> (2002)	Sales growth, customer retention, return on investments, market share	Seller
O'Toole and Donaldson (2002a)	Range of financial and non-financial measures	Buyer
Lindgreen and Crawford (1999)	Customer loyalty, customer retention, customer share, employee satisfaction	Seller
Artz (1999)	Negotiation costs, delivery performance, satisfaction	Buyer
Kalwani and Narayandas (1995)	Sales, inventory costs, prices, profits	Supplier
Leuthesser and Kohli (1995)	Satisfaction, share of business	Buyer
Boyle and Dwyer (1995)	Task planning and execution	Buyer
Heide and Stump (1995)	Transaction related	Buyer-Supplier
Joseph <i>et al.</i> (1995)	Satisfaction, profit, organisational time, effect on other relationships	Distributor
Mohr and Spekman (1994)	Satisfaction, sales	Dealer
Evans and Laskin (1994)	Customer satisfaction, customer loyalty, profit, product quality	Buyer
Noordewier <i>et al.</i> (1990)	Acquisition costs	Buyer

The literature presented in table 13 is helpful in gaining a broad understanding about performance indicators of relationship marketing. As can be seen from table 13, a wide range of different indicators have been proposed in the literature, reflecting performance outcomes of business relationships. However, one can observe, that there appears to be no visible pattern of commonality of performance measures. Almost every study differs in terms of number and types of performance criteria. For instance, Leuthesser and Kohli (1995) focused on two performance criteria, namely satisfaction and share of business, whilst Evans and Laskin (1994) specified performance outcomes of relationships in terms of four criteria, including customer satisfaction, customer loyalty, profit and product quality. Despite this lack of commonality, table 13 illustrates that the different performance indicators tend to fall under the heading of “sales”, “profits”, “costs”, “satisfaction”, “loyalty” and “customer retention”. For instance, every study listed in table 13 used one or more performance criteria which fall at least in one or several of these broad headings. As one reads the literature, it becomes apparent that scholars generally look at the effects of relationship marketing from a financial perspective and frequently, specify performance indicators which have financial implications. For instance, it can be observed from table 13, that almost all scholars integrated measures reflecting financial effects of business relationships such as “costs”, “profit”, “sales” or “share of customer’s business”.

Table 13 further illustrates that scholars tend to consider relationship performance either from the perspective of the buyer or the seller. This shows, that measurements of relationship marketing are, in general, discussed in terms of the effects of relationship marketing upon one party in the dyad. For instance, some scholars looked at how relational behaviour displayed by a supplier affects buyer's satisfaction, sales or share of business (Leuthesser and Kohli, 1995; Mohr and Spekman, 1994). Other scholars tended to focus on the seller's perspective by assessing the kind of outcomes these can expect from relationship marketing implementation (Kalwani and Narayandas, 1995; Lindgreen, 1999).

In order to understand how effective the performance indicators proposed in the literature are in measuring effects of relationship marketing a closer review is needed about how scholars arrived at performance indicators. The literature shows, that in general, studies incorporating performance indicators do so by specifying a set of relationship criteria and attempt to establish how these are related to outcomes of relationships. For instance, some scholars suggested that there appears to be a link between relational governance and lower transaction costs (Artz, 1999; Noordewier *et al.*, 1990). Artz (1999) for example reported that collaboration and commitment of exchange partners as well as a supplier's investments in a relationship lowers a manufacturer's cost of negotiating contracts with the supplier.

Other studies suggest that outcomes of relationships such as sales, customer retention, loyalty, profitability, or customer satisfaction are higher, when the interaction between relationship parties is governed by relational behaviour (Evans and Laskin, 1994; Joseph *et al.*, 1995; Leuthesser and Kohli, 1995; Mohr and Spekman, 1994; Sin *et al.*, 2002). For instance, Sin *et al.* (2002) studied the effects of relationship marketing orientation (RMO) upon business performance. These authors found that criteria reflecting RMO (specified in terms of trust, communication, bonding, shared value, empathy and reciprocity) were positively related to a firm's sales growth, customer retention, return on investments and market share.

Several valuable lessons can be learnt from insight provided by the literature discussed so far. For instance, scholars have been helpful in their attempt of identifying possible

outcomes arising for businesses engaging in relational behaviour with their business partners. In so doing, they illustrate that in principle, relationship marketing has the potential of enhancing a firm's performance in terms of, for instance, lower costs, higher levels of sales or increasing customer satisfaction and customer loyalty.

Moreover, the literature has been helpful in confirming that previously discussed antecedents of relationship marketing implementation such as communication or social bonding, have the potential of positively impacting upon a firm's performance. For instance, communication in terms of information exchange has been related by scholars to higher levels of sales, customer satisfaction, customer retention and lower transaction costs (Leuthesser and Kohli, 1995; Mohr and Spekman, 1994; Noordewier, *et al.* 1990; Sin *et al.*, 2002).

Furthermore, the literature is helpful not only in suggesting possible outcomes of relationship marketing practice, but in providing examples of how inputs to relationship marketing programmes can be linked to measuring the effects of relationship marketing practice. For instance, Mohr and Spekman (1994) attempted to establish a link between communication behaviour exhibited by relationship parties and its influence on sales and customer satisfaction. In so doing the authors specified communication behaviour according to activities reflecting this construct. These activities included quality of information (exchange of timely, accurate, adequate, complete and credible information), information sharing (exchange of proprietary and critical information) and participation (joint planning and goal setting). Mohr and Spekman (1994) then attempted to establish if the existence of these activities contribute towards higher levels of sales or customer satisfaction. The work of these authors stops short however, of specifying in more detail the characteristics of communication behaviour. That is, no indication was offered as what constitutes for instance accurate, proprietary and adequate information or joint planning and goal setting.

Despite these potentially helpful contributions made by scholars, existing studies suffer from a number of limitations. For instance, the literature shows that almost every scholar applied a different set of criteria to define activities and behaviours typical of

relationships and to measure their possible impact upon the outcomes of relationship marketing practices. Artz (1999) for example specified relational behaviour in terms of collaboration, commitment and reciprocal investment, whilst Sin *et al.* (2002) considered trust, communication, bonding, shared value, empathy and reciprocity as attributes of relationship marketing orientation. Kalwani and Narayandas (1995) on the other hand did not define characteristics of relationships at all. Therefore, one can conclude that there appears to be no commonly accepted framework, providing guidance about what kind of relationship characteristics can be linked to different outcomes of relationship marketing. This, however, is an impediment for deciding what kind of activities need to be monitored in order to measure the effectiveness of relationship marketing programmes.

Yet another impediment identified from the literature concerns the lack of clear and common definitions of relational behaviour, which were used as criteria to assess effects of relationship marketing practice. For instance, as one remembers, scholars have proposed that communication in terms of information exchange is related to higher levels of sales, customer satisfaction, customer retention and lower transaction costs (Leuthesser and Kohli, 1995; Mohr and Spekman, 1994; Noordewier *et al.*, 1990; Sin *et al.*, 2002). However, the understanding as to what constitutes effective communication differs among scholars. Mohr and Spekman (1994), for example talk about communication which is timely, accurate, adequate complete and credible. Other scholars confer about communication which is honest, frequent and supports the display of parties' discontent with one another (Sin *et al.*, 2002), or communication which is sensitive and provided in advance (Leuthesser and Kohli, 1995). Not only have scholars a different understanding about the properties of communication, they also do not provide explanatory definitions as to what constitutes for instance accurate or sensitive information. The vagueness and absence of common definitions is a limitation to make an informed judgement about the exact type of relational behaviour which contributes towards returns of relationship marketing practice. This in terms is an impediment for deciding what kind of activities need to be monitored in order to measure the effectiveness of relationship marketing programmes.

Yet probably the greatest limitation of the existing literature is that scholars go as far as specifying a broad set of activities proposed to reflect relational behaviour for instance communication, trust or social bonding (Mohr and Spekman, 1994, Sin, *et al.* 2002). These relational behaviours are then assessed in terms of their potential effects on outcomes of relationships such as for instance satisfaction or sales. However, the main drawback of studies following this approach is that they fall short of linking relational behaviour to relationship marketing programmes. That is, scholars tend to judge and measure the effects of relational behaviour based upon respondents' reporting about specific activities and behaviours that are present within a given relationship. The literature in general does not, however, specifically discuss returns resulting from relationship marketing programmes that have been implemented and how such outcomes can be measured.

Lindgreen and Crawford (1999) made an attempt to contribute towards this missing understanding in the literature. These authors studied how a Danish Food manufacturer has developed, implemented and measured a relationship marketing programme. Lindgreen and Crawford (1999) reported from their observations that returns from relationship marketing can be measured in terms of customer retention, customer satisfaction and employee satisfaction which all increase. Moreover, the authors concluded from their work, that monitoring the design and implementation phase of relationship marketing programmes is part of relationship marketing. Lindgreen and Crawford commented that possible measurements for doing so include customer loyalty, customer retention, share of the customer's business and employee satisfaction.

The work of Lindgreen and Crawford (1999) expands upon the understanding on how to measure effectiveness of relationship marketing programmes in several ways. The authors confirmed that some of the performance indicators discussed in the literature (i.e. customer retention and satisfaction) have been applied and found effective by a firm to measure the returns from relationship marketing programmes. Moreover, Lindgreen and Crawford illustrated that measuring the effects of buyer and seller interaction is only one aspect of judging the effectiveness of relationship marketing programmes. In addition, the authors emphasised the need to monitor and measure

employee satisfaction, as only satisfied employees result in satisfied customers. The authors have been further helpful by drawing the attention towards the role of measurements in relationship marketing implementation. The literature tends to talk about measurements in terms of assessing outcomes of relationship marketing practice. However, Lindgreen and Crawford have illustrated that measurements are also required for assessing the design and implementation and not just outcomes of relationship marketing programmes. Moreover, the authors have made a contribution by illustrating how measurements of relationship marketing effectiveness can be defined and applied. For instance, Lindgreen and Crawford illustrated that customer retention was assessed based upon the customer's purchase pattern. That is, a customer was considered retained if he or she buys the same or higher amount of products over regular time intervals.

However, the work of Lindgreen and Crawford (1999) stops short of providing insight on how to define, operationalise and measure the effectiveness of the different mechanisms and processes inherent in a relationship marketing programmes. For instance the authors noted that the measurement of customer retention was based upon an analysis of customer records. Whilst one agrees that this is a rational approach to monitor purchasing patterns, this approach falls short in illustrating what were the drivers influencing customers' buying behaviour. Thus, a firm may be able to conclude that customer retention has gone up since implementing a relationship marketing programme based on customers' purchasing patterns. However, a firm cannot conclusively determine what specific mechanisms and processes of the programme in place contributed to this result. Arguably, this is important to know for two reasons. A firm needs to understand whether or not higher customer retention is indeed the result of the relationship programme or has been influenced by changes in the market place such as higher customer demand or specific conduct of competitors. Moreover, being able to assess the effectiveness of the processes and mechanisms of a relationship marketing programme allows businesses to initiate corrective action and changes to the programme where needed.

The discussion so far focused on illustrating the limitations arising from the approach scholars have pursued in their attempts to identify and assess outcomes of relationship marketing practice. What has not yet been looked at is how well the proposed

performance indicators such as sales, customer loyalty or customer satisfaction capture the effectiveness of relationship marketing programmes.

In this regard, the literature suggests that customer satisfaction or customer loyalty may not always be a valid indicator that businesses have succeeded in building long-term, mutual beneficial relationships with customers. Scholars have proposed for example that even if customers are satisfied, this does not prevent them defecting, if they can get better value, convenience or quality elsewhere (Jones and Sasser, 1995; McIlroy and Barnett, 2000). Studies investigating the effects of loyalty programmes point out that these frequently fail as instruments for building long-term relationships with customers. This being the case because customers participate in loyalty schemes for a number of other reasons than out of an interest in establishing long-term relationships with a seller. Wright and Sparks (1999) for instance, found that customers get involved in loyalty schemes with retailers because they already shop there or out of rationality of “getting something for nothing”. McIlroy and Barnett (2000) showed that customers purchased a hotel’s loyalty card because it offered good value for money, but very few customers indicated that they would continue to visit the hotel once the card has expired. In some instances customers continue to purchase from the same seller because of what Jones and Sasser (1995) refer to as “false loyalty”, encouraged by high switching costs, government regulations limiting competition, or proprietary technology limiting viable alternatives.

The findings of these scholars suggest that satisfaction although potentially powerful as a measure of relationship marketing effectiveness, needs to be viewed in the context in which it occurs. That is simply satisfying customers appears not to be enough to encourage them to engage in a relationship. Instead, relationship marketing programmes need to strive for exceeding customer expectations if satisfaction is to become an indicator of loyal customers. Although not explicitly considered in the literature, it appears rational that programmes that reduce customers’ risk in doing business with a firm may also contribute towards higher customer satisfaction and encourage loyalty.

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The literature further illustrates that customer loyalty too cannot be looked as a measure on its own when assessing effectiveness of relationship marketing programmes. Instead, it appears that businesses need to assess the causes of loyalty and whether these are rooted in the programme in place or result for some other reasons.

As a consequence, one can conclude that it is not enough to simply measure customer satisfaction or customer loyalty in order to judge the effectiveness of relationship marketing programmes. In addition, businesses need to assess to what extent if any, existing programmes do well in exceeding customer expectations, reducing customers' risk and adding additional value, convenience and quality in comparison to programmes run by competitors. This helps businesses to judge whether existing relationship marketing programmes in place are effective in initiating business relationships or if they merely encourage customers to exploit short-term benefits.

O'Toole and Donaldson (2002a) talked about yet another limitation of the current knowledge in the literature on the measurement of relationship marketing practice. These authors pointed out that relationship performance is too narrowly defined in the literature, limiting it to a few dimensions of mainly financial nature. Instead, O'Toole and Donaldson (2002a) attempted to identify and test a set of both financial and non-financial performance measures which are relevant for assessing outcomes of relationship marketing practice. Most of the financial performance measures identified by the authors corresponded with those proposed in the literature. Nevertheless, O'Toole and Donaldson (2002a) add to the current understanding by identifying a range of non-financial performance measures not previously discussed by scholars. These proposed measures include for instance involvement in design, joint value projects, stability or flexibility. However, the authors did not elaborate upon the nature of these potential performance indicators. This is an impediment to understand and judge the relevance of non-financial performance measures in assessing effectiveness of relationship marketing practice. The work of O'Toole and Donaldson (2002a) has been helpful in indicating that relationships between buyers and sellers can result in a number of different outcomes. This suggests that businesses may have to apply a broad range of measures to assess effectiveness of relationship marketing programmes. Moreover, it also appears that there is unlikely to be a unified framework of measures applicable to

any kind of relationship marketing programme. Instead, it seems that performance indicators have to be defined and applied by taking into account the nature and purpose of existing relationship marketing programmes.

As one reads the literature it can be concluded that the understanding on how the effectiveness of relationship marketing programmes can be measured is in its early stage. The literature goes as far as indicating a range of measures to be applied for assessing the effects of relationship marketing practice. However, the effectiveness and relevance of proposed performance measures has not yet been firmly established in the literature. Moreover, scholars tend to talk about measurements from the perspective of one party in the relationship dyad. Thus, there is a lack of insight on how to measure the effects of relationship marketing programmes providing mutual benefits for both parties. Furthermore, the literature showed that there is a lack of common definitions specifying activities and behaviours of relationship parties which encourage the establishment of relationship marketing. This lack of definitions is an impediment to operationalise and measure the interaction inherited in relationship marketing programmes and their possible effects on its participants. The literature also showed that there is a shortage of studies which consider existing relationship marketing programmes as the unit of analysis when talking about performance measures of relationship marketing.

Therefore, this study offers an opportunity to make a contribution towards broadening the understanding on how relationship marketing programmes, which have been implemented, can be measured by addressing a set of research questions, namely:

- a) What outcomes, if any, result for buyers and sellers from engaging in relationship marketing and how can these be defined and measured?
- b) How, if at all, can the mechanisms and processes of relationship marketing programmes be defined, and measured?

3.8 Change Management And Relationship Marketing Implementation

The implementation of relationship marketing programmes is likely to change the way in which organisations work and operate. The literature suggests for example that the adoption of a relationship marketing philosophy may require changes to a firm's planning process (Grönroos, 1999), structure, policies and systems (Kothandaraman and Wilson, 2000; O'Toole and Donaldson, 2002b). Employees are challenged to adopt the relationship marketing philosophy (Gummesson, 1987; O'Toole and Donaldson, 2002b) and thus change the way in which they currently interact and work together with customers and fellow employees. For instance, the employees' interaction with customers extends beyond the mere activities required to sell a product or service. Instead, employees adopting the relationship marketing philosophy treat customers as partners, share information, anticipate and respond to customer needs and requirements (Kothandaraman and Wilson, 2000; O'Toole and Donaldson, 2002b). Moreover, adopting relationship marketing orientation requires employees to closely interact and work together with other organisational functions (Gummesson, 1987). As a consequence, employees must be prepared to give up their autonomy and independence in favour of sharing responsibility and competence with other organisational functions.

Not all employees will welcome change (Bovey and Hede, 2001; Mento *et al.* 2002). Some employees may resist participating in the implementation of relationship marketing programmes by, for instance, reducing output, withholding information, vocal opposition or agitating others (Recardo, 1995). Change cannot effectively be implemented without the support and commitment of employees (Mento *et al.* 2002). Therefore, dealing with resistance to change is a key element of the change process and thus relationship marketing implementation. A review of the literature is therefore merited to gain an understanding why employees resist change and the approaches available for businesses to deal with resistance to change.

3.8.1 Barriers To Change Implementation

Scholars recognise that employee resistance to change is a natural part of the change process (Bovey and Hede, 2001; Mento *et al.* 2002) and can have a number of causes. These include, for example, fear of the unknown, inconvenience, loss of freedom, lack of understanding of the need for change, treats to *status quo*, fear of failure, lack of perceived benefits, or loss of comfort and security (Mento *et al.* 2002; Mullins, 1993; Proctor and Doukakis, 2003). The dilemma businesses face when introducing change is illustrated by Lewin’s Force Field model as presented by Stacey (1993) in figure 9.

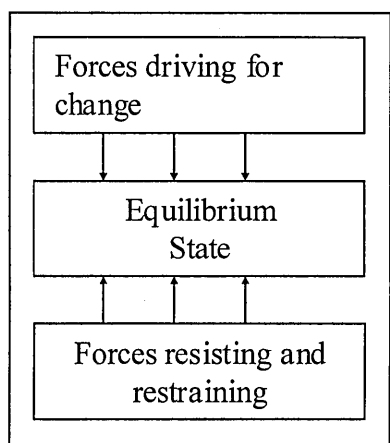


Figure 9: Lewin’s Force-Field Model

As figure 9 illustrates, there are some driving forces within the organisation, which push one way to attempt to bring change. Restraining forces push the other way to maintain the status quo and the resulting consequence results in the equilibrium between the two types of forces. As Stacey (1993) notes it lies in human nature to succeed and bring change by putting pressure on those who oppose, but the more they try the more the other side opposes and no change will take place.

3.8.2 Methods Of Dealing With Change Resistance

Kotter and Schlesinger (1979) proposed a range of methods used by businesses for dealing with resistance to change. A summary of these methods, their applicability, advantages and disadvantages are listed in table 14.

Table 14: Methods for dealing with resistance to change

Strategies	Commonly used in situations	Advantages	Drawbacks
Education and communication	Where there is a lack of information or inaccurate information and analysis	Once persuaded, people will often help with the implementation of the change	Can be very time-consuming if lots of people are involved
Participation and involvement	Where the initiators do not have all the information they need to design the change and where others have considerable power to resist	People who participate will be committed to implementing change, and any relevant information they have will be integrated into the change plan	Can be very time-consuming if participators design an inappropriate change
Facilitation and support	Where people are resisting because of adjustment problems	No other approach works as well with adjustment problems	Can be time-consuming, expensive and still fail
Negotiation and agreement	Where someone or some group will clearly lose out in a change and where that group has considerable power to resist	Sometimes it is a relatively easy way to avoid major resistance	Can be too expensive in many cases if it alerts others to negotiate for compliance
Manipulation and co-optation	Where other tactics will not work, or are too expensive	It can be a relatively quick and inexpensive solution to resistance problems	Can lead to future problems if people feel manipulated
Explicit and implicit coercion	Where speed is essential, and the change initiators possess considerable power	It is speedy, and can overcome any kind of resistance	Can be risky if it leaves people mad at the initiators

Source: Kotter and Schlesinger (1979)

Table 14 suggests that different types of methods are appropriate for dealing with resistance to change under various circumstances and situations.

This suggests and has been confirmed by the literature that there is “no best way” of managing change (Burnes, 1996; Maurer, 1996) as:

“managing change is a complex challenge that has to be understood within the specific context it is being conducted.” (Beech, 2003: 1)

Despite the age of the publication by Kotter and Schlesinger (1979), their work is still frequently cited by scholars (e.g. Huczinsky and Buchanan, 1991; McNish, 2002; Mento *et al.* 2002) and inherits some of the reoccurring principles typically mentioned in more recent studies on change management. Among these principles are the need for communication, training, participation and involvement (Doppler and Lauterburg, 2000; Huczinsky and Buchanan, 1991; Mullins, 1993; Reynierse, 1994; Talbot, 1993). In contrast to the work of Kotter and Schlesinger (1979), these principles are discussed, not only in the context of dealing with change resistance but from the broader perspective of change implementation. Moreover, communication, training, participation and involvement are not viewed as separate but as complementary approaches for dealing with resistance and implementation of change (Doppler and Lauterburg, 2000; Proctor and Doukakis, 2003).

3.8.3 Participation And Involvement

The literature suggests that employees should be involved in activities and decisions which might affect them and be allowed full and genuine participation as early as possible in the change process (Mullins, 1993; Waddell and Sohal, 1998). This asks managers to adopt a participative behaviour by involving employees in setting objectives and giving them greater responsibility and control over their work activities (Mullins, 1993). Doppler and Lauterburg (2000) summarise the main benefits of active participation frequently suggested in the literature (e.g. Brost, 1995; Huczynski and Buchanan, 1991). For instance, these authors note that employees know best their area of work. Therefore employees who are involved in the change process can assist in identifying any problems that might arise from proposed changes and finding practical solutions. The authors point out, that employees which are involved in seeking solutions

are personally committed to make these solutions work in practice. In addition, Doppler and Lauterburg (2000) commented that employees who take part in project work and advanced decision-making will feel treated seriously as partners, thus strengthening their identification with the firm. Other benefits of active participation and involvement mentioned in the literature include giving employees an opportunity to take ownership of new ideas, raise their concerns, opinions as well as to provide ideas, suggestions and possible improvements (Mullins, 1993, Proctor and Doukakis, 2003).

3.8.4 Communication

The literature reports that effective communication plays an important role in aiding management to create an understanding within the firm for the need and purpose of change initiatives (Dobson, 2001; Doppler and Lauterburg, 2000; Hamlin *et al.*, 2001). Informing employees about the nature and purpose of change has been proposed to help businesses to win employees' acceptance and commitment for planned changes for several reasons. For instance scholars have suggested that effective communication helps to reduce confusion and resistance (Mento *et al.* 2002), overcome ambiguity and uncertainty, inform and prepare employees for both positive and negative implications of change (Mento *et al.* 2002; Mullins, 1993; Proctor and Doukakis, 2003) and to encourage motivation and commitment (Proctor and Doukakis, 2003).

It has been reported by scholars that communication needs to be honest, open, ongoing, clear, active, two-way and timely, if it is to be effective in supporting the implementation of change (Doppler and Lauterburg, 2000; Hamlin *et al.* 2001; Mento *et al.*, 2002). Moreover, Doppler and Lauterburg (2000) stress the need for employing different modes of communication. For instance, maintaining a personal, open, face-to-face dialogue with employees is an opportunity for change leaders to respond to employees concerns, hopes and fears. Communicating at meetings where both executives and employees are present on the other hand is considered necessary to ensure that everyone gets the same message, can ask questions and experience a "live dialogue" with management.

3.8.5 Training

Training is recognised as an important element of change management and is commonly viewed as tool to provide employees with new skills and knowledge if change initiatives create changing job requirements (Huczinsky and Buchanan, 1991; Reynierse, 1994; Talbot, 1993). Training assists workers in carrying out their responsibilities more effectively (Beech, 2003; Talbot, 1993) and aids in reducing employees' fears and doubts of their ability to meet the new responsibilities (Talbot, 1993). Training has also been proposed to support the change process by encouraging employees to adopt new values, attitudes and behaviours in carrying out their job (Reynierse, 1994; Talbot, 1993). Another, generally neglected, role attributed to training, is the provision of information about the change process (Talbot, 1993). Employees can, as part of the training programme, be asked for feedback about the organisation's structure, policies, systems and procedures. The author suggested that such feedback provides valuable insight about employee attitudes, reveals new ideas and offers suggestions for improvement.

The previous discussions showed that communication, training, as well as participation and involvement are principles which help businesses to overcome employee resistance and facilitate change implementation. It needs to be noted, however, that these are just some of a wide range of change management principles reported in the literature. Others include for instance, the need to carefully plan, structure and implement change, (McNish, 2002), the need for senior management to show commitment to the change process (Gills, 2003; Recardo, 1995) or the need for empowering employees (Gills, 2003). These principles have, however, not been further elaborated on. The situational circumstances underpinning the empirical work of this research allowed for developing and testing a pricing model within a company. However, being an outsider to the firm, the possibilities to influence managers' attitudes and behaviors or the planning of change were limited.

3.9 Conclusions From The Literature Review

As mentioned at the beginning of this chapter, the objectives for reviewing the literature were to explore what is already known and to identify gaps in knowledge about:

- e) How relationship marketing is and can be combined with pricing practices of organisations;
- f) The processes and factors, which support relationship marketing practice;
- g) The inputs, processes and outputs of an RPM and how these can be defined and measured;
- h) How the effectiveness of relationship marketing programmes can be monitored and measured;

Following these objectives proved helpful to refine the research problem and embed it, together with the findings from the literature, in an overall conceptual research framework as depicted in figure 10.

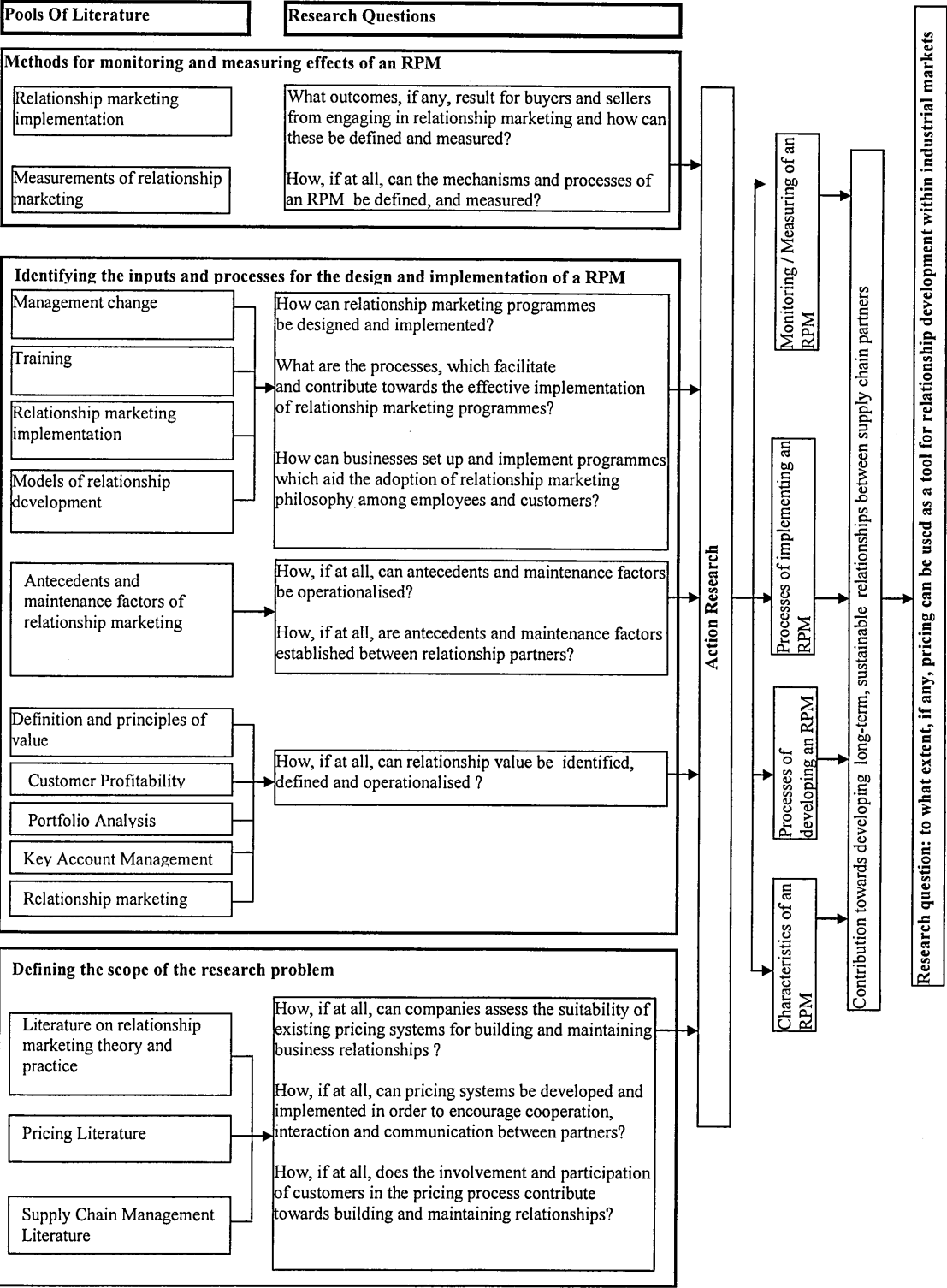


Figure 10: Conceptual research framework

As figure 10 shows, the objectives of the literature review were translated into three broad categories, namely:

- a) defining the scope of the research problem
- b) identifying the inputs and processes for the design and implementation of an RPM
- c) methods for monitoring and measuring effects of an RPM

These three categories represented the broad framework for the literature review and guided the choice of different pools of literature that were reviewed. As illustrated in figure 10, the main findings from reviewing the different literature were formulated as a set of research questions. In most research projects, scholars draw up a set of research hypotheses or propositions whilst discussing the literature. However, in the case of this research, the formulation of the research questions represents a compromise being made to combine conventional research and action research methodology. That is, research questions are less focused than stating theoretical ideas in the form of hypotheses or propositions in conventional research. However, research questions extend the relatively unfocused nature of action research and its emphasis on practical considerations and outcomes which reflect propositions and contributions to enhance practical knowledge (Perry and Zuber-Skerrit, 1992). That is, the research questions shown in figure 10, represent a set of themes to be explored during the action research process. From the resulting findings, a theoretical framework was developed about the role of pricing in relationship marketing. As shown in figure 10, the theoretical framework consists of four building blocks, namely a) characteristics of an RPM, b) processes of developing an RPM, c) processes of implementing an RPM and d) monitoring and measuring of an RPM. The contributions of each building block towards developing closer supplier-distributor relationships provide explanations about the extent, if any, pricing can be used as a tool for relationship development within industrial markets.

The detailed methodology, followed in using action research as an instrument to build a theoretical framework of the role of pricing in building closer business relationships, is discussed in detail in chapter 4.

Chapter 4

Research Methodology

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4. Research Methodology

4.1 Research Approach

As described in chapter 1, the aim of this research is to explore the extent, if any, to which pricing contributes towards building relationships between supply chain partners. Developing a relationship pricing model is the planned approach to address the research question. The purpose is to use the model as tool, to explore the potential relationship between an organisation's pricing programme and its effect on initiating the adoption of relationship marketing practice between supply chain partners. A review of the literature revealed that the role of pricing in relationship marketing has not yet been firmly established. It further emerged, that the understanding of how to set up and implement relationship marketing programmes was not yet developed to any great extent. These circumstances are typical of an inductive research approach. Unlike with the deductive approach, one could not rely on existing theory spelling out abstract relationships between concepts, from which a hypothesis could be developed and tested (Neuman, 1991). Instead, theory had to be developed inductively, based on emergent findings from the data collection and analysis process (Saunders *et al.*, 1997). The literature provided ideas and concepts about the implementation of relationship marketing programmes as well as the antecedents and maintenance factors of relationship marketing. These ideas and concepts were refined and further developed during the exploratory part of this study, resulting in the development of a relationship pricing model. This model was then tested in order to identify preliminary relationships and to develop empirical generalisations about the role of pricing in supporting relationship marketing practices.

Action research was included as part of the methodology to probe into the research question in an inductive way. Action research as cited by O'Brien (2001:14)

“...aims to contribute both to the practical concerns of people in an immediate problematic situation and to further the goals of social science simultaneously. Thus there is a dual commitment in action research to study a system and concurrently to collaborate with members of the system in changing it in what is together regarded as a desirable direction. Accomplishing this twin goal requires the active collaboration of researcher and client, and thus it stresses the importance of co-learning as a primary aspect of the research process.”

As discussed in chapter 1, this study started off with the practical concern of a Swiss brewer about the competitiveness of its pricing system. A review of the literature showed that the practical problem of the brewery coincided with a gap in existing knowledge about the understanding of relationship marketing and pricing. This was the reason for setting up an action research project, which aimed at solving a practical as well as a theoretical problem. This twin focus is considered a typical feature attributed to action research (O'Brien, 2001).

The nature of this research did not allow to employ action research in its purest form to probe into the research questions. As Perry and Zuber-Skerritt (1992) noted, a researcher following action research will have two projects, the action research project and the thesis project for which data from the action research project are being used. A PhD thesis project focuses on adding to existing knowledge, published in the literature of disciplines. However, for this research, separating the action research project from the PhD thesis was not an option. The development and implementation of the RPM necessitated active involvement of the researcher in the research process. There was ongoing interaction between the researcher and respondents in order to a) communicate the purpose of the RPM, b) explaining its mechanisms and c) persuading adoption of the RPM on the part of management, salesmen and their customers. Given that remaining objectively detached from the process was not an option, the protocols from action

research were followed, whereby the researcher becomes part of the change management process. In short, the techniques and procedures of action research but not its philosophy were followed during this research resulting in a hybrid form of action research as shown in figure 11.

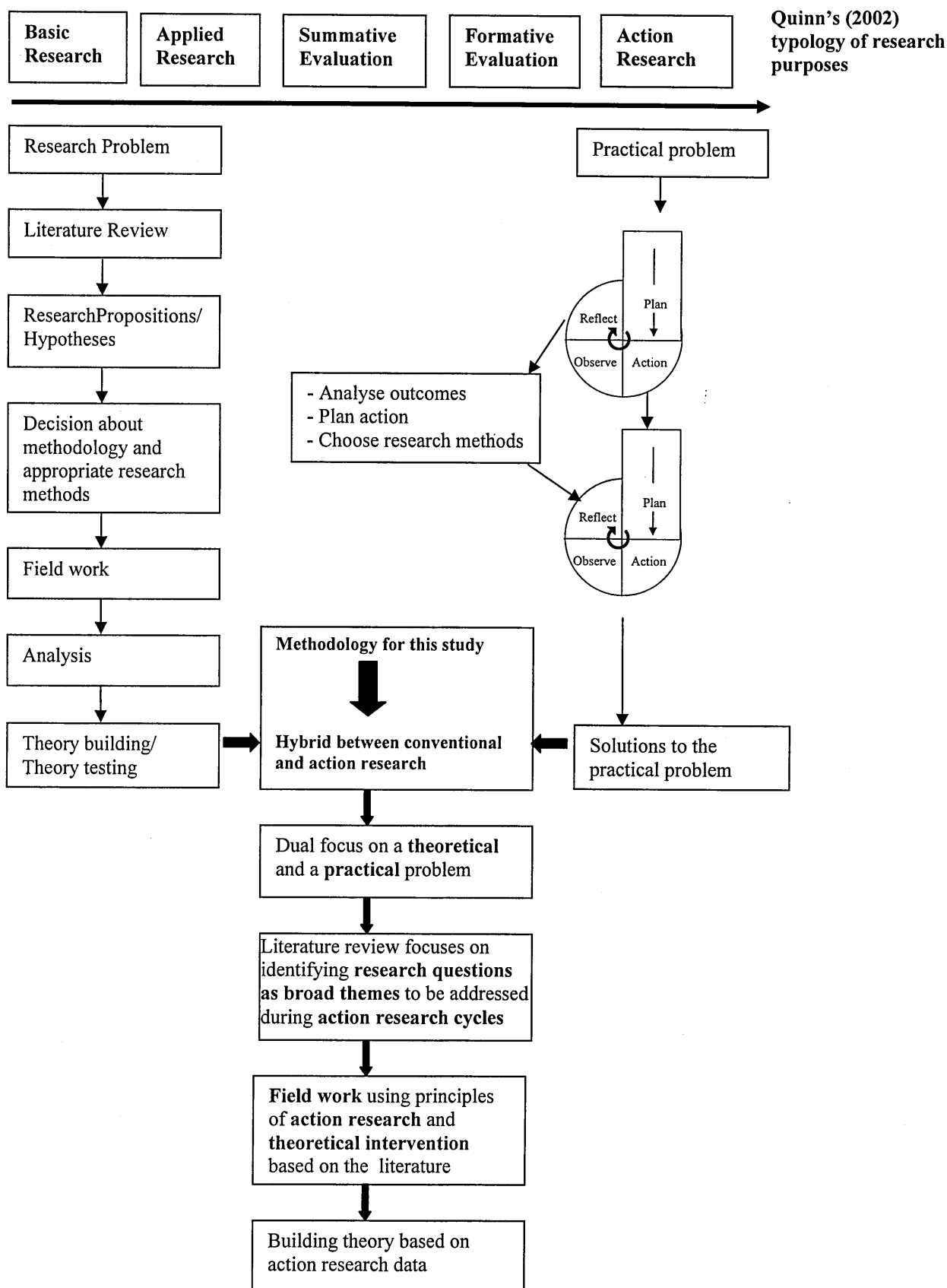


Figure 11: Hybrid action research methodology framework

The framework in figure 11 depicts, how elements from conventional research were combined with action research and transformed into a hybrid action research methodology. As shown in figure 11, conventional research is located at one end of the continuum of research purposes developed by Quinn (2002). The purpose of basic or conventional research is to solve a research problem by following typical research procedures commonly recommended in the literature on research methodologies. Action research is located at the opposite end of the research purpose continuum. The purpose of action research is to solve a practical problem. Unlike conventional research, the research process starts with a practical problem and little else. Solutions to the process are developed through a series of action cycles with the involvement of both, the researcher and the respondents. The outcome of each action cycle is analysed in terms of its contribution to solving the practical problem. In a reiterative process, additional action cycles are planned and implemented until the problem is solved. Unlike conventional research, methods for solving the problem cannot be pre-determined, but emerge from the outcomes of each action cycle.

The hybrid form of action research borrows elements from both conventional and action research. As can be seen from figure 11, the purpose of a hybrid methodology is to solve a theoretical as well as a practical problem. The purpose of the literature is to identify research questions to be explored during the action research cycles. Therefore, the hybrid research methodology does not go as far as conventional research, where the literature review sets the basis for the formulation of research hypotheses and / or propositions. However, having research questions in place, embeds the otherwise purely practically orientated action research approach within a literature based theoretical framework. This framework also guides the theoretical intervention during the field work. In a typical action research project, each action cycle is planned based on the outcomes of the previous cycle. The hybrid methodology differs in as much as the outcomes of each action cycle and the necessary actions to be taken are reviewed from a theoretical perspective. An example of this practice concerned the identification of RPM variables, which is discussed later in this chapter. Respondents generated the RPM variables, but the categories they placed these variables into had to be discarded since they were not relational in nature. The theoretical intervention of the researcher

involved the creation of new categories which were relational in nature and explaining these to the respondents. Following this approach, a theoretical focus was maintained throughout the action research process, whilst using action research data to build theory about the potential role of pricing in relationship marketing.

Existing knowledge of relationship marketing in the literature provided valuable indications and ideas of what a relationship pricing system might look like. It was, however, through the active involvement and participation of the supplier's employees that these ideas were developed further; refined and eventually transformed into a relationship pricing model. The participation of "informants" as co-researcher (Kemmis and McTaggart, 1988) and the transformation of the emergent findings to guide the subsequent research process and outcomes (Bell et al., 1990) are important elements of action research.

Action research was further appropriate, as this methodology allows for actively guiding and supporting the change process within organisations (Todhunter, 2001). The relationship pricing model was likely to change the ways in which the organisation implements pricing practices with its customers. Employees would have to adopt a relationship marketing philosophy by treating customers as partners, share information, anticipate and respond to customer needs and requirements (Kothandaraman and Wilson, 2000; O'Toole and Donaldson, 2000b). As discussed in the literature review, employee resistance to change is a common phenomenon (Bovey and Hede, 2001; Mento *et al.* 2002). Frequently recommended methods to deal with resistance to change include effective communication (Dobson 2001; Doppler and Lauterburg, 2000; Hamlin *et al.*, 2001) as well as active involvement, participation and training of those affected by the change programme (Huczinsky and Buchanan, 1991; Mullins, 1993; Reynierse, 1994; Talbot, 1993; Waddell and Sohal, 1998).

These methods were found to be an integral part of action research. Throughout the research process, respondents were invited to engage in what Kemmis and McTaggart (1988:5) describe as

“collective, self-reflective enquiry... in social situations in order to improve the rationality and justice of their own social practices. ”

Respondents were actively involved in reflecting on issues and processes related to the current pricing system and connected to the development of the RPM. In so doing, they took part in identifying potential problems, defining the need for change and contributing their views, opinions and suggestions for finding solutions. This kind of involvement, according to the literature, helps businesses to deal with employee resistance to planned change programmes (Doppler and Lauterburg, 2000) and encourages commitment to make solutions work in practice.

Throughout the entire research process, there has been an ongoing communication and interaction process between researcher and the respondents. Thus, the researcher was given the opportunity to learn about the concerns, needs and problems of employees related to the RPM. These could be incorporated in the overall research process, thereby supporting efforts to gain employees' commitment to change. Moreover, due to the ongoing interaction with the participants the researcher could actively familiarise respondents with the concept of relationship marketing and help them to relate it to the way in which the organisation works and operates. It was in this way that respondents came to understand the difference between transaction and relationship marketing.

In line with the basic action research model cited by different action researchers (Gabel, 1995; O'Brien, 2001), the course of this research reflected a cyclical process as illustrated in figure 12.

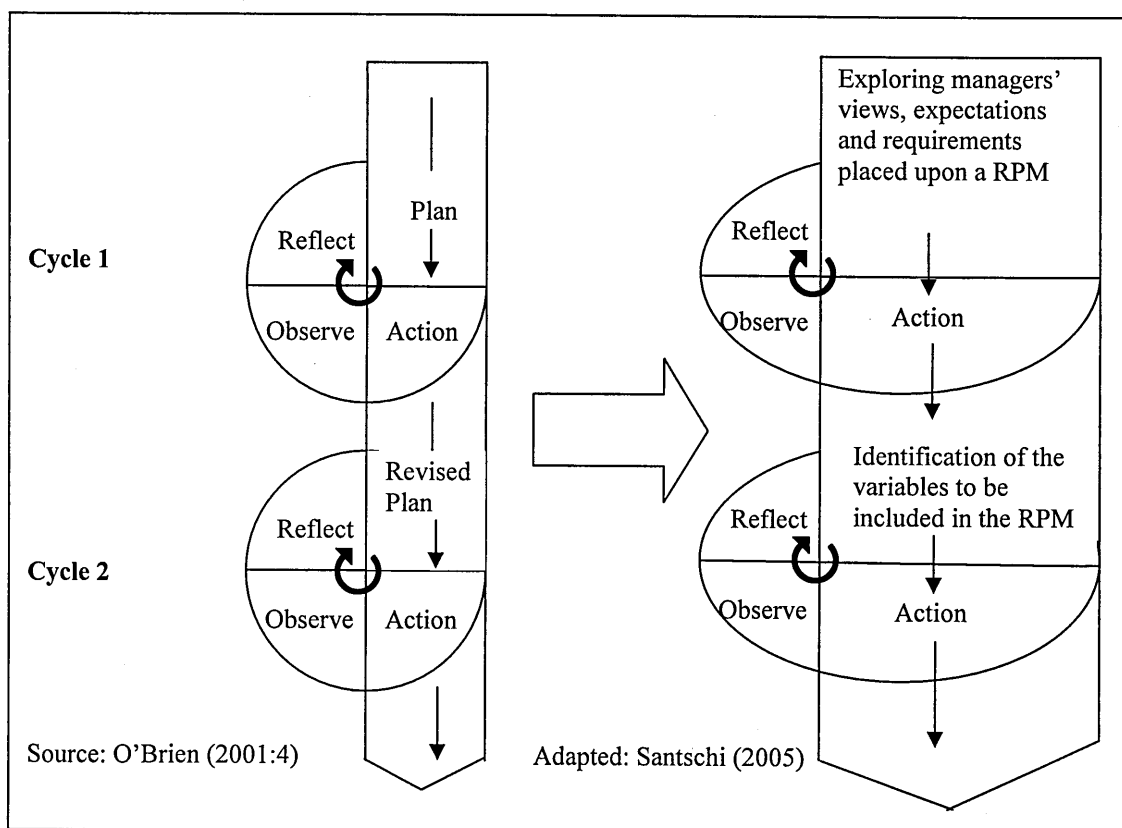


Figure 12: Action research model

Each cycle starts with an exploratory stage, where the researcher develops an understanding of the problem and plans the action that is needed to resolve it. Planned actions are implemented and all observations collected. A reflection of the emergent findings, guide the subsequent research process and outcomes, thus initiating the next cycle. As depicted in figure 12, one of the first problems to be resolved, was to obtain an understanding about the views, expectations and requirements the board of management placed upon the RPM. For this purpose a focus group was planned, implemented and analysed. Reflecting on the outcomes from the group discussion, a broad concept of what the RPM could look like was drawn up. This concept and the underlying ideas were further developed and refined as part of a second action research cycle. A focus group with finance, marketing and sales managers was carried out, to explore the variables that could be incorporated as part of the RPM concept. Again, observations from this group discussion were critically reviewed, prior to planning and initiating the next research cycle.

4.2 Research Design

The study design was characterised by several consecutive action cycles, different research methods and participants as summarised in figure 13.

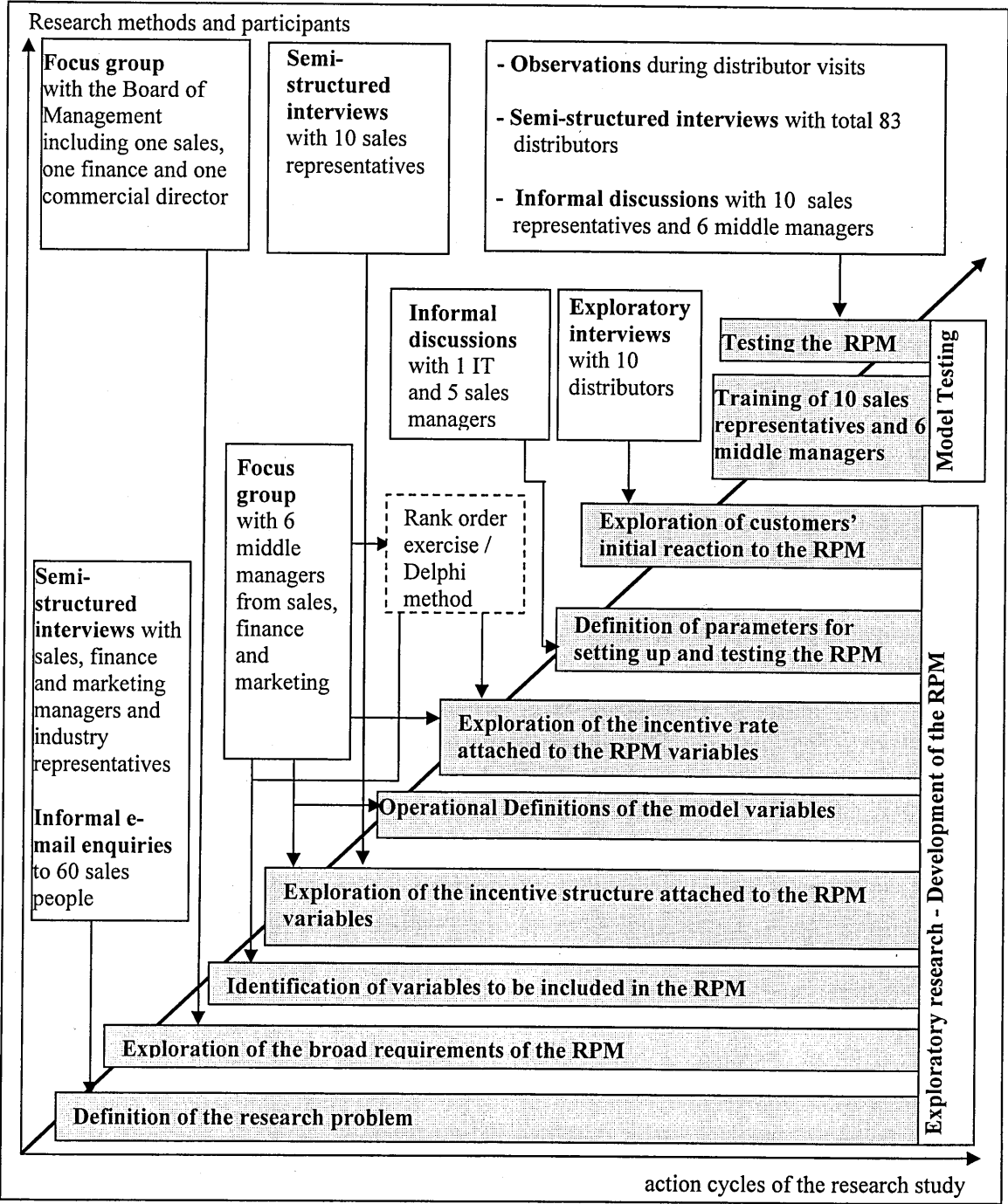


Figure 13: Overview of the research design

As can be viewed from the diagram, this research evolved in two main phases. Exploratory research took place to identify the research problem, which subsequently led to the identification of the variables, structure and mechanism of the relationship pricing model (RPM). Moreover, the conditions for transforming the conceptual into a fully operational model and the circumstances of testing it were also determined during this first phase of the research. The second phase of the research was dedicated to testing the RPM among a total of 83 distributors. Training sessions were conducted, to familiarise sales representatives with the use of the model and to prepare them for carrying out the distributor visits.

As shown in figure 13, multiple research methods were employed throughout this research. This offered the advantage of selecting a range of methods for varying purposes and allowed for data triangulation (Saunders *et al.*, 1997). For instance, observations made during distributor visits, aided in putting into perspective and verifying the comments made by distributors, during subsequent semi-structured interviews.

Focus groups were employed for the exploratory part of this study to a) explore managers' understanding of the relationship marketing concept and b) to capture managers' views, opinions, attitudes and objections to the RPM. Findings from the focus groups provided insight on how to educate respondents about relationship marketing and to deal with resistance to change whilst developing the RPM.

Semi-structured interviews were favoured, because of the flexibility to add, alter or omit questions as findings arise and to explore emerging themes during subsequent interviews (Saunders *et al.*, 1997). An interview guide, detailing the broad themes and questions as well as the observations to be noted down, was developed. This guide was then transcribed and evaluated with the help of content analysis. Sentences were used as the units of measurement. This permitted the capture of the meaning of respondents' statements within the specific context these were made. Using sentences allowed the identification of positive and negative meanings as well as the frequency of recurring

statements during the interviews. Weight was also given to the intensity with which certain statements –both positive and negative- were made. These intensities were annotated in the margins of the transcripts of the tapes. The statements were allocated to a number of categories, following a set of clearly defined categorisation rules as shown in table 15².

² The categories and the categorisation rules shown in table 15 are a close if not literal translation from the German and French in which they were originally written.

Table 15: Analysis scheme of interviews with customers and sales people

Categories	Categorisation rules
Positive attitudes towards the RPM	- Positive expressions and phrases within sentences made by customers and distributors about the RPM - Statements about the benefits of a RPM including flexibility, transparency, fairness, recognition of customer loyalty, popularity and demand of Heineken products in the market.
Negative attitudes towards the RPM	- Negative expressions and phrases within sentences about the RPM including references to a) mistrust, b) unwillingness to show commitment to RPM, c) regional brand preferences, d) loyalty to competitors.
Reasons for rejecting the RPM entirely	- Sentences demonstrating entire rejection of RPM as a system including a) threats to switch supplier, b) refusal to accept RPM and c) insistence to maintain existing pricing system.
Reasons for rejecting certain elements of the RPM.	- Phrases and expressions within sentences indicating a) rejection of RPM definitions b) disadvantages arising from fulfilling RPM criteria and c) lacking capability to fulfil RPM criteria
Indicators of relationship marketing adoption	- Expressions and phrases within sentences containing relational meaning such as partnership, mutual benefits, cooperation, trust and commitment. - Sentences indicating partners' active involvement and participation in the RPM such as a) suggestions on how to use the RPM, b) disclosure of information for better use of RPM, c) commitment to intensify interaction and communication, d) willingness to accept certain RPM drawbacks and e) negotiations between partners.

The statements within each category were then reviewed for patterns of regularity, discrepancies, intensity and frequency. In so doing, important and notable findings started to emerge. These findings were then described in detail, thereby initiating the decoding process. That is, the analysis moved from looking at specific statements to developing theoretical explanations to the research questions.

An overview of the different interview and observation guides employed to collect qualitative data during different stages of this study can be viewed in the appendix 4 – 12.

Quantitative research, in the form of the Delphi method and rank order exercise, was used, to obtain “hard”, measurable data. This was the case, for example, to determine the importance and incentive rate attached to each of the RPM variables.

As further illustrated in figure 13 on page 128, the sample selection included different groups of research participants. The main criteria for selecting the sample included a) key informants and b) change participants. Key informants were chosen for their particular knowledge and expertise in relation to the questions, which were being explored. Involving those, directly affected by the potential changes arising from the RPM, was expected to a) facilitate the change process (Huczinsky and Buchanan, 1991; Mullins, 1993; Reynierse, 1994; Talbot, 1993; Waddell and Sohal, 1998) and b) to encourage the adoption of relationship marketing thinking (Kothandaraman and Wilson, 2000).

With this broad research overview in mind, the more detailed methodology employed for each of the different action cycles, will now be discussed in the forthcoming sections.

4.3 Development Of A Relationship Pricing Model

The aim of this study, as explained in chapter 1, is to explore the possibility of developing a pricing system that could act as an instrument for strengthening supplier-distributor relationships. This then evolved into the notion of designing a relationship pricing model (RPM). As the literature shows, the creation of mutual benefits is reported as one of the key features of relationship marketing (Frieze and Funck, 2001; Harker, 1999; Walter *et al.*, 2001). Moreover, the primary purpose of developing a pricing model was to use it as an instrument to explore, how, if at all, pricing practices of organisations contribute towards building and maintaining relationships with their customers.

The first step was to investigate the extent to which existing research could offer guidance on developing an RPM, which incorporates the customers' value contribution to the supplier-distributor relationship. Insight was also needed to determine, how the supplier can add to the attractiveness of the relationship to the customer.

The literature review proved helpful in gaining an understanding of the theoretical principles of relationship marketing (e.g. Grönroos, 1999; Gummesson, 1987). Moreover, as discussed in the literature review section, the literature has much to say about the kinds of antecedents and maintenance factors, which are believed to support relationship development between organisations (e.g. De Ruyter *et al.*, 2001; Fontenot and Wilson, 1997; Morgan and Hunt, 1994; Tuten and Urban, 2001; Zineldin and Jonsson, 2000;). However, the literature has rather less to say about how businesses can, in practice, design, implement and assess relationship marketing programmes (Chong, 2003; Frieze and Funck, 2001; Lindgreen, 2000).

Scholars have suggested a range of factors, both financial and non-financial, which they claim, reflect the value of a customer. These include for instance profitability (Yorke and Droussiotis, 1994), turnover (Ojasalo, 2001) or provision of market information (Walter *et al.* 2001). However, as one reads the literature, it becomes clear that the concept of value is complex and not easy to understand.

For instance, researchers present many different definitions and understandings, when talking about value (Lapierre, 1997; Lindgreen and Wynstra, 2005). Moreover, the perception of value is “personal and idiosyncratic” (Zeithaml, 1988) and derived from the perception and belief system of the value recipient – the person doing the valuation (Ford and McDowell, 1999; Simpson *et al.* 2001). One customer may view the supplier’s after sales service as value. Another buyer talks about promotional sales support when describing the value of a seller. The literature further suggests that definitions and understandings may vary, depending on the perspective, from which the term value is considered (Campbell, 1997; Möller and Törrönen, 2000). A seller may refer to sales and profits, when contemplating customer value. The buyer on the other hand, may define value as a seller’s ability to offer tailor-made goods and services. For all these reasons, it was difficult to decide what would be the most appropriate value factors to include in the model and how these could be made operational.

Moreover, the way in which customer value is discussed in the literature does not always embrace the central tenet of relationship marketing. True relationship marketing, demands that relationship marketing programmes must be built on the twin premises of “mutual gain” and “partnership”. That is, the focus should be on the relationship rather than upon either of the parties involved. For instance, even the more recent literature on Customer Account Profitability (Rakesh *et al.*, 2001; Ryals, 2002), Customer Portfolio Analysis (Johnson and Selnes, 2004; Zolkiewski and Turnbull, 2002) and Key Account Management (Lum and Hopkinson; 2002; Ojasalo, 2001) tends to focus upon the supplier side of the supplier-customer dichotomy. The literature has much to say to guide suppliers’ in their attempts to categorise customers for the purpose of more effectively targeting tailored marketing programmes at the most “attractive” customers (be that in financial or non-financial terms). Moreover, within the Relationship Marketing literature some scholars explicitly explore value either from the supplier’s perspective (Simon and Mandjak, 2004; Walter *et al.* 2001) or from the customer’s point of perspective (Reinartz and Kumar, 2003; Ulaga, 2003).

In addition to the literature review, enquiries were made within the beverage industry. The purpose was to establish whether other beverage businesses, market research agencies, the Swiss Brewery Association and the supplier's international research centre had knowledge of or already had implemented pricing systems as a relationship marketing instrument. Semi-structured interviews were held with industry representatives and the supplier's sales, finance and marketing managers, during which their insights about the nature and set up of pricing systems within the industry was asked for. Moreover, an e-mail was sent to all 60 of the supplier's sales people asking them to get in touch, if they knew about or had information about the pricing systems operated by competitors. Positive responses were followed up by informal discussions with the senders.

Relatively few insights were obtained about pricing systems operated by other businesses within the industry. Beverage businesses were willing to talk in very general terms about their pricing system, but considered it to be too sensitive to disclose details. Research agencies and Swiss Brewery Association claimed client confidentiality as the reason for not being able to get involved in discussing the pricing practices of Swiss organisations. Around half of the sales people had a general idea of what competitors' pricing systems looked like. However, only one of them, had access to written documentation, detailing the terms and conditions of the market leader's pricing system.

It became clear that further investigation was required to identify the inputs needed to develop an RPM. For this reason, exploratory research was initiated which consisted, as noted earlier in the dissertation, of five sequenced phases. The first step focused upon exploring the broad requirements of the pricing model, the second looked at the identification of variables, and thereafter the definition, the measurement of the model variables and lastly, the acceptability of the pricing model to distributors were considered.

4.3.1 Exploration Of The Broad Requirements Of The Relationship Pricing Model

A group discussion was conducted with the board members of the supplier, namely the Commercial Director, the Sales Director and the Financial Director. The main aim of this group discussion was to investigate the expectations and requirements the main decision makers of the company would place upon the “Relationship Pricing Model” (RPM). In order to provide a basis for discussion and to facilitate the participation of the Directors, insight derived from a review of sales records, invoices and semi-structured interviews with sales, finance and marketing managers were presented to the participants at the beginning of the discussion. This included an overview of how a distributor’s net selling prices are at present calculated, by their company. This is shown in figure 14.

Overview of price calculation	
Gross Selling prices	List prices (ex-brewery) determined by the supplier
- Quantity discounts	Discounts given according to the size of order
- Other types of discount	
Promotion discounts	Discount granted on products for the purpose of consumer price promotions. That is, these discounts must be passed on to the consumer.
Discount for early payment of bills	Discount granted if bills are paid within a specified time period. The customer deducts the discount, from the invoiced amount <u>before</u> making the payment.
Bonus	Discounts paid as part of non-binding agreements with distributors if these realise the yearly sales targets set by the supplier.
End-of-year-payments	Discounts paid out as part of contractual agreements with distributors, based upon the magnitude of sales realised by the distributor at the end of the year
Net selling price	Final price distributors pay for the product purchase

Figure 14: Overview of the supplier’s current price calculations

As illustrated in figure 14, the basis for determining current prices for distributors is to select one of the 8 price lists where ex-factory prices were calculated for each of the existing product units and type of customer.

Similar to the practice of many other organisations, the supplier charges different prices to distributors, depending on which market segment they belong to. However, the supplier's pricing system is not quite as rational as it first appears. In some instances, there are good reasons for the existence of some of the different price lists, for example the location of a distributor. In a city, delivery is easier and less costly than in the mountainous areas and this is reflected in the prices charged to distributors. In other instances, the preponderance of price lists is a hangover from a take over by the supplier. As local Swiss breweries have been absorbed by the multinational, some previous pricing arrangements have been continued and others dismissed without a systemic review of the pricing system. As a result, the rational within many of the price lists is indefensible and there is no consistency in the way different distributors are dealt with.

Based on this ex-factory price list, further discounts are then made, arriving at the final price charged to an individual distributor. This type of pricing structure is common to many organisations. Typically, as here, price incentives focus heavily upon sales volumes, and promotional discounts.

Earlier in this research, information about the problems of the current pricing system was collected from a review of the supplier's internal sales records and semi-structured interviews with sales, finance and marketing managers. This information was passed on to the group, in addition to the overview of the current price calculation. A list was shown and explained to the group, which summarised the problems, identified during the interviews, in bullet points. To support the findings from the interviews with facts and figures, selective examples of sales records, were also presented to the managers. The purpose was to openly and clearly communicate the reasons why the firm's current pricing practices were being reviewed. This approach followed the advice offered by the literature on change management. This literature reports, that effective communication plays a key role in creating an understanding among management for the need and purpose of change initiatives (Dobson, 2001; Doppler and Lauterburg, 2000; Hamlin *et al.*, 2001).

One of the main problems of the firm's current pricing practices, for instance, was that the allocation of discounts such as bonuses and end-of-year payment were neither systematic nor, in most instances, transparent to everyone in the supply chain. Some of the sales managers' remarks further raised the suspicion that customers couldn't tell whether they were being given the same terms and conditions as other distributors doing similar levels of business with the supplier. Without transparency, in these matters, it is extremely difficult to fully develop customers' trust and credibility in the supplier. A pricing system which is truly underpinned by the relationship marketing philosophy, will explicitly communicate that a supplier's activities are geared towards creating benefits for all parties involved in the supply chain.

Furthermore, the semi-structured interviews revealed that managers believe the discount for early payment of bills to be administered in a way that is unnecessarily costly to the company. The problem lies in the practice of allowing the customer to deduct the discount allowance from the invoiced amount. A lot of time is needed by the company to check whether the bill has indeed been paid within 10 days. The difficulty arises when the businesses tries to reclaim the discount when it has been discovered that the distributor has not settled the bill within 10 days. Thus, the business then has to determine whether the distributor has indeed paid within the agreed time period or whether a delay in the billing process at the company or at the bank led to the payment delays. This and the process of reclaiming unjustified discount deductions requires considerable time and human resource investments which often offset the benefits of receiving the money within 10 days after the bill has been sent out.

The profusion of pricing schedules, i.e. 8 different price lists, was an issue that concerned the Board members. This made pricing complicated for the sales force and created dissonance among customers, who suspected that others might be paying lower prices than themselves. Therefore, the matter was raised during a focus group discussion with the Board members (the Commercial Director, the Sales Director and the Financial Director). However, the group participants could not agree upon the ideal number of price lists to be incorporated in a new pricing system. Moreover, when talking about reducing specific price lists, managers found valid reasons why each

should be retained. It emerged, that despite adding complexity to the pricing system, each of the different price lists served the organisation well for dealing with different market segments. Paradoxically, there was a consensus that the number of price lists should be reduced but the group could not decide which to drop.

Thus, the challenge was to develop a new pricing model that met each of the following conditions:

- to develop a pricing model which retains the benefits of the existing pricing system whilst simplifying and automating price determination
- to ensure any new pricing model is easy for both the sales personnel to operate and to communicate to customers and for customers to understand
- to develop a pricing system, where prices are determined in a consistent, transparent and systematic manner
- to develop a pricing system, that engages and involves the customer in the price making process

It was decided that first a conceptual model would be developed and then an attempt would be made to operationalise this pricing model. The idea of adopting an RPM represented a major psychological step for both the supplier's management and that of the distributors. Therefore, it was politic to concept test the idea, rather than presenting both parties with a complete model. This approach actively involved both the supplier and distributors in the development of the RPM. Thus their views and opinions could be explored to learn what kind of features people expected to be part of the RPM and to identify any barriers to the adoption of the RPM that might arise.

When it came to building the model, desired features could be incorporated and objections overcome by adapting the design of the RPM. Moreover, it was hoped, that the supplier and the distributors would more readily accept and take ownership of the RPM later on, when given the chance to actively participate in its development. This principle was based upon insight derived from the literature on change management.

Several authors emphasise the need for early involvement and participation of people in the change process (Doppler and Lauterburg, 2000; Waddell and Sohal, 1998) to give them the opportunity to take ownership of new ideas, to raise their concerns, express opinions and suggest possible improvements (Doppler and Lauterburg, 2000; Mullins, 1993; Proctor and Doukakis, 2003).

Figures 15A and 15B below are a pictorial comparison between the pricing system that prevailed prior to the commencement of this research, and the conceptual model that arose out of the deductive reasoning that arose out of the exploratory phase of the study.

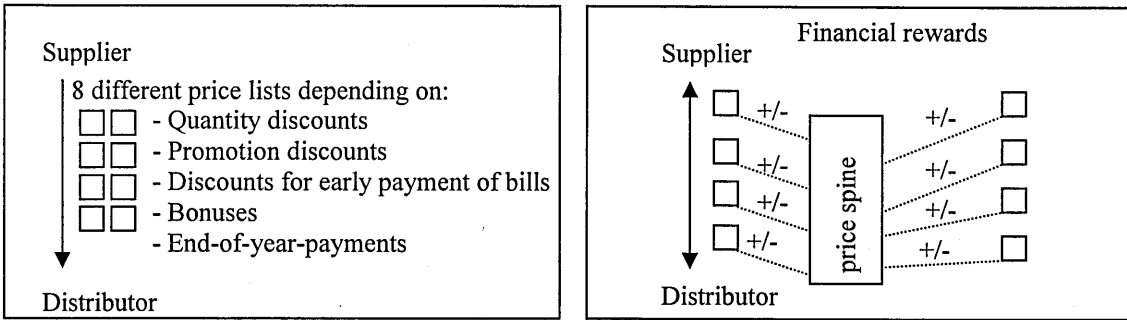


Figure 15 A: Overview of current pricing system Figure 15B: Concept of the new pricing system

Figure 15A shows the supplier’s current pricing system. The supplier determines prices for 8 different market segments and decides, which price list applies to the segment to which each distributor belongs.

Figure 15B on the other hand depicts the new conceptual pricing model. The 8 different price lists were replaced by what might be termed as a “price spine” or generic basic list price. The “price spine” represents one basic price list set up by the supplier, which applies to all distributors alike. To this generic basic list price, financial rewards or penalties could be added or subtracted. Initially, whilst it was possible to speculate as to what some of the rewards might be - e.g. different types of discounts or rebates - it would only be after the exploratory empirical research was completed that a) these will be confirmed, b) other rewards might be added and c) possible penalties or deductions identified.

Another feature, which may not be immediately apparent, but has been built into the conceptual model, is the prospect of customers choosing the elements to be added, or subtracted, from the price spine/generic basic price list. It is for this reason that the lines between the price spine and the elements of price, in figure 15B, are displayed as dotted rather than full lines (which would represent elements that actually chosen by customers). In other words, the conceptual model allows for distributors to “pick and choose” the classes of rewards for which they wish to strive. In this way, customers can actively influence the final price they pay for the supplier’s products.

4.3.2 Identifying The Variables To Be Included In The Relationship Pricing Model

It will be recalled, from chapter 1, that senior management expressed an interest in the concept of relationship marketing but had only a limited view of what constituted “a good relationship”. In practice, if they had “no trouble” with the customer and that customer consistently contributed towards sales volumes then this constituted, “a good working relationship”. There was less agreement among those senior executives as to what type(s) of “value” a distributor contributes, beyond sales volumes, and how such should be rewarded.

It is perhaps not surprising that these directors did not have a comprehensive understanding of the value-contribution of distributors. After all, the most senior company personnel work at a strategic level and do not have day-to-day contact with customers. For the same reason, they were not able to give guidance on the specific incentives that should be retained nor suggest any that should be added. Moreover, during the discussion it became apparent that there were different understandings and use of the term “discount” among the group. Some talked about discounts as being sales volume related only. It also became apparent, that the distinction between “rebates” and “discounts” was not clear to everyone. Some did not see any distinction whatsoever, whilst others suggested that discounts tended to be sales volume related and rebates were a reward for contributions not directly related to sales volume e.g. carrying

more of the supplier's brands, providing market intelligence to the supplier and/or having the supplier's logo on the distributor's properties or vehicles.

Given the limited contribution that the board members were able to make to the detail of the pricing model a focus group was held with managers from the marketing, sales and finance functions. These individuals are involved in operational management and so were more likely to have a view as to what value(s) distributors can, or do, contribute. The focus group discussion was carried out with six middle managers: three from sales, two from finance and one marketing manager of the company.

During the course of the group discussion, a lengthy list of ways in which distributors can contribute value to a relationship was generated. The managers stated for example, that distributors create value if they: "contribute towards sales and profitability", "provide information about the supplier's competitors" or "recommend the supplier to potential customers". Group participants also identified a number of business practices which when engaged in, by distributors, were considered to reduce the value, of those distributors, to the supplier. An overview of all the value creating / reducing activities specified during the group discussion can be viewed in appendix 13.

Going through the list of variables generated during the group discussion, it emerged that 12 variables could also be found in the literature, whilst the remainder could not be identified. For this reason, a distinction is made in appendix 13 between those variables, which are the unique outcome of the focus groups, and those which arose in both the focus group sessions and the literature. As was explained earlier in this chapter, value is interpreted in different ways. Therefore, an additional note was added, indicating whether the type of value is explicitly or implicitly mentioned in the literature.

The list generated by the group participants consisted of 24 different variables, reflecting the value of a customer to a firm. In order to make the model manageable and simple, the challenge was to find a rationale for reducing the number of variables.

For this reason, the test instrument was changed at this point. Each of the group participants was asked to participate in a rank order exercise. Afterwards, every manager presented and explained the outcome from the exercise to the other participants. There was an extensive list of variables, generated from the focus group session, to which was added variables previously obtained from the literature. The two lists were then combined into one. This, obviously, resulted in a very long list of variables. However, one of the precepts of the new model was that it should be simple to both understand and operate. Thus, not all of the variables could be incorporated in the model. Therefore, each participant was asked to rank order their top twenty variables in terms of their potential impact upon creating/reducing value to a relationship. Each individual middle manager was asked, in turn, to present and explain his prioritised list to the others in the group. In so doing the group participants after some discussions, decided to firstly determine broad value categories. Three categories were identified by the group and these they named “reward”, “strategic” and “penalty”. Their second step was to assign the types of incentives to these categories. The participants agreed that some of the incentives within their original lists did not fit into any of the categories and so these were dropped. As illustrated in figure 16, group participants came to the conclusion that the value of distributors falls into three important categories covering fourteen variables.

Reward elements	Strategic elements	Penalty elements
Brand distribution exclusivity	Territory exclusivity	Late payment of bills
Product assortment	Sales potential	Product purchase from the grey market
Branding activities ³	Distributor initiated sales	Customer complaints
Delivery of sales statistics		
Storage and distribution of sales support material		
Distributor actively sells the supplier's brands		
Adherence to recommended prices		
Provision of market information		

Figure 16: Variables to be used in the relationship pricing model

³ Although treated as one variable here, “branding activities” incorporate 7 different practices e.g. putting the supplier’s logo on distributors’ vehicles, buildings or letter headings. This is fully explained and discussed later in this chapter.

Each of the elements shown in figure 16 was considered by the sales, finance and marketing managers to serve a different purpose. “Reward elements” were thought of as general business practices e.g. provision of market information, delivery of sales statistics or placing the supplier’s logo on distributors’ lorries thereby creating value for the supplier. Furthermore, it was expected that distributors would be motivated by the prospect of receiving discounts if they follow a course of action which generates value for the supplier. The term “strategic elements” include actions by distributors which are particularly valuable for better implementing and executing the strategic intentions of the supplier within the regions and the overall market. “Penalty elements” were broadly defined to be those activities carried out by distributor’s which are detrimental to the supplier in terms of cost and lost sales and so should attract financial penalties.

These middle managers could readily relate how each of the variables would act to motivate distributors. When asked, how the variables might be useful in nurturing relationships between themselves and their distributors, however, it was evident that they simply did not think in these terms. This is perhaps unsurprising since the whole concept of relationship marketing was new to these managers and to their organisation.

It was also the case that none of the category headings, and only some of the variables, as described by these managers, fitted well with either the theory or the literature of relationship marketing. For instance, the managers’ intention of creating the category “reward elements” was to offer discounts to distributors, to encourage them to behave in ways, which are beneficial to them. This intention, however appears to be an attempt to manipulate the customer rather than establishing relationship marketing practices. As the literature illustrates, monetary rewards are commonly used to influence and control buyer behaviour and channel outcomes (Gilliland, 2003; Kotler, 1994; Taylor, 2002). Moreover, financial rewards, as discussed by the managers, are short term in nature, supplier driven and thus, do not take into account the broader value, arising from a cooperative, long-term buyer-seller relationship.

Consequently, there was a need to revise the category headings and to review the variables in the light of what the literature has to say about relationship marketing theory and practice.

It emerged that almost all of the variables correspond to some extent with antecedents and maintenance factors to be found in the relationship marketing literature. Figure 17 illustrates, how the total of 14 model variables can be allocated to relationship categories of different antecedents and maintenance factors, namely, relationship specific investments, information exchange, conflict resolution and business performance and terms.

Relationship specific investments	Information exchange	Conflict resolution	Business Performance and Terms
Brand distribution exclusivity	Delivery of sales statistics	Late payment of bills	Distributor initiated sales
Product assortment	Provision of market information	Product purchase from the grey market	Sales potential
Storage and distribution of sales support material		Customer complaints	Territory exclusivity
Distributor actively sells the supplier's brands			
Adherence to recommended prices			
Branding activities			

Figure 17: Allocation of model variables to different relationship dimensions

The allocation of the model’s variables to the different relationship categories as illustrated in figure 17 were guided by the following considerations:

Allocation of the model's variables to the category "relationship specific investments"

As will be remembered, "relationship specific investments" refer to resources committed to a relationship, which are valuable only in the context of a given exchange (Stump and Heide, 1996) and cannot be retrieved once the relationship is terminated (Wilson, 1995). It will also be recalled that scholars regard "relationship specific investments" as important prerequisites for relationship development (Hakansson, 1982; Wilson and Mummalaneni, 1986). Such investments signal a firm's long-term commitment to a relationship (Goodman and Dion, 2001; Zineldin and Jonsson, 2000), assist in the development of trust (Handfield and Bechtel, 2002; Zineldin and Jonsson, 2000) and encourage reciprocal behaviour (Campbell, 1997; Walter, 2003).

Each of the model's variables within this particular relationship category, reflect investments made by distributors specifically in support of the relationship with the supplier. The rationale for allocating a total of 6 variables within the category termed "relationship specific investments" is described below.

Brand distribution exclusivity: Relying largely on the product sales of one supplier to sustain the business is a sign that distributors trust the supplier not to act opportunistically and exploit the dependence of the distributor. In addition, distributors carry the opportunity costs which arise from selling products of only one supplier. Other suppliers may offer better prices or services.

Product Assortment: Distributors, who either carry the whole range of the supplier's products or a significant proportion of that range, show that they are willing to support the relationship partner's effort of establishing and increasing product awareness and availability in the market. In so doing, distributors are prepared to forgo the opportunity costs of selling alternative products, to varying extent, possibly with better margins, from the supplier's competitors. Therefore, it would be necessary to develop some *pro rata* reward system, depending upon what proportion of the supplier's product range the distributors was willing to carry.

Distributors who adopt the new product of a supplier are effectively, investing in the relationship. The distributor takes the risk of selling a new product, without knowing its potential success. This can be regarded as a sign that the distributor trusts the supplier and allocates him the competence of developing products that find demand in the market. The distributor is also prepared to make a financial investment in the relationship by allocating financial resources to support the supplier's business rather than employing these for less risky business operations.

Storage and distribution of sales support material⁴: Distributors participating in the storage and distribution of sales support material demonstrate a willingness to support the supplier in business operations, which are not part of routine selling and buying transactions. Investments take place in the form of time and cost invested in acquiring, storing and distributing the supplier's sales support material. The distributor could use his time and storage space for other activities, which would generate revenue for its business. Instead, the distributor may opt to forgo potential alternatives of income to invest in the relationship with the supplier. This suggests that distributors believe in the continuity of the relationship and that they expect some sort of benefit arising from the long-term cooperation with the supplier.

Distributor actively sells the supplier's brands: Distributors who actively promote the sales of the supplier's products, through its sales force, invest human resources in the relationship. By encouraging the sales force to actively push the sales of a supplier's product, the distributor shows trust in the supplier's product and belief in the future of the relationship with the supplier. Ideally, one would have an independent and objective way to judge whether or not distributors actively sell the supplier's brands. Trying to find an operational definition is not easy. "Actively selling the supplier's brands" could mean a number of things, for example a distributor giving verifiable instructions to its sales force to do so. As a pragmatic solution, the decision was made to leave it to the sales managers how the distributors' sales support can be assessed and judged. This is discussed in more detail, later on in this chapter.

⁴Sales support material includes merchandising items, spare parts for beer draught equipment and other material needed for event sponsoring, such as mobile dispensing systems or fridges.

Adherences to the supplier's recommended selling prices: By adhering to recommended sales prices, distributors show a concern for, and accommodation of, the needs of the supplier. Distributors could opt to set their own resale prices, which would generate more revenues than those realised through adhering to the recommended prices of the supplier. Any financial sacrifice distributors are prepared to make can be interpreted as an investment in the relationship. By adhering to recommended resale prices distributors participate in the supplier's long-term strategic product and business development.

Branding activities: Distributors who place the supplier's name on their buildings, fixtures and fittings, property, vehicles or business correspondence, can be regarded as making an investment in the relationship. It signals that the distributor believes in the longevity of the relationship and is committed to continue to co-operate with the supplier into the future. Moreover, the distributor would be publicly declaring his association with the supplier. There may also be investments in terms of opportunity costs. For instance, the distributor forgoes the opportunity to carry out these activities on behalf of one or more of the supplier's competitors that might offer better financial rewards.

Allocation of the model's variables to the category "information exchange"

Information exchange is a key factor in the development and maintenance of long-term relationships as it contributes towards the development of trust (Morgan and Hunt, 1994, Selnes, 1998; Zineldin and Jonsson, 2000), commitment (De Ruyter, 2001; Morgan and Hunt, 1994; Zineldin and Jonsson, 2000;) and cooperation (Metcalf *et al.* 1992). Therefore, distributors who provide the supplier with sales statistics or market information actively support the supplier in monitoring market demand. The supplier, in turn, informs distributors about the conclusions drawn from monitoring market demand, and passes on information about planned initiatives to respond to changing market conditions.

Allocation of the model's variables to the dimension "conflict resolution"

The three variables in the model representing "value reducing activities"; namely grey market purchases, late payment of bills and customer complaints can be regarded as potential sources of conflict between the supplier and the distributor. For example, participants, in one group discussion, recounted how disagreement arose between the supplier and the distributor about the responsibility for an *out-of-stock* situation reported to the sales manager by one of the gastronomy owners. The distributor insisted that the supplier has delivered the products too late, while the supplier passed the responsibility to the distributor because orders have not been placed on time. Such disputes cause tension between the distributor and the supplier and are a potential source of conflict. Furthermore, as pointed out previously, tension, disagreement and possible conflicts may also arise because of the supplier's practice of penalising distributors by reducing discounts for performing certain business practices.

Avoiding conflict is always desirable. However, conflict, is inevitable in any relationship. What is important is the way in which conflicts in a relationship are dealt with, namely quickly and in a way that is acceptable to all parties (Anderson and Narus, 1990; de Ruyter *et al.*, 2001; Gundlach *et al.*, 1995; Mohr and Spekman, 1996; Morgan and Hunt, 1994).

Allocation of the model's variables to the dimension "Business Performance and Terms"

All of the variables included in the category "business performance and terms", relate to the ways in which organisations work together in a relational, rather than transactional, manner.

In essence, the variable "distributor initiated sales" reflects the success that both the suppliers and their customers can share, when working for the mutual benefit of the relationship. Distributors that choose to sell the supplier's brand instead of competitors' products, take the initiative to actively support the sales development of the supplier.

The supplier, on the other hand invests in marketing activities, to generate brand awareness and stimulate demand in the market place. In so doing, the supplier contributes to the relationship, by positioning brands in such a way, that these can be more readily sold by distributors. The creation of mutual benefits is one of the main outcomes of relationship marketing (Harker, 1999; Walter *et al.*, 2001).

The variable “sales potential” implies that business partners believe in the continuation of the relationship. It may not be immediately obvious why this is the case. However, the parties jointly identify the possible sales potential to be exploited in view of the supplier’s offerings and the customer’s business and market environment. Consequently, they are encouraged to discuss, what actions and support both the customer and the supplier need to contribute in order to reach these targets. The relationship becomes interactive and longitudinal in nature; one of the characteristics, typically attributed to relationship marketing (Harker, 1999). Moreover, seeking common goals and exerting joint efforts to develop the relationship, are typical features of cooperation. Cooperation plays a key role in developing relationships (Anderson and Narus, 1990; Hakansson, 1982).

The variable “territory exclusivity” is yet another reflection of how organisations work together for the mutual benefit of both parties. Distributors that are given the exclusive right to sell the supplier’s products within a market area, benefit from a guaranteed level of sales. The distributor creates value for the supplier, by ensuring product availability in those parts of the market, where the supplier has no distribution centres of his own.

Moreover, “territory exclusivity” further implies that relationship partners trust one another. The supplier places trust in the competence and integrity of the customer to exclusively distribute its products in the market. The customer, on the other hand trusts, that the growing dependence on the supplier will not be exploited in a detrimental way. Trust, as was learned earlier, is a prerequisite for the development of business relationships (Claro *et al.*, 2003; Ganesan, 1994; Gounaris, 2005; Morgan and Hunt, 1994).

4.3.3 **Operationalising The Proposed Relationship Pricing Model**

The pricing model would only meet its objectives, if the nature of the rewards and the terms and conditions under which these apply are clearly defined and were accepted by customers. At this point, the focus of the research turned towards operationalising the battery of performance criteria by which the relationship pricing model would be judged.

In the previous section, it was reported that the incentive categories, supplied by the middle managers participating in the focus group, could not be retained due to their being out of alignment with relationship marketing theory. These had to be translated into relationship marketing categories that were grounded in the empirical literature. However, whilst the categories provided by the participants had to be laid aside, the variables proposed by these participants fitted very well into the relationship marketing categories and these were retained. The task then became one of defining how each of these variables reflected the value that customers contributes towards the relationship. This is summarised in table 16.

Table 16: Relating incentives to the value contributed to the relationship

Variable	Description of relationship value
Brand distribution exclusivity	Where the partner organisation exclusively distributes the supplier’s products. This shows a level of commitment and trust in the supplier’s brands. In addition to certain payments the distributor would also benefit from higher levels of sales support.
Product assortment	Distributors who carry all of the supplier’s products would be allocated the full amount of the incentive and additional sales support. Distributors carrying some of the products, to receive a proportion of the incentive. The distributor is increasing product availability and brand awareness.
Branding activities	If distributors brand their vehicles, properties or any material used for business correspondence, such as invoices, they create value in terms of enhanced brand visibility in the market and reinforcement of brand value. The distributor benefits from being associated with an international brand and the market leader.
Delivery of sales statistics	Distributors sharing their sales statistics with the supplier would be rewarded. In doing so the distributor is helping the supplier to monitor market demand so that appropriate responses can be initiated. These initiatives would, in turn, help the distributor to respond to changing market conditions.
Storage and distribution of sales support material	If distributors carry and distribute non-beverage products and materials such as point of sales materials or tapping equipment for gastronomy outlets, the supplier benefits in form of lower stock keeping, distribution and administrative costs. The distributor should be rewarded accordingly. The distributor is also in a better position to meet his customers’ needs.

Table 16 (continued): Relating incentives to the value contributed to the relationship

Variable	Description of relationship value
Distributor actively sells the supplier's brands	If distributors maintain their own sales force to sell beer products in the market this will assist in pushing the sales of the supplier's products. The incentives received by the distributor act to increase his profitability.
Adherence to recommended sales prices	Recommended prices are communicated to distributors. These reflect the ideal price at which the supplier's products are to be resold. This helps the supplier and the distributor to maintain end-consumer prices in line with the competition and brand positioning strategies. Since maintaining recommended prices is voluntary, distributors should be rewarded.
Provision of market information	Distributors who provide market information assist a supplier to better manage uncertainty and risk in the market place. E.g. a distributor may inform the supplier about new business opportunities and together they exploit these opportunities.
Territory exclusivity	In some regions in Switzerland, particularly in the French part, the supplier is strongly reliant on certain distribution partners as the company lacks its own distribution points. In order to secure future cooperation of these distribution partners a special discount should be granted for regionally important distributors. The distributor also benefits from a guaranteed level of business.
Sales potential	Distributors, which appear to possess future potential in increasing sales volumes should be given a bonus which may be paid either prior or subsequent to the actual achieving of the target. The amount and timing of the payment being subject to agreement between the supplier's sales personnel and the distributor. This involves supplier and distributor personnel working together to decide the targets, the bonus levels and the timing of payments thereby reinforcing the relationship marketing concept. The distributor also receives the necessary support to exploit additional business opportunities.
Distributor initiated sales	Distributors enjoy two types of sale. There are those that have been negotiated by the supplier and handed to the distributor who then fulfils the order. The second type of sale is that which comes about because of initiatives taken by the distributors themselves. Distributors should be rewarded for sales they realised on their own initiative because he promotes the supplier's rather than competing brands. Selling a brand leader is likely to be less time consuming and therefore less costly for the distributor.
Late payment of bills	Reduced cash flow for the supplier is the main drawback arising from distributors failing to pay their bills on time. In addition, considerable time and human resources are spent in the process of reclaiming the money. It also has the potential to introduce tension into the relationship. For this reason, a proportion of the discount rate is deducted if distributors do not pay their bills within a specified period.
Product purchase from the grey market	Some distributors buy products, at lower prices, across the border rather than directly from the supplier. Consequently, every purchase on the grey market means lost sales revenue for the supplier. Therefore, a proportion of the overall discount rate is deducted to penalise distributors who follow this practice. Distributors who do not trade on the grey market, not only avoid the penalty but also the introduction of tensions into the relationship.
Customer complaints	According to the group participants, end-consumers frequently complain about the delivery quality of distributors pointing out that deliveries are frequently wrong, late, or incomplete. To encourage distributors to provide a better delivery service to end-consumer, and to maintain their own market reputation, a proportion of the overall incentive rate should be deducted for poor delivery service.

Obviously, this model was developed in the context of the Swiss beverage industry and some of the variables, that just have been explained, are very specific to that industry. For example, the "distributor initiated sales" variable involves a situation where the brewer actually makes a contract with a gastronomy outlet and all the distributor has to

do is to fill the order. That kind of sale may or may not be made in other markets or other countries. However, whilst this and other variables may be peculiar to the Swiss beverage industry, it is contended that the model still has wider applicability.

A little later in this chapter, the full operational model will be shown. At that point, it will be seen, that whilst some of the variables that have been incorporated here will be dropped or modified and perhaps added to, by people wishing to use it outside of the Swiss context, the basic model itself will remain. That is, even though the variables may not be exactly the same, the *modus operandi* remains the same.

The lessons learned about the process of deriving and defining these variables will also prove enduring and widely applicable. Getting to this point in the development of the relationship pricing model (RPM), has involved taking a commercial enterprise that very much worked from a transaction marketing perspective, and moving its senior and middle managers from a fixation with sales volumes, to consideration of the value of customers to its business and finally on to having their relationship with customers as their primary focus.

Attention was previously drawn to the fact that the methodology that has been applied in this study qualifies for the title of action research. There has been interaction between researcher and the respondents and in this way the former has contributed to the education of the latter. As the literature reports, the participation of “informants” as co-researcher (Kemmis and McTaggart, 1988) and the transformation of the emergent findings to guide the subsequent research process and outcomes (Bell et al, 1990) are important element of action research. In this study, for instance, the respondents generated the model’s variables but the categories into which they placed these variables had to be discarded since they were not relational in nature. Participants had to be informed that this was the case and the relational categories, adopted by the researcher, had to be explained to the respondents. In this way, they came to understand the difference between transaction and relationship marketing. This same process can be followed by others facing the task of re-orientating management practitioners from transaction to relationship marketing.

Another transferable benefit of the model development process that has been outlined, is that it demonstrates how to encourage middle managers, to think more carefully and more deeply about how to build their relationships with customers. The focus group did not simply generate information from the participants, it also acted as a vehicle for them to arrive at certain decisions concerning the RPM model. For instance, when the issue of “brand distribution exclusivity” was discussed, some members immediately stated that this could not be applied in its purest form within the brewing supply chain. They explained that some distributors will supply restaurants asking for specific brands such as Guinness and/or other international brands. Those distributors will simply lose the business if they don’t meet restaurants’ needs. An operational definition of “brand distribution exclusivity” was required. The focus group served as the vehicle through which the middle managers came to an agreement that the rule to be applied would be that the distributor would be allowed to sell two international brands, other than Heineken, and still be regarded as giving “brand distribution exclusivity”.

The process of developing the model also served to encourage managers to think in terms of relationship building by not only suggesting ways in which distributors could contribute value, but by articulating how certain behaviours, if adopted, would also benefit the distributor. For example, when they suggested the criteria “adherence to recommended sales prices” the managers would state why this was of value to the supplier. They were then asked to consider how, if at all, it would benefit the distributor over and above any discounts he might receive. The group then suggested, that since the supplier’s pricing was based on empirical market research, the distributor would find his prices in line with customer expectations if he followed those which were recommended to him.

It is interesting to note that some of these variables also appear in the literature such as “provision of market information” or “sales volumes”. It is not surprising that some of the variables suggested by the practitioners do not appear in the literature. After all, as was noted earlier, there is a paucity of articles dealing with pricing systems as a mechanism for developing marketing relationships. It may well be that practice is ahead of theory in this area. It might be modestly claimed that the generation of these model

variables makes some contribution to filling what is a very large gap in the literature. Indeed, where variables have no corresponding literature this may indicate where future research could be focused. Ideally, theory and practice in any area should be matched.

During the process of defining the variables which the participants had generated, it was recognised that some of them could have adverse effects on the supplier-distributor relationship if they were not handled very carefully. The variable “product purchase from the grey market” is a case in point. In the first place it would be an accusation that is difficult to prove and in any event could alienate partners. The same problem arises with each of the variables that involve penalties rather than rewards. Unfortunately, neither the literature nor the participants gave any guidance as to how these potential problems could be managed. This being the case, it was decided that immediately prior to testing the model exploratory interviews would be held with around ten distributors. These customers would have the concept of the model explained to them and then they would be asked for their immediate thoughts and questions regarding what had been presented to them. Care would be taken to ensure that the variables carrying penalties could not be missed by these distributors. Their reaction to the model as a whole could then be judged and any negative responses anticipated.

There would be a second opportunity to anticipate negative reaction to the variables carrying penalties during the pre-test phase. That phase involved the supplier’s sales personnel presenting the model to a sub-sample of distributors. The researcher was present during these meetings and planned to make systematic observations of both how these variables were presented to distributors and how they in turn reacted to these variables.

4.3.4 Exploration Of The Incentive Structure Attached To The Model Variables

Having identified the variables to be included in the RPM model, attention was turned to the task of exploring how these variables should connect to one another. To this end, information was again drawn from the focus group, conducted with middle managers, and supplemented and verified through interviews with 10 sales representatives. Whilst the functional managers were able to provide an overview of the supplier-distributor interaction, it is the sales personnel who deal with the distributors most often. Bearing in mind Switzerland's culturally diverse population, sales personnel from the German, French and Italian regions were interviewed.

4.3.4.1 Focus Group Discussion With Middle Managers

The group was presented with the basic RPM concept (for further details, please refer to figure 15B, page 140 and figure 17, page 145). The purpose was twofold. One to remind managers about the model variables they had proposed during an earlier focus group discussion and two to inform the participants, how and why, the broad categories of variables were changed. It was hoped that this would encourage managers to adopt the mindset of relationship thinking, during the subsequent discussions.

The group participants liked the idea of having only one price list and clearly defined criteria how incentives are being allocated. This, they claimed, would make it easier to monitor and control how the sales representatives arrived at pricing arrangements with customers. Moreover, they took the view that the RPM would generate efficiency gains for the organisation. The finance and marketing managers were of the opinion, that having to maintain and apply only one, instead of 8 price lists saves time and reduces administrative procedures. The sales managers, on the other hand, claimed that the RPM would help to make price discussions more time efficient for both parties. They thought, that price negotiations could be concluded much quicker with the RPM, because the incentive criteria set the overall framework for price discussions with the customers. However, the sales managers were concerned about the large number of variables incorporated in the pricing model. The participants were of the opinion, that the RPM

was in danger of becoming overly complex and complicated, and for this reason, might make it difficult for both the sales representatives and the customers, to handle and understand the RPM.

Middle managers liked the idea of making the RPM operational and wanted to test it among distributors, in order to learn if it could replace the current pricing system. The main reason, they claimed, was that the pricing agreements between sales representatives and customers become easier to handle, implement and monitor. Gaining the managers' acceptance of the RPM was important, to get their commitment and support for the future development and testing of the model. The RPM model is likely to change the way in which the organisation works and operates. The literature reports, however, that not all employees will welcome change (Bovey and Hede, 2001; Mento *et al.* 2002). Employees may resist change for instance by reducing output, withholding information, vocal opposition or agitating others (Recardo, 1995). The commitment of senior management towards change initiatives is one of the factors promoted in the literature, which aid in overcoming employees' resistance to the change process (Gill, 2003, Recardo, 1995). Therefore, it was important, that the managers would be actively involved and participate in the subsequent development and implementation of the RPM. As the literature reports, active participation and involvement assists in securing employee commitment and encourage them to take ownership of change initiatives (Doppler and Lauterburg, 2000; Mullins, 1993; Proctor and Doukakis, 2003).

Managers were willing to further pursue the RPM concept, because of the improvements it would offer to the organisation compared with the current system. The participants focused on appraising the RPM idea from their own point of view. At no point in time during the discussion, did the managers explicitly consider and discuss how customers could benefit from the RPM presented to them. It became apparent that the group participants viewed the RPM as a tool to gain better control over the price discussions taking place between their subordinates and the customers. Managers may well have understood the idea of relationship marketing as explained to them, but did not adopt this thinking as part of their appraisal of the RPM concept. After all, the

literature reports that relationship marketing is not about control and self-interest. On the contrary, relationship marketing reflects a partnership, where involved parties cooperate, work towards common goals and create mutual benefits for one another (Friese and Funck, 2001; Harker, 1999; Walter *et al.*, 2001).

This was an important finding. It became clear that simply explaining what relationship marketing is about and how it related to the RPM, was not sufficient to get middle managers to adopt this philosophy. Getting managers to accept and actively promote the principles of relationship marketing is, according to the literature, important to infuse relationship marketing thinking into the organisation (Kothandaraman and Wilson, 2000; O'Toole and Donaldson, 2002b). Therefore, the challenge was to determine how the managers' beliefs could be modified in such a way, that they would view the RPM as a mechanism for building relationships with their customers. A decision was made to ask at least some of the managers to be present during the interviews with distributors that were to be conducted later in the research. In so doing, it was hoped, that they would better understand the needs and wants of customers and how these could be met through the RPM.

The middle managers were of the opinion that the RPM should be applied in such a way, that the 14 RPM variables acted as a checklist against which each distributor can be evaluated. They claimed that this would reveal the extent to which a customer fulfilled any of the criteria incorporated in the RPM. The middle managers took the view that the individual incentive rate, given for fulfilling each of the criteria, should be added together. This, according to the managers' views, represented the total price reduction a customer would receive. Moreover, the managers were of the opinion that incentives should be given as soon as a customer fulfilled a criterion. Similarly, they stated, that the incentive rate should be immediately reduced, if the distributor no longer adhered to a criterion.

The managers' remarks confirmed previous suspicions, that they viewed the RPM as an instrument to control the pricing discussions taking place between sales representatives and employees. For instance, they talked about using the range of criteria as a check list

to evaluate the customers' performance. The group participants did not, however, contemplate the acceptability of this approach to the customers and the role these would play during the evaluation process.

Moreover, it appeared that the managers took a transaction marketing orientated view, on how the RPM should be applied. For instance, they reasoned that incentives should be deducted as soon as customers no longer adhered to the specified model variables. However, such an approach may not necessarily be supportive in developing closer relationships with customers. There might be some very good reasons why distributors behave in a certain ways, and these might even be related to the conduct of the supplier. For example, a distributor may experience a problem with the supplier and for this reason withhold the payment of bills. Most likely, such a customer would not be pleased with the supplier's decision; a reaction that has the potential to put a strain on the seller-buyer relationship. Moreover, the supplier would forgo the opportunity to talk to the customer to discuss potential problems and to seek a solution on how these might be overcome to the satisfaction of both parties. Such an approach, however, is more in line with relationship marketing thinking. As the literature suggests, effective communication, interaction and joint problem solving contribute towards building long-term relationships (de Ruyter *et al.*, 2001; Friese and Funck, 2001; Mohr and Spekman, 1996).

The implication of all this is that the judgment about whether or not customers fulfil any of the criteria cannot be left solely to the supplier. If the RPM is to encourage relationship marketing thinking, this judgement should be the result of a joint agreement reached by both parties. That is, the supplier and the customer together discuss and evaluate the customers' business practices, and based on this interaction jointly determine the magnitude of incentives. Moreover, it is suggested, that a joint evaluation process further supports relationship marketing practice. Joint evaluation allows the supplier and customer to assess the way in which they work together, not just at present, but also in the future. Therefore, the supplier's employees will have to be taught during the forthcoming training sessions on how to apply the RPM in line with the above outlined reasoning.

Whilst critically reviewing the middle managers' remarks during the discussion, it became apparent, that they generally used the term "discounts", when talking about the incentives that should be given to distributors if they fulfilled any of the RPM criteria. Whilst it was obvious that they talked about financial incentives, it was not always clear what kind of discount they were talking about. As the literature shows, the broad term "discounts" can take many forms, including for example cash discounts, seasonal discounts, rebates or allowances (Kotler, 1994; Stern and El Ansary, 1988; Taylor, 2002). It was also not immediately clear why the participants only talked about discounts in monetary terms, and made no reference to the many non-financial incentives mentioned in the literature, such as for example provision of training or promotional materials (Gilliland, 2003). However, in order to make the RPM operational, the nature and type of incentives needed to be clearly defined.

For this reason, the middle managers were asked about their understanding of discounts in general and if they were aware of different types of incentives. The sales managers viewed discounts as financial benefits related to volume sales or the early payment of bills. The marketing and finance managers, too, related discounts primarily to volume sales. However, they recalled, that incentives could also take the form of allowances or rebates. The participants, however, were not too certain about the detailed differences between these different types of incentives. The group participants were also asked to give an opinion about a possible inclusion of a range of non-financial discounts shown to them in a bulleted list. This idea, however, was quickly dismissed by all of the managers. The managers believed that non-financial benefits may not be equally attractive to all customers. For instance, they claimed that product training may only be attractive to customers who would be relatively new to the industry or did not know the supplier's product range well. Moreover, the middle managers claimed that developing and implementing incentives programmes such as, for example, training courses is far more complicated and time consuming than simply offering financial rewards.

One can understand the participants' reluctance to incorporate non-financial benefits as part of the RPM. However, from a relationship marketing point of view, the inclusion of non-financial benefits within the RPM might be an equally, if not more, appropriate

way of defining the broad nature of incentives. Adding non-financial benefits to the RPM would offer an opportunity to align rewards to the needs of customers that could not be met by financial incentives alone. Due to the constraint of this study, however, a decision was made to only include financial incentives as part of the RPM.

The first constraint related to the fact, that this study was conducted, using a real life business case. Therefore, the way in which the study was to be conducted could not be entirely controlled by the researcher but was also dependent upon obtaining the approval of the firm, which was being studied. One case in point was that the supplier's agreement was needed about the kind of incentives, that could be included in the RPM, in order to proceed with this study. The best the researcher could do was to guide and convince the supplier to follow what was considered a "best approach for developing and implementing the RPM". As was shown, the supplier's attention was drawn towards the possibility of including non-financial incentives and this idea was clearly dismissed.

However, even if the supplier had agreed to include non-financial incentives, doing so might not have been possible within the time frame imposed upon this study. It became clear from the discussion with managers that no programmes were in place offering non-financial incentives to customers. Therefore, the task would not have been simply one of making a decision as to what kind of non-financial incentives should be included in the RPM. Instead, an attempt would have had to be made to a) identify appropriate non-financial incentives b) to explore if these were acceptable and attractive to customers and c) to design programmes through which the incentives could be delivered to customers. This clearly illustrates that including non-financial incentives would have taken too long and would also have exceeded the scope of this study.

4.3.4.2 Interviews With Sales Representatives

As explained earlier, semi-structured interviews with 10 sales representatives from different regions were carried out to verify and supplement the information drawn from the focus group with middle managers. Half the sales representatives claimed that there was no need to change the firm's pricing practice. They stated that the current pricing system served them well. They were in a position to negotiate discounts individually with each customer, thereby offering distributors incentives that were attractive enough, to increase sales of the supplier's products. Moreover, over half of the representatives were of the opinion that the conceptual RPM was not needed to build and maintain relationships with customers. In their views, they already maintained good relationships with most of their customers. The employees declared that they visited the important customers on a regular basis to discuss current business relations, identify customer requirements and resolve outstanding problems. It became also evident, that sales volumes and profitability were the criteria used by the sales representatives to give a description of an important customer.

All this showed that many of the sales representatives did not understand and accept, why the firm's current pricing system was to be changed. This finding was important as it pointed towards the probability that sales employees might resist change. The literature reports that not understanding the need for change is one of the reasons why employees oppose and resist change (Mento *et al.* 2002; Mullins, 1993; Proctor and Doukakis, 2003). However, without the commitment and support of the employees, change cannot effectively be implemented (Mento *et al.* 2002). Therefore, if the RPM was to become operational, ways of managing resistance to change needed to be addressed and incorporated within the subsequent design of this research study. Ways of overcoming resistance to change, according to the literature, include for example, effective communication, training as well as the active involvement and participation of employees (Beech, 2003; Doppler and Lauterburg, 2000; Hamlin, 2001; Huczinsky and Buchanan, 1991; Mento *et al.*, 2002; Reynierse, 1994).

Moreover, the sales representatives stated that they maintained “a good relationship” by keeping regular contact with customers, which are important to the firm because of their sales or profit contribution. This indicated a need to educate the sales representatives about the true nature of seller-buyer relationships. That is, an attempt was to be made to teach them the wider value contributions arising for both, the seller and the buyer, from developing long-term, mutually beneficial business relationships. This challenge was to be tackled as part of the training programme, which was set up in preparation for the testing of the RPM, as discussed later in this study.

In addition, if sales representatives were to change the way in which they deal with customers, the supplier’s reward system would have to be modified accordingly. That is, the employer needed to demonstrate that the “wider contributions” arising from relationship marketing practice were valued, by rewarding sales personnel, who would be able to encourage distributors to make these contributions. The supplier’s present reward system was developed in the international market and focused upon level of sales as criteria for rewarding customers. In contrast, the RPM, which promoted the relationship marketing philosophy, was developed in the context of one country, although it might be adopted in other markets in the future. This is a weakness of the model. Whilst trying to teach the sales representatives to “live” the relationship marketing philosophy, one had a reward system enforced which encouraged the ‘old way’ of dealing with customers.

However, around half of the sales employees were of the opinion that the RPM appeared to overcome some of the main drawbacks of the current system. They pointed out, that the RPM would help to more easily communicate and justify the supplier’s pricing practice to customers compared with the current system. Other representatives liked the idea of being able to penalise distributors, if these engaged in grey market purchase or late payment of bills. Such a penalty, they hoped, would help to convince customers, to refrain from actively pursuing such business practices.

Insight from the interviews confirmed previous findings derived from the focus group discussion with middle managers. That is, employees tended to accept the RPM because of the model's perceived benefits to facilitate the management and control of customers. None of the sales people, however, gave much thought what benefits the RPM may offer to the customer or to the future development of the seller-buyer relationship, beyond the financial gains of lower prices.

The sales representatives appeared to dislike the proposed set up of the RPM. Contrary to the views of the middle managers, all of the sales representatives were sceptical of the systematic and transparent structure of the RPM. They stated that the RPM would leave no room for any kind of individual price negotiations with customers. However, according to their views, a certain degree of discretion to negotiate discounts would always be needed. The sales people explained that some distributors were satisfied with lower discount, whilst others asked for higher incentives to increase their efforts in selling the supplier's products.

Moreover, just over half of the sales representatives took the view that there should be a possibility within the RPM to give customers discounts before they fulfilled the criteria. They claimed that giving discounts in advance would act as a more attractive incentive for encouraging customers to participate in fulfilling the criteria attached to the RPM variables. The views of the sales representatives were therefore in contradiction with those of middle managers. As will be remembered, middle managers were of the opinion that incentives should be given to customers, only after they had fulfilled the criteria.

The identification of different understandings between sales representatives and middle managers, about the ways in which incentives should be granted to customers, caused a dilemma for the further development of the RPM. Middle management believed that discounts should be allocated in a transparent and systematic way. This would necessarily involve removing much of the discretion on pricing that sales personnel had historically enjoyed.

Consequently there was a danger, that the sales people might resist making the model operational since they were keen to maintain a certain degree of flexibility and discretion in negotiating discounts with the customers.

Building greater flexibility within the RPM might prove helpful to win the sales employees' commitment to participate in the set up and testing of the new pricing model. Moreover, a certain degree of flexibility might also be useful to enhance the relevance of the RPM to the many different types of distributors. One had to accept, that no system could meet the needs and expectations of all customers. However, if the sales people were granted a certain degree of discretion in negotiating discounts, they could do so in view of each customer's specific business and market situation. This may increase the relevance and thus acceptance of the RPM to customers as well as create additional benefits for the customers.

It became clear, that a solution needed to be found to make the RPM more flexible, whilst maintaining a transparent and systematic structure to allocate discounts. For these reasons, a two tier model was developed. Within the RPM the different variables fall into two distinct categories – namely fixed and variable incentives. The incentives in the former category are fixed because distributors either do or do not fulfil them. For example, either a distributor grants the supplier “brand exclusivity” or he does not. Hence the discount allowance is fixed at a given percentage of the list price. Moreover, these incentives are not negotiable by either the distributor or the supplier's sales personnel.

Where a distributor's performance, against a particular criterion, can be variable, likewise the incentive given is variable. For instance, the distributor's sales of the supplier's brands can vary and the incentive given varies accordingly. In these cases, the supplier's sales personnel have a measure of discretion and can negotiate the size of the incentive within defined limits. These two categories of incentive are shown in the figure below.

Fixed Incentives	Variable Incentives
Brand distribution exclusivity Product assortment Storage and distribution of sales support material Distributor actively sells the supplier's brands Adherence to recommended prices Branding activities Delivery of sales statistics Provision of market information Late payment of bills Product purchase from the grey market Customer complaints Territory exclusivity Distributor initiated sales	Distributor's potential to increase the sales of the supplier's product in the future <u>Explanations :</u> The supplier's sales people are free in their decision to allocate variable incentives in advance or after sales targets have been reached The sales manager together with the distributor discuss the potential for sales increase of certain products Incentives are only to be granted on products where a sales target has been agreed

Figure 18: Overview of the pricing model’s incentive structure

However, whilst it was hoped that the variable discounts allowed for the RPM to become more flexible, one was also aware of having to be observant, that the pricing model would not fall into the trap of the current system. That is, that the allocation of variable incentives might be applied, lacking transparency and a rational link to building closer relationships with customers. Therefore, particular attention needed to be given to observe how the sales managers used and applied the flexible incentives, whilst introducing and applying the RPM to customers.

If the RPM was to encourage a transparent and systematic approach to pricing, a set of rules and guidelines was required, stating how the model was to be applied. Clear definitions of the variables would ensure that the same judgement criteria were applied when deciding whether or not distributors fulfilled the different criteria in the pricing model. Moreover, clear definitions would contribute towards the transparency of the RPM to distributors. That is, customers would know exactly what conditions they need to fulfil in order to be eligible for the incentives attached to each of the variables. Equally importantly, they will know that they are being treated in exactly the same way as everyone else. To this end, information was again drawn from a focus group, conducted with six middle managers: three from sales, two from finance and one marketing manager of the company.

A list containing all 14 variables incorporated in the RPM, supplemented by a bullet summary, which outlined the broad characteristics of each of the variables, was presented to the group. Thereafter, the group participants were introduced to one variable at the time and asked to express their views and opinions, how these could be defined. To help the managers with this task, they were given instructions, what a definition should look like. Once each of the participants had expressed their understanding of the variable under discussion, all of the group members together had to agree upon a final definition of the variable. Where there was no consensus, which happened fairly frequently, a set of decision rules were applied. A majority vote was applied, whereby a minimum of 4 out of 6 managers agreed upon an operational definition. If the decision was a tie, the opinions of a majority of the three sales managers were followed. For instance, the marketing manager and the two finance managers insisted on clearly defining the kind of sales support material a distributor should store and distribute. The sales managers argued that not all distributors would need the same kind of sales support material to fulfil the needs of their customers. Therefore, in line with the decision rule, the type of sales support material a distributor should store and distribute was not specified as part of the operational definition.

The sales managers' views were more strongly weighted because they eventually had to implement the RPM. Moreover, these managers had the greatest experience in dealing with distributors and knew best what kind of operational definitions distributors might find acceptable. Obviously, these rules are not in any sense scientific but they are at least systematic.

An account of the final operational definition for each of the variables determined by the group is summarised in table 17.

Table 17: Operational definitions and measurements of the RPM variables

Variable	Operational Definition	Data source and measurement of the variable
Brand distribution exclusivity	- Distributor does not sell any Swiss beers produced by the competition - Distributor does not distribute other international brands such as Carlsberg or Miller Exception: In those instances where a contractual agreement between the distributor and supplier is in place which allows the former to distribute two brands of international beer in addition to Heineken.	Information obtained from the distributors, sales representatives and product delivery personnel will reveal, which distributors exclusively distribute the supplier's products. The finance department will deliver information regarding the distributor's contractual arrangements.
Product assortment	Distributors who carry all of the supplier's products will be allocated the full discount. If distributors only carry some of the products, the discounts will be granted proportionally. The regional sales manager together with the distributor determine how the overall discount allocated to the product assortment will be divided between the different products. This approach ensures that the product assortment takes into account regional differences and local market demand.	Sales data about each distributor will be used to assess whether or not the distributor carries the full product assortment. This information will be obtained from the finance department.
Branding activities	Discounts will be granted if distributors put the supplier's brands (irrespective of the frequency) on: - Business properties (e.g. shop, warehouse) - Business correspondence (letters and invoices) - Vehicles (delivery lorry, lorry with integrated bar small lorry with cooling system) - Flyers and announcement sent to customers informing them about product promotions	Sub-regional sales managers and sales representatives will provide information about the kind of branding activities in which individual distributors engage.
Delivery of sales statistics	The distributor delivers sales statistics by the last working day of each month. The supplier will provide distributors with a data sheet, which specifies the format and content of the sales statistic delivery. The incentive will only be granted if a distributor provides the sales statistic within the specified time period and if these contain all the required sales information. However, should the customer fail to fulfill these conditions on at least 3 occasions within one year, he is no longer eligible for the discount.	The administration of the sales department will monitor whether or not distributors make information about their realised sales available to the business on a regular basis.
Adherence to recommended sales prices	The distributor adheres to recommended prices on all of the supplier's products.	The price list issued by distributors will be checked by the sales administration staff. This in order to ascertain, whether or not prices are in line with those recommended by the supplier.

Table 17 (continued): Operational definitions and measurements of the RPM variables

Variable	Operational Definition	Data source and measurement of the variable
Storage and distribution of sales support material	The distributor stores and distributes sales support material during at least 9 months of the year.	The sub-regional sales managers will identify those distributors, who store and distribute sales support material.
Distributor actively sells the supplier's brands	The criterion is fulfilled, when the distributor provides convincing evidence that he or his employees actively sell the supplier's products.	Sub-regional managers will judge the evidence, including: - written instructions given by the distributor to the sales people in internal memos or meeting protocols - lists with new / addition orders and/or customers
Provision of market information	The distributor provides information, which result in contracts being made between the supplier and at least 3 gastronomy outlets within one year.	The sub-regional sales managers will provide information, about which distributors give market information to the company.
Territory exclusivity	Regionally important distributors are considered all those, who have no competing beer distributing competitors within the vicinity of 25 square kilometres. This is the criterion to judge whether a distributor is eligible to a discount due to regional importance.	Information about the nearest competitor within a distributor's vicinity will be gathered by the sub-regional sales managers.
Distributor initiated sales	Discounts are not granted on the basis of the total sales realised by a distributor. The distributor will not be rewarded for those sales, which are allocated by the brewery. These sales result from sales representatives of the company realising contracts with independent gastronomy outlets. The delivery of these gastronomy outlets is often outsourced to independent distributors due to the lack of the company's own distribution capacity. Therefore, independent distributors are given the business from the brewery instead of generating it themselves. The difference between total sales less those sales allocated directly by the brewery to the distributor are called ' <i>free hectolitres</i> '. These sales are considered 'free' because the distributor has the discretion to decide what type of beer to promote for those gastronomy outlets, which are not bound by contractual agreements to carry specific beer brands.	The magnitude of " <i>free hectolitres</i> " generated by the distributor will be calculated by the finance department.
Late payment of bills	A discount reduction will be applied if the distributor does not settle the bills on an average of 30-45 days (over the past 12 months).	The information about the average length of time it takes distributors to settle their bill is provided by the accounting department.

Table 17 (continued): Operational definitions and measurements of the RPM variables

Variable	Operational Definition	Data source and measurement of the variable
Customer complaints	If three or more justified complaints about poor delivery quality of a distributor are made to the supplier within a year, than a discount reduction will be applied. Poor delivery quality is defined as product deliveries which are wrong, late or incomplete.	The supplier's internal customer complaint system together with sales representatives will provide information about poor delivery quality of distributors.
Sales potential	Sales potential will be determined on the basis of future sales of specified packaging types and specified brands.	Sub-regional sales managers together with distributors determine future sales potential.
Product purchase from the grey market	If the company has knowledge that the distributor purchased the supplier's products on the grey market, this is to be verified during the discussion with the distributor. If it turns out that the distributor did indeed engage in grey market purchasing the discount reduction will be applied.	Three sources will assist in identifying grey market purchase: a) the supplier's internal database on grey market purchase activities b) observations made by delivery personnel c) observations and information provided by the supplier's sales representatives

It is recognised that the operational definitions presented in table 17 were very particular to this research study. A researcher repeating the same exercise within another industry setting might well come up with an entirely different set of operational definitions. However, this list also shows that in many instances, managers used a set of relational activities for defining the variables. That is managers thought about the kind of activities a distributor engages in, which could help the relationship and therefore would qualify for a reward. Such relational activities included for instance, the number of times a distributor provides market information or the time invested by distributors to actively sell the supplier's brands. In addition to the relational activities, managers used other criteria to define the variables, which could be generalised to other companies. These include:

- number of competitive brands carried by a customer
- number of times distributors carry out relational activities
- time period during which distributors perform certain relational activities
- extent to which the distributor performs a relational activity – e.g. does the customer carry the full assortment or only a selected range of the supplier's products
- expected outcomes resulting from the customer's action
- specification of the format, in which the relational activity is to be delivered by the customer – e.g. sales statistics should arrive on the last working day of the month in electronic format
- level of the customer's own initiative in supporting the sales of the supplier's products

Another lesson learnt from the group discussion was that arriving at operational definitions, which could be easily and clearly measured, was not always possible. Sometimes it would be difficult to prove if customers fulfil a particular criterion. For example, the managers suggested different ways of establishing whether or not a distributor purchased goods on the grey market. These possibilities included for instance, the discovery by delivery personnel of differently labelled products on the customer's premises or an unexplainable drop in orders by the customers. However, it was recognised that such signs would reflect mere indications rather than conclusive evidence, that customers purchased products across the border. After all, there could be

some very good reasons for either occurrence to happen, which might not be related to grey market purchase at all. For example, a sudden drop in orders of a certain product may be the result of declining customer demand, because a competitive product was introduced in the market. Therefore, particular care would have to be applied during the RPM testing, to explore the reasons why certain events or behaviour had taken place during the discussions with distributors.

Another case in point was the way in which the sales managers decided to measure the customer's efforts in actively selling the supplier's products. The managers came to the conclusion that if the customer could provide some kind of evidence, showing his effort in promoting the supplier's brands, he fulfilled this particular criterion. Such evidence would include for instance internal memos or meeting protocols, containing written instructions to the sales force to push the supplier's brands. Not all distributors might have formal meetings with their sales force. In these instances, a list of new orders that were realised or the distributor's verbal account of sales activities would have to suffice as evidence. One is aware that this is not an ideal approach. Written instructions for instance, would not prove beyond doubt that the sales force did indeed make an effort pushing the supplier's brands. Nevertheless, one had to be pragmatic. In reality, it was not always possible to arrive at uniform and definite measures to judge whether or not distributors fulfilled a criterion.

However, sales people were given some discretion in using their personal judgment to assess the evidence presented to them by the distributor. At the same time, sales people were signalled that there were still standards to be met, if distributors were to be rewarded. This was important to prevent sales people from giving pre-judicial rewards as happened with the current pricing system. Managers could put the sales people under surveillance, by asking for the evidence, which justified for the reward given to the distributor.

It became clear, that one had to accept that a certain degree of ambiguity would remain for both the supplier and distributors, when judging the fulfilment of some of the criteria. Moreover, it was also recognised, that subjective judgment still had a role to

play in a pricing system, but this must not compromise a systematic and transparent approach to pricing. Therefore, during the testing of the RPM, it was important to closely monitor:

- a) the reasoning applied by distributors and sales people, when judging if a criterion was fulfilled or not
- b) what personal judgements were made by the sales people and the reasons which led to the judgment

This monitoring would reveal how relationship partners dealt with the ambiguity in deciding whether or not a criterion was fulfilled. Moreover, insight could be obtained if and how sales people used their personal judgment and how this might affect the transparent and systematic approach of the RPM.

It was further learnt from the group discussion, that businesses should perform a relationship audit, prior to specifying the operational definitions of the RPM variables. As the literature reports, a thorough relationship marketing audit includes an analysis of the interaction parties, the interaction process, the relationship atmosphere and the relationship environment (O'Toole and Donaldson, 2002b). Therefore, a better understanding about the distributor's business practices could have been obtained, allowing for probably more detailed definitions of the RPM variables than was currently the case.

This became clear, whilst the group attempted to agree upon a measurement to judge the customer's involvement in putting the brand trade marks on vehicles, business properties or business correspondence. All sales managers acknowledged, that it would be relatively easy to establish whether or not a customer applied the brand trade marks in any kind of way. They claimed that this could be easily identified through visual inspections. However, some of the participants took the view that the number of times a customer used the brand trade mark should also be taken into account. For instance, as one manager argued, a distributor who puts the supplier's brands on 10 vehicles would create more value than another, which did the same with three vehicles. Therefore, these managers claimed, the former customer should receive a higher reward than the latter

one. Other managers pointed out that the minimum size of the brand emblem and the degree of public visibility it created should also be part of the operational definition for “branding activities”. These proposals, although welcomed by other group members, failed to materialise. At this point in time, no relationship audit was carried out, which would for example provide insight about the fleet size of distributors. Therefore it was impossible to come up, for example, with a meaningful number, specifying how many vehicles a distributor had to brand in order to be eligible for a reward. This lack of knowledge was the reason, why the group defined the criteria to be fulfilled, if the customer displayed the supplier’s brand irrespective of how many times this occurs or the size and placement of the brand.

It is recognised that developing the RPM without having carried out a thorough relationship audit is a weakness of this study. However, at the time the model was built, distributors were already heavily engaged in giving their views and opinions about the RPM. Asking distributors to participate in an additional survey was felt to be detrimental to ongoing relations. Once the model is firmly embedded, there will be an opportunity to make a relationship audit. The management is already committed to refining and fine-tuning the model. Therefore, a second generation of the RPM could take into account not only the number of vehicles but also the proportion of the total fleet a distributor would have to brand in order to receive a reward. In the mean time, the testing of the RPM was used as an opportunity to gain first hand experience in carrying out a relationship marketing audit. Whilst discussing the model, enquiries could be made for example about the number of vehicles a distributor owns. Moreover, insight could be obtained about the number of criteria distributors already fulfilled before the introduction of the RPM. This would give an indication of the current strength of a relationship. As illustrated in more detail in chapter 5, the current state of the relationship was used as a benchmark, against which any changes, initiated by the RPM, were measured.

One was aware that the operational definitions of the RPM variables evolved from a single group discussion and this could present a problem. That is, there was no way of knowing how well these definitions could be applied in practice.

Therefore, particular attention was being paid during distributor visits to learn how the operational definitions were applied during the testing of the RPM. This is discussed in more detail, in chapter five.

4.3.6 Exploration Of The Incentive Rates Attached To The Model Variables

Once the broad incentive structure of the RPM was determined, the focus turned towards exploring the absolute percentage rates that should be granted to distributors for fulfilling each of the criteria set out in the model. This task involved three steps. First, the maximum, overall incentive rate the supplier was willing to give to distributors, if they fulfilled all of the criteria, needed to be established. Thereafter, the overall incentive rate had to be divided between the two broad categories of fixed and variable incentives. Finally, the incentive rate allocated to the category of fixed incentives had to be further broken down among the different variables within this category.

In order to explore what the maximum incentive rate should be, the pricing system of the supplier's main competitor was presented to a group of middle managers from sales, marketing and finance. The managers were then given 10 minutes to think about what they would consider an appropriate overall incentive rate. They were invited to write their estimate on a large poster, together with the reasons why they had chosen that particular incentive rate. Each manager presented their poster to the other participants. The group was then asked to discuss the different proposals and to jointly decide the overall incentive rate. No consensus could be reached after the first session. Therefore, those incentive rates that were considered unrealistic by the group were excluded. Thereafter, the same exercise was repeated, until a consensus could be reached by the group that 20% overall incentive rate would be appropriate. Whilst this percentage rate may well be very different in other industries, the process of arriving at this figure is more widely applicable. The managers decided upon 20% because this rate was in line with the industry. One was aware, that this incentive rate per se would yield no competitive advantage for Heineken. Choosing 20% would mainly ensure that the RPM was in line with competitive offers. However, the difference between Heineken's and

competitors' pricing system was that the RPM would yield a competitive advantage in the way it was administered. Distributors were given the opportunity to be involved and participate in the price formation.

Ideally, one would have presented not one but several pricing systems from companies operating in the beverage industry in Switzerland, for a better comparison. Although several beverage companies and research institutions were contacted none of them were willing to provide any detailed information on pricing systems in operation within the beverage industry. Pricing was considered a sensitive issue which organisations were not willing to reveal to competitors.

Once the overall incentive rate of the model was set at 20%, this figure had to be divided among the two broad categories of fixed and variable incentives. This was done by asking the sales people to talk to distributors to find out what they received from other suppliers. Aggregating the information provided by the sales people, it emerged that on average, distributors received a price reduction of 10%. Sales people were then shown the different RPM variables. They were asked to estimate how many of these variables an average distributor was likely to fulfil. The sales people were of the opinion that an average distributor would fulfil half of all the fixed variables. They took the view that 90% of all distributors had potential to increase sales and thus would qualify for the variable incentive. Based on this information, 10% was allocated to the category of fixed incentives, whilst another 10% was apportioned to the variable incentive. This split was expected to ensure that the RPM allowed distributors to qualify for the minimum 10% incentive rate common in the industry. Part of this incentive rate would be derived from complying with a set of fixed criteria and the remaining part from fulfilling the variable criteria.

A variation of the Delphi method was then chosen, to apportion the overall percentage rate to the 10 different variables, which qualified for a fixed incentive rate. Questionnaires were sent to all of the middle managers involved in determining the incentive rates up to this point. They received instructions, to divide the total incentive rate of 10% by assigning a percentage rate among the 10 variables, according to their

importance in building relationships with distributors. They were also informed to estimate the percentage rate that should apply to the variables that qualified for a reduction of incentives, namely “grey market purchase”, “late payment of bills” and “customer complaints”. Managers were further asked to produce descriptive notes, explaining their reasons for apportioning the numbers in the chosen way. This was done to learn, if the managers had any particular insight and reasons for allocating a certain number, or if they submitted subjective estimates. Upon return of the questionnaires, the answers were aggregated and the mean and standard deviations of the numbers allocated to each of the variables was calculated. Where the standard deviation was small, the average percentage was accepted as a reliable figure. For example, an average incentive rate of 4% was given if distributors would carry the full product assortment, because the standard deviation was less than 0.3%. For other variables, such as “provision of market information” or “delivery of sales statistics” a large standard deviation was observed. These variables, together with the percentages estimated by each manager and the explanations from the descriptive notes, were further reviewed. A second round questionnaire was sent to managers. They were asked to reconsider the percentages and the reasons given by their colleagues and to indicate the estimate they could best agree with. The results were aggregated and analysed in the same manner as before. From the submitted estimates, the standard deviations could be reduced to less than 0.5%, so that the percentage allocation for the remaining variables could be completed. An overview of the percentages allocated to each of the RPM variables is depicted in table 18.

Table 18: Overview of incentives allocated to the RPM variables

PART A - Fixed incentives (Assumption: no negative discounts allocated)		10%
<i>CATEGORY 1 – CRITERIA REFLECTING INCREASE IN INCENTIVES</i>		
Branding activities	1%	Provision of market information 0.5%
Delivery Lorry	0.3%	
Buildings	0.2%	Storage and distribution of sales support material 0.5%
Business Correspondence	0.2%	
Lorry with integrated bar	0.1%	Brand distribution exclusivity 1.5%
Small lorry with cooling system	0.1%	
Flyers	0.05%	Territory exclusivity 0.5%
Announcement of promotions	0.05%	
Delivery of sales statistics	0.5%	Distributor actively sells the supplier's brands 0.5%
Product assortment	3.5%	Adherence to recommended prices 0.5%
Distributor initiated sales	1%	
<i>CATEGORY 2 – CRITERIA REFLECTING REDUCTION IN INCENTIVES</i>		
Customer complaints	-0.5%	Late payment of bills -1%
Product purchase from the grey market	-6%	
PART B – Variable incentives		10%
Distributor's potential to increase sales volumes in the future		10%
Total maximum incentive rate (fixed and variable incentives)		20%

As one can observe from table 18, the figure of 1% allocated to “branding activities” was broken down into smaller percentages. This was left to the judgment of the company in line with knowledge of the market and experience in dealing with customers. The apportioning of the 4% figure across different brands in a customer’s product assortment will be left to the joint judgment of the sales people and distributors. It should also be noted, that the percentage of 1% for “distributor initiated sales” is given if distributors create sales in the magnitude of 80,000 litres.

If sales are higher or lower, the percentage rate is calculated proportionally, e.g. for 40,000 litres distributors would receive a price reduction of 0.5%.

One is aware that the overall percentage rate of 20% and the apportioning of this figure among the different RPM variables might not be applicable for businesses operating in different industries or countries. Whilst businesses and other institutions in the Swiss brewing industry would not reveal the percentage rates they used, they were willing to discuss the principles they applied. It became clear that these varied from firm to firm, but had no theoretical basis, nor was a theoretical framework found within the literature. This being so, a pragmatic approach had to be followed, i.e. systematic rather than theory based that could be followed by any organisation, wishing to determine an incentive structure.

4.3.7 Reasons for testing The Relationship Pricing Model

Having developed the RPM model it was decided to conduct a pre-test with 30 customers followed by full scale test with another 53 customers, in order to critically evaluate the inputs, processes and the outcomes of the model as summarised in figure 19.

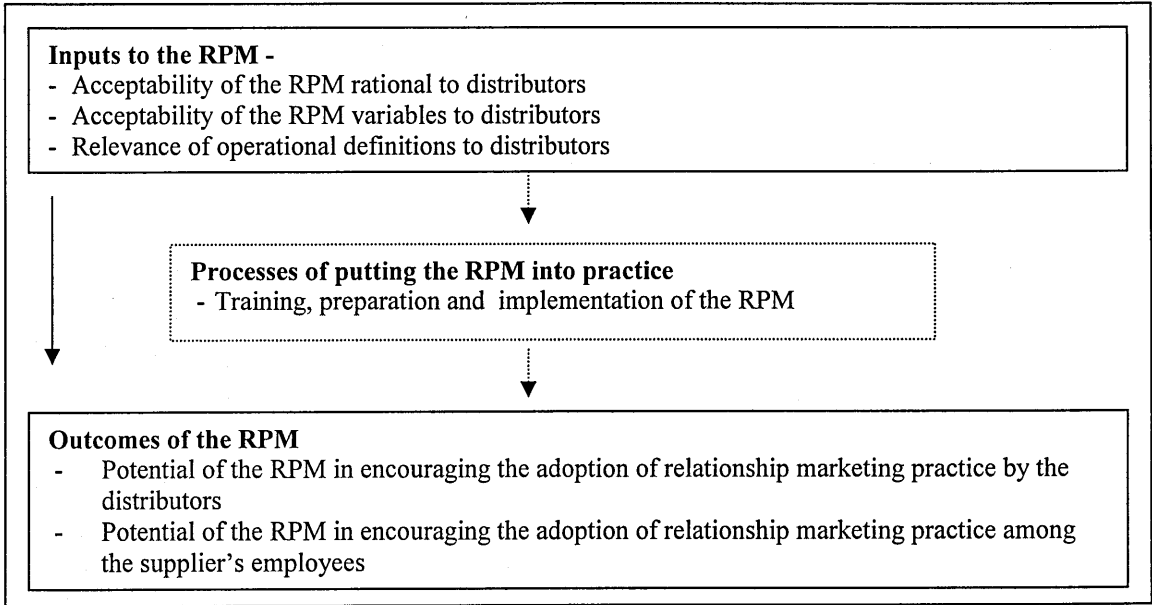


Figure 19: Overview of the RPM test

The objective of the RPM test was to learn if the concept, the model's pricing variables and the set up of the model were acceptable to distributors. The RPM had been built based on information drawn only from the supplier-side of the relationship. What had yet to be explored was how the RPM might be perceived by the buyer-side of the relationship. The importance of exploring customers' views about new processes is discussed in the context of Business Process Re-Engineering (BPR) programmes. Terziovski *et al.* (2003) concluded that using feedback from customers is imperative when redesigning processes. From a cross-section survey among 156 of Australia's top financial companies they found a significant relationship between the use of customer feedback in planning and implementing BPR and a firm's ability to satisfy customers. In essence, this suggests that customer feedback allows businesses to better understand the needs and expectations of customers; a pre-requisite to creating long-term benefits. The creation of mutual benefits is frequently stated as the purpose of relationship marketing (Frieze and Funck, 2001; Harker, 1999; Walter *et al.*, 2001).

The test had a secondary objective. The purpose of developing an RPM, was to build a tool which contributes towards building and developing better supplier-distributor relationships than the existing pricing system. Clearly, customers are more willing to accept a new pricing scheme, if they are given a role in testing that scheme, and in modifying it, where this is deemed necessary. Equally importantly, this form of testing would allow organisations to identify any potential barriers to customers accepting any new relationship marketing programme. Canning and Hammer-Lloyd (2002) noted the ability to introduce a change depends on the willingness of business partners to support the process and to accept the adaptation being proposed. Therefore, a company must seek ways of ensuring a partner's support.

Testing the model also served to determine whether the RPM, in its current form, would encourage customers to engage in relationship building activities such as information exchange, resolving conflicts or making investments for the benefit of the relationship.

The way in which the RPM was presented to distributors, was expected to affect the outcome of implementing the model. For instance, distributors might better understand the RPM variables, if these were explained to them by well trained sales people. Therefore, it was important to analyse the effectiveness of the processes involved in putting the RPM into practice. This helped in learning what worked well and where there was potential for improvements.

4.3.8 Definition Of Parameters For Setting Up And Testing The RPM

In putting the RPM together, four key elements had to be taken account of; a) selection of IT technology b) selection of test participants c) definition of test period and d) definition of test procedures.

Informal discussions with the supplier's Information Technology (IT) managers revealed that the Microsoft Office Application "Excel" was the most appropriate technology to run the RPM. The reasons were a) availability of the application throughout the organisation b) sales personnel are familiar with the programme and c) compatibility of the application with the supplier's internal accounting and billing systems.

Sales representatives from different regions were selected to participate in the testing of the RPM. Involving these employees was considered important, because it is they, who eventually would have to implement the RPM, if the test proved successful. Therefore, it was crucial to win their approval and encourage them to take ownership of the new pricing model. This, according to the literature, can be more easily achieved if employees are involved and have the opportunity to raise their concerns and opinions as well as to provide ideas, suggestions and possible improvements (Mullins, 1993, Proctor and Doukakis, 2003). Only sales representatives who had worked for at least 5 years for the organisation were selected. The reason being was that these employees had some experience in testing and implementing new business practices and systems, which were introduced by the supplier during the past few years.

Other participants from the brewer's organisation included the six middle managers from marketing, sales and finance. Each of these managers was present during three distributor visits and observed how the RPM was put into practice. As explained earlier in this chapter, there was a need for getting these managers to accept and actively promote the principles of relationship marketing. It was anticipated, that by observing some of the distributor visits, middle managers would a) get a better understanding about the needs and wants of customers and how these could be met through the RPM, b) begin to comprehend the potential of the RPM as a tool for building relationships with their customers and c) accepting and promoting the benefits of relationship marketing. As the literature suggests, managers' commitment and belief in the philosophy of relationship marketing is important to develop relationship thinking among their subordinates (Lindgreen and Crawford, 1999; O'Toole and Donaldson, 2002b).

83 distributors were selected to participate in the testing of the RPM. The sample of distributors was selected based on informal discussions with sales people and is summarised in table 19.

Table 19: Sample characteristics of distributors, which participated in testing the RPM

Sample characteristics	Italian Region	German Region	French Region
	No. of distributors	No. of distributors	No. of distributors
Small sales volumes (<500 hectolitres)	0	21	7
Medium sales volumes (500 – 999 hectolitres)	0	15	7
Large sales volumes (> 1001 hectolitres)	4	15	14
Total Distributors	4	51	28

Whilst the final choice of distributor was left to the sales representatives, they were asked to select distributors of different size and from different regions of the country. In addition, they were instructed to only select distributors which spoke either German or French. This was the reason why, as shown in table 19, only four distributors from the Italian region were included in the sample. These four distributors not only spoke German but accounted for approximately 70% of all sales volumes generated in that region. Therefore, the insight from these distributors was a reasonable representation of the business practices within the Italian part of Switzerland. Incorporating distributors

from different regions and with different size businesses was considered important to explore the effects, if any, the RPM had on the adoption of relationship marketing practices by different types of distributors.

A decision was made to conduct the test of the RPM during the summer season, lasting from May to September 2002, which is the busiest time of the year.

Finally, a set of test procedures were drawn up, detailing how the planning and the execution of the RPM pre-test was to be conducted by all employees involved. These can be viewed in detail in appendix 14.

The purpose of these procedures was to specify the role and responsibilities of all employees involved in the test and to ensure that the RPM was tested in a systematic and consistent way. Moreover, it was hoped that the test procedures would facilitate and encourage the interaction of employees across different functions. Cross-departmental interaction, according to the literature, aids in developing relationship marketing thinking within organisations (Grönroos, 1999; Gummesson, 1987).

With the definitions of the discussed parameters, the research has progressed to the point where all inputs were in place, to translate the conceptual ideas of the RPM into a physical model and to test this in a real life environment. The entire RPM was reproduced electronically in an Excel file as illustrated in table 20.

Table 20: Overview of the electronic Relationship Pricing Model

Branding Activities (Allowances ¹)	Yes/No	Weighting in %	Total %	Brand distribution exclusivity (trade discount ¹)	Yes/ No	Total %
Delivery Lorry	Yes	0,30	1	Carries exclusively the the supplier's product	Yes	1,5
Buildings	Yes	0,20				
Business Correspondence	Yes	0,20				
Lorry with integrated bar	Yes	0,10				
Small lorry with cooling system	Yes	0,10				
Flyers	Yes	0,05				
Announcement of promotions	Yes	0,05				
Total		100%				
Delivery of sales statistic	Yes/No	Total %		Adherence to recommended prices	Yes/ No	Total %
Delivers sales statistic	Yes	0,5		Adheres to price recommendations	Yes	0,5
				Provision of market information	Yes/No	Total %
				Provides information on gastronomy outlets	Yes	0,5

1) Source: Kotler, 1994; Stern and El Ansary,1988; Taylor, 2002

As can be seen in table 20, the section concerning fixed incentives of the electronic RPM, consists of a series of “Yes/No” input fields. For most of the variables a “yes” or a “no” is keyed in these fields, depending if a distributor does or does not to fulfil the criteria. The percentages are calculated automatically by formulas programmed in “Excel”. Some additional information needs to be entered for some of the variables. This includes the magnitude of distributor initiated sales or the weighting attached to different brands in the product assortment of distributors. Again, the percentages resulting from this input are automatically calculated by “Excel”. In the section with the variable incentives, the sales targets as well as the incentive rate attached to them are entered manually. The model was programmed in such a way that if the percentages entered by the user exceeded the 10% allocated to the variable incentives, a dialogue box would pop up requesting them to reconsider and alter their data entry.

Obviously customers will be interested in knowing the financial implications of the RPM compared to the current pricing system. For this reason, current prices, as well as the products sold by the distributor were stored on a separate “Excel” sheet. Using formulas, which connected this data with the input fields of the electronic RPM, the final selling prices could be automatically calculated. Moreover, this mathematical tool also provided instant comparisons of the distributor’s financial situation based on the new as well as the current pricing system. The mathematical model including the formulas can be found and studied in appendix 15.

Sales people were taught how to use the electronic RPM in line with the training programme described in the next section, before they tested the model among distributors. The outcomes from this test will be discussed in detail in chapter 5.

4.4 Exploration Of Customers' Initial Reaction To The RPM

As discussed earlier in this chapter, there was a need to explore customers' reactions to the overall concept of the RPM prior to testing it, in order to anticipate negative responses to the new pricing system. Exploratory interviews were held with 10 distributors. The concept of the RPM was explained to them and they were asked for their immediate thoughts and questions what had been presented to them. Distributors' attention was drawn particularly to the criteria which carried penalties including "product purchase on the grey market", "late payment of bills" and "complaints by customers to the supplier about the distributor". The key findings from these interviews can be summarised as follows:

Overall reactions to the RPM:

- All distributors understood the principles of how the RPM works.
- The majority of distributors commented positively on the idea of being able to choose from a range of criteria and thus actively influence the prices they pay.
- Two of the 10 customers rejected the RPM. They saw no need for a new system and were happy with the current pricing conditions.
- Two of the distributors mentioned that the RPM is complicated and that they prefer the existing system.
- The majority of distributors' questions concerned the definition of the RPM criteria.
- Some distributors pointed out that certain RPM criteria were not relevant to them and enquired if these could be omitted.
- Other customers mentioned that some of the criteria were too narrowly defined.

Overall reactions to the criteria carrying penalties:

- 8 of the 10 customers did not have a problem with including criteria which carry penalties. They pointed out that none of these criteria would affect them and for this reason would have no adverse effects on their prices.
- Two distributors reacted negatively to the idea of being penalised for purchasing products on the grey market. They suggested better price offers so as not to have to resort to purchasing on the grey market.

In conclusion, there appeared not to be much negative reaction to the criteria which could potentially have an adverse effect on the supplier-customer relationship. Findings from the exploratory interviews suggest that queries from customers during the test are likely to be about the way in which RPM criteria were defined rather than about the criteria which have a penalty attached to them. What was learned from these interviews is that one has to be ready for dealing with customers which reject the RPM or some of its criteria. This was a valuable finding as it offered an opportunity to prepare sales people for these eventualities. It became evident that there was a need to develop courses of action how to deal with customer resistance to the RPM or its criteria. However, at this point in time, the strength and nature of customer resistance to the RPM could not be anticipated. Therefore, appropriate strategies for dealing with customer resistance to the RPM would have to be identified, based on insights derived from pre-testing the RPM among a sample of 30 distributors.

4.5 Training Of The Sales People

Prior to testing the RPM, a training programme for sales people was set up. The purpose of the programme was to develop their understanding about the rational and functionality of the RPM, and to develop the necessary skills to introduce the new pricing system to customers. As the literature shows, this facilitates the implementation of change within organisations (Kotter and Schlesinger, 1979; Mento *et al.*, 2002) and is part of putting relationship marketing programmes into practice (Czaplewski *et al.*, 2001; Lindgreen and Crawford, 1999). Figure 20 gives an overview of how the training programme was developed and implemented.

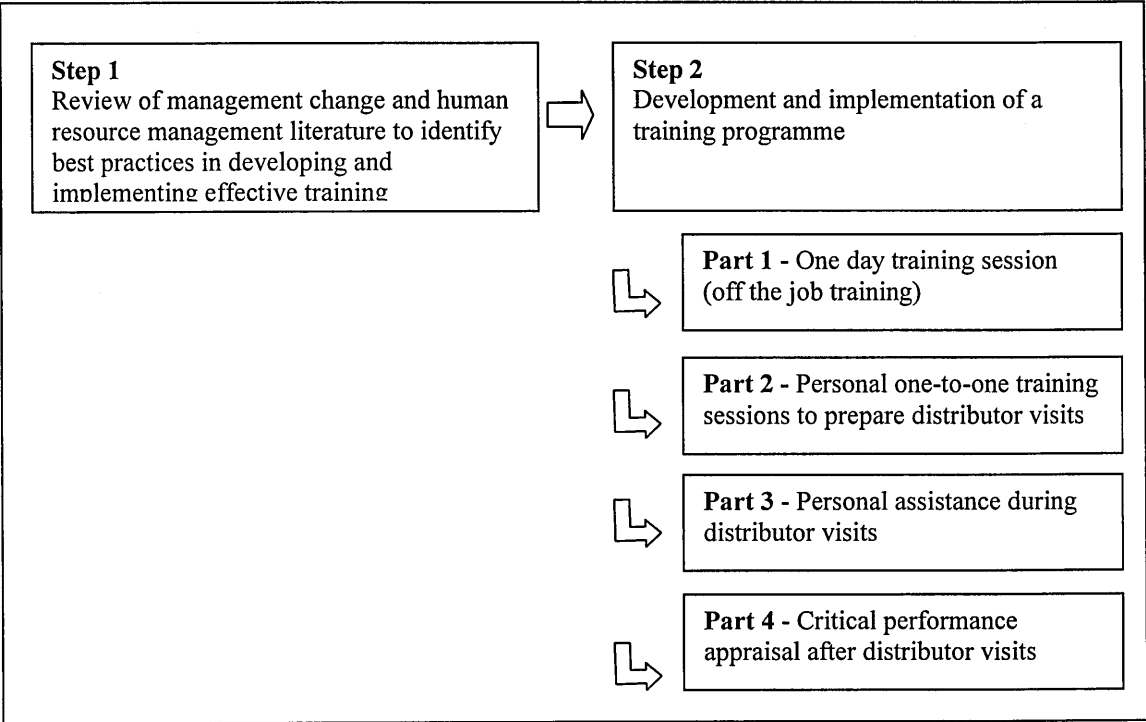


Figure 20: Overview of the training programme

As shown in figure 20 shows that the literature on management change and human resource management was reviewed, to identify best practices in developing and implementing effective training programmes.

The first part of the training programme consisted of a one-day training session attended by all users of the pricing system, namely 10 sales representatives as well as the 6 middle managers which participated in developing the RPM. The purpose of this training session was to communicate the rationale and functionality of the pricing model. Moreover, users were familiarised with the rules and guidelines accompanying the testing phase, given instructions on how best to plan and conduct distributor visits and taught how to physically operate the pricing model. This training session was conducted with all users together in order to develop a common knowledge and understanding about the purpose, functionality and use of the RPM. It was expected, that this contributed towards the consistent and systematic application of the model by all users during the test phase.

The second part of the training programme took the form of a one-to-one personal training session with each sales representative. The purpose was to provide guidance and advice in preparing the visits to distributors. Personal training was considered appropriate, as it allowed tailoring of the training to each sales manager's needs. The extent to which training is required, might be quite different depending on the sales people's knowledge resulting from the training session, computer skills or knowledge about the distributors selected for the test. Therefore, these requirements could not be addressed by a general training session with multiple participants.

The third part of the training programme consisted of on-the job training during visits to distributors. It was the sales representatives' responsibility to introduce and explain the new pricing system to distributors. Thus, sales people were given the opportunity to "learn by doing" and to develop their skills in implementing the RPM at their own pace in a "real situation", which, according to the literature, is part of effective learning (Armstrong, 1996).

After each distributor visit, the sales representative's performance was appraised. This offered the opportunity to give sales representatives positive feedback and constructive advice about possible improvements for the next distributor visits.

In summary, a detailed account of the measures taken and processes followed to set up an operational RPM was presented in this chapter. The outcomes from testing the RPM are discussed in chapter 5.

Chapter 5

Results From Testing The Relationship Pricing Model

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5. Results From Testing The Relationship Pricing Model

The outcome of testing the RPM is presented in this section. The researcher together with 10 sales representatives visited 83 distributors in the French, German and Italian speaking parts of Switzerland. The test took place in two phases, namely the pre-test, involving 30 distributors and the full scale test with the remaining 53 distributors. The purpose of the test was to critically evaluate the inputs, processes and the outcomes of the RPM as discussed in more detail in the methodology chapter.

5.1 Results From The Pre-Test Of The Relationship Pricing Model

After the first 30 interviews had been completed, there was a pause for reflection to devise strategies for dealing with customer resistance during the remaining 53 interviews.

Whilst the RPM overall was widely accepted, there was resistance by some customers. The resistance fell into two distinctive categories. First, there were those customers with a vested interest in maintaining the status quo. They had been obtaining favourable prices from the supplier's sales personnel. Their view was that any change to the pricing system could only be to their disadvantage. The second group of customers did not reject the RPM *per se*, but had a problem with particular variables. For example, some experienced difficulty in providing market intelligence data simply because they did not have the technology to automatically transfer data from their own systems to that of the supplier. Strategies had to be found to deal with both these categories of resistance to change to the pricing system.

Out of the 30 customers, almost one third could be categorised as having a vested interest in the current system and for this reason they rejected the RPM. Experience showed that businesses can use two main strategies to overcome customers' opposition to a RPM.

The first strategy is to reason with customers. Businesses should explain why they are changing the system and the reasons why the customer should accept it. In particular, a point has to be made, that the customer's current favourable prices are the result of a) growing sales and b) the goodwill and negotiation skills of sales people. Customer's attention can then be drawn to the volatility of the conditions determining his current prices. That is, volumes may decline and/or sales people may change, both of which are a potential threat to the current pricing conditions. The RPM, businesses can reason, gives the customer greater control and security over its pricing conditions. This is the case, because the customer can pick and choose a range of different criteria which influence his prices, but are not subject to either the development of sales or intervention of sales people. In the case of this study, this line of reasoning helped to convince half of those customers who initially rejected the RPM for fear their trading conditions would be adversely affected.

In short, customer acceptance of an RPM can be won if businesses inform customers about the changes to its pricing system and the reasons why these changes are necessary. In so doing, businesses engage in what the literature describes as effective communication as they keep the relationship partner informed about what is going on (Anderson and Weitz, 1992) and communicate changing needs and changes that affect the other party (Mohr and Spekman, 1994). Effective communication is an antecedent of relationship marketing as it supports the development of trust (Anderson and Weitz, 1992; Morgan and Hunt, 1994; Zineldin and Jonsson, 2000), cooperation (Metcalf *et al.*, 1992), commitment (Anderson and Weitz, 1992) and social bonds (Smith, 1998).

The second strategy businesses could use to overcome resistance to a RPM is to agree on a transition period -say two to three months- during which the current system is phased out (it is important to keep transition periods as short as possible). Another one fifth of those distributors who initially resisted adoption of the RPM, due to vested interest, accepted transitional arrangements. Thus, by applying these two strategies, almost three quarters of those customers who originally objected to the RPM were persuaded to embrace the changes to the pricing system.

It was not possible to convince all customers to accept the RPM. Grönroos (2004) states that building strong and lasting relationships with suppliers is not going to interest all customers. Grönroos observed that some customers are transaction oriented. In this study, two of the initial tranche of beer distributors threatened to switch suppliers, if the brewer tried to imposed the RPM on everyone. This challenged the supplier to reassess how committed it was to making its pricing system relational as opposed to transactional in nature. In particular, senior management was confronted with the fact that committing to the RPM could carry real costs if distributors were lost as a result. Undoubtedly, if at this point senior management wavers then the commitment and confidence in relationship pricing would quickly dissipate throughout the company. In this instance, the resolve of senior management held firm. There was a conviction that the proposed RPM was not only in the best interest of the supplier but was also to the advantage of the great majority of its customers. This being the case, the supplier's leaders reaffirmed that, whilst every attempt would be made to incorporate distributors suggestions as to how the new system could be made more acceptable to them, the RPM would be implemented in some form.

The general principle to be followed is that once a business has a conviction in the efficacy of the instruments -such as the RPM- it is deploying to implement relational marketing it must be unwavering in its commitment to its programmes. Senior management in particular must show this conviction to have substance when faced with adverse economic consequences. As Kothandaraman and Wilson (2000) argue, effectively implementing relationship strategies requires that management's beliefs and attitude signal to employees and customers that they are serious and committed to relationship marketing.

In order for senior management to show this level of resolve, a risk assessment ought to be carried out prior to introducing any major change to the way in which a company deals with its customers. That is, a worst case scenario would have to be developed. This would include making an estimate about a) the number of customers which were likely to reject the RPM b) the number of these customers that would switch supplier and c) the financial loss for the business.

With respect to the RPM, referred to in this thesis, resistance to the RPM was minimised, by ensuring that it was structured in such a way that very few customers were likely to be disadvantaged by the new, over the old, system. It will be remembered that the overall discount rate of twenty percent was split into a fixed and a variable component of approximately 10% each. The fact that the fixed component was set at around 10% was not arbitrary. Historical records and feedback from sales people showed that on average, a distributor would gain a discount rate of 10% under the old system. It was estimated, that under the RPM the average distributor could gain at least half the fixed rate and half the variable rate thus achieving at least the same discounts as before.

5.1.1 Strategies For Dealing With Customers Which Rejected Some Of The RPM Variables

The first 30 interviews showed that some of the RPM variables could be retained in their original form, whilst others either could only be kept after making concessions, or had to be dropped.

The variables most readily accepted by distributors, and which therefore could be retained, were those that resembled conditions, often found in existing standard contractual agreements e.g. bonuses for sales performance. Predictably, respondents readily accepted conditions with which they were already familiar and already practising in doing business with suppliers. This is shown in table 21.

Table 21: Overview of distributors, which agreed with RPM criteria that were easily accepted

Variables that could be retained as they were bonuses for:	Number of distributors, which agreed with the criteria
Distributor initiated sales	30
Assortment of regionally relevant products	29
Adherence to recommended prices	29
Distributor actively sells the supplier's brands	28
Provision of market information	27
Storage and distribution of suppliers sales support material	24
Invoices paid on time	21
Provision of sales statistics	20

The RPM contributed towards formalising the conditions shown in table 21 and setting performance and rewards standards. Apart from the obvious purpose of developing systematic and transparent pricing, the wider purpose was to set the relationship building process in motion. Whilst explaining the performance and reward standards to customers, the supplier had the opportunity to communicate his intention to intensify the relationship and to highlight the benefits that would arise for both business partners. Customers presented their views, expectations and concerns of working more closely together. This interaction process frequently led to discussions about the state of the current working relationship and how this could be improved. For instance, some distributors clearly stated their willingness to more actively push the supplier's product. They did point out, however, that they would need better support to do so. Being aware of the customers' need for more support, the supplier agreed to provide this by a) visiting more frequently and b) giving the distributor advance notice about planned product introduction or promotions. The relationship building process was supported as the supplier and the customer engaged in what the literature views as effective communication activities in relationship marketing, namely to get a better understanding about each partner's wants, issues, inputs and priorities (Dwyer *et al.*, 1987); the expertise or resources to which parties have access (Canning and Lloyd, 2002); the compatibility of values and principles between organisations (Kanter, 1994); the identification of the behaviour and role of the other partner (Stern and ElAnsary, 1988); clarification and alignment of channel member's expectations and perceptions (Etgar, 1979) and signalling future intentions (Mohr and Spekman, 1996).

A second set of variables could be retained, if amendments were made either to the variables themselves and/or to their definitions.

Customers challenged some of the RPM criteria, when these did not take into account different regional market conditions. For example, some customers contended that they should be rewarded for maintaining current levels of sales rather than only for sales growth. They reasoned that there was no sales growth potential in their region, as the supplier's brands already accounted for a 90% market share. The best they could do under these market conditions was to try to keep up current sales.

Another condition which was challenged concerned the purchase of products from a foreign supplier (i.e. grey market purchases). Customers located near the Swiss border, claimed that so called "grey market purchase" is important to remain competitive within their region. They reasoned that many of their competitors bought lower priced products in bordering countries. In so doing, these competitors gained a price advantage in the market, as they could offer products at lower prices. To offset this competitive disadvantage, customers sometimes bought products abroad, to take advantage of prices which were up to 20% lower than those offered by the supplier.

What can be learned from all this is that it is almost impossible for a company operating at national level to put a system in place which is uniform across the entire country and fits all customers. This is particularly difficult in a market like Switzerland, which is markedly divided by demographic, topographic, language and cultural differences. Many companies in other countries also find themselves operating in markets marked by regional and topographical diversity. Strong market presence in one part of the country and a weaker presence in another, applies as much to France, Germany and the UK as it does to Switzerland. Markets other than Switzerland could also face the importation of lower priced products from abroad. For example, a few years ago, cars in Belgium were considerably less expensive than in the UK, resulting in the influx of grey imports of cars from Belgium to the UK.

There are different ways in which businesses can deal with customers' objections to some RPM variables. The key is to gauge the nature, strength and validity of objections by customers. If objections are not very strong, it is sometimes possible to persuade customers to accept the RPM as it is, despite the perceived disadvantages. Openly acknowledging the shortcomings of the RPM helps businesses to persuade customers to its benefits. It can be explained to customers that future changes to the RPM are planned and that these might overcome some of the current shortcomings. For instance, some customers were persuaded to accept the operational definitions of branding activities, although they took the view that branding should embrace any participation in branding and not only those singled out by the RPM. It was learned however, that it is important to give customers an opportunity to give feedback on how to improve the RPM conditions. In this way, the customer is actively involved in developing the system further and is thus encouraged to take ownership of the RPM. A pricing system can only become a real "relationship marketing" instrument if both parties participate in its construction.

Negotiations became necessary where customers could not be persuaded to accept the conditions of the RPM. This was the case, for instance, where customers were opposed to being penalised for grey market purchases. Whilst discussing this situation, the business partners reached an agreement. The sales representative promised to support the customer with additional price promotions during the year. In return the customer agreed to refrain from purchasing products on the grey market. Admittedly, there is a danger of unequal treatment of customers, as the outcomes of negotiations may not always be the same. However, it is believed that this danger is offset by the wider benefit of building relationships. Negotiations set out to create a win-win situation, i.e. both parties benefit. The supplier contributes to the relationship by helping the customer find a way of being able to accept the trading conditions. Thus, it was through negotiations that both the supplier and the customer clarified what each party contributes to the relationship.

Modifying the operational definition of variables is another way that businesses can maintain a unified system and align it with market needs. For instance, the operational

definition of a customer's future sales potential was relaxed. Customers would not only be rewarded for increasing sales, but also if they succeeded in maintaining sales levels of certain products. After all, the main purpose of including customers' sales potential as a RPM condition was not simply to increase sales, but to encourage business partners to jointly define future goals, which would be beneficial for both. This process would be supported by the modified operational definition. Distributors and sales people together would have to analyse the market and make a joint decision about setting targets to increase and/or or to maintain sales of different brands of the supplier.

Some RPM criteria were challenged, because they interfered with the customers' efforts to develop their business. Obviously, if customers think that their business would suffer in any way, because of accepting the conditions set out in the RPM, they are likely to oppose the variables in the system. For example, some customers disagreed with the definition of "product distribution exclusivity". As explained in chapter 4, customers would be rewarded if they did not a) sell any Swiss beers produced by the competition and b) distribute more than two international brands in addition to Heineken. Customers reasoned that they would always have to carry additional products in order to satisfy consumer demand in different gastronomy outlets. They explained, for instance, that a stock of international beer brands had to be kept for customers running international restaurants or pubs with an English speaking clientele. Therefore, under the conditions set out by the supplier, they would no longer be in a position to deliver the required products to some of the gastronomy outlets.

It was understood that a RPM might fail to meet the specific needs and requirements of all distributors. Many companies in different markets and industries deliver products to a range of distributors. In such cases it is reasonable to assume, that distributors are looking for different brands. Therefore, it would be difficult for many businesses to have a unified system in place, which suits the needs of all distributors. One way to overcome this obstacle is to modify the operational definitions of variables. This needs to be done in a way which makes the definition more relevant to different types of distributors. This was the case, for example, for brand distribution exclusivity, which was no longer defined by the type of brands customers could exclusively sell. Instead,

the definition of brand exclusivity was changed. Under the modified scheme the overall percentage of sales that distributors realise with supplier's products in relation to its total annual sales was used as a criterion. Therefore, even if 90% of a distributor's yearly sales should be the supplier's products, the remaining 10% could contain competitors' products to satisfy customer demand. It was in this way, that the overall RPM remained a unified system, while still addressing the needs of different distributors.

The supplier made adaptations to the operational definitions of some of the RPM criteria, to better meet the needs of its customers. Making adaptations to match the operations of two companies is considered an important aspect of interfirm exchange relationships (Hallen *et al.*, 1991). As Brennan *et al.* (2003) argue, a partnership is defined, by at least one partner adapting to the needs of the other. These authors found that both supplier and customer adaptation are positively related to a relational approach to marketing and purchasing. Adaptations are made by customers and/or suppliers and can take many forms. Brennan *et al.* (2003) developed an improved taxonomy of adaptation in business-to-business markets. Adaptations made by the supplier being studied, can be considered to correspond with what Brennan *et al.* describe as adaptations made to financial procedures.

It was found that it is not always possible to retain all variables of a RPM. From the findings of the first 30 interviews, it became clear that a set of RPM variables needed to be dropped. These concerned criteria, which were entirely rejected by customers, because it was beyond their control to agree with them. This was the case for example with sales territory exclusivity. As discussed in chapter 4, the supplier strongly relies on some distributors to secure product availability in certain areas of the country. For this reason, distributors are rewarded for being the only business selling the supplier's products within a geographic area of 25 square kilometres. Distributors argued that they had no influence over the geographical distance that would lie between their business and that of other competitors. Similarly, distributors disagreed with being penalised, if customers complained to the supplier about their delivery service. They pointed out, that late delivery to customers was sometimes caused by delivery delays on the part of

the supplier. On other occasions, customers ordered too late causing the distributor to not have enough lead-time to ensure timely product delivery.

Variables were removed in cases where no system to check their relevance and fulfilment of conditions set out in the RPM existed. For instance, it was impossible to verify, if a distributor agreed with the criterion of being the only business selling the supplier's products in a given area of the market. The supplier had no system in place, which could be used to estimate the geographical distance between distributors and their competitors. Talking to distributors it became clear that "sales territory exclusivity" is only relevant to very few of them. If this had been known at the time the model was developed, this variable might not have been included in the RPM.

The absence of fully operational systems to check the occurrence and validity of customer complaints was the reason why this variable was dropped. Sales, finance and marketing managers, all took the view that encouraging distributors to deliver products on time, at the right place and in the correct quantity was important. There was a common understanding that customer complaints could be traced through a) the internal customer complaint system and b) by asking the sales representatives. Neither of these turned out to be practical nor reliable. Very few sales representatives were actually aware that customers complained about poor delivery by the distributor. Customer complaints were logged on the internal customer complaints system. However, it was not always possible to deduce if a complaint was justified or not.

It can be concluded that only variables not subject to intervening factors beyond the customers' control should be included in a RPM. Customers must be in a position to decide by themselves, if and how they meet the conditions set out in the RPM. It further became clear that the views of different managers and sales people were important to identify the kind of variables to include in the RPM. Additional sources of information such as a customer complaints or ordering systems would be useful, however, to verify the integrity of inputs from management and sales people.

In summary, the first 30 interviews showed that some variables could be easily retained, whilst others could be kept after making concessions and others had to be dropped. This is shown in figure 21.

Variables included in the RPM prior to the pre-test	Necessary amendments based on findings from pre-test	Variables included in the RPM after the pre-test
Distributor carry all of the supplier's regional brands	→ None	→ Distributor carry all of the supplier's regional brands
Storage and distribution of supplier's sales support material	→ None	→ Storage and distribution of supplier's sales support material
Distributor actively sells the supplier's brands	→ None	→ Distributor actively sells the supplier's brands
Adherence to recommended prices	→ None	→ Adherence to recommended prices
Provision of sales statistics	→ None	→ Provision of sales statistics
Provision of market information	→ None	→ Provision of market information
Distributor initiated sales	→ None	→ Distributor initiated sales
Invoices paid on time	→ Negotiate a transition period with customers for arriving at timely payment of bills	→ Invoices paid on time
Branding activities (multiple variables)	→ - Persuade customer - Seek feedback from customer on what kind of branding activities should be included in the RPM	→ Branding activities (multiple variables)
Distributor refrains from grey market purchase	→ Negotiate an agreement with the customer e.g. offer price promotion in return for not buying on the grey market	→ Distributor refrains from grey market purchase
Distributor participates in setting sales targets	→ Operational definition of variable was modified	→ Distributor participates in setting sales targets
Brand distribution exclusivity	→ Operational definition of variable was modified	→ Brand distribution exclusivity
Sales territory exclusivity	→ Variable was dismissed	
Customer complaints	→ Variable was dismissed	

Figure 21: Overview of variables that were retained, changed or dismissed after the pre-test

Figure 21 shows that just over half of the RPM variables initially chosen by the business could be retained as they were (the RPM including all modifications made after the pre-test can be viewed in appendix 16 and 17). This illustrates that despite the organisation's long history of understanding the market, they could not get it right the first time. Empirical evidence suggests that no matter how well businesses understand the market, they cannot decide on a relationship marketing scheme without the interaction of customers. This underpins the whole process underlying the model. Customers are as much part of building a RPM as those who take part in setting up the model. It is by talking to customers that the first step in the relationship building process is set in motion. Solutions were discussed, how the RPM could be operated in such a way as to create the most benefit for each relationship party. Current ways of working together were reviewed and plans made how these could be improved. Thus, the supplier and the distributors obtained a better understanding of each other's needs and requirements and how these can be met for the benefit of both parties.

Different strategies were identified, how businesses could gain the customers' acceptance of variables they did not agree with. These included a) persuasion, b) negotiation and c) modification of the variables. The lesson to be learned here is that it does not matter so much what strategy one follows. What is important is that each strategy in itself can become part of the relationship building process. That is, the supplier is not just putting a system in place irrespective of the customers' approval. Instead, the supplier talks to the customer and together they work out a solution, which is in the best interest of both parties.

5.2 Results From The Full Scale Test Of The Relationship Pricing Model

The extent to which distributors already fulfilled the criteria set out in the RPM, prior to the model being made known to them, was determined. This allowed the establishment of a baseline measure of the prevailing relationship level prior to the RPM's introduction. As the RPM was progressively introduced to increasing numbers of distributors its results could be compared against the benchmark of the relationship audit. In short, a comparison was made between the kind and number of criteria the distributor fulfilled *pre* and *post* the introduction of the new pricing system. In this way, it became possible to assess the effectiveness of the RPM in encouraging distributors to engage in activities which would strengthen their relationship with the supplier.

For the purpose of this study, the chosen unit-of-analysis was "the number and types of criteria" customers agreed to fulfil. According to this scheme, one distributor might agree to fulfil three different criteria whilst another might accept two altogether different criteria. Promises made by customers to fulfil certain criteria were monitored for compliance albeit only over a twelve months period since this study was completed one year after the collection of the data. It can be said that, in the short-term at least, that those who made agreements, fulfilled those agreements.

It is recognised that using the number of criteria met by customers, *pre* and *post* the introduction of the RPM, is both a very broad, and crude, indicator of how relationships were developing. Nonetheless, it should be borne in mind, that any estimated increase in *post*, over *pre* model activity levels is more likely to be conservative than inflated. After all, *pre*-model relational activities would have evolved over years, perhaps many years, whereas the figures being reported here regarding to *post*-model activities reflect an instant increase in activities. At most, the increase in relational participation happened over several months at most. Indeed, 90 percent of customers took the decision to participate immediately the RPM was presented to them. It can be argued that, over time, this proportion can only increase as the RPM becomes more widely known in the marketplace, unless of course, the model is badly administered and receives negative publicity.

5.2.1 Effectiveness Of The Relationship Pricing Model

The initial assumption was that the RPM would have its greatest impact on larger distributors, whilst being less effective with small and medium sized distributors. All businesses have a vested interest in developing business with its largest customers because they normally account for a sizable proportion of its sales and profits. For this reason, it is not uncommon that businesses actively seek cooperation with its largest customers in order to maintain good relations and preventing them from switching supplier. In so doing, businesses would already have established a certain degree of social and professional interaction and trust with larger customers. As the literature shows these are pre-requisites for building closer relationships (Blois and Wilson, 2000; Hakansson, 1982; Morgan and Hunt, 1994; Rao and Perry, 2000). The same was found to be the case with the brewery being studied. Sales people acknowledged that they set the priority in developing business with the large customers. Sales reports revealed, that sales people visited larger customers at least once a month to talk about new product introductions, promotions, problems needing dealt with and to give feedback to the customer on past enquiries. In contrast, visits to medium businesses took place on average every three months, whilst small customers were visited on average twice a year.

As depicted in figure 22, larger customers tended to be more actively engaged in relational activities with the supplier before the model was introduced. Since this class of distributor was already wedded to the notion of mutual cooperation with suppliers, it was thought that they would be the more responsive to the RPM than smaller enterprises.

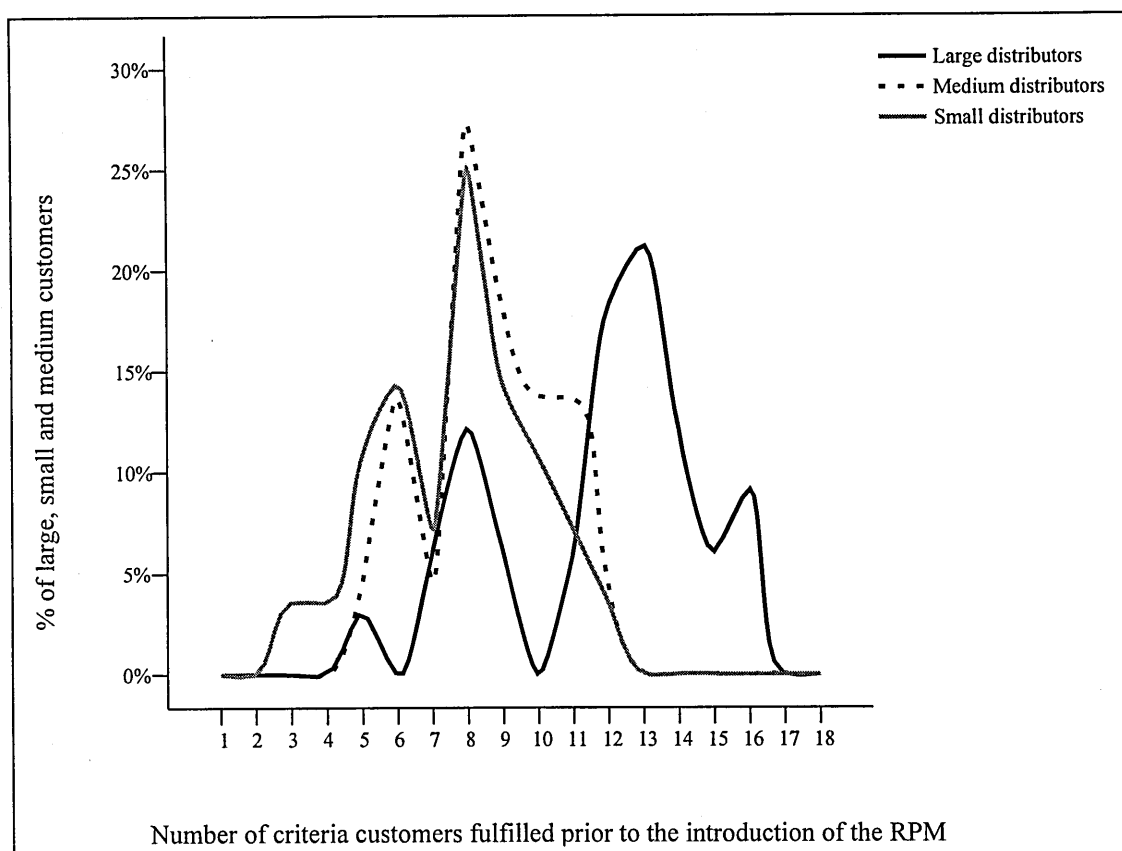


Figure 22: Agreement of small, medium and large customers with RPM criteria before the model was introduced

In contrast, small and medium size distributors were less involved in relational activities. Moreover, as became apparent during the test, their interaction with the supplier was, in general, infrequent and any cooperation took place on an *ad hoc* basis. Consequently, these customers were less accustomed to the concept of working closely with a supplier and for this reason were expected to respond more slowly to the RPM. The relationship audit suggests that larger businesses have a greater propensity to engage in relational activities than do other size of businesses.

This leaves the question of whether the type of criteria that businesses of different sizes meet itself differs. After all, adopting some criteria involves more or less commitment than does adopting other criteria. For example, agreeing sales targets requires little commitment whilst putting a supplier's name on the distributor's stationery would be a very public declaration of an alliance with the supplier and this represents a substantial commitment.

The literature suggests, that relationships evolve over time (e.g. Dwyer *et al.*, 1987; Ford 1980; Wilson, 1995). Whilst the work of Dwyer (1983) and the IMP Group on which Ford's model is based, is widely cited in the literature, the models remain conceptual in nature. What has been tested, however, are the key constructs embedded in these models. For instance, both Kalafatis (2000) and Metcalf (1992) used the interaction model developed by the IMP as a conceptual framework, to test the influence of exchange factors (social, information and product exchange) on a business' cooperation and adaptation. Unfortunately, none of them go as far as measuring actual behaviour.

The broader message to be derived from these models is that the involvement of relationship partners differs during each stage of an evolving relationship. For example, Ford (1980) draws on the interaction approach developed in the seminal work of the IMP group. Ford's conceptual model highlights the interaction between organisations over time, influences the degree of experience, distance (degree of familiarity), uncertainty and commitment as the key parameters that will change during different stages of a relationship. For example, in the early stage, relationship parties have little experience and the uncertainty is high. Negotiation of sample deliveries was used by Ford as an example to describe the level of involvement at this point in time. In the longer-term, experience grows and relationship partners become more strongly involved in the relationship, as they begin to establish standard operating procedures, trust and norms of conduct. Wilson (1995) on the other hand, conceptualises that trust, reputation and performance satisfaction are most active, whilst businesses select a partner. Cooperation, commitment or making investments for the benefits of the relationship is considered to become more active, during the later stages of a relationship.

It is argued that if the involvement of customers in a relationship differs, it can be assumed that customers would accept different RPM criteria, depending on how far the relationship building process already has progressed before the RPM was introduced. This offers an opportunity to examine a possible link between customer involvement and the level of engagement in the more intimate relational activities.

Therefore, the data was subsequently scrutinized to determine whether or not there was a relationship between the level of customers' involvement in relational activities prior to the introduction of the RPM and their willingness to agree with additional RPM criteria. A comparison was made between the number of criteria each customer fulfilled prior to the introduction of the RPM and the number of additional criteria each customer was prepared to fulfil during the test.

Figure 23 gives an overview of the RPM pre-conditions, divided by different customer groups, according to the type of criteria they fulfilled before the model was tested.

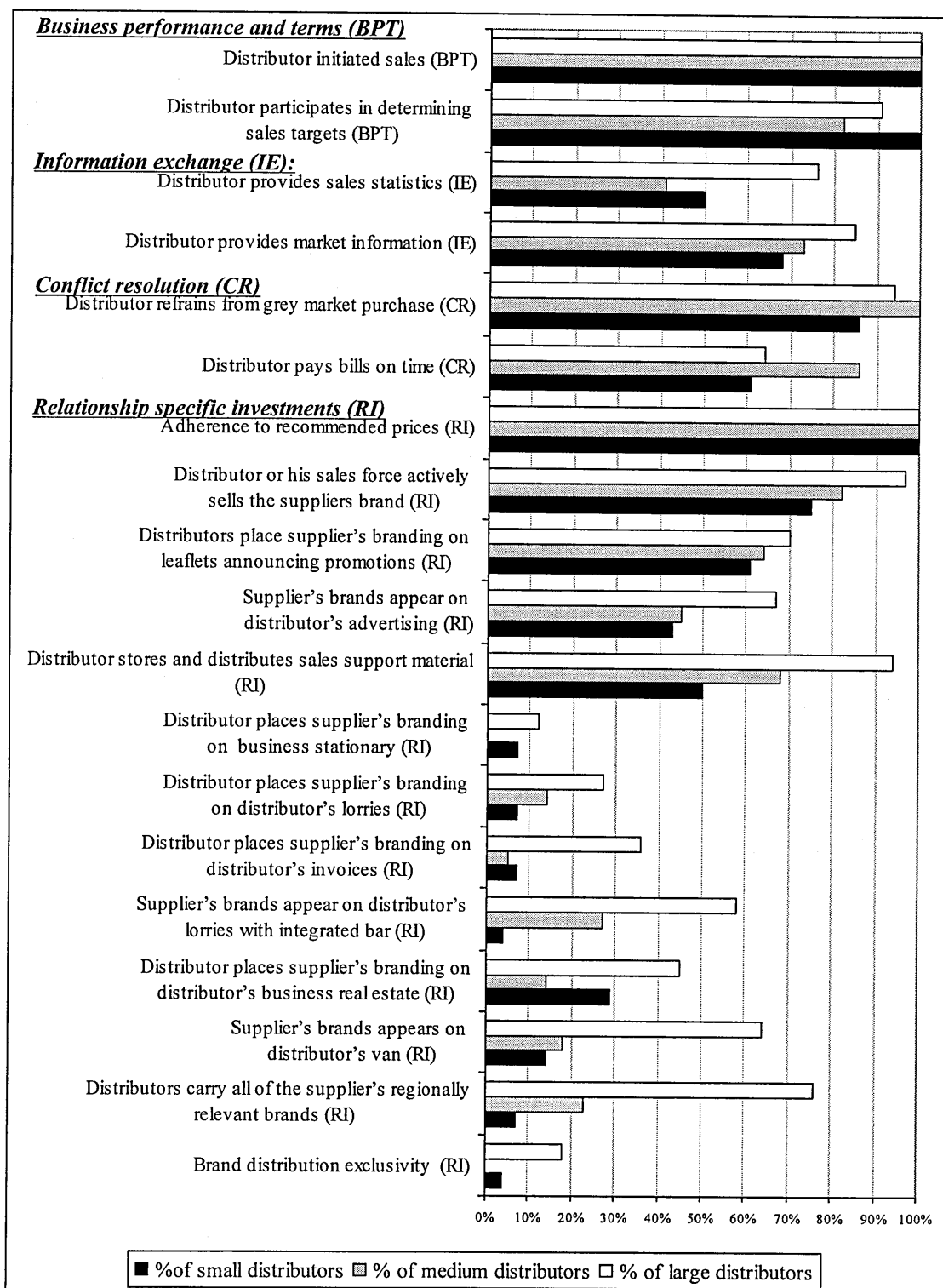


Figure 23: Type of criteria⁵ fulfilled by different distributors prior to the RPM introduction

⁵ allocated in 4 relationship categories, namely BPT = Business Performance and Terms, CR = Conflict Resolution, IE=Information Exchange, RSI=Relationship Specific Investments

The different RPM criteria shown in figure 23 are listed, according to the relationship category they were placed in. These categories were garnered from a group exercise (described in the methodology chapter) where middle managers were asked to identify criteria which reflect the value of a customer and place them in different categories. None of the category headings, and only some of the variables, as described by these managers, fitted well with either the theory or the literature of relationship marketing. For this reason, the category headings were revised and the variables reviewed, resulting in the categorisation scheme depicted in figure 23.

Whilst each of these relational categories corresponds with antecedents and maintenance factors of relationship marketing, they also represent the intensity of customer commitment to a relationship. The category “business performance and terms”, covers activities that represent only low level commitment. The activity categories “information exchange” and “conflict resolution” describe a higher level of commitment. Customers who engage in the activities described as “relationship specific investments” represent the most intimate involvement of a customer in a relationship. These activities involve customers in taking the decision to make investments in the relationship which are long-term and cannot be easily reversed.

Figure 23 shows that overall, customers tended to accept more frequently those criteria falling in the relationship categories named “business performance and terms”, “information exchange” and “conflict resolution”. This indicates that the supplier and its customers have already started to work together in relational ways at least to some extent. However, figure 23 also suggests, that relationship marketing practices have not yet been firmly embedded. Overall, customers tended to be less involved in activities reflecting a strong commitment to the relationship.

At this point, the review of the RPM pre-conditions had given only a cursory impression about the extent to which supplier-customer relationships have been in place before the model was introduced. This picture can be further refined, by looking more closely at the type of criteria fulfilled by different types of customers.

As shown in figure 23, small and medium customers tended to be those most often involved in setting sales targets, adhering to recommended prices and avoiding involvement in grey market imports. There was considerably less involvement in the more “intimate” relational type of activities such as having the supplier’s brands advertised on vehicles, letter headings or real estate. In short, small and medium customers pertained to activities typically found in standard contractual arrangements, but stopped short of activities reflecting strong relational commitment. In contrast, large customers tended to adopt the same kind of relational activities but to a significantly greater extent. Thus, large customers showed a stronger commitment to the relationship, than those that fulfilled the RPM criteria at a lower level.

These findings conflict with those of Coviello *et al.* (2000). Based on a survey among 302 businesses, they found that smaller businesses tend to be more relational. However, Coviello *et al.* caution that differences were only identified for a very small number of variables (7 out of 31) and that overall the general pattern of behaviour between smaller and larger businesses tended to be more similar than not. All this suggests that more research is needed before firm conclusions can be drawn about the association between business size and relational behaviour.

It became clear that larger customers were already engaged to a larger extent in relational activities across the different relationship categories, compared to small and medium customers. Therefore, their further participation in relational activities as the result of the RPM, would be a small contribution to further developing the relationship. Where the RPM can have the greatest impact, is by encouraging small and medium customers to participate in the more “intimate” relational type of activities. As will be shown shortly, these kinds of findings can serve businesses as a benchmark to contrast the behaviour of the different customer groups after the RPM was implemented.

Figure 24 depicts the type and number of additional criteria customers agreed to fulfil following their exposure to the RPM.

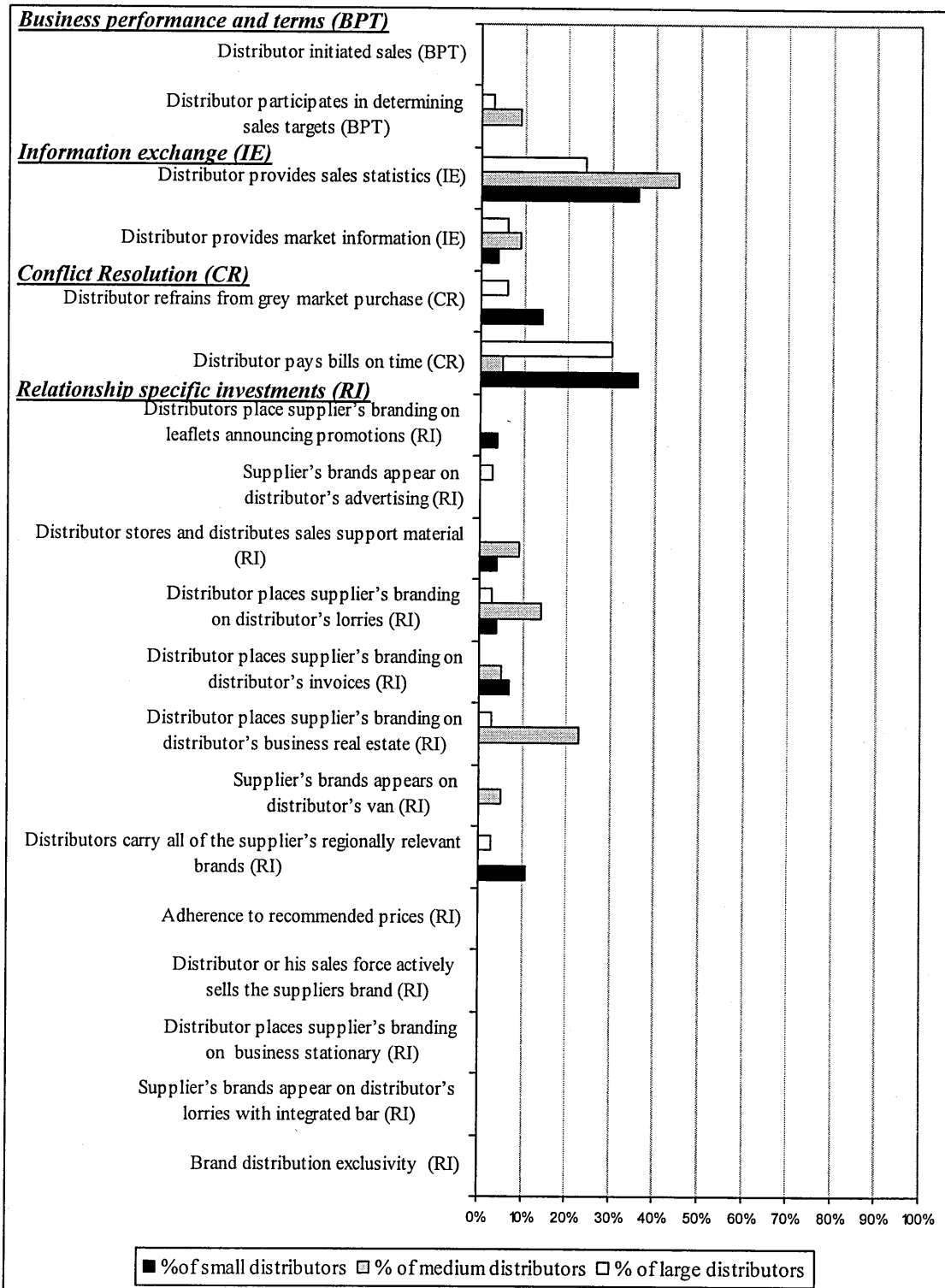


Figure 24: Type of additional criteria fulfilled by different distributors after the RPM introduction

Figure 24 shows that there was an increase in participation in the moderate to high involvement criteria. For example, the RPM has been effective in getting small and medium customers to increase their involvement in different types of branding activities. Overall, the impact of the RPM was most in evidence among small and medium customers, who in the past engaged in relational activities at a relatively low level. As for the large customers, the RPM served as an instrument to move relationships to a deeper level. As shown in figure 24, customers, who in the past engaged in a high level of relational activities, showed that they were willing to develop the relationship even further by increasing the number of relational activities beyond in which they were already engaged.

Due to the disparity in numbers of distributors interviewed within the different regions of Switzerland it was not possible to make inter-regional comparisons of the relational activities. There were only four respondents from the Italian region. Moreover, twice as many distributors located in the German region were contacted than in the French region. An added difficulty was that the proportion of larger customers was higher among respondents from the French part than from the German part. As was discussed earlier in this chapter, larger customers were more strongly involved in relational activities with the supplier prior to the RPM, than small and medium size businesses. Thus, the higher proportion of large customers in the French part would have distorted any analysis of differences between customers from different regions.

However, three factors were identified during this study, which show an impact upon the relational behaviour of customers from different regions; a) the supplier's distribution structure, b) regional brand preferences and c) location of competitors.

The supplier's distribution structure:

It was found that a supplier's distribution structure can have an impact on the level of customer involvement in a relationship. The supplier being studied had established an extensive network of its own distribution centres in the German region. However, in the French speaking region and in remote mountainous areas of the country, the supplier often depended upon their customers taking responsibility for the distribution function.

The importance of many of these customers was emphasised by the sales people. Sales people mentioned that they actively try to intensify the cooperation with these customers in order to safeguard product availability. Thus, the supplier already had developed good relations with those customers, playing an important role as third party distributors. This was confirmed by the data, which indicated, that overall, distributors from the French part tended to be more strongly engaged in relational activities than their German counterparts prior to the RPM. Similarly, those customers, securing product distribution for the supplier in remote mountainous areas, tended to participate more strongly in relational activities before the RPM, than many customers in the more populated areas, where the supplier maintained its own distribution centres.

Regional brand preferences:

Regional brand preferences were identified as a factor influencing the acceptance of some RPM criteria among customers from the French region compared to the German region. Annual attitude and usage surveys among 1000 beer drinking consumers commissioned by the supplier, show that brand preference among consumers in the French speaking part of Switzerland is divided among 5 major brands. Two of these brands, including the market leader, are distributed by the supplier, which was the subject of this study. Distributors in the French part mentioned in several instances, that it is in their best interest to seek closer cooperation with the supplier of the strongest brand in the region. Evidence of this is that French customers more readily agreed to place the supplier's name on their vehicles, business properties or business stationary than customers in the German region.

By contrast, usage and attitude surveys show that consumers in the German speaking region choose from a wide range of regional beers offered not only by the major brewers but also by a large number of medium and small sized breweries in the market. Many distributors mentioned that they need to carry a very broad assortment in order to satisfy the demand for a range of locally relevant brands. This was also the reason given by some customers, as to why they were reluctant to engage in branding activities. Maintaining good relations with a range of suppliers was important for their business

and they worried that these relations might become strained if cooperation with one particular supplier is intensified.

Location of competitors:

The findings suggest that the location of competitors is another factor, affecting customer's willingness to engage in relational activities. Customers located in the close vicinity of competitor breweries, tended to be less willing to accept the RPM criteria, than other customers. As many of these customers pointed out, they had been working together with the competitor for many years. These customers stated their intention to increase the involvement with the supplier but only within limits. The limits being, that customers tended not to be prepared to engage in the more "intimate" relational activities, such as branding, where they would be publicly announcing their cooperation with the supplier.

What can be learned from all this is that regional and topographical diversity in a market put some limitations on any relationship marketing programme. This was observed in the Swiss market, where the supplier's distribution structure, regional brand preference and location of competitors influenced customer's willingness to engage in some of the RPM activities. However, the same applies for many companies in other countries, which find themselves operating in markets marked by regional, cultural and topographical diversity. For instance, strong market presence in one part of the country and a weaker presence in another, applies as much to France, Germany and the UK as it does to Switzerland.

5.2.2 Factors Influencing Customers' Acceptance Of The RPM Criteria

As discussed in the previous section, the RPM encouraged customers to adopt relational activities, which support the development of supplier-distributor relationships. Businesses operating in other markets and industries could expect a similar effect if they implemented a RPM. They might find however, that the number and type of RPM criteria customers would accept could differ from this study. This could be the case because businesses either operate in different markets and industries or because they use

a different set of variables within their RPM model. What is more widely applicable, however, is the kind of factors which influence customers' decisions to agree with the criteria set out in a RPM. The main factors identified from this study included:

- a) benefits of the RPM to customers
- b) degree of trust between supplier and customer
- c) degree of commitment the customer would have to make to the relationship

5.2.2.1 Benefits Of The RPM To Customers

The antecedents to the development of long-term relationships are well documented in the literature and include for instance trust (Anderson *et al.*, 1987; Anderson and Narus, 1990; Morgan and Hunt, 1994), commitment (Anderson and Weitz, 1992; Fullerton, 2004; Gundlach *et al.* 1995; Morgan and Hunt, 1994) or communication (Anderson and Narus, 1990; Anderson and Weitz, 1989; Selnes, 1998; Zineldin and Jonsson, 2000). The seminal work of Morgan and Hunt (1994) on the commitment-trust theory of relationship marketing, states, that these variables encourage cooperation among relationship parties, lower the propensity to leave the relationship and reduce the risk and uncertainty.

Whilst accepting the findings of Morgan and Hunt (1994), this study concludes that the RPM is also a relationship marketing mechanism that facilitates the development of closer business relationships. Two thirds of all respondents were positively disposed towards the RPM because of the advantages it offered over the current system. Data about customers' reaction to the RPM was collected during each visit. Observation guidelines were used to record customers comments about the advantages, disadvantages, strengths and weaknesses of the RPM (see appendix 10). The perceived benefits articulated by customers fell into five broad categories:

- Value proposition of the system
- Fairness of the system
- Transparency of the system
- Flexibility of the system
- Recognition of customer loyalty by the system

Value proposition of the system:

Many customers positively commented on the idea of a pricing system that links incentives to a range of value criteria in addition to sales volumes. Small and medium sized customer in particular welcomed the opportunity to gain incentives in other ways, as they had little prospect of achieving higher sales. This would help them to improve their margins and/or offer more attractive prices to their customers.

Fairness of the system:

Around two thirds of the small and medium sized distributors particularly mentioned that the conditions to be met for acquiring incentives were clearly defined, applicable to everyone and not open to different interpretations. These distributors explained that this feature of the RPM would make them less reliant on their own negotiation skills and the good will of the sales representatives, to obtain incentives. Instead, they would exactly know what conditions they had to fulfil, in order to obtain better price terms. Thus, the supplier was perceived to be consistent in its treatment of customers.

The consistency of a supplier's channel policies across resellers was termed as procedural fairness by Kumar *et al.* (1995). Kumar *et al.* found a positive link between procedural fairness and relationship quality and concluded that the perception of fairness by customers must be considered as part of developing stable, effective supply channel partnerships.

Transparency of the system:

One third of all customers talked about the prospect of knowing the rules the supplier would apply in deciding upon the allocation of incentives. They perceived this as a benefit, because it would reduce the likelihood that sales representatives could give preferential treatment to some distributors over others. Many felt that, in the past, they had not always been treated equitably. Moreover, the distributors appreciated the transparency of the proposed pricing system as they were able to see how their purchase prices were calculated. They claimed that such a system offers an opportunity to receive additional discounts, without having to rely entirely on the supplier, as is the case with the pricing system of other suppliers.

Customers perceived the RPM as transparent because the conditions to be met for acquiring incentives were openly communicated. This corresponds with Eggert and Helm's (2003:101) definition of relationship transparency, i.e. that relationship transparency reflects

“an individual's subjective perception of being informed about the relevant actions and properties of the other party in the interaction.”

From a cross-sectional survey among 342 purchasing managers, Eggert and Helm concluded that relationship transparency contributes to the overall success of a business relationship, because it delivers value to the customer, increases customer satisfaction and results in increased repurchase, word-of-mouth intentions, and reduces the search for alternative suppliers.

Flexibility of the system:

Ninety percent of all distributors mentioned the “pick and choose” approach of the RPM as a benefit. They considered it a great improvement to the existing pricing system in that they were able to actively influence the type and magnitude of discounts they would receive for stocking and/or selling the supplier's products.

Recognition of customer loyalty by the system:

The fact that the RPM recognises and rewards current as well as future efforts in supporting the supplier's products in the market, was especially popular among larger customers. In many instances, these customers felt that they already contributed towards promoting the supplier's products, through a) their personal initiatives to maintain relationships with key customers, b) by actively acquiring new customers and c) by implementing promotional activities. They perceived that the new system would now reward them.

In summary, the RPM delivered benefits, which are important to customers and encouraged them accept the new pricing system. These benefits included a system's value proposition, flexibility transparency, fairness and recognition of customer loyalty.

These attributes ought to be built in to any pricing model of this kind. They are also the attributes and benefits that should be actively promoted to would be adopters.

With an RPM, businesses create benefits for customers, which are not directly related to the price. This, according to Ulaga and Eggert (2006) becomes increasingly important, as many businesses today consolidate their supply bases and seek cooperation with a preferred supplier. In a survey, involving 400 purchasing managers of U.S. manufacturing businesses, Ulaga and Eggert found that relationship benefits showed a stronger potential than price benefits to help businesses gain and maintain key supplier status.

Ulaga and Eggert's (2006) conclusion that the relationship benefits customers look for when choosing a preferred supplier are context specific and may vary in different industries has merit. In the context of this study, flexibility, transparency and fairness of a pricing system can be classified as relationship benefits in addition to those identified by Ulaga and Eggert. However, the broader message is, that relationship benefits enhance the probability of a business being chosen by customers as a preferred supplier. The RPM has created such benefits, and thus gives businesses a competitive advantage in gaining and maintaining key supplier status.

5.2.2.2 Distributor Trust In The Supplier

Trust was identified as another factor influencing customers' decisions to agree with RPM criteria. In several instances, customers were reluctant to engage in particular relational activities because they did not trust the supplier. The lack of trust became manifest in two main ways namely a) suspicion about the misuse of information and b) distrusting the supplier's intent to build relationships.

The disinclination to provide sales information to the supplier, by small and medium sized customers, in particular, was due to a fear that these might be passed on to competitors. Other respondents were concerned that the supplier would use this market intelligence to pursue activities that would harm their businesses. For instance, some

customers would not agree to inform the supplier about restaurants, that might have a potential to carry the supplier's product. Customers suspected that the supplier would cut them out of the supply chain, if the supplier succeeded in securing product distribution to new restaurants.

Sirdeshmukh *et al.* (2002) showed, empirically, that trust was influenced by customer perceptions of trustworthy behaviours, in three dimensions: operational competence (consistently competent performance), operational benevolence (to what extent customers' interests are priorities) and problem solving orientation (the capacity and motivation to solve sale and post-sale problems).

The major failing of the supplier on whom this research is focused, was on the second of these three dimensions established by Sirdeshmukh *et al.* (2002). The reluctance of some distributors to engage more closely with the supplier is nothing less than the legacy of transactional marketing attitudes which have hitherto governed the supplier's approach to dealing with customers. The supplier has no history of showing an interest in the welfare of their small-medium sized customers in the past and so it is difficult for some of these channel intermediaries to accept that there has been a change in the management philosophy and style of the supplier. In fact, given that the supplier's past image has been one of a self-serving, self-seeking and self-centred organisation it begins, not from a position of having to establish trust, but from one of having to overcome mistrust. Selnes (1998) pointed out that, organisations learn to trust each other based on past experience.

Thus, this supplier faces a major challenge in changing the perception of some customers of it being self-centred to one of being altruistic. Geyskens *et al.*, 1998 stress the importance of would-be relational marketers building an image of benevolence. That is, developing a reputation for being genuinely interested in customers' welfare and motivated to seek mutual gains.

It is argued that the process of introducing the RPM, has itself made something of a contribution to the rebuilding of trust between the supplier and small-medium sized customers. If one studies figures 23 and 24, which show pre- and post-RPM engagement in relational activities, it can be seen that there are an increasing number of these small-medium size enterprises who having had the RPM introduced to them, then became more willing to consider participating in information exchange.

Feedback from respondents suggested that the open communication and joint decision making that were features of the RPM launch/programme encouraged them to share market intelligence. In short, the “Hawthorne effect”⁶ came into play.

5.2.2.3 Distributor Commitment To A Relationship

The degree of commitment distributors would have to make to the relationship was another factor influencing their decision to accept some of the more intimate RPM criteria. That is, those criteria that make their alliance with the supplier very public. For example, if a customer were to display the supplier’s brand on their business stationery – which is something this supplier was encouraging – then this would be a public declaration of an intimate relationship to their own customers, competitors and other suppliers. Such a declaration might well alienate other suppliers, and its ramifications among customers and competitors would be difficult to anticipate. This was evident within this research. Very few distributors were prepared to have the supplier's name appear on their own stationary or invoices.

From a series of focus groups and in-depth interviews, Nobel and Philips (2004) identified twelve categories of objections to forming closer relations with a supplier. Whilst this research was carried out among consumers, it may yet have some relevance to the theory of business-to-business relationships. Most of these objections are outside the control of any supplier. For instance, when Nobel and Philips asked why their respondents might not be loyal to a given retailer some replied, “The location of the

⁶ Hawthorne effect: In essence, the Hawthorne effect identified by Elton Mayo suggests that individuals become more participative if management gives special attention to and shows an apparent interest in their well-being.

retailer is too far away or too inconvenient to travel. “ Clearly, the retailer can do little about the convenience of their location for every potential customer.

Arguably, some of the objections, identified by Nobel and Philips (2004) could be influenced, if not altogether controlled, by a supplier. This would apply, for example, to “The lack of awareness of offered benefits”, which was another objection.

The empirical work underpinning this thesis tends to confirm Nobel and Philips (2004) data that some objections to closer commitment to the supplier are entirely outwith the control of that supplier, whilst others can, be at least influenced, by the supplier.

Some of the objections raised by respondents involved in this study were outside the control of the supplier. For instance, smaller distributors were reluctant to intensify their commitment to the supplier because they felt that this would infringe on the independence of their business. Other distributors did not want to be associated with a large international organisation for fear of losing business. As they explained, many of their customers did business with them because they wanted to support the local trade. These customers might decide to switch to one of the competitors in the region, rather than doing business with a business associated with a large international organisation. There is very little, if anything, the supplier could do to overcome such objections.

5.2.3 Development of relationship marketing thinking within the organisation

This study has shown that it was possible to use a business’s pricing mechanisms as an instrument for developing relationship marketing thinking within a company. It will be recalled that the original project was specified, by senior management, solely in terms of rationalising a disparate and overly complicated set of pricing schedules. However, as was reported earlier in this thesis, a sea change came about in management thinking.

In the course of feeding back to management conclusions reached from a focus group in which they had participated, they began to understand the differences between transactional and relational marketing. They were made aware that their myopic focus on tidying up a pricing system was self-centred and overlooked the possibility of

forging working alliances, with customers, that would yield greater benefits to both parties. The fact that management was prepared to both abandon the original project objectives, in their entirety, and sanction investigations into how the pricing mechanism could be used to foster a relational marketing philosophy within the company is evidence of this sea change.

From focus groups and semi-structured interviews with the supplier's managers and other employees, as well as systematic observations of these persons, it was possible to gauge where individual's thinking lay along the transaction – relational spectrum. Thereafter, consideration could be given to determining ways in which they might be moved along that continuum. (The procedures and methods used are described in detail within the methodology chapter and the instruments appearing in appendices 4 to 11).

From all these observations, a pattern emerged on how relationship marketing thinking started to become embedded among sales people and managers over time. This is depicted in the model on page 225. There are four steps or stages through which personnel can be taken from a transactional marketing mindset to the adoption of relational marketing philosophy. These are: initial involvement, learning, development and adoption.

It should be noted that the terminology used to name each of these stages can be found in other disciplines. In order to differentiate these definitions of stages from those found in other disciplines, the following operational definitions were developed:

- Involvement stage: The concept of a relational system is presented to employees for the first time and they are asked to participate in its development.
- Learning stage: The relational system is developed and employees learn how to use and apply it during training sessions.

- Development stage: Employees introduce the relational system to customers and thereby gain experience in explaining and implementing the model.
- Adoption stage: Employees take ownership of the relational system, as they actively promote the relational properties of the system to others.

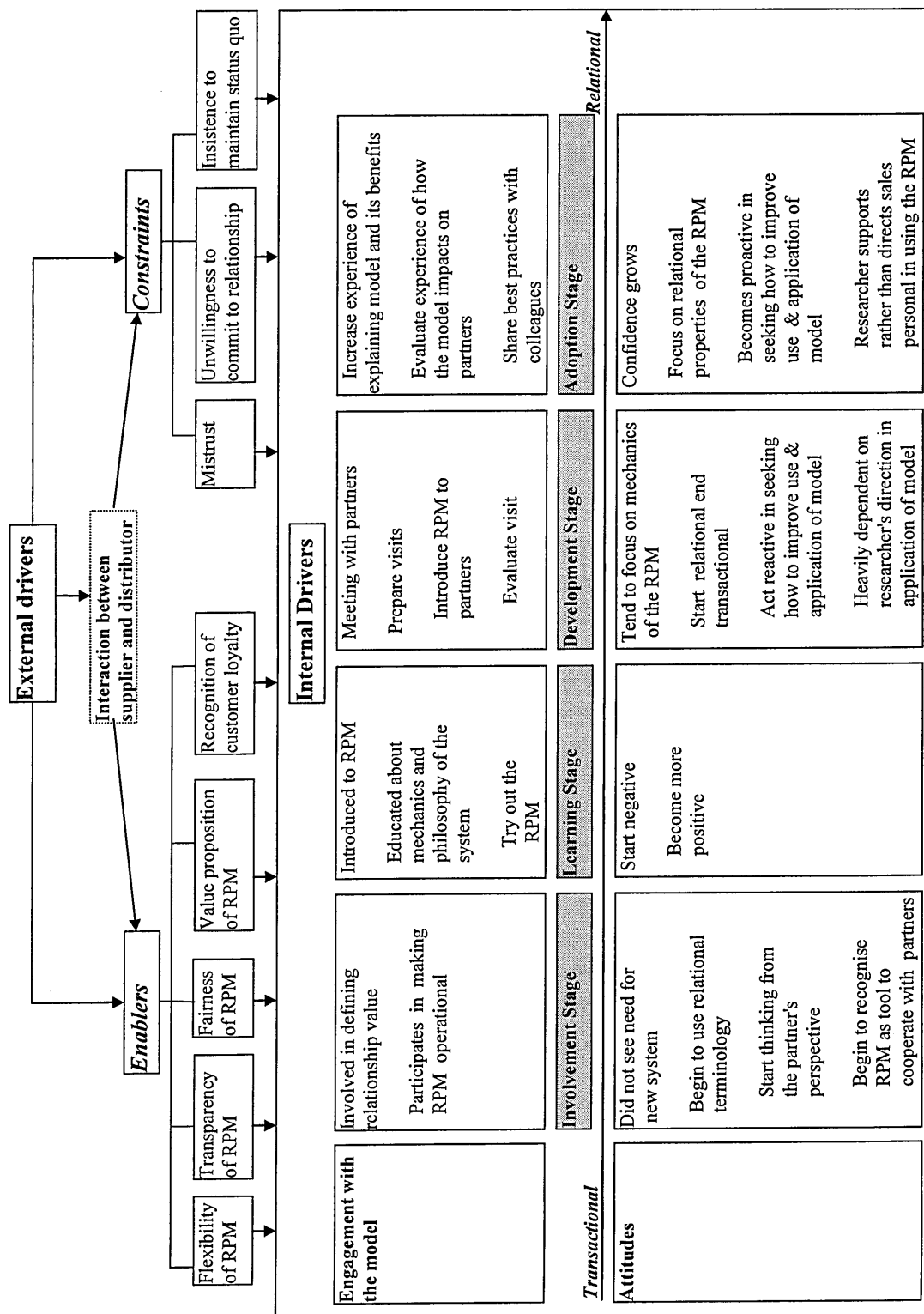


Figure 25: Model of relationship marketing adoption

As can be seen from the model depicted in figure 25, the various levels of exposure to the model are depicted above the transaction – relationship continuum. The resulting changes in attitudes are illustrated below the continuum line.

Involvement stage: The initial reaction of middle management and sales personnel to the model was fairly negative. Finance managers were concerned about profitability. The marketing manager feared that empowered customers would have little regard for maintaining the price-quality image of brands. Sales managers and their staff were not convinced that a new pricing system was needed. Although the rational underpinning the need to look at the pricing system afresh was carefully constructed and communicated; and although personnel largely understood both the rational and the model itself, yet they displayed no real commitment to its introduction or use. There was a palpable time lag between the initial introduction of the model to company personnel and their responding in anything other than negative terms.

Learning stage: The first signs of a change in attitudes appeared soon after the completion of the full training programme and as they became increasingly engaged with the model. That is, as the model was transformed from a concept to a concrete entity and they could use the model and gain experience with it, including making the RPM operational, their opposition to the model began to wane.

Development stage: Whilst resistance to the model, and its underlying philosophy of relationship marketing, had declined by this stage, this had yet to be translated into a conviction that both the model and the philosophy would produce real benefits in the market place. In addition, sales personnel lacked confidence in using the model with customers when those involved in training them in its use were not directly alongside them. The change came when some customers began to give positive feedback on the model to the sales personnel. At the same time, these sales personnel were gaining experience, and thereby confidence, in using the model by themselves.

Adoption stage: Over time it was observed that the sales people started to take ownership of the model and its relational philosophy. Other evidence of the growing acceptance and adoption of the pricing model was the sales managers' becoming proactive in implementing the new system with their distributors. The new attitude and confidence was manifest in such statements as, for example;

"... Please send me all the data of these three distributors... I want to visit them next week... now that I am more confident with the system, I want to introduce it to other distributors quickly..."

"... I want to visit the distributors next week so that the pricing system is active as soon as possible..."

As the testing of the RPM continued, sales personnel became increasingly independent and confident in planning and executing distributor visits. They started to take the initiative in using and applying the model. Correspondingly, the role of the trainer changed from that of an RPM champion to that of an adviser. Sales managers asked fewer questions about the functionality and the characteristics of the pricing system. Instead, they sought more advice or a second opinion about the application of the tool, particularly in situation where the supplier-distributor relationship was complex or difficult.

The model depicted in figure 25 has a wider application to other businesses and industries. Any introduction of a relationship marketing mechanism, such as the RPM, entails the challenge of developing relational thinking among employees along the transaction – relationship continuum. The four stages of relationship marketing adaptation are indicative of this shift in employee attitudes over time and informative about the actions businesses can take to embed the relationship marketing philosophy among its employees.

In summary, results from testing the RPM suggest that the new pricing system can be regarded as an instrument to develop closer relationships with customers. The RPM encouraged small and medium sized customers to intensify their involvement with the supplier. As for the large customers, the RPM served as an instrument to further strengthen previously established relationships with the supplier and to move them to a more intimate level.

The testing of the RPM identified a set of strategies, which proved effective in dealing with customer resistance to a new pricing system. These included a) persuasion, b) negotiation and c) making modifications to the pricing system.

The process of developing and testing the RPM contributed towards identifying patterns of relationship marketing adoption among a business's employees. The involvement of employees in the set up of an RPM together with the experienced gained by increased exposure to the model over time, were the main factors, supporting the transformation from transaction to relationship marketing thinking among employees.

Whilst testing the RPM, a set of factors influencing distributor's willingness to participate in a relationship marketing programme were identified. These factors included a) the customer's trust in the supplier, b) perceived benefits of the RPM and c) the level of commitment customers would have to make to the relationship. In addition, regional differences in the market were identified as putting some limitations on customer's participation in relational activities. The location of competitors within a country, a supplier's regional distribution structure or regional brand preferences were factors all found to impact upon distributors' adoption of some relationship marketing practices.

Chapter 6

Conclusions, Limitations And Future Research

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6. Conclusions, Limitations And Future Research

At the outset of this dissertation, the aim of this study was stated as being: “To determine to what extent, if any, pricing can be used as a tool for relationship development within industrial markets”. The conclusion reached is that businesses can turn their pricing practices into a relationship marketing instrument. Such a pricing system will be dyadic in focus and create mutual long-term benefits for both supply chain partners. It has also been concluded that the very processes of developing a relationship pricing system can serve to enhance business-to-business relationships. It is not being suggested that any relationship marketing programme must, or even should, start with pricing systems. The focus on pricing systems, in this study, stemmed from a need to rationalise a pricing system that had grown without control, purpose or design into a schedule that lacked consistency, fairness, transparency and failed to recognise the importance of the long term value of the customer.

6.1 Main Contributions Of This Study

The principles of relationship marketing are well understood with a large body of research articulating the meaning and purpose of relationship marketing (e.g. Christopher *et al.*, 1991; Grönroos, 1999; Lindgreen, 2000; Morgan and Hunt, 1994) and empirically investigating the conditions which need to be in place to build and develop long-term, mutually beneficial relationships between supply chain partners (e.g. Anderson and Weitz, 1992; de Ruyter *et al.*, 2001; Metcalf *et al.*, 1992; Morgan and Hunt, 1994; Selnes, 1998; Zineldin and Jonsson, 2000).

What is less understood, is how the principles of relationship marketing can be applied to, and become part of, an organisation’s day-to-day activities. As Lindgreen and Crawford (1999) pointed out, there is a gap in knowledge on how to develop effective relationship marketing programmes and measure their effectiveness. Even today, the case study of Lindgreen and Crawford (1999), reporting on the design, implementation

and measurement of a relationship marketing programme by a Danish Food manufacturer, remains the sole attempt to fill this gap in knowledge.

The potential role of pricing, in relationship marketing, has received some attention within the literature (Ford *et al.* 1998 and 2002; Gilliland 2003; Hollensen, 2003). However the main thrust of the argument of Ford (2002) and Hollensen (2003) is that flexible pricing setting can be used by the seller to derive benefits from a relationship. This however, is evidence of a transactional rather than relational perspective, as pricing is promoted as an instrument to manage different customer segments for profit maximisation rather than for creating long-term, mutual benefits for supply chain partners. The work of Gilliland (2003) goes as far as offering implicit and explicit indications that incentive schemes may have a potential role to play in building relationships. These indications are tentative. Gilliland developed a set of propositions, how different incentives could support channel maintenance, channel adaptability, goal attainment and integration. These propositions, however, are neither tested nor do these include the relationship marketing concept. In short, the role of pricing in relationship marketing has not been researched.

This research makes a main contribution towards filling this gap in the understanding of relationship marketing. It is concluded that businesses can use a pricing system to implement relationship marketing, in different ways, namely by setting up an RPM that:

- incorporates a pricing mechanism, which is fair, transparent and empowers customers to participate in determining pricing conditions
- encourages ongoing interaction and communication between supply chain partners
- links the allocation of incentives to behaviour that supports relationship marketing practice
- comprises incentives that create long-term sustainable benefits for both supply chain partners

It was found that businesses, who are committed to adopt relationship marketing with respect to pricing, can transform a transactional focused pricing system into a relationship marketing instrument. Pricing becomes relational if businesses put a pricing mechanism in place, that is fair, transparent and empowers customers to participate in the price setting process.

From the transaction marketing perspective, the role of the customer is limited to the exchange of products or services. In contrast, the relationship marketing philosophy promotes that businesses treat customers as partners. Both parties work together to realise long-term mutual benefits. Fairness and transparency help to develop the fundament of trust on which partnerships are built. This needs to be reflected in a pricing mechanism, which is relational rather than transactional in nature.

A pricing mechanism becomes fair, if companies clearly define the criteria for allocating incentives and apply these criteria in an unequivocal, consistent and systematic way and if the terms and conditions of an RPM are openly communicated to all customers to ensure transparency. Companies can empower customers by sharing some control over the pricing system and giving customers an active role in determining the price they pay. In the case of the RPM developed during this study, customers benefited from having greater control and security over the prices they pay, because the supplier offered them to “pick and choose” from a range of arrangements, for which they are rewarded.

The relevance of fairness, transparency and customer empowerment in developing relationships is supported by the reaction of customers, who participated in testing the RPM in this study. Fairness, transparency and the flexibility to actively participate in selecting the type and magnitude of discounts (customer empowerment), constituted three of the five main RPM benefits articulated by customers.

Pricing systems can become a relationship marketing instrument, if these are set up in such a way as to encourage ongoing interaction, communication and cooperation between business partners. This is possible, if a relational pricing system takes the form of an appraisal system, where the pricing process begins with a review of the current working relationship, continues with agreeing on relational activities, and becomes an ongoing interaction process as agreed level of cooperation are regularly reviewed and discussed between business partners.

Another way businesses can transform a pricing system into a relationship marketing instrument is to reward customers for engaging in relational activities. This can be achieved, if companies define the criteria for allocating incentives in such a way, that the criteria correspond with antecedents and maintenance factors of relationship marketing. With the RPM developed during this research, customers were rewarded for sharing information, increasing their commitment or for cooperating with the supplier.

Pricing systems can become a relationship marketing tool, if these create long-term benefits for both parties involved. With a relational pricing system, rewards for customers are no longer restricted to financial gains. Instead, a company sets up relational pricing criteria in such a way as to offer some additional non-financial benefits for the customer. The company benefits from having a pricing system in place, which incorporates the overall value of a customer and the relationship. In this way, a pricing system moves from short-term transaction based sales and profit rewards, towards relationship focused incentives, which encourage joint, long-term value creation by relationship partners.

6.2 Secondary Contributions Of This Study

A secondary contribution of this study is that it creates a major tool within the field of pricing that incorporates the tenets of relationship marketing. The RPM is useful to practitioners and the academic community alike. They are informed about the processes

that can be followed in order to transform a pricing system into a relationship marketing instrument. In so doing, this study provides insight into how standards can be arrived at and communicated. Thus, a step by step approach has been developed, which other businesses can follow to build a relational pricing system. The RPM outlined in this study is flexible enough to be readily adopted, or adapted, by other organisations. Variables can be easily added, removed or modified without altering either the overall structure or philosophy of the pricing system. Finally, with an RPM, a tool was set in place, which offers companies the opportunity to identify and observe the kind of factors which contribute towards relationship marketing over time. Thus, businesses have an instrument available, which allows them to continuously monitor the relationship building process and to devise and implement corrective actions if needed.

The processes, that facilitate and contribute towards the effective implementation of relationship marketing programmes.

Whilst going through the procedure of setting up an operational relationship pricing system, businesses can find that the process of developing a relationship pricing system itself becomes as much an instrument for relationship marketing, as the relationship pricing system that it eventually produces. This is the case, because the process of involving customers and employees in setting up an RPM, contributes towards enhancing the effectiveness of relational pricing in creating long-term mutually beneficial relationships.

6.2.1 Customer Involvement And Participation

It was found that companies can more easily operationalise and put into practice an RPM, which is dyadic in focus and creates mutual benefits, if they invite customers to participate in testing a new relation pricing system. Provided that businesses demonstrate a sincere interest in the views and opinions of customers, they can gauge the perceived strengths and weaknesses of the new pricing system. In this way,

businesses are better placed to set up a relationship marketing programme that meets the needs and expectations of both relationship parties. Joint programme ownership is created, so that customers' acceptance and participation can be more easily won and sustained over time. The creation of mutual benefits is frequently stated as the purpose of relationship marketing (Friese and Funck, 2001; Harker, 1999; Walter *et al.*, 2001). By involving customers in the design of such programmes, businesses can get a better understanding what customer value is and how this value can be delivered.

Any organisation, introducing a new system, such as an RPM, is likely to face resistance to change on the part of both employees and customers. It was found that a business can learn about the nature and strength of customer resistance, if customers are consulted about a relational pricing system. Understanding customer resistance, allows a company to develop effective strategies to win customer's acceptance to a relational pricing system, including for example persuasion, negotiation, and making modification to the relational pricing system.

6.2.2 Employee Involvement And Participation

The main focus of this research was the RPM and its effects on the supplier-customer relationship. However, developing and testing the RPM offered an opportunity to gauge the reactions and behaviour of employees to the new pricing system. Based on this insight, a model was developed which outlines the pattern of relationship marketing adoption over time, against a set of activities (for example involvement in defining customer value, participation in making the RPM operational, or introduction of RPM to customers) that took place at each stage of development. Four different stages can be identified and operationalised. These are:

- Involvement stage: The concept of a relational system is presented to employees for the first time and they are asked to participate in its development.

- Learning stage: The relational system is developed and employees learn how to use and apply it during training sessions.
- Development stage: Employees introduce the relational system to customers and thereby gain experience in explaining and implementing the model.
- Adoption stage: Employees take ownership of the relational system, as they actively promote the relational properties of the system to others.

It was found that managers and sales people who do adopt relationship marketing thinking with respect to pricing, are likely to do so in four discernible stages along a transaction-relationship continuum. This process needs to be proactively managed by those wishing to encourage acceptance of relational pricing. First, there needs to be an involvement stage. It represents the point in time when the relational system is first presented to an individual or group. Initial reactions to the RPM, or other relational pricing instruments, may well be fairly negative with no real commitment to the new pricing system. Attitudinal change, if it ever occurs, is likely to be in evidence during the second stage, the learning phase. Assuming that the relational instrument is designed in such a way as to yield advantages and benefits to the individual, his/her employer and customers, managers and sales personnel will gradually become less negative as they increasingly engage with the model. This process is likely to continue through the development stage. Resistance to the RPM will progressively decline though not yet translating into a firm conviction regarding the relationship marketing philosophy. It will be during the adoption stage that sales people start to take ownership of the model and its relational philosophy.

This model has wider application as it is indicative of the shift in employee attitudes over time and is informative about the actions businesses can take to embed the relationship marketing philosophy among their employees. In particular, the patterns of relationship marketing adoption emerged from interviews, focus groups and observing employee behaviour during the development and implementation of a relationship

marketing instrument- the RPM. Thus, the model goes beyond depicting conceptual ideas or cognitive perceptions but captures actual behaviour of respondents (or, more properly, participants) when they are presented with relationship marketing concepts.

6.3 Other Contributions Of This Study

Lindgreen and Crawford (1999) report on the main activities which take place during the design phase of a relationship marketing programme. This study adds to their work by giving a more detailed account of the different processes a business should follow to identify, define and operationalise the “components” of a relationship marketing scheme and testing it among a selected sample of customers. Lindgreen and Crawford (1999) measured cognitions but action research allows the study of prevailing attitudes and behaviour.

In summary, this study offers an actionable, step-by-step approach to how businesses can transform a transaction based pricing system into a relationship marketing instrument. The principles of the processes followed to put the RPM into practice are widely applicable to other businesses, wishing to set up and implement a relationship pricing system. In particular, this study presents insight into relationship marketing implementation as it relates to both parties in the dyad. In so doing, the suggestion of Lindgreen and Crawford (1999) is being followed, that future studies on the nature of relationship should involve both parties of a relationship.

Assessing the suitability of existing pricing systems for building and maintaining business relationships and implement corrective actions if needed.

It is concluded that it is possible to use a pricing system as a tool to build and develop business relationships. The challenge for businesses wishing to take a relational approach to pricing is to make the transition from their existing pricing system in such a way that they retain the benefits of the current pricing schedules. There is a rational behind the set up of most pricing systems and their advantages should not be lost.

Companies should review the extent to which an existing pricing system already embraces the tenets of relationship marketing. They can determine what needs to be done to modify existing pricing systems to turn them into a relationship marketing instrument.

There is a paucity of literature guiding practitioners who inherit a given pricing system but are required to change to an alternative system with altogether different tenets. This study helps fill this gap in the literature. Six widely applicable principles were identified that businesses can use to assess the suitability of their existing pricing systems to build and maintain relationships. These are:

- a) The pricing system must be designed to ensure fair and equal treatment of customers.
- b) Pricing terms and conditions must be transparent.
- c) Incentives must be designed to create long-term sustainable benefits –both financial and non-financial- for both supply chain partners.
- d) Customers should have the opportunity to influence the price they pay to the supplier.
- e) The allocation of incentives must be related to activities carried out by customers, which support relationship marketing practices.
- f) The pricing mechanism must encourage ongoing interaction and communication between supply chain partners.

It was found that businesses can only effectively assess whether or not an existing pricing system contains relational properties if people within the organisation are familiar with, and believe in, the concept of relationship marketing. To many organisations, this concept would be new. Typically, a business is managed by

employees who view marketing from a transactional rather than a relational perspective. Under these circumstances, a current pricing system cannot be effectively reviewed by the business itself. Instead, it is suggested that this task needs to be delegated to someone whose business education has included relationship marketing and who is able to be impartial because he/she hasn't been heavily involved in the previous system.

Operationalising antecedents and maintenance factors

The antecedent and maintenance factors of relationship marketing are an integral part of any system or programme promoting the relationship marketing philosophy. Previously, there has been no clear guidance on how antecedents and maintenance factors, such as communication, or relationship specific investments can be defined and made operational; a prerequisite for implementing a relationship marketing programme. This is the case because antecedents and maintenance factors are often treated as amorphous terms lacking clear definition.

Businesses can apply a two step approach to define and operationalise definitions of some of the antecedents and maintenance factors of relationship marketing.

Step 1: The search for definitions begins with identifying and describing those activities which create value for both supply chain partners.

Step 2: The relationship marketing literature is then reviewed to discover what definitions are used to describe antecedents and maintenance factors and whether or not there is a consensus with the descriptions of value activities developed during Step 1.

In so doing, businesses can allocate value activities to matching antecedents and maintenance factors of relationship marketing. In this particular study, for example, management considered the exchange of market intelligence and sales statistics as activities that create value for both parties. The nature of these activities corresponded to what the literature considers the exchange of information as antecedent of

relationship marketing (Anderson and Weitz, 1992; Mohr and Spekman, 1996; Morgan and Hunt, 1994; Zineldin and Jonsson (2000). Thus, in this particular instance, meaningful information constituted a) the provision of sales statistics and b) sharing of market intelligence. It is in this way that businesses can develop a set of clearly defined and thus operational variables, which constitute different antecedents and maintenance factors of relationship marketing.

It is recognised that activities and definitions vary across different businesses and industries. However, the wider contribution of this study is an approach for making antecedents and maintenance factors operational, which is widely applicable and which can be easily replicated.

Measuring The Mechanisms Of A Relational Pricing System.

Knowledge of how the mechanisms of relationship marketing programmes can be defined and measured is at an early stage of development. This being the case because outcomes of relationship marketing are not generally linked to the mechanisms of a relationship marketing programme.

It was found that it is possible for a company to measure the effectiveness of different mechanisms of an RPM to build closer relationships with customers. This requires that businesses set up the RPM in such a way that they can assess what kind of relational activities customers engage in prior to, and after, a relational pricing system is implemented. Companies learn to understand how each customer responds to a relational pricing system, reflected by the changes in the level of agreement to engage in relational activities. Over time customers might decide to accept other RPM criteria or decide to no longer engage in some relational activities. Businesses can monitor changes in relational behaviour over time, so that RPM criteria can be removed or added when necessary. In so doing, companies can ensure that an RPM continues to remain attractive and relevant to distributors. More importantly, an RPM can be kept in line with customers' requirements and thus becomes an ongoing supportive relationship marketing instrument.

It is in this way, that businesses can avoid setting up multiple programmes for different customer groups. Instead, they can have one system in place, which supports the adoption of relationship marketing among different customer groups.

6.4 Limitations Of This Study

This research is subject to some limitations related to a) the context of the study, b) the set up of the RPM, c) the research methodology and d) the time frame of the study.

6.4.1 Limitations Related To The Context Of The Study

This research was carried out within the context of a real life business case. The researcher could guide and convince the business to follow what was considered a “best” approach of developing and implementing an RPM. Nevertheless, the way the business operated could not always be ideally aligned with the tenets of relationship marketing.

For instance, with the RPM, sales representatives were taught to “live” the relationship marketing philosophy. In an ideal world, a reward system would be in place, which recognises the wider contributions of supply chain relationships and reward employees who succeed in encouraging distributors to make these contributions. In reality, however, the supplier had a system in place, which was developed in the international market and used “level of sales” as criteria for rewarding sales people. Therefore, efforts to bring about a mind change to sales people were made more difficult, because a reward system was in place, which encouraged the ‘old way’ of dealing with customers.

The context of the study did not allow for the incorporation of non-financial incentives within the RPM. The business had no programmes in place that offered customers incentives of a non-monetary nature. From a relationship marketing point of view, the inclusion of non-financial benefits within the RPM might be an equally, if not more, appropriate way of promoting the relationship marketing philosophy. Adding non-financial benefits to the RPM would offer an opportunity to better align rewards to the

needs of customers that could not be met by financial incentives alone. Moreover, there are indications in the literature that non-financial incentives, such as for example training programmes or sales support programmes, could make a potential contribution towards relationship marketing development. Due to the constraint of this study, the role of non financial incentives in encouraging the adoption of relationship marketing could not be explored.

Throughout the research, care had to be taken not to put strain on ongoing relations between supplier and customers. For this reason no additional survey for the purpose of performing a relationship audit was carried out. The absence of a relationship audit is a weakness of this study. With such an audit in place, a better understanding about current supplier-distributor relationships would have been obtained. This would have helped to develop more detailed criteria and definitions of the RPM variables. For instance, customers could be rewarded not only for performing an activity, but also for the manner and frequency of doing so.

6.4.2 Limitations Related To The Set Up Of The RPM

The RPM needed to be set up in such a way that it could be easily managed and would not become overly complex. For this reason, only a limited number of variables could be incorporated in the model. Therefore, the possible contribution of other potential RPM variables towards developing business relationships could not be explored.

In addition, those variables that were incorporated in the RPM represented only certain facets of generic behavioural categories, which support the process of relationship marketing. For instance, information exchange was assessed based on the fulfilment of two variables, namely the “provision of sales statistics” and “information on gastronomy outlets”. Therefore, the relevance of other types of information exchange to support relationship marketing practice, such as “competitor information” or “market trends”, were not explored during this research.

Whilst making the RPM operational, great care was taken to clearly define each of the variables. This was, however, not always possible. Therefore, a certain degree of

subjectivity remains, when supply chain partners have to judge if certain RPM variables can be considered fulfilled.

6.4.3 Limitations Related To The Research Methodology

Due to language constraints, mainly German and French speaking distributors were included in the sample. Therefore, differences in expectations and acceptability of the RPM based on regional mentality and market conditions in the Italian speaking part could not be fully captured. In order to offset this limitation, findings from the distributor visits were shared and discussed with sales representatives in the Italian part. The purpose was to learn if distributors in their regions had raised similar issues and expectations during past business interaction.

Language barriers also posed a problem in conducting the general training session. The training session was conducted in German as this was the language spoken by the majority of sales managers. Some sales managers however had a limited command of the German language, which jeopardised the effectiveness of the training programmes to a certain extent. To offset this limitation sales managers fluent in several languages translated to their colleagues during the training session when the need arose. Moreover, both the pricing model and the training manual were translated to overcome language barriers.

6.4.4 Limitations Related To The Time Frame Of This Study

According to the research findings, the RPM has encouraged customers to make agreements to engage in activities which support the development and maintenance of business relationships. However, due to the limited time frame of this study, no insight could be obtained as to what extent, if any, these agreements were kept and put into practice by customers over time. Therefore, the outcome of this study only allows the prediction of short-term effects of the RPM and to conclude that it can serve as an instrument to initiate relationship marketing practices. However, no firm conclusions

can be drawn, at this point in time, about the long-term effectiveness of the RPM to sustain business relationships over the longer term.

6.5 Future Research Opportunities

This study is just the beginning of developing a better understanding how relationship marketing theory can be applied and transformed into instruments which support the implementation of relationship marketing. This opens up a raft of future research opportunities.

This research stops short of identifying the long-term effects resulting from implementing an RPM. Therefore, future research could focus on setting up a longitudinal study, which allows for studying the impact of an RPM over time. This way, existing knowledge could be advanced in two main ways. Insight could be obtained regarding to what extent, and in what ways, an RPM serves as an instrument, to build and develop long-term supply chain relationships. In addition, a long-term study could explore how businesses can ensure that an RPM is kept in line with the relationship marketing development it has initiated. It is to be expected, that over time, at least some of the RPM variables will be fulfilled by a majority of customers. In order to keep the RPM attractive to customers and to ensure ongoing relationship support, companies would have to remove or add some variables over time. Therefore, what is of interest is how businesses can go about identifying and implementing modifications to an RPM.

This study showed how an RPM contributes towards initiating activities that encourage information exchange, relationship specific investments and conflict resolution. Future studies could aim for setting up an RPM, which incorporates variables, that support the adoption of different types of relationship marketing building activities. For instance, future research could focus upon identifying and operationalising variables, whose purpose is to explicitly develop trust, communication and cooperation between relationship partners.

The RPM developed during this research is based upon a monetary incentive scheme. A certain degree of risk remains, that customers engage in relationship building activities because they are interested in the financial rewards, rather than the wider contributions arising from long-term relationships with suppliers. This risk could be minimised if future research could explore how to set up an RPM which incorporates non-financial incentives including for example training or sales support programmes. This way, a better understanding could be obtained about the importance of different types of incentives to build and develop long-term supply chain relationships.

7. Bibliography

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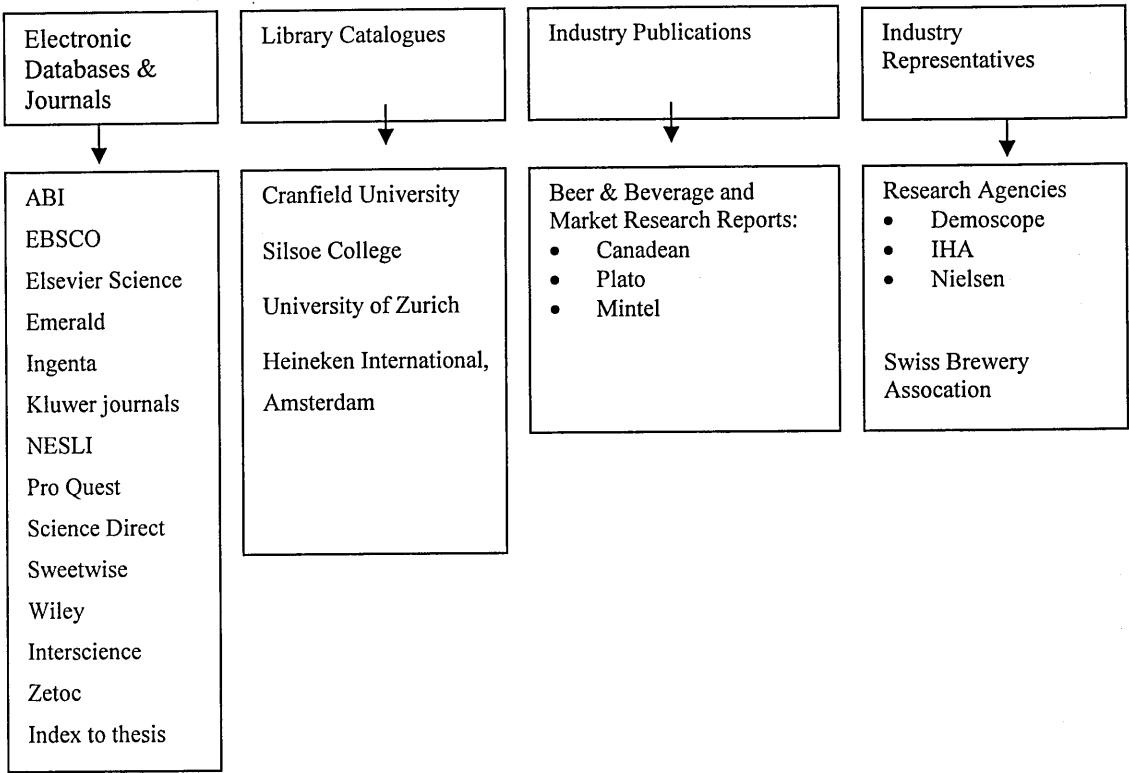
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Appendix 1: Overview Of The Sources Of Literature



Appendix 2: Key word protocol

Key Words A-M	Key Words M (continued) - Z
Balanced Score Card	Measuring Relationship Marketing Programmes
Beverage	Measuring Value
Brewers	Models
Brewing Industry	Motivation For Distributors
Change Management	Mutual gains
Channel Pricing	Non-financial incentives
Commitment	Non-Metric Measurements
Communication	Partnerships
Conflict resolution	Performance And Discounts
Cost Measurements	Performance Criteria
Costs	Performance Measurements
Communication	Performance-Based Discounts
Cooperation	Performance-Based Pricing
Customer Lifetime Value	Power
Customer Account Profitability	Price Management
Customer And Incentives	Price Reductions
Customer Performance Analysis	Pricing
Customer Performance Measurements	Pricing and relationship marketing
Customer Retention	Pricing And Incentive
Customer Value	Pricing Model
Customers	Principles Of Relationship Marketing
Definitions of relationship marketing	Rebates
Definitions of value	Relationship Benefits
Discount And Distributor	Relationship Marketing Implementation
Discount Scheme	Relationship Marketing Programme
Discount Structure	Relationship Marketing adoption
Discount System	Relationship Value
Discount And Quantity	Reseller
Discounts	Rewards
Distributor	Role of Pricing
Employee Empowerment	Supplier Benefits
Employee resistance	Supply Chain
Environment And Supply Chain	Switching Costs
Environment And Supply Channels	Trade Discounts
Fairness and relationship marketing	Transparency And Pricing
Financial Incentives	Trust
Implementing Relationship Marketing Programmes	Value
Incentive	Value And Discounts
Incentive Based Discounting	Value Based Discounting
Incentive Scheme+Wholesaler+Distributor	Value Chain
Incentive Structure	Value Creation
Incentive System*	Value For Supplier
Incentives For Distributors	Value Identification
Information Exchange	Value Maximisation
Managing Change	Value Of Visibility
Measuring Customer Performance	Wholesalers

Appendix 3: Reading Protocol

Author(s): _____ Year: _____

Title: _____

Source: _____

Medium: ☐ Journal ☐ Book ☐ Internet ☐ Dissertation ☐ Working Paper ☐ Newspaper

Discussed Problems / Issues / Questions

Has the problem / question been clearly identified ? ☐ yes ☐ no

- has the literature relevant to the problem/issue been evaluated ☐ yes ☐ no
- are contradictory views/theories and approaches presented? ☐ yes ☐ no
- What is the research approach? ☐ theory building ☐ theory testing
- area of research: ☐ set up model ☐ value factors

Contribution to problem understanding

Identified weaknesses / limitations - ☐ methodology ☐ accuracy ☐ validity

Relationship To Current Work:

Identified Key Words for further Search

Reading List: _____

Appendix 4: Interview Guide Used For Defining The Research Problem

Interview guide for definition of research problem
▪ Does respondent have knowledge about firm’s pricing system? ▪ How does the pricing system work? ▪ What types of incentive are incorporated in the pricing system? ▪ How and on what basis is the magnitude of incentives determined? ▪ Are customers involved in the price setting process? If yes, how? ▪ Are there any recent or planned changes to the firm’s pricing system? ▪ What were the reasons for planned changes to the firm’s pricing system? ▪ What kind of changes did the firm made to its pricing system? ▪ What were the reasons for planned changes and what did these entail?

Appendix 5: Interview Guide For Exploring The Broad Requirements Of The RPM

Interview guide for exploring The Broad Requirements Of The RPM
▪ What improvements / changes are expected from a new pricing system? ▪ What are key conditions that need to be met by a new pricing system in order to make it workable in practice? ▪ Which number/type of price lists should be incorporated in a relationship pricing model? ▪ What kind of discounts should be incorporated in the pricing model? ▪ Which of the incentives of the current pricing system should be retained respectively removed?

Appendix 6: Interview Guide For Exploring The Variables To Be Included In The RPM

Interview guide for exploring the variables to be included in the relationship pricing model

- | |
|---|
| <ul style="list-style-type: none">▪ What are perceived quality aspects of distributor-supplier relationships?▪ What gains result for the supplier when doing business with customers?▪ What gains result for a customer from doing business with the supplier?▪ How can the value of customers to a firm be described? |
|---|

Appendix 7: Interview Guide For Exploring The Incentive Structure Attached To The Model Variables

Interview guide for the focus group with middle managers

- What are the initial reactions to the model framework?
- What are the perceived advantages and disadvantages of the conceptual model framework?
- How is the acceptance of the pricing model and willingness to testing it?
- How should the incentives be applied?
- How can the value of customers to a firm be described?
- What is understood under the term 'discount'?
- Are middle managers aware of different types of incentives?
- Acceptance of incorporating non-financial discounts?

Interview guide for the semi-structured interviews with sales representatives

- What are the initial reactions to the model framework?
- What are the perceived advantages and disadvantages of the conceptual model framework?
- What is the respondents understanding of 'a good relationship'?
- How is the acceptance of the pricing model and willingness to testing it?
- How should the incentives be applied?
- How can the value of customers to a firm be described?
- What is understood under the term 'discount'?
- Are middle managers aware of different types of incentives?
- Acceptance of incorporating non-financial discounts?

Appendix 8: Interview Guide For Exploring The Operational Definitions Of The Model Variables

Interview guide for exploring the operational definitions of the model variables

- | |
|--|
| <ul style="list-style-type: none">▪ What definitions could be applied to each of the variables?▪ What definitions should be applied and why?▪ What measures exist to define different variables?▪ Which of these measures are appropriate to define the variables and why?▪ How can the supply chain partner determine whether or not distributors fulfilled the criteria attached to each variable? |
|--|

Appendix 9: Interview Guides For Defining The Parameters For Setting Up And Testing The RPM

Informal discussion with the IT manager
▪ What kind of information technology is best suited to replicate the RPM and collect and record data generated with the new pricing system? ▪ What kind of information technology is available? ▪ What is the compatibility of different information technology? ▪ How familiar are users with different information technology?
Semi structured interview with 5 sales managers
▪ Who should participate from the supplier’s sales employees and why? ▪ How long should the pre-test last and when should it be carried out? ▪ How many distributors should participate in the pre-test? ▪ What kind of test procedures would be needed?

Appendix 10: Guide For Distributor Observations

Assessment of the pricing system's potential in developing business relationships							Assessment of...																																											
Observation 1: Did the distributor react in a positive, negative or neutral manner to the sales representative's explanations about the purpose of the supplier's new pricing system?							the belief in the supplier's intent of developing business relationships the general acceptance of the new transaction system the degree to which distributors appreciates respectively oppose the new transaction system the extent to which the distributor realises that the pricing system is more than a system to determine pricing conditions																																											
		Sales manager's reasoning...																																																
Distributor's reaction	a more customer oriented pricing system	a system which ensures fair and equal treatment of all	closer interaction and cooperation with the distributor	a system, which offers distributors greater participation in determining purchase prices	a system which is of mutual benefit for both business	Others ⁷																																												
☐ positive	x	x																																																
☐ negative			x	x																																														
☐ neutral					x																																													
Description of initial reaction:.....																																																		
Observation 2: Did the distributor enquire about the price of the products during the course of the visit? Duration of the interview: _____ Min							the development of the distributor's understanding that the transaction system is not just about price but about the development of business relationships																																											
<table border="1"><thead><tr><th colspan="8">Frequency Checklist</th></tr><tr><th>15 Min</th><th>30 Min</th><th>45 Min</th><th>60 Min</th><th>75 Min</th><th>90 Min</th><th>105 Min</th><th>120 Min</th></tr></thead><tbody><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr></tbody></table>							Frequency Checklist								15 Min	30 Min	45 Min	60 Min	75 Min	90 Min	105 Min	120 Min																												
Frequency Checklist																																																		
15 Min	30 Min	45 Min	60 Min	75 Min	90 Min	105 Min	120 Min																																											
Observation 3: Did the distributor generally talk in singular (I do...), plural (we do) or neutral wording? ☐ no ☐ yes (how frequently ?) During which point in time? <table border="1"><thead><tr><th colspan="8">Frequency Checklist</th></tr><tr><th></th><th>15 Min</th><th>30 Min</th><th>45 Min</th><th>60 Min</th><th>75 Min</th><th>90 Min</th><th>105 Min</th><th>120 Min</th></tr></thead><tbody><tr><td>singular</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Plural</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>neutral</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr></tbody></table>							Frequency Checklist									15 Min	30 Min	45 Min	60 Min	75 Min	90 Min	105 Min	120 Min	singular									Plural									neutral								
Frequency Checklist																																																		
	15 Min	30 Min	45 Min	60 Min	75 Min	90 Min	105 Min	120 Min																																										
singular																																																		
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neutral																																																		

⁷ Items were added to the original list of observations as they emerged during distributor visits and subsequent interviews

Appendix 10 (continued): Guide For Distributor Observations

Assessment of the pricing system's potential in developing business relationships										Assessment of...								
Observation 4: Was there any information exchange taking place during the sales visit? ☐ no ☐ yes - what type of information was exchanged, when and how often?										...the extent to which the pricing system supports information exchange ...the type of information which was being exchanged during the distributor visit								
	General information about				Personal (sensitive) information about													
Time/Frequency	Current business activities	Activities planned in the future	Sales development	Others	Problems	Current business activities	Activities planned in the future	Sales development	Others									
15 Min																		
30 Min																		
45 Min etc.																		
Observation 5: Did the distributor communicate an interest to engage in closer cooperation with the supplier? ☐ no ☐ yes, on the sales representative's initiative ☐ yes, the distributor proactively suggested closer cooperation										...the extent to which the interaction processes of the RPM encourages discussions between business partners about current and future cooperation, joint planning and goal setting								
What type of cooperation was discussed? <table border="1"><thead><tr><th>Distribution optimisation</th><th>Promotional activities</th><th>Closer cooperation between business partners' sales representatives</th><th>Others</th></tr></thead><tbody><tr><td>x</td><td></td><td>x</td><td></td></tr></tbody></table>											Distribution optimisation	Promotional activities	Closer cooperation between business partners' sales representatives	Others	x		x	
Distribution optimisation	Promotional activities	Closer cooperation between business partners' sales representatives	Others															
x		x																
Observation 6: Did the communication and interaction process during the sales visit invite the discussion and resolution of problems? ☐ no ☐ yes <table border="1"><thead><tr><th>What triggered the discussion of the problem?</th><th>Type of Problem</th><th>Resolution / Problem solving</th></tr></thead><tbody><tr><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td></tr></tbody></table>										What triggered the discussion of the problem?	Type of Problem	Resolution / Problem solving						
What triggered the discussion of the problem?	Type of Problem	Resolution / Problem solving																
										 the extent to which the interaction processes of the RPM supports problem identification and problem resolution								

Appendix 10 (continued): Guide For Distributor Observation

Assessment of the pricing system's potential in developing business relationships	Assessment of...
Observation 8: Did the distributor react in a positive, negative or neutral manner & statements to the RPM criteria ?* ☐ Accepts the criteria without any reservations (acceptance)? ☐ Accepts the criteria with reservations and expresses the circumstances under which the criteria would be acceptable (constructive)? ☐ Reject the criteria outright (defensive)? What were the reasons for distributor's reaction? *This note was made for each RPM criteria	- the degree of distributor's acceptance of the RPM criteria - the type and strength of objections distributors may have
Observation 9: Where there any agreements reached between the distributor and the sales representative regarding the criteria under discussion? ☐ yes, namely..... Manner in which agreements were reached: ☐ no, because of 	
Observation 10: Did the distributor at any stage refer to the risks respectively uncertainties which arise for his business from the new transaction system? ☐ no ☐ yes What type of risks & uncertainties? 	... the possible risks and uncertainties arising from the RPM

Appendix 11: Guide For Sales Representative Observations

Section 1 – Observations prior / at the beginning of to the distributor visit													
Name of distributor visited: _____ Date: _____ Sales representative’s assessment of the relationship with the distributor: ☐ good relationship ☐ strained relationship ☐ no relationship													
Observing the sales representative’s attitudes towards the RPM		Purpose											
Observation 1: What is the sales representative’s attitude towards the RPM during the training sessions? Indicators: Assessment: Reasons: Remarks: ☐ Positive ☐ Negative ☐ Neutral Gestures: ☐ Positive ☐ Negative ☐ Neutral Participation: ☐ Active ☐ Passive 		To explore the attitude of sales representatives' attitude towards the RPM											
Observation 2: How is the sales representative’s involvement in preparing the distributor visits? ☐ Active Involvement ☐ Passive Involvement ☐ showed personal initiative ☐ only did what he was told ☐ came up with their own ideas ☐ no proactive contribution ☐ actively asked for advice ☐ waits for the researcher to take the lead ☐ others..... ☐ others													
Assessment of the current relationship between the distributor and the sales representative		Purpose											
Observation 3: How much does the sales representative know about the client/customer? ☐ Hobbies ☐ Children ☐ Lifestyle ☐ Others ⁸		To explore the sales representatives' degree of familiarity with and interest in the customer											
Observation 4 : How much dos the sales representative knows about the customer’s hopes for his business? ☐ Business priorities ☐ Most profitable products/markets ☐ Others ³													
Observation 5: Does the sales representative refer to the distributor and its business activities in positive, neutral or negative words and statements? ☐ positive ☐ negative ☐ neutral		To understand and verify the nature of the current relationship											
Observation 6: When the sales representative talks about the distributor does he tend to focus on problems he had had with the intermediary in the past and/or does he relate positive experiences with the distributor?													
<table border="1"><thead><tr><th></th><th>Frequency</th><th>Type of problems / positive experience</th></tr></thead><tbody><tr><td>Problems</td><td></td><td></td></tr><tr><td>Positive Experience</td><td></td><td></td></tr><tr><td></td><td></td><td></td></tr></tbody></table>				Frequency	Type of problems / positive experience	Problems			Positive Experience				
	Frequency	Type of problems / positive experience											
Problems													
Positive Experience													

Appendix 11 (continued): Guide For Sales Representative Observations

⁸ Items were added to the original list of observations as they emerged during distributor visits and subsequent interviews

Observation 7: Are distributors and sales representative addressing each other by their first names? ☐ yes ☐ no	To explore the degree of formality, familiarity and trust between sales people and customers
Observation 8 : Does the sales representative walk directly in the distributors office or is he made to wait before being admitted into the client's office [Note period of waiting]	
Observation 9: Does the talk in the first 5-10 minutes between the distributor and the sales representative focus on personal matters (i.e. enquiry about the family, hobbies, well-being etc.) or do the business partners proceed immediately towards discussing business matters? ☐ personal matters ☐ business matters What was the topic of the discussion?: _____	To explore the degree of familiarity and concern for the partner's well being
Observation 10: Has any reference been made by business partners about the length of time that has passed since the last interaction (visit, phone call, correspondence)? ☐ no ☐ yes ☐ neutral (If yes, note: tone of wording & statements: ☐ positive ☐ negative)	To learn about frequency of interaction To explore the closeness of interaction

Section 2 – Observations during the distributor visit									
Assessment of adoption of relationship marketing principles by sales representatives								Purpose	
Observation 11: Did the sales representative communicate/demonstrate relationship marketing thinking during the discussion with the distributor?								To explore the degree of relationship marketing thinking / acting by the sales representative	
Time/Frequency /	Develop long-term relationships	Mutual benefits	Closer cooperation	Joint goals	Problem resolution	Current and future business activities	Activities planned in the future		
15 Min									
30 Min									
45 Min etc.									

Appendix 11 (continued): Guide For Sales Representative Observations

Assessment of adoption of relationship marketing principles by sales representative	Purpose																																										
Observation 12: How often does the sales representative mention or discussed price and conditions of the RPM? Duration of the interview: _____ Min <table><tr><th colspan="8">Frequency Checklist</th></tr><tr><th>15 Min</th><th>30 Min</th><th>45 Min</th><th>60 Min</th><th>75 Min</th><th>90 Min</th><th>105 Min</th><th>120 Min</th></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr></table>	Frequency Checklist								15 Min	30 Min	45 Min	60 Min	75 Min	90 Min	105 Min	120 Min									To explore the degree of relationship marketing thinking / acting by the sales representative																		
Frequency Checklist																																											
15 Min	30 Min	45 Min	60 Min	75 Min	90 Min	105 Min	120 Min																																				
Assessment of the sales representative's skills in applying the RPM	Purpose																																										
Observation 13: How skilful is the sales representative in putting the RPM into practice? <table><tr><th></th><th>Excellent</th><th>Very Good</th><th>Good</th><th>Acceptable</th><th>Reason</th></tr><tr><td>Competent, clear and understandable introduction of the RPM to distributors</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Clear and accurate explanations of the RPM variables to the distributor</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Competent and effective in initiating a joint assessment of the current state of seller-buyer relationship</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Actively seeking and initiating a discussion how the fulfilment of the RPM criteria contribute towards long-term mutual benefits</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Competently answering distributor's questions</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Competent handling of the electronic RPM</td><td></td><td></td><td></td><td></td><td></td></tr></table> Notes on positive feedback for sales representative: Notes on constructive feedback for improvements: 		Excellent	Very Good	Good	Acceptable	Reason	Competent, clear and understandable introduction of the RPM to distributors						Clear and accurate explanations of the RPM variables to the distributor						Competent and effective in initiating a joint assessment of the current state of seller-buyer relationship						Actively seeking and initiating a discussion how the fulfilment of the RPM criteria contribute towards long-term mutual benefits						Competently answering distributor's questions						Competent handling of the electronic RPM						To identify strengths/ weaknesses of the sales people whilst applying the RPM
	Excellent	Very Good	Good	Acceptable	Reason																																						
Competent, clear and understandable introduction of the RPM to distributors																																											
Clear and accurate explanations of the RPM variables to the distributor																																											
Competent and effective in initiating a joint assessment of the current state of seller-buyer relationship																																											
Actively seeking and initiating a discussion how the fulfilment of the RPM criteria contribute towards long-term mutual benefits																																											
Competently answering distributor's questions																																											
Competent handling of the electronic RPM																																											

Appendix 12: Interview Guide For The RPM Testing

Guide for semi-structured interviews with distributors towards the end of the distributor visit
▪ First impression of the RPM ▪ Distributors attitude towards the RPM ▪ Distributor’s understanding of the RPM ▪ Perceived advantages / disadvantages of the RPM ▪ Distributor’s likes / dislikes ▪ Proposed improvements

Guide for semi-structured interviews with sales representatives after each distributor visit
▪ First impression of distributor visits ▪ Sales representative’s perception of what worked well / what could be improved ▪ Nature / characteristics of improvements to testing the RPM during forthcoming visits ▪ Learnings for the next visit ▪ Sales representative’s reaction to constructive proposals of improvements for subsequent visits

Appendix 13: Overview Of Variables, Which Reflect The Value Of A Customer

Variables mentioned by the group participants	Reported in the Literature?		Authors
Sales volumes	yes	explicitly	McDonald <i>et al.</i> , 1996 Spencer, 1999 Walter <i>et al.</i> , 2001
Profitability	yes	explicitly	Simon and Mandjak, 2004 Ojasalo, 2001 Yorke and Droussiotis, 1994
Information about the supplier's competitors including: • Pricing and discount practice • New products • Promotional activities • Sales volumes • Market share • Number of sales representatives in the area	yes	implicitly - information about competitors	Spencer, 1999 Walter <i>et al.</i> , 2001
Information about events taking place in the region	yes	implicitly - scout function - information	Walter <i>et al.</i> , 2001
Provision of market information	yes	explicitly	Spencer, 1999 Walter <i>et al.</i> , 2001
A distributor's sales potential	yes	implicitly - potential of the account - income potential	Fiocca, 1982 Simon and Mandjak, 2004
Size and frequency of order	yes	explicitly	Walter <i>et al.</i> , 2001
Good working relationship with the distributor in the past	yes		Walter <i>et al.</i> , 2001
Length of working relationship	yes	explicitly	Fiocca, 1982
Distributor recommends the supplier to its customers	yes	explicitly	Walter <i>et al.</i> , 2001
Distributor has good connections to local event organisations which helps to place the supplier's products	Yes	implicitly - access function	Walter <i>et al.</i> , 2001
Distributors initiated sales	Yes	implicitly - sales volumes	Walter <i>et al.</i> , 2001
Distributors deliver sales statistics	no		
Distributors exclusively sell the supplier's brands	no		
Distributor adheres to recommended sales prices	no		
Distributor offers emergency delivery to its customers	no		
Storage and distribution of sales support material	no		
Branding activities	no		
Distributors refrain from the late payment of bills	no		
Distributors refrain from product purchase on the grey market	no		
Customer complaints about distributors	no		
Territory exclusivity	no		
The service level offered by the distributors to its customers	no		
Advertisement support	No		

Appendix 14: Overview Of Testing Procedures

Steps	Activities
Step 1	Data collection Request the data needed to prepare the pricing model for the distributor visit as follows: - The finance department delivers the following information: a) distributor's contractual arrangements regarding brand exclusivity b) sales data of the distributor including a calculation of "free hectolitres" - The administration of the sales department delivers the following information: a) frequency of sales statistics delivered by the distributor b) known customer complaints for poor delivery quality from the internal complaint system c) known grey market activities of the distributor from the internal database - The accounting department calculates the distributor's average payment of bills
Step 2	Preparation of the distributor visit by the sales manager: - Arrange meeting with the distributor - Key in the available data delivered from internal departments in the pricing model - Fill in the remaining criteria as far as these are known - Develop a plan of action how the relationship with the distributor can be developed in the future in terms of any of the criteria of the pricing model - Discuss your plan of action with the sales and finance managers responsible for your area and make amendments if needed
Step 3	Sales managers carry out the distributor visit - Explain the purpose and functionality of the pricing model to the distributor - Evaluate the prepared pricing model with the distributor, fill in missing data and make amendments were needed - Discuss your plan of action with the distributor. a) enter defined sales targets in the pricing model b) Note the kind of activities the distributor plans to perform in the future and if applicable, the kind of support needed from the supplier to do so.
Step 4	Modification of pricing conditions - Store the pricing model as discussed with the distributor on the internal data base - Inform the finance department to modify the distributor's pricing conditions - The finance department modifies the pricing conditions

Appendix 15: Mathematical Formulas Of The RPM

Microsoft Excel - Appendix Calculations_version01														
File Edit View Insert Format Tools Data Window Help														
K35 A B C D E F G H I J K L M N O P Q														
1 Total incentives in % 15														
2 PART A - INCENTIVE ALLOWANCES														
3 Branding Activities Yes/No Weighting In % Total %														
4 Delivery Letter Yes 0.20														
5 Buildings Yes 0.20														
6 Business Correspondence Yes 0.20														
7 Letter with integrated bar Yes 0.20														
8 Small letter with coding system Yes 0.05														
9 Flyers Yes 0.05														
10 Announcement of promotions Yes 0.05														
11 Total 100%														
12 Delivery of sales statistic Yes/No Total %														
13 Deliveries sales statistic Yes 0.5														
14 Distributor initiated sales (discounts) No. of Hrs. Total %														
15 Misquoting of sales 800 1														
16 Product assortment (trade discount) Yes/No Weighting In % Total %														
17 Amstel Yes 0.5														
18 Calanda Yes 0.5														
19 Calanda Yes 0.5														
20 Calanda Yes 0.5														
21 Calanda Yes 0.5														
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27 Calanda Yes 0.5														
28 Calanda Yes 0.5														
29 Calanda Yes 0.5														
30 Calanda Yes 0.5														
31 PART B - INCENTIVE REDUCTIONS														
32 Drug market purchase Yes/No Total %														
33 Purchase products on the drug market No 0														
34 Let's payment of bills Yes/No Total %														
35 Did not pay bills within 45 days No 0														
36 Customer complaints Yes/No Total %														
37 Customer complaint about poor delivery quality No 0														
38 Total incentive reduction 0%														
39 Total fixed incentives % 10.0														
40 1) Source: Kotler, 1994; Stern and El Ansari, 1988; Taylor, 2002														
41 RPH Comparison Pricing conditions														
Ready														
Microsoft Excel - Appendix Calculations_version01														
File Edit View Insert Format Tools Data Window Help														
J4 A B C D E F G H I J K														
1 Example: Price calculations current pricing system Comparative price calculations RPM														
2 Brand Pack Sales in Hrs List price Gross purchasing cost Incentives Internal Sales System Net purchasing costs List price RPM Incentives in % Net purchasing costs														
3 Amstel 24x 30 cl 1.2 253 =(D3*C3) 44 =E3-F3 259 =RPM'IQ1 =(I3/100)*(100-J3)* C3														
4 Calanda 15x 50 cl 0.7 292 =(D4*C4) 7 =E4-F4 298 =RPM'IQ2 =(I4/100)*(100-J4)* C4														
5 Calanda 10x 50 cl 9 184 =(D5*C5) 88 =E5-F5 188 =RPM'IQ3 =(I5/100)*(100-J5)* C5														
6 Calanda 24x 50 cl 23 191 =(D6*C6) 220 =E6-F6 195 =RPM'IQ4 =(I6/100)*(100-J6)* C6														
7 Calanda 6x 33 cl 25 209 =(D7*C7) 247 =E7-F7 213 =RPM'IQ5 =(I7/100)*(100-J7)* C7														
8 Calanda 10x 33 cl 83 206 =(D8*C8) 808 =E8-F8 210,12 =RPM'IQ6 =(I8/100)*(100-J8)* C8														
9 Calanda 15x 58 cl 94 190 =(D9*C9) 911 =E9-F9 194 =RPM'IQ7 =(I9/100)*(100-J9)* C9														
10 Calanda 24x 30 cl 406 253 =(D10*C10) 3954 =E10-F10 257 =RPM'IQ8 =(I10/100)*(100-J10)* C10														
11 Calanda 20 lt 578 212 =(D11*C11) 5620 =E11-F11 216 =RPM'IQ9 =(I11/100)*(100-J11)* C11														
12 Heineken 20 lt 4 270 =(D12*C12) 39 =E12-F12 271 =RPM'IQ10 =(I12/100)*(100-J12)* C12														
13 Heineken 24x 33 cl 5 294 =(D13*C13) 200 =E13-F13 296 =RPM'IQ11 =(I13/100)*(100-J13)* C13														
14 Heineken 28x 25 cl 7 340 =(D14*C14) 198 =E14-F14 342 =RPM'IQ12 =(I14/100)*(100-J14)* C14														
15 Heineken 24x 25 cl 17 340 =(D15*C15) 161 =E15-F15 345 =RPM'IQ13 =(I15/100)*(100-J15)* C15														
16 Heineken 6x 25 cl 23 316 =(D16*C16) 221 =E16-F16 320 =RPM'IQ14 =(I16/100)*(100-J16)* C16														
17 Heineken 24x 33 cl 36 340 =(D17*C17) 951 =E17-F17 339 =RPM'IQ15 =(I17/100)*(100-J17)* C17														
18														
19 Total =SUM(C3:C17) =SUM(E3:E17) =SUM(F3:F17) =SUM(G3:G17) =SUM(J3:J17) =SUM(K3:K17)														
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Appendix 16: Revised Pricing Model

PART A - INCENTIVE ALLOWANCES						
Branding Activities (Allowances ¹)	Yes/No	Weighting in %	Total %	Brand distribution exclusivity (trade discount ¹)	Yes/ No	Total %
Delivery Lorry	Yes	0.5	1,5	Carries exclusively the the supplier's product	Yes	1,5
Buildings	Yes	0.4				
Business Correspondence	Yes	0.2				
Lorry with integrated bar	Yes	0.1				
Small lorry with cooling system	Yes	0.1				
Flyers	Yes	0.1				
Announcement of promotions	Yes	0.1				
Total		100%				
Delivery of sales statistic	Yes/No	Total %				
Delivers sales statistic	Yes	0,5				
				Adherence to recommended prices	Yes/ No	Total %
				Adheres to price recommendation	Yes	0,5
				Provision of market information	Yes/No	Total %
				Provides information on gastronomy outlets	Yes	0,5
				Active selling of supplier's brands (trade discount ^{1b})	Yes/No	Total %
				Actively sells the supplier's brand	Yes	0,5
Distributor initiated sales (channel rebates ¹)		No. of Hls.	Total %			
Magnitude of sales		800	1			
Product assortment (trade discount ¹)	Yes/No	Weighting in %	Total %	Storage and distribution of sales support material (trade discount ^{1b})	Yes/No	Total %
Amstel	Yes	0,5	3,5	Stores and distributes sales support material	Yes	0,5
Heineken	Yes	2				
Calanda	Yes	1				
Haldengut	No					
Erdinger	No					
Ittinger	No					
Desperados	No					
Murphy's Red	No					
Murphy's Stout	No					
Note: Weighting per brand may differ among distributors depending on regional market conditions						

PART B - INCENTIVE REDUCTIONS			
Grey market purchase	Yes/No	Total %	
Purchases products on the grey market	No	0	
Late payment of bills	Yes/No	Total %	
Did not pay bills within 45 days	No	0	
			Total incentive reduction 0%
Total fixed incentives %			10,0
Sales potential			
Brands / Sales targets	Packaging type	Sales Targets	Discounts in %
Heineken	Bottles	increase by 100 hls.	5
Amstel	Cans		2
Calanda	Kegs		3
Note: Brands, sales targets and packaging type may differ among distributors depending on agreements reached with distributors			
Total variable incentives in%			10,0
Total incentive rate in %			20,0

1) Source: Kotler, 1994; Stern and El Ansary,1988; Taylor, 2002

Appendix 17: Revised Operational Definitions of RPM variables

Variable	Operational Definition	Data source and measurement of the variable
Brand distribution exclusivity	Incentives will be granted if the customer realizes 90% of its annual sales with the supplier's products.	Information obtained from the distributors, sales representatives and product delivery personnel will reveal, which distributors exclusively distribute the supplier's products.
Product assortment	Distributors who carry all of the supplier's products will be allocated the full discount. If distributors only carry some of the products, the discounts will be granted proportionally. The regional sales manager together with the distributor determine how the overall discount allocated to the product assortment will be divided between the different products. This approach ensures that the product assortment takes into account regional differences and local market demand.	Sales data about each distributor will be used to assess whether or not the distributor carries the full product assortment. This information will be obtained from the finance department.
Branding activities	Discounts will be granted if distributors put the supplier's brands (irrespective of the frequency) on: - Business properties (e.g. shop, warehouse) - Business correspondence (letters and invoices) - Vehicles (delivery lorry, lorry with integrated bar small lorry with cooling system) - Flyers and announcement sent to customers informing them about product promotions	Informational sales managers and sales representatives will provide information about the kind of branding activities in which individual distributors engage.
Delivery of sales statistics	The distributor delivers sales statistics by the last working day of each month. The supplier will provide distributors with a data sheet, which specifies the format and content of the sales statistic delivery. The incentive will only be granted if a distributor provides the sales statistic within the specified time period and if these contain all the required sales information. However, should the customer fail to fulfill these conditions on at least 3 occasions within one year, he is no longer eligible for the discount.	The administration of the sales department will monitor whether or not distributors make information about their realised sales available to the business on a regular basis.
Adherence to recommended sales prices	The distributor adheres to recommended prices on all of the supplier's products.	The price list issued by distributors will be checked by the sales administration staff. This in order to ascertain, whether or not prices are in line with those recommended by the supplier.

Appendix 17 (continued): Revised Operational Definitions of RPM variables

Variable	Operational Definition	Data source and measurement of the variable
Storage and distribution of sales support material	The distributor stores and distributes sales support material during at least 9 months of the year.	The sub-regional sales managers will identify those distributors, who store and distribute sales support material.
Distributor actively sells the supplier's brands	The criterion is fulfilled, when the distributor provides convincing evidence that he or his employees actively sell the supplier's products.	Sub-regional managers will judge the evidence, including: - written instructions given by the distributor to the sales people in internal memos or meeting protocols - lists with new / addition orders and/or customers
Provision of market information	The distributor provides information, which result in contracts being made between the supplier and at least 3 gastronomy outlets within one year.	The sub-regional sales managers will provide information, about which distributors give market information to the company.
Distributor initiated sales	Discounts are not granted on the basis of the total sales realised by a distributor. The distributor will not be rewarded for those sales, which are allocated by the brewery. These sales result from sales representatives of the company realising contracts with independent gastronomy outlets. The delivery of these gastronomy outlets is often outsourced to independent distributors due to the lack of the company's own distribution capacity. Therefore, independent distributors are given the business from the brewery instead of generating it themselves. The difference between total sales less those sales allocated directly by the brewery to the distributor are called ' <i>free hectolitres</i> '. These sales are considered ' <i>free</i> ' because the distributor has the discretion to decide what type of beer to promote for those gastronomy outlets, which are not bound by contractual agreements to carry specific beer brands.	The magnitude of ' <i>free hectolitres</i> ' generated by the distributor will be calculated by the finance department.
Late payment of bills	A discount reduction will be applied if the distributor does not settle the bills on an average of 30-45 days (over the past 12 months).	The information about the average length of time it takes distributors to settle their bill is provided by the accounting department.
Sales potential	Sales potential will be determined on the basis of future sales of specified packaging types and specified brands. Targets can also be defined with the customer to maintain sales in saturated regional markets in Switzerland.	Sub-regional sales managers together with distributors determine future sales potential.
Product purchase from the grey market	If the company has knowledge that the distributor purchased the supplier's products on the grey market, this is to be verified during the discussion with the distributor. If it turns out that the distributor did indeed engage in grey market purchasing the discount reduction will be applied.	Three sources will assist in identifying grey market purchase: a) the supplier's internal database on grey market purchase activities b) observations made by delivery personnel c) observations and information provided by the supplier's sales representatives