



The Effectiveness of Relationship Marketing Strategies in Department Stores

Suzanne Hanley

Departments of Computing and Business

St. John's Central College

Sawmill St

Cork

Ireland

E-mail: shanley@stjohnscollege.ie

Rose Leahy (Corresponding author)

Department of Management and Marketing

Cork Institute of Technology

Rossa Avenue

Bishopstown

Cork

Ireland

Tel: 353-21-4369590 E-mail: rose.leahy@cit.ie

Abstract

This paper examines the effectiveness of relationship marketing strategies used by department stores. The primary objective of the study was to discover the extent to which customers use and are influenced by relationship marketing strategies. In addition, the impact that these strategies have on customer loyalty and the development of customer-department store relationships was explored.

The dominant conclusion arising from this study is that customers do perceive that relationships exist between the customer and the department store. These relationships develop as a result of positive personal interactions between customers and department store staff and as a result of certain value driven relationship marketing strategies. Essentially it was determined that the development of these relationships is predicated upon customer satisfaction. Once satisfied a customer is more likely to become loyal and develop a relationship with one store over another. This research concludes that the challenge for department stores is to identify the drivers of satisfaction and in doing so build positive relationships with their customers.

Keywords: Relationship Marketing, Customer Loyalty, Customer Relationships

1. Introduction

This study examines the effectiveness of relationship marketing strategies within the department store sector of the retail industry. The supermarkets of today are branching out into non-food items and are becoming department stores in their own right, selling such items as clothes, entertainment products for example DVDs, toys, books, cosmetics, non-prescription drugs and many other household goods. Essentially, these department stores are becoming one stop convenience super stores, even selling credit cards, loans and life insurance. These department stores are now offering a vast variety of products and services to a pressurised society that has become time poor but cash rich. In attempting to attract customers, encourage customer loyalty and build strong customer relationships, relationship marketing theory proves attractive for department store managers, with its advocates claiming that it now costs three to five times less to keep a customer than to get a new one (Farber and Wycoff, 1991) and that companies can improve profits anywhere from 25% to 85% by reducing customer defections by 5% (Reichheld and Sasser, 1990).

2. Relationship Marketing

Relationship marketing recognises that the focus of marketing is to change from making a single transaction and moving on to the next customer, to building a relationship with existing customers (Christopher *et al.* 1991). Bateson (1995: 457) in his definition of relationship marketing states that *relationship marketing is the union of customer service, quality and marketing. It emphasises the importance of customer retention, product benefits, establishing long-term relationships with customers, customer service, increased commitment to the customer, increased levels of customer contact, and a concern for quality that transcends departmental boundaries and is the responsibility of everyone throughout the organisation.* Gummesson (1999) criticised traditional marketing concepts, saying that they were based exclusively on getting the customer to transact with the organisation. In contrast, relationship marketing is about achieving customer loyalty. Defection as described by Lovelock *et al.* (1999) occurs when customers transfer their brand loyalty to another supplier. Relationship marketing reflects a philosophy expressed often in terms such as “retention marketing” and “zero defection” where the focus is on keeping every customer the company can profitably serve (Reichheld and Sasser, 1990: 105-111). Gamble *et al.* (2005), propose that companies should possess a strong imperative to ensure high degrees of customer loyalty and retention. Research in the credit card industry indicates that a 5% increase in customer retention can lead to a profit improvement of 125% (Gamble *et al.* 2005). Statistics such as these are significant drivers in the move from transaction marketing to relationship marketing.

2.1 Customer Loyalty

Lovelock *et al.* (1999) describe customer loyalty as a customer’s willingness to continue patronising a firm over the long term, purchasing and using its goods and services on a repeated and preferably exclusive basis, and voluntarily recommending the firm’s products to friends and associates. The relationship marketing philosophy is grounded on the tenet that as long as customers and consumers continue to perceive that they are receiving superior value from a specific source of supply, then they will remain loyal (Peck *et al.* 1999). According to Berry and Parasuraman (1991), customers will remain loyal if they receive financial benefits, social benefits and/or structural ties. Examples of these benefits include reward programmes and personalised services.

Christopher *et al.* (1991), propose that the objective of relationship marketing is to turn new customers into regularly purchasing clients, and then to progressively move them through to being strong supporters of the company and its product, and finally to being active and vocal advocates for the company (See Figure 1). According to Christopher *et al.* (1991) the traditional marketing mix elements of product, price, promotion and place are the principal elements used to turn prospects into customers, while the focus of relationship marketing is to move customers into clients, supporters and ultimately advocates for a company’s products and services.

According to Christopher *et al.* (1991: 21-22), by placing too much focus on marketing activities directed at new customers, companies often experience the ‘leaking bucket’ effect, where customers are being lost because of insufficient marketing activity generally, and customer service specifically directed to them. They believe that too many firms over-emphasise the identification of prospects and focus on trying to convert them into customers. Hence, under-emphasis is placed on generating repeat business. The underlying rationale, therefore, is that the fostering of long term product (or company) loyalty rather than immediate sales ultimately leads to an increase (or maintenance) of sales (Craig-Lees and Caldwell, 1994). Furthermore, data shows that truly loyal customers are fifteen times more likely to increase spending with a particular store. Caution is required to ensure that the firm strives to keep the *right* customers from defecting. This has been labelled ‘customer relationship economics’ by Grönroos (1993) and ‘customer relationship profitability’ by Storbacka (1993). Essentially they argue that effort should not be directed at customers that are not and cannot be expected to become profitable (Storbacka, 1993; Barnes and Cumby, 1993). According to Storbacka (1993) and Barnes and Cumby (1993) a thorough customer relationship profitability analysis is equally important as effort directed towards creating a loyal customer base and retaining customers.

2.2 Relationship Marketing Strategies

The development of loyalty and club marketing programmes by various department stores is regarded as significant in the drive to build customer loyalty and customer-department store relationships. Loyalty programmes are structured marketing efforts, which reward, and therefore encourage, loyal behaviour (Sharp and Sharp, 1997). According to O’Brien and Jones (1995), these came about due to the fact that a company must find ways to share value with customers in proportion to the value the customers’ loyalty creates for the company. According to research, more than 80% of Europe’s consumers now have at least one loyalty card and the number of people with two or more is estimated to be one third of the shopping population (www.click4operator.com, 2/7/07). With the use of loyalty cards in stores today customers weekly shop is analysed and scrutinised by experts known as ‘trolleylogists’ who analyse the information collected on computers. Loyalty cards create profiles of individuals’ personal shopping habits. When linked with the personal details that customers disclosed when signing up for the scheme, the store is in a position to target promotions that are tailored around specific customers shopping habits. This in turn it is hoped will lead to the development of relationships. An example of this is the Tesco Babyclub. Following the introduction of this

programme 37% of all expectant mothers joined the baby club in the U.K. and at the end of those two years, Tesco's share in health products was higher than its share in groceries (McDonald, 2004).

Other relationship marketing strategies used by department stores in the drive to build customer relationships include wine clubs, financial services and personal shoppers. The extent to which these strategies influence consumer choice of department store and the subsequent development of loyalty and relationships is explored in this study.

3. Research Methodology

In light of the research objectives, focus groups and questionnaires formed the basis for the study. Non-probability sampling methods were adopted where the researchers used their own judgement and knowledge to identify who would be in the sample. For example, it would have been unwise to choose people who do not shop in department stores or who leave the shopping to another family member as they would not be in a position to relate to the topics under investigation in the focus groups or the questionnaire. Five focus groups were held, and semi-structured interview guides were used in order to ensure that the focus groups covered the main issues, while still allowing respondents to reply in a variety of ways and raise issues which were pertinent to the topics being investigated. The questionnaire was given to a sample of one hundred participants, chosen using the same purposive sampling techniques as those used for the focus group sample. The types of questions used in the questionnaire for this study were both open ended questions and closed questions which included multiple-choice, dichotomous and scale questions. The open ended questions in the questionnaire along with the focus group findings resulted in the generation of rich detailed qualitative information.

4. Discussion of Findings

This section present a discussion of the empirical research .

4.1 The Role of Club Marketing Programmes in Building Relationships

Club marketing programmes form a significant part of retailers' relationship marketing strategies. It is evident from the literature that Tesco's Baby Club, for example, has been a spectacular success since its commencement (McDonald, 2004). Findings from this research support McDonald (2004). The Baby Club proved to be very popular with the respondents to this research, who appreciated the articles related to caring for children and the money off coupons in the quarterly magazines:

For every stage of the child's development they send you a magazine on what to look out for as the child develops which I personally found very interesting when I was pregnant with my first baby and didn't have a clue! Also I did use the money off coupons which I found so handy when buying items like nappies and baby food that would have cost me more if I shopped elsewhere.

Female, 34

According to Berry and Parasuraman (1991), customers will remain loyal if they receive financial benefits e.g. reward programmes and/or social benefits e.g. a personalised service. These benefits can turn customers into clients. This view is seen to be reinforced by that expressed by members of the Tesco Wine Club:

I'm joined the Tesco Wine Club and am familiar with the range of wines they stock so I ordered wine in bulk for my wedding from Tesco, received a great discount, saved a fortune and gained my clubcard points in the process.

Female, 35

Much of the relationship marketing literature states that *relationship marketing is the process whereby both parties – the buyer and the provider – establish an effective, efficient, enjoyable, enthusiastic and ethical relationship: one that is personally, professionally and profitably rewarding to both parties* (Porter, 1993: 14). Porter's view is supported by the fact that the personal contact associated with the club marketing programmes was appreciated by respondents joined the Tesco Baby Club and was considered thoughtful or considerate:

I think it's great how you can get a letter that says for example, that your baby is now six months old and sitting up, so would you like to buy this cushion or now that your baby is eighteen months old, attached is a 25% money off coupon for toothpaste.

Female, 37

The marketing clubs appear to have some success in capturing the true meaning of relationship marketing. The objectives of relationship marketing strategies are to make customers feel special (Dwyer *et al.* 1987) to feel as though the company cares for them (Tzokas and Saren, 1997) and wants to satisfy their individual needs (Buttle, 1996). Findings of this research confirm that these objectives are met by many of these marketing clubs. Members of Tesco's Wine Club expressed how they felt regarded as valued customers when they received money off coupons for wines that were of particular interest to them. This sentiment of respondents feeling understood and known by the store creates an affinity to return to that store by respondents joined these clubs and hence has an important role to play in loyalty.

This indicates effective use of database marketing by the stores. This reflects the relationship marketing theory of Larson, (1996) and Sisodia and Wolfe, (2000). By building upon the data-based techniques, relationship marketing allows access to information about each customer that is *complete, specific and pertinent* (Larson, 1996: 31) in order to understand *real customers on an individual basis* (Sisodia and Wolfe, 2000) and communicate with them appropriately. According to Evans *et al.* (2004) in this sense, customers get more of what they value in terms of the product and associated services, and marketers incur fewer costs while increasing both relevance and value.

4.2 Loyalty Cards and the Development of Loyalty

Most people nowadays possess loyalty cards, with the questionnaire identifying that 69% of those surveyed owned one while only 31% did not have any in possession. One of the emergent findings from the focus groups is that the loyalty card schemes are not as effective at developing customer loyalty when compared to the club marketing programmes. The questionnaire findings indicated that only 19% of respondents felt that the loyalty cards influenced their decision to stay loyal to a department store. The main reasons put forward in the survey by consumers for loyalty cards not influencing their decision to stay loyal to a store were that more importance was placed on convenience and location, range of products, prices and special offers and because the benefits received from the use of loyalty cards were perceived as insignificant.

Attitudes expressed by participants when exploring these findings via the focus groups towards the relationship development initiative are many and varied. Initial responses were positive and centred on the advantage of being rewarded for shopping in a store regularly:

I get about €40 back in vouchers every quarter from Dunnes Stores from the points I've built up and I think it's wonderful to get something back from the store that I shop in regularly.

Female, 37

However, diverging from positive comments such as these were other attitudes towards loyalty cards:

I refused to get one because I thought they were ridiculous as the amount I perceive you have to spend is very high in comparison to what you get back in vouchers.

Male, 32

Opinions such as this support the opinion of Ailish Forde, Director General of RGDATA, who maintains that the value back to consumers from loyalty schemes is negligible, while the benefit to the company is great (O'Dea, 2001). Masterson and Pickton, (2004) argue that loyalty cards have induced customer cynicism as card based loyalty schemes are viewed by many as mere sales promotions and customers are likely to have cards collecting points from all competitors not being loyal to any particular scheme. Respondents in the focus groups admitted to using numerous loyalty cards and not being loyal to any particular store:

Loyalty cards don't make me loyal to any specific store because I shop wherever I can get what I'm looking for and I could easily have two or three cards 'on the go' and it wouldn't bother me which one I use.

Female, 33

Thus, from the current research findings it is arguable that the increase in loyalty card programmes has given the consumer the ability to choose from other competitors and strengthened the bargaining power of the consumer in the seller-buyer dyad. Despite some initial positive responses to loyalty cards, the dominant attitudes expressed by respondents indicated that these cards do little to generate loyalty. They appear to have a polygamous effect where consumers carry a number of such cards, thus availing of all store offerings as opposed to becoming loyal to just one.

4.3 Financial Services and Relationship Development

To ascertain the value that respondents place on the financial services provided by the department stores, respondents were first queried as to which store credit cards they own, if any. An interesting finding is that the most popular store credit cards availed of by respondents to the questionnaire and the focus groups participants is the Tesco credit card:

My husband has the Tesco credit card and he gets back loyalty points every quarter for using it, but it's not as much as you would get back if you just used the Tesco loyalty card directly. However, if you pay for your shopping in Tesco using your credit card you receive double the amount of loyalty points, so it encourages you to use your credit card in Tesco, rather than using your credit card to pay for your weekly shop elsewhere.

Female, 30

There were nine respondents to the questionnaire that use store credit cards which include Tesco's credit card, Marks and Spencer charge card and the Brown Thomas master card. Additional reasons were put forward by the focus group participants for initially selecting the Tesco credit card when compared to other credit cards:

I chose the Tesco credit card also because the €40 government levy on the credit card is refunded to you by Tesco in the form of Tesco shopping vouchers as a reward for selecting their credit card and when I researched the interest rates on

other credit cards, the Tesco one was very competitive.

Male, 31

There was only one respondent to the questionnaire that avails of one of Tesco's insurance policies and only one respondent who availed of the Tesco's loans service. However, the car insurance provided by Tesco was seen as competitive by focus group participants:

My work colleague saved €200 on his car insurance when he changed to Tesco's car insurance.

Male, 31

This supports a finding by Loveless (2004) who stated that Ronald Dobson from Oldham, Lancashire, saved £300 by switching car insurance to Tesco, received a 5% discount for applying online and when he made a claim the service was excellent. Interestingly, there was scepticism expressed in relation to the life insurance offered by a department store:

I would be very sceptical about getting something as important as life insurance cover from a supermarket especially if it's cheap and I would wonder would it be any good if it was required.

Female, 34

This implies a lack of knowledge about how the department stores team up with other reliable and experienced insurance specialists. Tesco, for example, has joined forces with Hibernian Life & Pensions to offer life insurance. This insurance cover proves quite competitive. For example, if a female aged twenty four years old took out this insurance for €250,000 over twenty five years, it is 42% cheaper than Permanent TSB, and for a male of the same age to do the same, it is 28% cheaper than Permanent TSB (Tesco Personal Finance Life Insurance Leaflet, 1/5/04).

It emerged from the research findings that the majority of respondents were not aware that some of these services were on offer by the stores. Despite the abundance of leaflets and information available in-store in relation to the auxiliary financial services, the research findings suggest a requirement to have them advertised more, for example, on television to raise the public's awareness of such services. In addition, it would assist in gaining the trust of consumers to avail of these financial services if they were better informed as to what the services entailed. This is especially true given that the relationship marketing literature suggests that the relationship philosophy relies on co-operation and trust (Sheth and Parvatiyar, 2000).

4.4 Personal Shopping Assistants

Overall, respondents expressed that the concept of having a personal shopping assistant to help customers when shopping was a practical idea. However, it emerged that it was a service that only a minority of focus group participants have used. They unanimously agreed that the general uptake of using this service has not been very high to date. It was considered that it may take time 'to catch on in the Irish society'. Interestingly, it was deliberated that the use of shopping assistants is far more popular in the U.S.A. and participants alluded to the concept as being 'very American'. In addition, only two respondents to the questionnaire have availed of the service. Both respondents had used the Debenhams personal shopping assistant. Christopher *et al.* (1991), believe the objective of relationship marketing is to turn new customers into regularly purchasing clients, and then to progressively move them through being strong supporters of the company and its product, and finally to being active and vocal advocates for the company, thus, playing an important role as a referral source. The importance of this premise is demonstrated by the fact that most participants who had asked for the personal shopping assistant in a department store were those who had received positive feedback from a friend or reliable source. The powerful influence of these 'advocates' resulted in participants in the focus groups utilising this service. Furthermore due to the ensuing positive experience with the personal shopper these respondents agreed that they were so impressed they would have no problem using the service again. A term coined by Scott D. Cook, (1994), is the attempt by businesses to create 'apostles' (Heskett *et al.* 1994: 640) which describes customers who are so satisfied that they even convert the uninitiated to a product or service:

I heard from a friend that the personal shopping assistant service in Debenhams was excellent so when I needed a dress for my Christmas party, I went there. The shopping assistant who helped me was great and she even took the trouble of ringing about five stores in the U.K. to source the correct size that would fit me so that she could order it specially in for me.

Female, 33

The participants in the focus groups that had never received help from a personal shopper were impressed with the feedback and hence stated that they would be willing to try this service in the future. As Wong (2000) expressed, loyalty which is the likelihood of a customer returning to an organisation can also be gauged on how willing that person is to perform partner-like activities for the service company - starting with recommendations to friends:

I thought the shopping assistance I received in Debenhams was fantastic too. I hadn't realised that the assistant finished work at 3.30 p.m. the day I went there as she never mentioned it but she pursued to help me select a top that fitted me until 3.45 p.m. and she didn't act like it was the slightest inconvenience. I was so impressed with the service

that I took note of her name before I left and wrote a letter to the store manager praising her. This assistant was so helpful that she even posted information related to the clothes directly to me afterwards.

Female, 30

4.5 Customer Service and Relationship Development

As seen from the questionnaire results, customer service from friendly and efficient staff has a significant influence on consumers decision to shop in a store, with 92% believing it would have an effect and only 8% saying it would not. All the focus group participants were of the opinion that good customer service would influence their decision to shop in a store. It is part of human nature for individuals to be sensitive to the treatment received from others and this seems to be the main reason for such a large response rate to the fact that customer service does have an enormous impact on where people shop. The potential for negative word-of-mouth reputation from customers who have complained and were treated badly, or indeed customers who did not complain because they felt it was pointless, is significant (Quinn, 1991). It ultimately results in the customer not returning and furthermore if this customer becomes a 'terrorist', which are customers who are so unhappy that they speak out against a poorly delivered service at every opportunity, then they can even discourage acquaintances from trying a service or product (Heskett *et al.* 1994: 640). Most participants agreed that receiving bad customer service has a significant effect on whether they would return to that store, in particular, if they can buy identical items elsewhere. Therefore, customer service has a significant influence on loyalty:

If there were two stores in the same area selling the same range of goods and if the customer service in one store was horrendous and it was excellent in the other, then there would be no contest as I would certainly go to the one that was better.

Female, 38

This supports Berry's (1983) opinion that relationship marketing is applicable when there is an ongoing and periodic desire for the service, and when the customer controls the selection of a service supplier and has alternatives from which to choose. This choice empowers the consumer in the seller-buyer dyad as the direction frequently taken when the consumer is unsatisfied is switching to competitors. According to Christopher *et al.* (1991) customer service is concerned with the building of *bonds* with customers and other markets or groups to ensure long-term *relationships* of mutual advantage. It emerged that unsatisfactory customer service has a definite impact on customer retention:

If I was treated shabbily, I would go out of my way to change store.

Female, 31

The research implies that consumers appear to place more importance on customer service personally delivered than on store loyalty schemes. Customer service can be seen as a process which provides time and place utilities for the customer and which involves pre-transaction, transaction and post-transaction considerations relating to the exchange process with the customer (Christopher *et al.* 1979). In regards to the post-transaction exchange process, an insight into the mind of the consumer is apparent from the findings, which suggests the importance that is placed on the returns policy in a store and how a customer is treated when returning goods. This has a powerful effect on how customer service is generally viewed within a store, mainly due to the fact that customers do not like returning goods, and as such, have an increased sensitivity to how they are treated. Quinn (1991) emphasises the importance of listening to the customer – a fairly commonsense approach to understanding customers' needs, but, one that not every firm follows. He also considers it important to create more customer complaints, which may not at first glance appear to be an ideal tactic. However, customers' complaints provide an opportunity to learn. If the customer has taken the trouble to complain, it is in the business's interest to react; if they don't, or do so badly, the customer is unlikely to return. Therefore it is important that complaints are welcomed and acted upon.

5. Conclusion

The empirical data generated resulted in an informed understanding of the likes and dislikes of consumers and how they perceive relationship marketing in department stores from their own experiences. It is clear that while relationship marketing strategies are often positively as well as negatively received, this research opens the way for potential areas of future research to further improve comprehension and effectiveness of relationship marketing in department stores.

Interestingly, club marketing programmes are more popular and viewed with more value than loyalty cards. The club marketing programmes are a key strategy in the development of relationships with customers who enjoy the feeling of membership. The findings demonstrated that the club marketing programmes create store loyalty as customers return to the store to receive the benefits. The financial services offered by stores, and the shopping assistants did influence the decision of the majority of consumers to shop in the stores and helped create relationships between department stores and customers that otherwise would not exist.

The importance of customer service emerges as central to the development of positive relationships. Research indicated that customers detested ignorance, lack of helpfulness, lack of friendliness, lack of efficiency and being ignored while

being served due to a staff member continuing a conversation with a work colleague. This is a significant barrier to building relationships with customers as there has to be a two way willingness to cooperate and communicate for the formation of a relationship and to ultimately lead to loyalty. The research has indicated that personal service is more effective in satisfying customers than technology driven loyalty cards. Satisfaction of customers' needs is essential in the quest to generate relationships. Thus, it can be concluded that department store managers must focus on the development of positive personal relationships with customers, supported by the use of relationship marketing strategies that are innovative and value-driven.

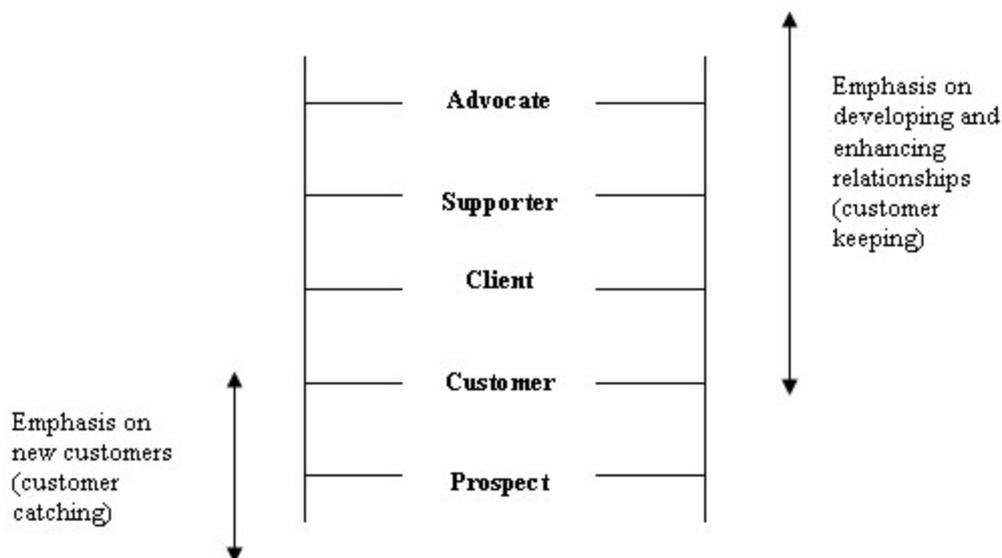


Figure 1. The Relationship Marketing Ladder of Customer Loyalty

(Source: Christopher et al. 1991: 22)

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