

A theoretical analysis on the impact of relationship marketing practices on customer retention: A case of transformed small grocery retail shops in Mangaung Municipality area in South Africa

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Abstract

Given the fact that South Africa is one of the global emerging markets, many of the emerging small businesses are transiting from informal to formal businesses. The importance and contribution of these ventures in economic growth and job creation cannot be overemphasised especially in times of technical economic recession. Even tourists are more likely to repeat visit a business on later travels if they are satisfied with service quality. Small grocery retail shops in Mangaung Municipality area are no exception. Relationship marketing is considered as a vital option for achieving customer retention and growth among small businesses, particularly, in the retail industries. However, this paper provides a robust insight into the transformed small grocery retail shops by theoretically analysing relationship marketing and its effect on customer retention for business growth. It, therefore, remains concerning in this paper to interrogate customer retention given relationship marketing practices as well as effective options for these small grocery retail shops toward warding off counterproductive competition in their business environment. Options explored seek to assist this sector to build relationships with their customers, ensure their satisfaction and ultimately retain them for growth, with the focus on transformation. The method adopted for this study was desk-top literature review as well as observation. Finally, recommendations for improved practices are provided. It is hoped that although limited in scope, these will help support drives to sustain business ventures.

Keywords: relationship marketing, customer retention, transformed small grocery shops, spaza shops, Mangaung Municipality, South Africa and SMMEs, tourists.

Introduction

The burning questions deserving research attention in the field of retailing are in respect of why many small grocery retail shops are not showing growth, and whether relationship marketing provides the required solution for small grocery entrepreneurs. In the context of South Arica, the importance of small grocery retail shops regarding their contribution to the economy cannot be over emphasised in terms of income generation and reduction of unemployment (Perks, 2010). In Mangaung Metropolitan area, there is a proliferation of small grocery retail shops which can



contribute to the economic development of the area. However, there remains a growing counterproductive competition among them, causing many to fail from the outset of their small business venture. Small grocery retail shops, known as "Modern small grocery shops" provide day-to-day grocery essentials that consumers ordinarily found more inconvenient going to buy from distant big chain grocery stores. (Basardien, Parker, Bayat, Friedrich & Appoles, 2014: 45). These shops have self-service and walk-in facilities that are like the models used by the big chain grocery stores. Therefore, relationship marketing is positioned as the marketing practice which firms can use to build relationships with customers (Futrell 2012: 6). According to Rootman, Tait and Sharp (2011: 315-316), relationship marketing is characterised by 'higher levels of service quality, customer satisfaction, customer support and customer retention.' However, its practice in the small grocery retail shops is still minimal and scantly researched. As small grocery retail shops play an important role in the socio-economic development of emerging economies, especially in the rural economies of developing economies, the practice of relationship marketing remains worth researching.

Relationship marketing practices are used by businesses as a marketing strategy to create, build and improve relationships with the clients and to ensure that such relationship benefits both the customers and the businesses (van Tonder & Roberts-Lombard, 2015: 187). It has been argued that the idea behind relationship marketing is that it enhances the retention of existing customers with minimal costs compared with recruiting new ones (Blythe, 2013). As a result of high levels of competition in many industries, many firms are strategizing to satisfy and retain their customers by introducing new service offerings in their businesses to add value to their clients purchase. Hence the importance of relationship marketing extends to providing value to both the customers and the business, and this value can be maintained by adding new benefits to the customers (Theron, Terblanche & Boshoff, 2013).

Furthermore, Rootman, Tait and Sharp (2011: 326) support the view that relationship marketing is a marketing practice that businesses can use to build relationships with their local and also visiting customers and ultimately achieve customer retention. Many businesses seem to fail from the outset as a result of factors, including diverse unacceptable marketing practices as often experienced by many of these small businesses (Arasti, 2011). It, therefore, remains concerning in this paper to interrogate which marketing practices these small grocery retail shops can use to enable them to avert counterproductive competition in their business environment in terms of winning customers for retention. Thus, relationship marketing has been recommended to be a more effective practice that can be used by these shops to increase customers and satisfy them for retention.

Problem statement

The proliferation of small grocery retail shops has created a counterproductive competition among the retailers in the Mangaung Metropolitan area. As a result, many of these shops are losing customers, while many of them have already closed. This increasing phenomenon is attributed to the lack of effective marketing practices such as relationship marketing which has the potential to enhance customer satisfaction, customer loyalty, and ultimately customer retention. Studies that seem to support this claim include Amoakoh and Naong (2017: 137) regarding hair salon businesses which showed that relationship marketing positively relates to the retention of customers, business survival, profitability, and competitiveness. Hence, this theoretical paper tackles possible research gap. It further identifies the relationship marketing practice components that can influence customer retention of small grocery retail shops in the Mangaung Metropolitan area.

Research question

The study was guided by the following research questions:



- a) What are the relationship marketing practices used by small grocery retail shops in Mangaung Metropolitan area?
- b) How does relationship marketing influence customer retention of small grocery retail shops in Mangaung Metropolitan area?
- c) Do relationship marketing components influence customer retention of small grocery retail shops in Mangaung Metropolitan area?

Methodology

This research adopted a theoretical approach, drawn on the existing literature of the relationship marketing practices using a web-based search engine, as well as textbooks, journal articles, conference papers, newspapers, Master's dissertations and doctoral theses which are related to the grocery industry and the major constructs of this study. According to George State University (2015), 'a theoretical research is based on the observation of other researches and runs no analytical procedures due to absence of empirical data.'

Literature review

Transformed Small grocery retail shop businesses in South Africa in perspective

In South Africa, tuck-shops are also known as spaza shops, now described as small grocery businesses (Phalatsi 2016: 98). During the apartheid, black South Africans were living together in the low township areas that were kilometres away from the main cities. Due to the far distance from township to the cities, many families started selling those commodities that were daily needed products, such as 'maize meal, paraffin and cooking oil from their homes.' According to Eyewitness news (2016), 'the informal stores became known as *tuck shops* or *spazas*, a slang word that connotes *just getting by*.' These spaza shops have been identified as one of the most rapidly growing business activities within the informal sector. In formal townships with poorly developed shopping facilities and in shack settlements with none, the spaza shops have come to play an important social economic role in urban black society (Ligthelm 2013). This indicates that in townships and rural areas, small grocery retail shops are among the major businesses that the people rely on. These shops are also counted among the informal businesses in South Africa that are growing fast.

These spaza shops have been transformed by introducing walk-in spaza shops called "modern". According to Basardien, Parker, Bayat, Friedrich and Appoles (2014: 45) these modern spaza shops have self-service and walk-in facilities like the one used by big chain grocery stores (Pick n pay, Shoprite and Checkers). In these small grocery retail shops, products are well arranged with different types and brands of product. Modern small grocery retail shops are now emerging as common practice within the grocery industry. These small-scale grocery retail stores provide day-to-day grocery essentials such as; bread, milk, cool-drinks, detergent, alcohol and cigarettes that consumers would otherwise have gone to buy from a distant big chain grocery store (Basardien et *al.*, 2014: 45).

Many consumers who live in these townships and rural areas with low and middle income who find it difficult to travel to the cities to buy their groceries from the big chain grocery stores, always purchase their groceries from these small grocery retail shops that are more like supermarket stores (du Plooy, de Jager & van Zyl, 2012; 97). Some of the advantages of these small grocery retail shops constitute the following; firstly, many of the are situated at walking distance from consumers' dwellings, secondly, they operate on long and flexible business hours; thirdly, customers can buy on credit, and lastly, they satisfy daily and emergency consumer needs. On the other hand, these small grocery retail shops are faced with challenges of; unhealthy customer



services, expired products, damaged and inferior goods (Chebelgon-Dalizu, Garbowitz, Hause & Thomas, 2013;1).

Reflection on Traditional/Transactional Marketing and its limitations

Traditional marketing is a marketing strategy that persuades customers to purchase goods and services, which does not consider whether the customers are existing or new customers to the business (Berndt & Tait, 2014; 5). Traditional marketing, also known as transactional marketing is rooted in the four Ps marketing principles (*product, price, place and promotion*) as was propounded by Professor Neil Borden of Harvard University in 1953 (Berndt & Tait, 2014:4; Esi, 2012: 16). This principle was based on getting customers, make sale and look for new ones without looking for ways to establish relationships with the existing customers (Khalifa 2014: 944). In other words, this marketing approach was rooted on making sales not considering the needs of individual customers or building relationships.

According to Amoakoh and Naong (2017: 133) transaction marketing is basically in line with 'American Marketing Association definition adopted up to 2004 as: *marketing is the process of planning and executing the conception, pricing, promotion, and distribution of goods, ideas, and services to create exchanges that satisfy individuals and organizational goals.*' In consideration of its shortcomings, in 1967 Philip Kotler extended the four Ps into seven Ps by adding more three namely; people, processes and physical surrounding (Berndt & Tait, 2014; 4). Despite its extension, businesses were confronted with many competitive challenges – such as, markets have generally become mature, and there is only limited possibility for product differentiation (Brink & Berndt, 2010: 5). Based on this, a paradigm shift was thus needed to make marketing survive as a discipline, which brought the birth of relationship marketing, a practice that is based on delivery of 'superior' customer value (Berndt & Tait, 2014; 4). Therefore, this implies that relationship marketing is a suitable marketing practice for small grocery retail shops which will help them achieve customer retention and growth.

Relationship Marketing definition

Many researchers have proposed different definitions of *relationship marketing* and there seems to be inconsistencies. Van Tonder and Romberts-Lombard (2015: 186) state that relationship marketing is a marketing strategy which businesses use to initiate, develop and build a long-term relationship with their customers, satisfy the customers and initiate effective programmes to retain the customer for business growth. Similarly, Berndt and Tait, (2014: 8) define relationship marketing as a marketing approach business adopt in their business operation to build and maintain long-term relationship with their customers by delivering quality customer services and satisfaction, whereby satisfied clients are more likely to be loyal customers and always purchase their products and services from the business. In addition, Kruger and Mostert (2014), concur that 'relationship marketing is all the marketing activities that focus on establishing, developing and maintaining successful relationship exchanges between the organisation and its stakeholders.'

Components of Relationship Marketing practices

There are many components of relationship marketing. In the context of this study, the following are identified: service quality, trust, commitment, friendliness, and complaint management.

Service quality

Service quality has been one of the major factors of relationship marketing emphasized by many researchers. Service quality can be defined as all the services rendered to the customers in the store before and after purchasing of products (Craig, Zafar, Che & Jamil 2015: 195). A business with high service quality will satisfy customers' needs while it remains economically competitive (Mohammadhossein & Zakaria, 2012: 1582). In many business environments where competition is high, service quality has been used as a relationship marketing tool to position a business amongst its rivals, to satisfy the customers and achieve customer retention, it is also one of the major marketing strategic tools used to increase customers value (Nyadzayo & Roberts-Lombard,



2010: 171). Comparatively, in small grocery shops service quality is a challenging issue, a study conducted by du Plooy, de Jager and van Zyi (2012) who investigated 'the drivers of perceived service quality in selected informal grocery stores in Gauteng, revealed that many of these small grocery retail shops owners do not know or understand what service quality and product quality are, let alone their drivers. Fulfilling promises to the customers is important for maintaining the relationship between the customer and the business, which focuses on providing customers with quality goods and services and providing these services to the satisfaction of the customers to outperform the competitors (Berndt & Tait, 2012: 48).

Trust

Trust can be defined as a hopeful conception held by an individual that the promises made by another can be fulfilled by the person who made the promises (Kuhn & Mostert, 2016: 20). According to Roberts-Lombard, Strachan and du Plessis, (2012: 196) 'Relationships comprise a series of transactions which build an awareness regarding a shared relationship through trust and commitment. Higher levels of trust and commitment, in turn, are associated with higher levels of customer retention, and this leads to increased organisational profitability.' Therefore, for small grocery retail shops to initiate, develop, build and maintain long-term relationship between them and their customers, there must be trust in existence between the two parties (Parsa & Sadeghi, 2015: 1248). Many customers aspire to build relationship with businesses that have their best interest at heart who can provide their needs beyond their expected time and effort (van Vuuren, Robert-Lombard & van Tonder, 2012)

Commitment

To build a successful long-term relationship in many businesses, commitment is very crucial, it is the willingness between the buyer and the seller to maintain a relationship and it is a sign of an on-going dedication in activities that will always maintain the relationship into the future (Roberts-Lombard & du Plessis, 2012: 62). Commitment emerged from trust, shared values and the confidence that both parties will be expensive to replace each other (Robert-Lombard, Strachan & du Plessis 2013: 197). It operates at the same level as trust, in that some levels of commitment are needed to build and maintain the relationship, and the existence of commitment between the buyer and the seller indicates the existence of some level of relationship between the two parties. (Van Vuuren, Robert-Lombard & van Tonder, 2012: 86).

Friendliness

Business friendship does not just happen, neither does it come into existence without a reason; it is because of both personal factors and business reputation, business friendship comes into existence between the buyer and the seller when one feels secure and satisfied to involve and become "friend" with the other (Gao, Liu & Qian 2016: 471). Businesses are expected to provide friendly services to the customers regularly, and always express a positive expression to every customer despite their behaviour or character, because many customers do not normally patronise business that does not offer friendly services, neither does it retain the customers, nor does it create a positive image to the business (Govender, 2013).

Complaint management

Complaint management is the process by which businesses handle complaints that the customers reported to them about some degree of their services that resulted to some extent of dissatisfaction (Alvarez, Casielles & Martin, 2011: 145). Customer complaint that is not handled properly to the satisfaction of the customer, can deny the business future transactions; it can also damage the image of the business and drive customers away from the business (Hsiao, Chen, Choy & Su, 2016: 676). Customers experience dissatisfaction when the service outcome does not match or exceed customer expectations which results to service failure and customer complaint (Harrison-Walker 2012: 115).



Based on the above discussion, one can conclude that relationship marketing is a marketing practice that businesses can follow to build relationship with their customers and ultimately retain them for business growth. It is therefore important for small grocery retail shops to adopt this marketing practice (relationship marketing) in their businesses which will assist them to build relationship with their customers and finally achieve customer retention.

Importance of relationship marketing to the small retail grocery shops

Relationship marketing approach seems to be conceptualized and adopted by big businesses, compared to small businesses where it seems neglected to many of them as a marketing strategy that can be used in building long-term relationship with the customers (Amoakoh & Naong, 2017: 132). Currently, within the business environment there has been intense competition that has caused businesses to look for creative, effective and efficient new marketing strategy to provide customer needs satisfactorily, and implementation of relationship marketing practices has found general acceptance (Van Tonder & Robert-Lombart, 2015).

Relationship marketing is characterised with increasing customer satisfaction; lower marketing cost; which effects the business positively on the area of increased customer patronage to the business, increased sales and profit, and this increases the retention of customers for the business (Mostert & De Meyer, 2012). A study conducted by Makhitha (2017) on 'the impact of independent retailers' relationship marketing practices on business performance in Soweto in South Africa' shows that relationship marketing has positive effect on the performance of the retailers on the area of: increased profit, increased market shares and customer retention. The study further revealed that relationship marketing assists the retailers to collaborate with their suppliers and to share information for business growth.

Customer retention

Customer retention occurs mostly from satisfaction over a period or from positive feeling towards the products or services provided by a business to the customer (Sashi, 2012: 262). Oluseye, Odunayo, Sholarin and Borishade (2014: 276), define customer retention as 'the action or movement an organization undertakes for the main purpose of reducing consumers' anxiety and fear about a product or service in order to increase the lifespan of a customer.' Customer retention focuses on providing customers with quality products and services beyond their expectation. In doing so, the customers become loyal ambassadors to the business and advertise the business through positive word-of-mouth to the friends, families and colleagues (Odunlami, 2015: 44). Currently, business environment is highly customer-oriented and putting customers needs first by making sure that the business satisfies the customers effectively and efficiently is very important, as it adds values to the products and services rendered to the customers, and winning customer loyalty is a strategic approach in attracting and retaining the customer for business growth (Nyadzayo & Roberts-Lombard 2010: 168). Customer retention has been identified as the common goal in many businesses that practise relationship marketing (Odunlami, 2015: 45). It is also, evidence of customer satisfaction in many businesses (Seiedeh, Saeid & Kwek 2012: 142). Businesses that practise relationship marketing, customer satisfaction and customer retention mostly use it to differentiate their business from their rivals and to achieve high performance (Clark & Melancon, 2013: 138).

Molapo (2015: 37) highlights that businesses which focus on building long-term relationships with the customers, mostly achieve increases in sales and profits because increase in customer retention rate results to profit increase and this applies equally to repeat visit tourists. Businesses with high retention grow faster; 80% of every business sale normally comes from 20% of its customers and clients (Njane 2013: 14). With the cited role of customer retention in business performance, small grocery shops should see customer retention as business culture and ongoing activity which must be incubated in their everyday business activities and nurtured always so that it will enable them to maintain their market share and growth.



Relationship marketing and customer retention in small grocery shop

Relationship marketing theory suggest that it is more beneficial for a retail outlet to incubate long-term relationship strategy with customers instead of attracting short-term transactions (Kuhn and Mostert, 2016: 17). The most difficult challenges faced by small grocery retail shops that is hampering their survival and future growth is inability to understand their customers' needs and making sure that they deliver their services according to their customers need (du Plooy, de Jager and van Zyl, 2012: 94).

According to Mcilroy (2011: 25), building customer relationships and maintaining them, takes both time and effort, so that the customer/client will become confident in buying the services or products. It also requires a lot of effort to find out what your clients need and how you can best deliver it to them. The researcher further acknowledged that loyal customers do not just happen; honesty, reliability, good quality products and excellent customer service - establish a strong reputation and build a loyal customer base. To remain relevant and viable, a complete paradigm shift and regime change from transactional/traditional marketing to relationship marketing has to be the main focus of Start-up and SMMEs (Bhabhe, 2016: 54; Rahman & Masoom, 2012: 98; Berndt & Tait, 2014: 6).

Proposed conceptual framework

Figure 1, suggests the application of identified relationship marketing components (service quality, trust, commitment, friendliness, and complaint management) in the operation of the transformed small grocery retail shops will yield customer retention in the business.

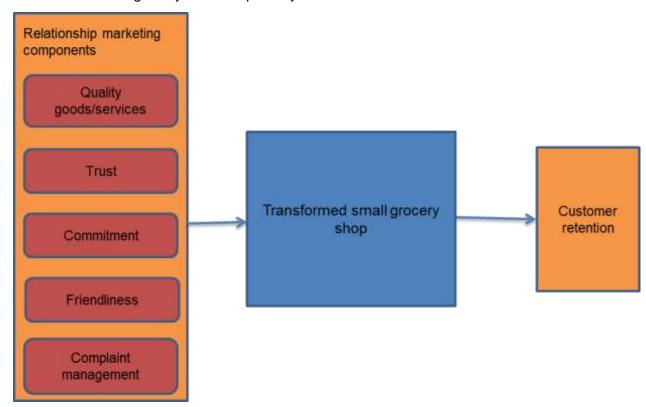


Figure 1: The relationship between relationship marketing and customer retention of small grocery shops.

The above framework indicates the relationship between relationship marketing and customer retention of small grocery shops. The framework hypothesises that the adoption of specific relationship marketing components in small grocery retail shop businesses will lead to customer retention.



Results

Figure 1 presents the relationship between the key variables, namely, relationship marketing and customer retention. The review shows that relationship marketing practice is important for the survival and growth of every business, as it is characterised with increasing customer satisfaction; lower marketing cost; increases business effectiveness, increases customer patronage to the business, increase in sales and profit, and increases the retention of customers rate for the business (Mostert & De Meyer, 2012). A study carried out by Handriana (2016: 13) on 'the role of relationship marketing on Small and Medium Enterprises (SMEs) in Indonesia,' revealed that relationship marketing practice has significant effect on building relationship with customers in SMEs.

Practicing relationship marketing by the small grocery retail shops in their business operation by adopting the components identified will enable them to understand the customers' need and serve them well to retain them. It is obvious, that many of these small grocery retail shops face challenges of low standard customer services, selling of expired and damaged products, and selling of inferior products (Chebelgon-Dalizu, Garbowitz, Hause & Thomas, 2013; 1). The argument is also in line with a study conducted by du Plooy, de Jager and van Zyl (2012) who investigated 'the drivers of perceived service quality in selected informal grocery stores in Gauteng.' The study showed that many of these small grocery retail shop owners do not know or understand what service quality and product quality are, let alone their drivers. That notwithstanding, a study carried out by Amoakoh (2016) on hair salons reflected that 'relationship marketing focuses on satisfaction of the customers and customer retention, by maintaining quality of goods and services, good interaction with customers, and creating value for the customers, which leads to profitability, competitiveness and survival of the business.'

Customer retention focuses on providing customers with quality products and services beyond their expectation. In doing so, the customers become loyal clients to the business (Odunlami, 2015: 44). The study finds that customer retention is characterised with knowing the customers, identifying their needs and providing them beyond their expectation to outperform competitors. It is also evident that customer retention is the common goal of many businesses that practise relationship marketing (Odunlami, 2015: 45). Therefore, relationship marketing focuses on long-term relationship and ultimately customer retention and profitability. Based on these reasons, this study identifies relationship marketing positively relating to small grocery retail shops survival, customer retention and profitability.

Discussion

From the evaluation, we can conclude that relationship marketing is beneficial to the small grocery retail shops if they understand the various relationship marketing components discussed in this study that influence customer retention well and adopt them in their business activities. Beginning with service quality, it is evident that it is one of the strategies to increase customer satisfaction which affects retention (Nyadzayo & Roberts-Lombard, 2010: 171). The study revealed that understanding service quality will assist the small grocery retail shops to build relationships with customers and achieve retention for business growth. As it is noticed, many of these small grocery retail shops face challenges of low-quality customer services, selling of expired and low-quality products, and selling of inferior products (Chebelgon-Dalizu, Garbowitz, Hause & Thomas, 2013;1).

The research finds that trust and commitment are vital elements for relationship building as these are associated with high level of customer retention (Roberts-Lombard, Strachan and du Plessis, 2012: 196). Friendliness is also important in building relationship as it is expressed in this study that service providers must be friendly with their customers for them to win the customers' loyalty to the business (Govender, 2013). It is also revealed that complaint management is important in



business relationship, as it shows how the business values its customers from the way it handles their complaints (Hsiao, Chen, Choy & Su, 2016: 676). Such managements either strengthen the relationship or tarnish the image of the business.

Based on the discussion on customer retention, the study indicates that the components identified in the study have influence on the customer retention of small grocery retail shops. It is assumed by many researchers that many of these small grocery retail shops are not selling quality products (Chebelgon-Dalizu, Garbowitz, Hause & Thomas, 2013;1; du Plooy, de Jager & van Zyi, 2012). Adopting these components in their business operations, the small grocery retail shops will make sure that the products are up to the quality standard expected by the customers, they package the product properly, arrange and display the products on the shelves properly. More so, they should treat the customers in a friendly manner, and show them care and concern.

Additionally, the shops can handle customers' complaints effectively and also urgently which is very important for them to win the customers trust and commitment – these are all important to create performance and retention. Therefore, close evaluation is needed to ascertain the influence of relationship marketing on customer retention in small grocery retail shops and how the owners of these shops can learn how to adopt relationship marketing components in their business operations to maximise the performance of their businesses and ultimately achieve customer retention.

Recommendation

Considering the relationship marketing conceptual framework proposed in this study and the result, empirical research can be explored to verify the type of marketing practices used by these small grocery shops in their businesses, investigate how the owners of these small grocery shops can integrate relationship marketing practice in their business operation, so that it will assist them build relationships with their customers and ultimately achieve retention of customers for business growth.

Conclusion

The aim of this study was to explore the impact of relationship marketing practices on customer retention focusing on transformed small grocery retail shops (modern small grocery retail shops) in Mangaung Metropolitan area in Free State. Based on the reviewed literature, it can be summarised that there is a need for small grocery retail shops to be practising relationship marketing which has positive effect on customer retention and business growth. Therefore, this study proposed a framework that can be adopted by identifying the major relationship marketing components (service quality, trust, commitment, friendliness and complaint management) that will directly influence customer retention for small grocery retail shops and also serve the purpose of visiting tourists needs to be treated well.

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