



July 2002

## **Back to the Future? Customer Relationship Marketing (CRM) in Food Retailing**

by

Rod Hawkes, Senior Extension Associate  
Food Industry Management Program, Cornell University

Close your eyes and imagine traveling back 75 years in time to 1927, when small, independent neighborhood grocery stores and specialty shops were the norm. In those days, the grocer/owner knew most of the customers by name and many of their food preferences and needs. The store was probably a family operation and the grocer's family may have lived right in the neighborhood, if not above the store itself.

That type of customer intimacy has largely disappeared as large supermarkets replaced grocery stores and supermarket chains have increasingly replaced independent ownership in many parts of the world.

However, history has a tendency to repeat itself and often what is old becomes new again. Such is the case with a new trend in food retailing called customer relationship marketing (CRM). Essentially, CRM is an attempt to regain the customer intimacy that was so much a part of the grocery industry in the past. The goal of CRM is to create and maintain customer loyalty because a loyal customer can be less costly to serve and, therefore, may be more profitable in the long run.

Customer relationship marketing (CRM) can be defined as understanding the specific needs and preferences of individual consumer households and marketing, staffing, and merchandising to meet those needs. The key CRM objectives are to

increase (1) operational and marketing efficiency, (2) customer loyalty, and (3) long-term profitability.

The difference today is that the huge size of current supermarkets makes it difficult to establish actual person-to-person relationships as in the early days of the 20<sup>th</sup> century.

Two major factors are driving the exploration and adoption of CRM by food retailers: technology and competition. *Technology* is enabling retailers to track purchases by individual households through bar code scanning and customer identification cards. Retailers are thereby able to target promotions and advertising to the customers who actually use various products.

*Competition* from other supermarkets, nontraditional food retailers such as supercenters, wholesale clubs, drug stores, and convenience stores, and many rejuvenated farm markets has resulted in too many outlets vying for the grocery spending of a consumer base that is not growing as fast as the number of shopping alternatives. As the number of stores in a market increases, competition forces prices to decline, putting a premium on efficiency to maintain profitability and sales growth.

In this environment, smart retailers recognize that the cost of acquiring a new customer is much higher than the cost of keeping a current customer. Also, loyal customers can be more profitable, especially over their lifetime, than customers who switch stores on a regular basis. Therefore, CRM focuses on identifying and nurturing a store's best customers and trying to increase the loyalty of the rest of the store's customer base.

For at least the past 40 years, food retailers have treated all customers as if they were equally important (i.e., profitable) to the company. Advertising fliers are universally available in stores or as newspaper inserts, as are discounts, coupons, and even frequent shopper card membership. Customers who only purchase a few discounted sale items have been treated the same as customers who purchase the majority of their food and household goods each week in one store.

Today many retailers understand that as little as 30 percent of their customers may account for as much as 80 percent of their sales. Obviously, all customers are not

created equally! CRM offers a vehicle by which retailers can better manage their biggest asset -- customers -- by rewarding the best customers for their loyalty.

The large scale of supermarket operations requires sophisticated computerized database management to effectively deploy CRM. However, since CRM principles can be deployed on a smaller scale without a huge technology investment, this may be an area where small stores, farm stands, and farmer's markets may have a distinct advantage over their giant competitors. Smaller operations often already enjoy a more intimate relationship with their customers that can be enhanced and solidified through attention to customer needs and service. In fact, one of the acknowledged supermarket CRM leaders in the country is a one-store operator in Syracuse, NY called Green Hills Farms Market.

Small size and local ownership are attractive for a growing segment of shoppers across most demographic groups. Evidence of this trend is found in the parallel movement of major retail chains to build smaller stores, incorporate local and regional products, and to become more involved in supporting activities in each store's local community, among many other things. On the consumer side, recent events have caused more and more concern about the origin, handling, and safety of the foods they buy. Locally owned and operated food stores can alleviate some of these concerns with their familiar faces, product knowledge, local sourcing, and customer service. Small store operators may also be able to respond quicker to changes in consumer tastes and demand. All of these features may allow small operators to achieve the ultimate goal of CRM: *Customer Loyalty*.

"Smart Marketing" is a monthly marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. Articles are written by faculty members in the Department of Applied Economics and Management at Cornell University.

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