

Analyzing Issues of Relationship Marketing of Aldi

Introduction

Aldi store chain in the United Kingdom is a subsidiary of Aldi Sud, a German-originated grocery chain that has been successfully operating for over forty years by now. Aldi has an international presence with over five thousand stores in 16 different countries, mainly concentrated in Europe, US and Australia retail market (Aldi 2006, n/p). The discount food retailer managed to become one of the world's biggest grocery chains by offering deeply discounted prices on about 700 popular food items while a typical grocery store has 25,000 (Hoovers 2006, n/p).

In its operations Aldi relies heavily on the limited assortment concept. Offering its customers a comparatively small selection of grocery and frequently used household goods, the store chain is able to propose low prices due to buying in lump quantities. In addition, it attracts customers by 'spicing up' its regular assortment with the famous Aldi's weekly specials, most often gourmet groceries, textiles, electronics etc.

Low prices are achieved due to the combination of the aggregate purchasing and Aldi's strategic alliances with its suppliers with service-stripped selling to the final customer. It reflects both sides of Aldi relationship marketing – partners and customers. All of the extra service common for grocery outlets, for example minimal store decoration, customer savings programs, carrying bags etc., is eliminated. Business model of Aldi requires minimum labour and reduces the operating costs. This factor is strongly reflected in the store's CRM and relationship marketing as well.

Relationship Marketing and Retail Industry

Off-line Relationship Marketing

In nowadays retail industry pressing competition and increasing availability of the information to the customers determine great value the market players place on customer relationship management and marketing communication. It is several times less costly to keep an existing customer than it is to acquire a new one, and some claim that substantial increases in profit can be realized by increasing customer retention by only a few per cent (Curry cited in Pelsmacker & Kitchen 2004). Therefore, after reaching a certain level of customer base, companies should rather focus on retaining their existing customers, turning them into advocates and partners, than on the acquisition of new ones. Customer loyalty programs, targeted marketing, high level of service to differentiate a company from its competitors, extensive advertising and brand promotion are increasingly popular in the B2C world, and the retail industry is by no means an exception.

As a result, marketing communication is now not simply about informing the customer and persuading to buy a particular product, it is the increasingly seen as an interactive process between the company and its customers during the preselling, selling, consuming, and postconsuming stages. It is a viable marketing tool and a very important factor determining the company's performance.

Relationship marketing is marketing seen as relationships, networks and interaction. It is aimed at establishing long-term win-win relationships with customers. In approaching a potential customer, relationship marketing has the goal of advancing a prospect through the loyalty stages: from prospect over first-time customer, to client, supporter, advocate and partner.

In this regard, relationship marketing is the opposite of transaction marketing in which this goal is non-existent. Traditional transaction or acquisition marketing has short-term orientation and aims at the 'one shot deal' (Pelsmacker & Kitchen 2004, p.125). It is designed for converting prospects into customers, and nothing more.

There exist several distinct classifications of relationships in business:

Morgan and Hunt describe ten basic forms of relationships, and almost all of them refer to the relationships that firms have with their suppliers, strategic partners, employees, and among functional units within a firm. Under another classification, three major types of relationships include business marketing relationships (BMR); business-to-customer relationships (BtC), and interpersonal commercial relationships (ICR). (Sorce 2002, p.11)

Another viable tool, Customer Relationship Management (CRM) is defined as the process of managing detailed information about individual consumers and all customer 'touch points' with the objective of maximizing customer satisfaction, loyalty and profitability (Kotler, 2003). It is a combination of both customer service and customer retention management. It is the company's promise that, in all customer contacts and no matter how customers interact with the company, the customer will always be recognized and will receive the correct information and treatment. This is sometimes referred to as Effective Consumer Response (Pelsmacker & Kitchen 2004, p.128).

CRM is sometimes referred to as Customer Contact Management (CCM): the coordination and management of all interactive communication between an organization and its (potential) customers. This communication may take off-line (in person, by telephone, mail) or on-line (e-mail, or website) form.

Online Relationship Marketing

The span of the internet activity and e-commerce greatly stimulated fast development of the online relationship marketing. In 2003 in UK market only sales via internet achieved total value of £9 billion, constituting second most developed market in the world after United States (Retailing 2004). Growth in sales over the recent few years can be characterised as exponential and the rates of growth are still extremely high.

Several distinct phases in developing commercial internet activity have been identified (see Table 1 below). Many companies in all industries have been reactive and followed a natural progression in developing a Web site to support their marketing activities. The amount of effort devoted to online marketing tends to be proportional to the position currently occupied by the company on this hierarchy, or, in other words, how central the Internet is to their marketing activities. More sophisticated Zwass's hierarchical framework for e-commerce activities is shown in table 2.

Table 1: Phases of Web presence

Level 0	No Web site;
Level 1	Listing in an online directory such as Yellow Pages (www.yell.co.uk);
Level 2	Basic site containing contact details and product information (brochure ware);
Level 3	Simple interactive site allowing email queries (www.brunel.ac.uk);
Level 4	Interactive site supporting transactions and customer services;
Level 5	Fully interactive site providing relationship marketing and facilitating full range of marketing functions.

Source: Chaffey et al. cited in Dannis & Harris 2002, p. 23

Table 2: Zwass's hierarchical framework for e-Commerce

<i>Meta-level</i>	<i>Level</i>	<i>Function</i>	<i>Examples</i>
Products and structures	7	Electronic marketplaces and electronic hierarchies	Electronic auctions, brokerages, dealerships and direct search markets
			Inter-organizational supply-chain management
	6	Products and systems	Remote consumer services (retailing, banking) Supplier-customer linkages Online marketing Intranet/extranet-based collaboration
Services	5	Enabling services	Electronic catalogues e-Money/smart card systems Digital authentication services Copyright protection services
			4
Infrastructure	3	Hypermedia/multimedia object management	WWW with Java
	2	Public and private communication utilities	Internet and value added networks (VANs)
	1	Wide-area telecommunications infrastructure	Guided and wireless media networks

Source: Dannis & Harris 2002, p. 18

At a more strategic level, alternatives for the Web can be categorized in order of increasing commitment as follows:

- information only;
- interactive communications tool;
- channel to market;

- separate online business;
- integration with traditional business;
- transformation of traditional business to the Web.

An important intermediary marketing communications objective in online retailing is website traffic building. The Internet tool will be largely useless in obtaining its ultimate objectives if potential customers are not aware of the website, or do not know how to access it. Website traffic building will often imply substantial offline marketing communications support by means of mass media advertising and mentioning the website on packages, in-store communications tools and company stationery. Furthermore, website traffic can be stimulated by various forms of online communication such as advertising on other websites. Marketing communications on the Internet can take many forms, and often they mirror traditional communication tools.

Recent technological developments mean that the choice for businesses is no longer merely 'online' versus 'offline'. Increasingly, multiple platforms need to be supported. For example, W. H. Smith Online (www.whsmith.co.uk) offers customers PC, mobile and digital television access to its products (Dannis & Harris 2002, p. 191).

Possible benefits of such multi-channel strategies include:

- enhanced brand image;
- early mover advantage;
- learning about the technology from experience;
- customer acquisition;
- customer retention.

Aldi's Marketing and CRM Approaches

Overview

Aldi strongly supports its marketing slogans "Top quality at incredibly low prices" and "Spend a little, live a lot" (Wikipedia 2006). The retailer does not nurture relationships with clients and minimizes use of traditional marketing communication and relationship marketing tools.

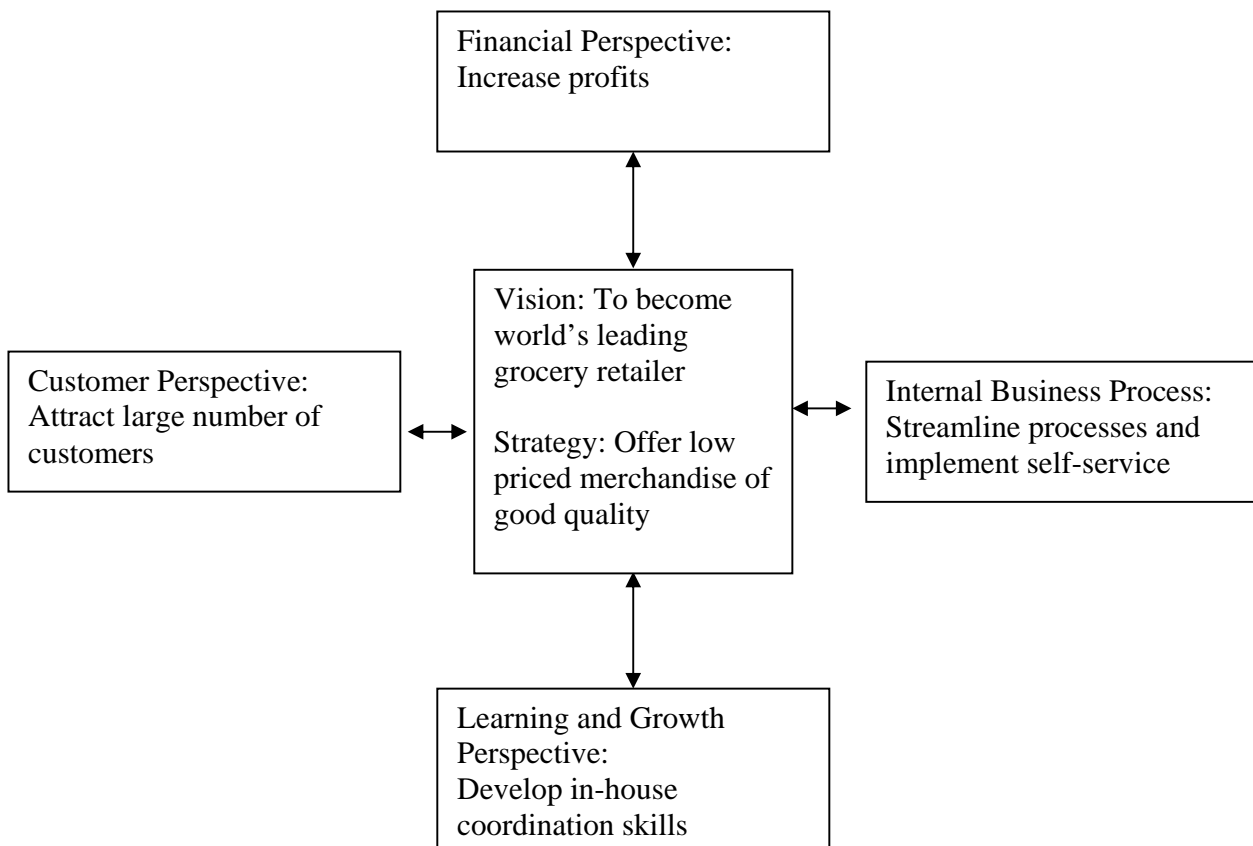
With regard to customer relationship marketing, it seems Aldi immensely applies the utilitarian, rationalist, and individualist approaches that characterize neoclassical economic paradigm. Advertising is minimal and takes mostly informative forms, customer service is at quite low level and communication flows between the customers and Aldi management are not exactly encouraged. Aldi stores are not listed in the phone book and the corporate web site provides only an opportunity of receiving a one-way communication in the form of getting by e-mail informational newsletter featuring 'hottest' offers. All customer enquires are handled by the store manager or area manager and the easiest way to contact them is by returning to the store (Aldi 2006).

With regard to its off-line as well as largely online relationship marketing Aldi applies the theory that each individual makes rational decisions based on the information available and aims at maximisation of obtained value. Therefore, there is no need to advertise extensively or use attractive store decoration. Customers guided by value-maximisation will be attracted to the store offering low-priced products of acceptable or good quality. From the psychological theories perspective, even if the image of shopping at Aldi would not be prestige – and many people purchasing their groceries there will not admit it in peer groups – the 'benefits of membership in Aldi's customer base' in most cases will outweigh the social concerns.

Management of Aldi has a goal of reducing the labour costs and long queues in the outlets are not unusual. Not surprisingly, no systematic customer information is gathered and no customer loyalty cards offered. Aldi does not use data mining or extensive databases and prefers mass marketing approach to targeted marketing and personalized approach.

With regard to its B2B relationships with supplier's Aldi is much more RM-focused. The company continually tries to streamline and build up their relationships with suppliers and third parties, e.g. logistics companies. Aldi has managed to create strong and profit-bearing strategic alliances which contribute to the success of their business model. Good supplier relationship marketing is a critical success factor for Aldi. Therefore, company should continue to place a strong emphasize on it and possibly build a new forms of alliances in the future.

Balanced Score Card Framework



CRM SWOT analysis

Strengths:

- Low advertising and promotion expenditures
- Established large customer base

Weaknesses:

- Somewhat derogatory image associated with Aldi stores
- Low long-term customer orientation
- Weak market predictive power due to absence of communication and research

Opportunities:

- Emergence of new channels
- Gradual transition from exploratory to growth phase for online relationship marketing

Threats:

- Saturation phase of the traditional RM in retail grocery segment
- Pressing competition from large UK retailers
- Tesco's well established online grocery shopping practice

Current Online Value Proposition

The current Aldi United Kingdom web-site (<http://www.aldi.co.uk/>) corresponds to level 3 in Zwass's hierarchical framework for e-Commerce (see Table 2) and the second to third phase of web presence (see Table 1). The web site has mostly informative nature; in large part is an electronic version of Aldi periodic newsletters and leaflets. However, it possesses several interactive features as well, including online subscription for the newsletter with new offers notifications and online store locator. Web site's target audience is the existing customer base of

Aldi that search for the nearby store or want to check an upcoming “Thursday offer”. Site offers no entertaining or educational content, no customer service or e-commerce transactions, even the possibility to contact Aldi management by e-mail is not featured.

The home web page draws the attention of the visitor to the latest offers: *special buys*, *lower than ever prices* and *what’s new* (new assortment). Special buys section offers the visitor a certain degree of interactivity comparative to the regular newsletter – additional information and enlarged picture of the special offer merchandise can be retrieved.

Also section on *award-winning wines* is accessible through the home page, putting emphasize on Aldi’s reputation as one of the largest German wine-sellers. In addition to pictures of the bottles, product information and prices, a section on wine-consuming and types of wine, together with Aldi’s wine ‘taste guide’ are offered.

Smaller sections include *Where to find us*, *Newsletter*, *Recruitment*, *Corporate Property*, *What the Papers say*, and *FAQs*. And, of course, a brief information on the company itself and link to *Aldi International* are featured as well.

Aldi International site and conservative but appealing corporate design of <http://www.aldi.co.uk/> consistent with designs of Aldi national web sites in other countries emphasise the international presence and history of the brand. Clean and modern web site design should have a positive influence on company’s brand image, especially among young modern customers.

Embracing Opportunities and Addressing Threats with Relationship Marketing

Online and offline relationship marketing provides Aldi with an opportunity to lessen some of the company's internal weaknesses, take advantage of the new arising opportunities and minimize threats.

One of the biggest challenges the company faces is its image of place where poor part of the population does their grocery shopping, a place many people would not like to be associated with. Of course, it can be changed by means of improving customer service, widening the assortment and launching broad advertising campaign. However, such actions would not only be costly, they would completely change Aldi's business model that has made the retailer successful. On the other hand, going online and offering good web based customer service will not require major strategy changes, is relatively inexpensive to launch and maintain and would improve the image of company with its young and middle-aged customer base.

Moreover, in addition to improving company and brand perceptions Aldi web site can serve as inexpensive means to collecting customer information and conducting marketing research if it attracts sufficient amount of visitors. Aldi should consider web-based and, perhaps, even offline advertising aimed at increasing number of customers visiting company web site.

A challenge of ever-increasing competition in the traditional retail market and saturation phase reached by the traditional relationship marketing can be addressed by exploring the online retail channel. It currently experiences a transition from an exploratory phase which is characterized by 'promise but not immediate output' to growth stage (Mackay & McCall 2004, p.1). Although Aldi would not possess a first-mover advantage, the company has an opportunity to enter rapidly developing channel, capitalize on experience of other online retailers and support its overall position. Online retailing in UK has experienced tremendous growth during the last

few years (see Table 3 for food and non-food online retail market size). Aldi will be able to create relationships with new customer segments while maintaining its low cost policy and decreasing transaction costs.

Table 3: Internet Retailing: Sales by Product Sector 1999-2003

£ million, current retail selling prices	1999	2000	2001	2002	2003
Food	40	180	460	855	1,100
Non-food	630	2,154	3,674	5,145	8,034
TOTAL	670	2,334	4,134	6,000	9,134

Source: Euromonitor from trade associations (APACS, IMRG), trade press

In the early days of Internet retailing, in the mid-1990s, there was a widely held perception that the channel would allow small operators and specialists to undermine the established players because of the insignificant start-up costs and lack of overhead expenditures. However, over time this proved not to be true.

The operators deriving the most revenue from the Internet channel are all leading off-line retailers. The success of Tesco online business is a vivid illustration to this. Tesco is the leading consumer goods player in the UK and largest on-line operator in the world, with Internet-generated turnover of £577 million in the 2004 financial year. (Retailing in the UK 2004, p.120)

The key advantage of the offline retailers going online is the existence of already established customer bases and financial resources. Consumers are much more prone to shop online with already familiar to them brands than explore the new online ventures. This can be seen as an advantage for Aldi.

In upcoming years the Internet trade will become a more commonplace retail tool for consumers. There are still large numbers of consumers who are unfamiliar with or nervous of the format, and have yet to make an on-line purchase. Internet shopping will be encouraged by supply-side development from the large retailers with most to gain, as well as a favourable climate fostered by the government, which, via the Department of Trade and Industry, is promoting UK on-line business. (Retailing in the UK 2004, p.123)

Online retailing and marketing will allow Aldi to strengthen its relationships with existing customers and create new long-term oriented relationship with new customer segments. To capitalise on emerging technologies, Aldi should consider multi-channel marketing communication (for example, WAP customer service which is already under implementation in Germany) and relationship marketing development.

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