

# CHAPTER I

## Introduction

Marketing practitioners and researchers have traditionally developed systems to contribute to the smooth flow of goods and services from mass production to mass consumption. One of these systems, identified as marketing mix management, is designed to achieve sales in a target market. Currently, marketing concepts are changing to address a more individual customer and to develop long-term relationships with customers. Thus, the concept of marketing has shifted from mass marketing to individual marketing (Berry, 1995). Gronroos (1997) mentioned that the marketing paradigm varies from a transaction model to a relationship model. Many scholars continue to study and analyze this marketing paradigm shift (e.g., Asai, 1994; Gronroos, 1995; Gummesson, 1997, 1998; Morgan & Hunt, 1994).

Alvin and Heidi Toffler (1997) insisted that, although markets and marketing are shifting, many companies still operate in the *second wave*, which is a factory-based system built on mass production; however, this style of thinking is no longer effective for many industries because of varying consumer demands and capricious consumer behaviors. Although the consumers may be satisfied with a provider's goods and services, consumers may not purchase that provider's products again. With consumers whose demands are constantly changing, companies must better capture the dynamic information about consumers rather than depending on their static information (Gronroos, 1993).

With the changing consumer market, manufacturing must also make paradigm shifts. In particular, the fashion industry needs to shift from a push system, which emphasizes production and manufacturing productivity, to a pull system, that emphasizes relationships among providers and consumers. The fashion industry is complex and its breadth makes it difficult to define in simple terms (Jarnow & Guerreiro, 1987). The fashion industry consists of many different industries including raw materials manufacturing, product manufacturing, and retail as well as marketing, services, and advertising (Diamond & Diamond, 1997; Jarnow & Guerreiro, 1987). Products in the

fashion industry include a wide range such as fibers, fabrics, carpets, domestics, apparel, shoes, jewelry, and handbags (Diamond & Diamond, 1997; Jarnow & Guerreiro, 1987). A pull instead of push system is important for this industry but has been difficult to implement because of the industry's complexity (Hunter & Valentino; 1995).

The push system is a typical example of marketing mix management. The push system is effective with mass production and mass consumption using mass marketing strategies. In this system, companies first identify their general or mass markets, then produce mass quantities of goods and services, advertise to mass markets, and distribute products to these markets. On the other hand, the pull system is a customer-demand system, that precisely recognizes specific consumer demands, then produces for segmented markets and distributes products quickly in response to those demands (Glock & Kunz, 1995). Although the system is still mass production based, selection of the pull system has become a critical choice by management to respond to a variety of consumer demands, to reduce waste, and to compete in a global environment. Quick Response (QR) is one of the major strategies necessary for the pull system. Since the early 1980s, large apparel manufacturers and retailers have adopted the QR strategy; however, small and medium size companies still struggle with or ignore QR implementation (Hunter & Valentino, 1995, Kincade & Cassill, 1993). To adopt this strategy, manufacturers need to have a closer relationship with their partners and consumers.

Transition from a mass approach to individual orientation has been approached in marketing, services, and manufacturing. Gronroos (1995) emphasized a marketing paradigm shift from marketing mix management to relationship marketing (RM) management. The concept of relationship marketing is related to concepts from two industries: services and manufacturing (Berry, 1995; Gummesson, 1997). A common concept is the elimination of waste within the long-term partnership using direct communication based on electronic network systems.

In marketing, RM provides a system for delivering the appropriate goods and services for certain organizations. Bitner (1995) commented that the core focus of RM is customer retention and loyalty. In the services industry, many related studies have been conducted based on services encounters, customer satisfaction and service quality (e.g.,

Crosby, Evans, & Cowles, 1990; Dorsch, Swanson, & Kelley, 1998). The main concept in these services strategies is relationships (Gronroos, 1995). In manufacturing, studies have focused on identification of technology for QR and product stratification in technology usage (e.g., Kincade & Cassill, 1993; Ko & Kincade, 1998). The core concept of QR and Just-in-Time (JIT) strategies is also relationship development among trading partners including final customers (i.e., consumers) (Kincade, Cassill & Williamson, 1993). The strategies of QR and JIT have been widely promoted in the trade literature, but are the focus of only a limited number of academic studies (Kincade, 1995).

RM is a fuzzy concept, and the definition is still not completed (Gummesson, 1997). The concept of long-term relationships and response to individual consumer demands has been differentially developed in marketing, services, and manufacturing. These conceptual areas must be integrated for successful business; therefore, clear concepts and innovative research techniques are required to bring the benefits of partnerships to companies. Specifically, research needs to be done so that RM can be applied by the fashion industry.

#### Statement of Problem

In the present market place situation, a consumer's main contact with manufacturing (i.e., the production process) is through retailers or other middlemen, such as TV home shopping networks or mail order catalog companies. Consumers rarely complain, but when they do, consumers complain to or request information from retailers about products (Kincade, Redwine, & Hancock, 1992). Manufacturers rarely receive information directly from consumers. Instead, they get second-hand reports from retailers or they get no information at all. Many trade journals emphasize that a relationship between manufacturers and consumers is needed to reduce waste (Gaffney, 1997; Silverman, 1998b); however, this relationship, between and manufacturers and retailers of apparel and footwear products, remains undeveloped (Ko & Kincade, 1998; Musselman, 1997). A few relationships do exist between manufacturers of fashion products and consumers, but only in specialized areas such as in Haute Couture where custom fitting and sewing are done for apparel, shoes, accessories and other fashion products.

Development of long-term relationships has the potential for benefits to both consumers and manufacturers. Direct receipt of information by manufacturers of fashion products could lead to higher efficiency, reduced waste, increased profitability and satisfaction, and better customer relationships along the entire pipeline. Lewis (1996) reported that nearly two-thirds of female consumers and about three-quarters of male consumers go into stores wanting to purchase specific apparel items, but for many reasons feel that they cannot find the items they desire. In another industry study of shopping experiences, many consumers did not buy the specific product they wanted and were not satisfied with their shopping experiences (Baber, 1998; Rossi, 1998; Silverman, 1998a). Consumers seek a variety of fashion products but find volumes of very similar products. In contrast, meeting the varying needs of consumers is a common occurrence in service encounters. Doctors, hairdressers, accountants and other service providers customize each encounter for every customer.

For manufacturers and retailers, the problem may be not only providing a variety of products but also providing proper services and encouraging the relationship between providers and customers. The provision of services between consumers and manufacturers is difficult for manufacturers in the fashion industry because consumers and manufacturers are rarely located in the same geographic area. So, face-to-face communication is not possible, and other communication methods are not in wide use. In the fashion industry, little connection exists between consumers and manufacturers. A large distance exists between these two segments of the pipeline. Retailers and other distributors further separate partnerships between manufacturers and consumers. In contrast, for the services industry, face-to-face communication is common, and many other forms of communication are being widely accepted. A study by Droege and Fleischer (1995) showed that services-oriented companies are more profitable than non-services-oriented companies. A service orientation or a pull system has potential benefits for manufacturers of fashion products including apparel and shoes.

To be competitive, manufacturers in the fashion industry must reduce the distance between themselves and consumers, and increase their ability to respond to changing consumer demands. Manufacturers in the fashion industry must know consumers' specific product demands and complaints to reduce the lost opportunity to sell or to raise

the level of consumer satisfaction. Although most manufacturers do not pay attention to individual consumers' requests because of cost and time, this is an opportunity to manage the competitive environment. Many marketing and engineering scholars and practitioners emphasize the introduction and integration of new technologies to address this market situation (Berry, 1995; Goldhar, Jelinek, & Schlie, 1991). In manufacturing for the fashion industry, a few researchers have studied and operationalized the relationship between manufacturers and retailers. Goldhar et al. (1991) categorized overall manufacturing information technology and its application to marketing systems. In the apparel industry, research on the QR strategy supports efficient performance of the overall pipeline from apparel manufacturers to retailers (Kincade & Cassill, 1993). The relationship between companies and consumers, especially consumers and manufacturers has had even less study. Although relationships within the pipeline are becoming tighter, through reducing waste and improving productivity, the relationship between consumers and manufacturers must be enhanced. To reduce the distance between manufacturers and consumers, the interrelation of marketing, services, and manufacturing technology must be explored.

### Relationships with Consumers

Berry (1995) suggested the advantage of new technology to reduce costs and improve relationships with consumers. The key ideas are as follows:

- Tracking the buying patterns and overall relationship of existing customers
- Customizing services, promotions, and pricing to customers' specific requirements
- Coordinating or integrating the delivery of multiple services to the same customer
- Providing two-way communication channels-company to customer, customer to company
- Minimizing the probability of service errors and breakdowns
- Augmenting core services offerings with valued extras
- Personalizing service encounters as appropriate. (p. 238)

Manufacturers in the fashion industry could implement these key ideas in their relationship with consumers by employing integrated technology based on QR strategy. QR strategy should expand to involve consumer activities and to access real-time consumer information. Moreover, to reduce the distance between consumers and manufacturers in the fashion industry, the concepts of RM and services are applicable. A basic characteristic of services is inseparability of production and consumption. Service encounters provide dyadic or two-way relationships (Bitner, Booms, & Tetreault, 1990; Solomon, Surprenant, Czepiel, & Gutman, 1985). So, techniques from the services industry might reduce the distance between consumers and manufacturers in the fashion industry. Moreover, using services as a marketing strategy can be a strong competitive tool. With many similar products in the market, companies can use service to differentiate their final products (Kotler, 1997). Services has become the critical issue for all industries including retailers and manufacturers, but many companies do not know how to handle it (Silverman, 1998b). For retailers and manufacturers, service has traditionally been a separate functional department. The concepts of RM and services could reinforce the QR strategy. For example, customers could participate in parts of the production process in service activities, and the same participation could be true in manufacturing.

Kotler (1997) mentioned the future marketplace in the following statement:

Back in the 1950s, who would have anticipated TV and Internet home shopping? Home banking? Thirty-day satisfaction guarantees on newly purchased automobiles? Customized bicycles? Factory-outlet shopping malls?

So we have to expect the unexpected. I'm sure were going to see the marketplace go through some radical changes over the next few decades that will sound like science fiction. (p. 197)

Researchers have suggested that RM may not apply to every organization (Berry, 1995) or that the mix of strategies between RM and transaction marketing might be appropriate only under certain conditions (Gronroos, 1995). For example, products that are targeted to a mass market and whose mass production and distribution provide economies of scale, such as simple white socks, may not need RM. Yet, more complex products with variable demand, such as custom made shoes and formal jackets, will need

customized production with flexible requirements and economies of scope. Several authors mention the need for research in this area. Bitner (1995) indicated five issues for future study of RM in services:

1. How can organizations effectively interlink and prioritize strategies that allow them effectively to make, enable, and deliver services promises?
2. What is the relative impact of discrete service encounters on relationship continuation or relationship potential?
3. What are the costs and benefits from the customers' perspective of staying in a service relationship?
4. What, from the customers' perspective, causes relationship termination?
5. What are the customers' roles and responsibilities in developing and maintaining service relationships? (p. 250)

Berry (1995), the pioneer who introduced the concept of RM, also addressed thirteen issues of RM for future research. The following are the five major issues:

1. What types of customers are most receptive to relationship marketing?
2. What service characteristics increase or decrease the appeal of relationship marketing to customers?
3. What are the implications of relationship marketing for technology?
4. What is the role of pricing in relationship marketing?
5. What are the common characteristics of successful relationship marketing programs? (p. 243)

RM research in services has covered perception and other psychological topics including satisfaction, trust, loyalty, and customer retention. Previous research on RM for manufacturing industries focuses on effects of partnerships based on JIT and other strategies. In this industrial marketing field, Sharma and Sheth (1997) indicated that the key concept in RM is value creation between customers (i.e., partners, not consumers) and suppliers. Value creation may prolong relationships and add competitive advantages.

### Purpose of Study

In a study of marketing that focuses on consumer information and participation in the consumer purchasing process, the concepts of RM, services, and manufacturing must

be discussed. Key concepts of services and manufacturing systems have become integrated in RM. In some ways, the basic concepts of production systems may return to concepts of the craft production system (Wormack, Jones, & Roos, 1991). Historically, one person performed all activities: design, production, management, and marketing. During the mass production era, with the introduction of scientific management and marketing mix management, a few broad functions were divided into smaller functions, and a worker became a unit-skilled person. At the same time, the concept of services was not formally recognized, but did exist and was generally ignored until the 1960s. When manufacturers introduced lean production, many previously divided functions returned to the overall production unit, refashioning a worker into a multi-skilled person built on a team basis, similar to but not the same as a craftsman. The study of services has developed since the 1960s. Goldhar et al. (1991) said manufacturing must include services with consumer participation, short production time, reduced inventory, and flexible production. Service functions and manufacturing functions were increasingly merged during the 1990s. The role of RM is or will be the glue to put the two functions (services and manufacturing) together in a new production system. In the fashion industry, the movement has been from unit production to mass production with the bundle system, then to more flexible production with the modular system, and finally to a QR management system that integrates production, management, services, and marketing.

The purpose of this research is to explore the relationship process, between manufacturers and consumers, which encourages consumer participation in the manufacturing process. The objectives of this study are to (a) obtain consumers' responses concerning direct communication between manufacturer and consumer via the web site, and (b) determine if the Internet communication technology, customer services, and RM strategies can be successfully applied to the communication between manufacturers and consumers.

In this study, four areas are investigated: consumers, manufacturing, direct communication, and footwear products. Women comprise the consumer sample, because they are a more fashion-oriented group than men and make the majority of fashion product (e.g., apparel and footwear) purchases and pay more for apparel and footwear

products (Baber, 1998; Kang, 1999; U.S. Bureau of the Census, 1998). In footwear manufacturing, small and medium-sized manufacturers are targeted because (a) they form the majority of the footwear industry in the United States (Footwear Industries of America, 1998), and (b) this size of company can be successful in the RM environment (Shani & Chalasani, 1992). In communication tools used in services, the Internet is investigated. In footwear products, semi-formal footwear products are examined in the study.

The relationship between consumers and manufacturers continues to have intangible elements, which creates a high-risk environment for both partners. In the fashion industry, consumers cannot touch and try on a final product until manufacturers produce and deliver the product. Touching and trying on the product when shopping are experience which are thought to be important in the relationship between manufacturers and consumers for final products, especially for footwear. Manufacturers in the fashion industry must consider extra costs for developing relationships with consumers. Information is needed on how and when to reduce the distance between consumers and manufacturers of fashion products.

In manufacturing, research has examined the relationship between manufacturing partners, but not with the final customer (i.e., consumer). In services, research has centered on the relationship between services and other retail businesses and the consumer. Manufacturers must address their relationship not only with immediate customers (retailers) but also with final customers (consumers). Currently, limited information is available about the relationship between manufacturers and consumers; therefore, this research is intended to address this gap in the literature.

## CHAPTER II

### Literature Review

In this chapter, three areas will be discussed: marketing, services, and manufacturing systems. First, marketing history and definitions of new concepts are discussed to explain and support relationships between consumers and manufacturing systems. Second, services is discussed to support new relationships between manufacturers and consumers. Third, a brief history of existing manufacturing systems and new systems is discussed. The final section summarizes the concepts and theories.

#### Marketing

Since the emergence of marketing in the 1900s, the study of marketing has encouraged new research fields by elaborating on existing research and developing new concepts (Kelley & Lazer, 1973). Originally, the central concept of marketing was to solve distribution problems in mass-market issues. Hence, the concept of mass marketing was studied (Bartels, 1965, 1988; Evans & Berman, 1982; Tedlow, 1990). Later, Bagozzi (1975) provided a new framework in marketing that recognized marketing as a series of discrete exchanges. Since then, the marketing concept has been the exchange or transaction paradigm. Although many people still see the marketing paradigm as an exchange paradigm, the concept of marketing is facing another paradigm shift, from discrete transaction to long-term partnership (Asai, 1994; Gronroos, 1997; Gummesson, 1997).

Now, the borders between types of organizations are blurring (e.g., services industry vs. goods industry, manufacturing firms vs. financial firms) (e.g., Kahn, 1998). The business environment is forcing companies to change their marketing systems to respond to globalization, technological innovations, deregulation, cost reduction pressure, and changing consumer roles (Kahn, 1998). Marketing has traditionally developed systems to contribute to the smooth flow of goods and services from mass production to mass consumption. To support the smooth flow of goods and services, the marketing mix management concept is based on the segmentation of consumer data from a mass market.

Later, McCarthy (1964) proposed the four Ps checklist of marketing considerations: product, place, promotion, and price. Since the 1950s, consumer demands have changed as consumers request more variety and better quality for price. Toffler (1985) called this change the shift from a mass society to a desynchronized society. So, marketing researchers now apply various methods for segmenting consumers to identify lifestyles, demographics, and psychographics (Bartels, 1988; Japan Marketing Association, 1995).

The new marketing concept identifies the demands of individual consumers through long-term relationships (Gordon, 1998). Kotler (1993) and Webster (1992) mentioned that the paradigm has shifted from transaction to relationship. Toffler (1985) described the change as a revolution, in which each consumer actually becomes involved in the production of the product from his/her home.

### Development of Marketing Concepts

According to Kelley and Lazer (1967, 1973) and McCarthy (1964), since the 1930s, the core concept of marketing has been customer-oriented. Actually, customer-oriented concepts have existed throughout human history around the world. Marketing researchers and practitioners have always investigated who customers are, what they want, how products are distributed, and where products are purchased. Since the study of marketing emerged during the 1900s, the business environment has changed dramatically specifically in the areas of mass production, globalization, technology, communication, and transportation. These changes have necessitated changes in marketing concepts.

Many marketing researchers have classified and organized the development of marketing concepts (Kelley & Lazer, 1973; Kotler, 1967; McCarthy, 1964). During the early 1900s, marketing was simply a tool to solve selling problems; however, marketing has been evolving to answer many complicated issues by integrating with other fields of study (Bartels, 1988). Bartels (1988) divided marketing thought into eight stages: period of discovery (1900-10), period of conceptualization (1910-20), period of integration (1920-30), period of development (1930-40), period of reappraisal (1940-50), period of reconception (1950-60), period of differentiation (1960-70), and period of socialization (1970 - 80).

In contrast, Kotler (1976) divided marketing prior to 1970 into two eras: product-oriented and customer-oriented. Before the 1970s, the marketing concepts were mainly developed from the manufacturing perspective (Gronroos, 1997). After the 1970s, the marketing concept was expanded to a variety of fields (e.g., services, consumer satisfaction, societal marketing, political marketing). In the 1970s, the role of Kotler's work was prominent. He broadened the marketing concept to social issues and nonprofit organizations. Later, he emphasized the creation of customer satisfaction (Kotler, 1976). In the 1980s, marketing was concerned with quality, consumer satisfaction/dissatisfaction, and partnership (Kotler, 1991).

These changes in marketing were summarized by Kelley and Lazer (1973) in their seven stages of the marketing concept: product-oriented, manufacturing-oriented, sales-oriented, profit-oriented, consumer-oriented, social-oriented, and future. They insisted that firms would move to the next stage by varying corporate behaviors and improving missions. The movement across stages fits the changing marketing concept.

Kelley and Lazer (1973) imparted hints as to how marketing will change in the near future. In the 1990s, the new marketing concepts were beyond the exchange paradigm and were called relationship marketing (RM). The relationship between trading partners is the central concept in this new marketing stage (Gronroos, 1997; Gummesson, 1997). Kotler's (1991) vision of the new marketing paradigm includes the concepts of self-production, coercion, begging, exchange, and relationship. In this RM, a relationship is not simply a series of transactions but consists of long-term interactions with trust among customers, distributors, dealers, and suppliers.

### Development of Marketing Definition

The definition of marketing began in the product-oriented marketing stage of the early 1900s. An early product-oriented definition offered by Alexander (1948), in the Definition Committee of the American Marketing Association (AMA) in 1948, is "The performance of business activities that direct the flow of goods and services from producer to consumer or user" (p. 209). McCarthy (1964) defined marketing as "the response of businessmen to the need to adjust production capabilities to the requirements of consumers' demands" (p. 15). Kotler (1967) said that "marketing is the analyzing,

organizing, planning, and controlling of the firms' customer-impinging resources, policies, and activities with a view to satisfying the needs and wants of chosen customer groups at a profit" (p. 12).

Before the 1970s, marketing definitions focused only on organizational business activity based in a mass market. Marketing was a tool for providing products to consumers. Companies were oriented to a one-way flow of activity for goods and services: companies to consumers; however, by 1982, Evans and Berman noticed that this definition was limited. They divided the marketing definition into a narrow, classical definition and a broad, modern definition. Then, they noted the limitations of the classical definition, which ignored the role of government and nonprofit organizations.

After Kotler (1976) introduced the social and managerial concept to marketing, he expanded the marketing concept to include overall human activity. The new definition of marketing was human activity directed at satisfying needs and wants through exchange processes (p. 5). Later, he added some additional concepts. Kotler's (1991, 1996) newest definition was that marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others (p. 6). In this expanded definition of marketing, he still considered marketing activity to be an exchange process and not yet considered as a relationship. The AMA's recent definition (Bennett, 1995) is basically similar to Kotler's definition: the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals (p. 166). This definition is based on the traditional marketing approach, such as the marketing mix and exchange process. In these definitions, the role of marketing is viewed as an intermediate function between the marketing department and other sections rather than as an overall, integrated, organizational activity (Gronroos, 1990).

After the 1970s, other researchers not only added human activity to the definition but also changed the definition from the exchange process to an interaction process. In the 1980s, the marketing concept was changed with the inclusion of the concepts of quality, services, and satisfaction. In these concepts, *partnership*, *relationship*, and *collaboration* were key words. One of the definitions currently used is that marketing is

the process by which needs are identified; services and products are developed to meet those needs; producers and customers exchange something for those products and services in a way in which a mutually beneficial relationship is established between them (LaPlaca, 1997, p. 85). The main focus of this definition is a mutual, beneficial relationship between partners, providers and consumers.

The core concept of the marketing definition moved from simply providing goods and services to developing a relationship with partners including consumers. This new marketing model encourages consumers to participate in both the production and consumption process (Gronroos, 1990). The concept of the new marketing definition is influenced by manufacturing concepts, such as Just-in-time (JIT), Quick Response (QR), and Total Quality Management (TQM), and services concepts, such as service quality, customer retention, and customer satisfaction, all of which are relationship-oriented. Bagozzi (1995) emphasized that relationship marketing is at the very core of the theory and practice of marketing (p. 272). The development of this new marketing definition is required for the new environmental situation. Marketing must evolve into a paradigm that incorporates new technology, new market forces, and new consumer behaviors. Just adding some new concepts to traditional marketing concepts will not be sufficient (Asai, 1994; Gronroos, 1997; Gummesson, 1997).

### Study of Relationship Marketing

Demanding consumers, intensifying global competition, and evolving technology require companies to change their traditional marketing concepts (Cravens, 1995; Gronroos, 1997). Traditional marketing, as an exchange paradigm, encourages short-term processes or a one-time exchange of goods and services between providers and customers. The variety and capriciousness of consumers' demands and the increasing demand from consumers for satisfaction cannot be addressed using traditional marketing concepts because traditional marketing is based on a mass market-orientation and single transactions (Gronroos, 1997). Simple buyer-seller relationships are becoming obsolete (Cravens, 1995; Seth & Parvatiyar, 1995). Scholars and practitioners are cultivating new marketing concepts which are based on long-term relationships between providers and

customers. Long-term relationships are beneficial for both sides of the relationship (Reichheld & Sasser, Jr., 1990; Thomas, 1998).

When thinking of customers as long-term partners, the following key concepts are developed: from customer getting to customer keeping, from transaction to relationship, from promotion to customer services, from market share to customer share, and from one-way communication to dyadic or two-way communication (Peppers & Rogers, 1993). In these new relationships, providers and customers produce goods and services together. Consumer involvement prevents unnecessary cost, retains consumers, and increases consumer satisfaction, and it results in long-term profitability (Reichheld & Sasser, Jr., 1990). Traditional marketing is a reactive approach. Relationship marketing (RM) is a proactive approach; therefore, many minor transactional problems can be solved before becoming serious (Gronroos, 1997). Many researchers allude to a marketing paradigm shift (e.g., Achrol, 1997; Asai, 1994; Gronroos, 1997; Gummesson, 1997; Voss & Voss, 1997; Webster, 1992). Because the study of RM is in the first stage of this marketing shift, many conceptual and practical studies are required to provide a complete understanding of this new marketing paradigm (Berry, 1995; Bitner, 1995; Gummesson, 1997).

Although the study of relationships is not a new concept, the concept of relationships is useful to resolve current problems of global competition and consumer demands. Historically, Asian, European and other regional merchants have known that the relationship with customers is important to conducting business. These merchants communicated with customers to determine precisely their demands in the long-term relationship (Berry, 1995; Gronroos, 1997; Webster, 1992). After the mass production system was improved early in this century, business organizations focused on selling a large quantity of products by using scientific management and the marketing mix concepts. Relationships were not maintained and were generally ignored.

During the 1990s, many consumers were still not satisfied with their products, although these products were sold to segmented markets based on intensive marketing research. Dissatisfaction with products arises from several reasons. Market research is no longer fresh because consumers change opinions rapidly, and information does not have enough depth to explain the precise, individual demand (Gronroos, 1997). Each consumer

has different demands under many different purchase conditions; hence, personal and continuous communication is an essential tool and must replace mass communication, such as the TV commercial (Webster, 1992). Kotler (1997) said marketers will move from focusing on large segments to targeting specific niches. “In niches there are riches” (p. 196). For example, footwear must meet many demands: fit, comfort, quality, price, style, and brand. For Generation X, style and brand may be the top priority. For Baby Boomers, fit and comfort may be their top priorities. This segmentation is based on traditional marketing mix perspectives. In reality, within both Generation X and Baby Boomer segments, tremendous amounts of variation in demand may exist. Baby Boomers may want fit as one purchase condition and style as a second purchase condition. Also, the demands of an individual consumer may change from time to time; therefore, RM will be needed by companies to address each situation.

#### Definition of Relationship Marketing

The concept of RM encompasses every activity from manufacturing to distribution, retail, and consumer behavior. The definition covers all aspects of human activities. RM provides a network for delivering the appropriate goods and services between trading partners and consumers (Kotler, 1991). Bitner (1995) commented that the main purpose of RM is customer retention and loyalty.

RM involves concepts from two industries: services and manufacturing (Berry, 1995; Gummesson, 1997). The common concept from both industries is eliminating waste within the relationship through direct communication with trading partners. In services, services companies have always been relationship-oriented because the nature of services activities is relationship based. Services has always been associated with a direct interaction between consumers and services companies (Gronroos, 1995). Without a customer relationship (i.e., participation), services products are not produced. For example, if customers do not go to a retail store, the owner cannot provide services and/or goods. That is, no relationship between customers and services companies can exist without the customers’ participation. In manufacturing, the strategies of QR and JIT have been widely promoted in the trade literature (Kincade, 1995). The core concept of

these strategies is relationship development among trading partners, including final customers (Kincade, Cassill & Williamson, 1993).

Berry (1983) was the first researcher to employ the term relationship marketing (p. 25) in the services literature. He defined RM as a strategy to attract, maintain, and enhance customer relationships. Gummesson (1997) defined RM as relationships, networks, and interactions. Shani and Chalasani (1992) defined RM as an integrated effort to identify, maintain, and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value-added contacts over a long period of time (p. 44). Gordon (1998) defined RM as the following:

The ongoing process of identifying and creating new value with individual customers and then sharing the benefits from this over a lifetime of association. It involves the understanding, focusing and management of ongoing collaboration between suppliers and selected customers for mutual value creation and sharing through interdependence and organizational alignment. (p. 9)

Gronroos (1997) defined RM as establishing, maintaining, and enhancing relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met (p. 327). The objectives are achieved by a mutual exchange and fulfillment of promises. The definitions of RM by Shani and Chalasani, Gordon and Gronroos are similar. The common concepts are mutual collaboration and long-term process, not the single exchange as conceived in traditional marketing.

### Review of Relationship Marketing Studies

Key concepts of RM are mutual collaboration and trust for the long-term built on an individual consumer basis, not on a mass market or segmented market basis. RM is more or less niche-markets-oriented (Shani & Chalasani, 1992) or individual-oriented. Since the late 1980s, many scholars have conducted a variety of research in RM. Many aspects of RM have been studied: business to business, services encounter, employee, and consumer behavior. Key elements in this RM research are:

- Benefits (Boughton, Nowak, & Washbutn, 1996; Gwinner, Gremler, & Bitner, 1998; Voss & Voss, 1997)

- Commitment (Dorsch, Swanson, & Kelly, 1998; Tax, Brown, & Chandrashekar, 1998)
- Communication (Boughton, Nowak, & Washbutn, 1996; Duncan & Moriarty, 1998; Hakkio & Laaksonen, 1998; Tate, 1996)
- Complaint (Tax, Brown, & Chandrashekar, 1998)
- Customer retention (Flint, Woodruff, & Gardial, 1997)
- Fairness (Bettencourt & Brown, 1997)
- Involvement (Gordon, McKeage, & Fox, 1998)
- Long-term partnership with supplier (Boughton, Nowak, & Washbutn, 1996; Brown & Inman, 1993; Keep, Hollander, & Dickinson, 1998; Lambert, Emmelhainz, & Gardner, 1996; Landeros, Reck, & Plank, 1995; Lohtia & Krapfel, 1994; Palmer, 1996; Tate, 1996)
- Promise (Bitner, 1995; Morgan & Hunt, 1994)
- Quality (Crosby, Evans, & Cowles, 1990; Dorsch, Swanson, & Kelly, 1998)
- Satisfaction (Bettencourt & Brown, 1997; Crosby, Evans, & Cowles, 1990; Dorsch, Swanson, & Kelly, 1998; Smith & Barclay, 1997)
- Technology (e.g., EDI) (Lohtia & Krapfel, 1994)
- Trust (Beatty, Mayer, Coleman, Reynolds, & Lee, 1996; Bendapudi & Berry, 1997; Boughton, Nowak, & Washbutn, 1996; Cowles, 1997; Crosby, Evans, & Cowles, 1990; Doney & Cannon, 1997; Dorsch, Swanson, & Kelly, 1998; Lambert, Emmelhainz, & Gardner, 1996; Milne & Boza, 1999; Morgan & Hunt, 1994; Morris, Brunyee, & Page, 1998; Smith & Barclay, 1997; Tate, 1996; Tax, Brown, & Chandrashekar, 1998)
- Value (Flint, Woodruff, & Gardial, 1997; Gasseheimer, Houston, & Davis, 1998).

In the mass-market paradigm, traditional marketing is applied. Products tend to have tangible elements. The communication is one-way from providers to consumers. Because involvement tends to be low, trust is not necessary between providers and consumers. On the other hand, in the individual (i.e., custom made) market, products tend

to have intangible elements. For example, custom-made shoes must meet the consumers' physical and psychological needs. The goods part of the product is tangible, but the product also contains many intangible benefits such as comfort and prestige (Lovelock & Yip, 1996). The expectation is that when customized the product will more exactly meet those needs. The communication between providers and consumers is two-way, which means consumers are highly involved in the production of goods and services. A high level of trust is important for this relationship, and customers must perceive benefits from establishing and maintaining this long-term relationship (Berry, 1995; Morgan & Hunt, 1994). The segmented market is on the continuum between the mass market and individual market.

The more intangible the benefits required by the consumer, the higher the required levels of intangible services, such as technical services and advice. In the individual market, RM is applied, and companies need more communication to increase trust and satisfaction. At the same time, companies must reduce costs. To reduce costs, information technology must be used among partners. For RM to be implemented certain levels of trust, benefits and costs must exist between trading partners.

Most RM research looks mainly at three areas: business-business, internal relationship, and retailer-consumer; the study of the direct relationship between manufacturers and consumers is rare. Research on competition for the effective operation of RM has been done for business-business, internal relationship, and retailer-consumer partnerships, but the partnerships between manufacturers and consumers have not been examined. The partnership between manufacturers and consumers must be improved. Consumption time is getting shorter and the marketplace is more volatile for fashion products. To keep customers, all relationships need to be understood and maximized. To understand under what conditions consumers will develop partnerships with manufacturers, research needs to be conducted.

### Services

Since the 1960s, the services industry has emerged as a driving force in the U.S. economy (Bateson, 1995; Gronroos, 1990; Guile & Quinn, 1988; Levitt, 1976; Regan, 1963). In 1993, the services industry accounted for more than 71% of the nation's gross

national product and 75% of its employment (Prabhaker, Goldhar, & Lei, 1995). Both employment and gross national product in the services industry have grown rapidly since 1960. On the other hand, growth in manufacturing and other industries has remained flat (Guile & Quinn, 1988). This trend is occurring in all industrialized countries including the United States (Guile & Quinn, 1988); therefore, the services industry has become important for all industrialized nations.

Many scholars have predicted and addressed how service is important in our society today (Canton, 1988; Chase & Erikson, 1988; Levitt, 1976; Quinn & Gagnon, 1986). Levitt (1972) emphasized that “everybody is in service” (p. 42). Gronroos (1990) also claimed that “everybody is in the services economy” (p. 1). He mentioned that service is important not only to the services industry but also to the manufacturing industry. He described both the hidden services sector and the official services sector. For example, manufacturing firms have visible industrial sectors and hidden services sectors, such as technical services, repair, and training (Levitt, 1976). Moreover, many manufacturing firms are involved in service activities, such as leasing and financing (Canton, 1988).

Gronroos (1990) indicated that competition in the current market has become a service-based competition. Services are becoming the basis for differentiating between companies and for providing a competitive advantage because the marketplace has so many competitors with similar products (Chase & Erikson, 1988; Chase & Garvin, 1989). Kotler (1997) also emphasized that services can be a strong competitive tool. Because manufacturers have difficulty selling similar products within their market, companies have to add intangible products and respond to customers’ demands quickly and flexibly to increase product value or differentiation (Chase & Erikson; Chase & Garvin; Levitt, 1972).

Competition among manufacturing companies has forced them to change from being product-oriented to being service-oriented or go out of business. In recent decades, manufacturers have focused on reducing price and improving quality of products due to the competition. As a result of these changes, the relationship between consumers and manufacturers is becoming closer. Manufacturers are changing production from making-to-stock to making-to-order and reducing inventory. They have adopted flexible

manufacturing systems (e.g., JIT, QR) instead of fixed manufacturing approaches with long life-cycle production (Goldhar, Jelinek, & Schlie, 1991). Chase and Erikson (1988) called this new business process the “service factory” (p. 191). It is an open system with a close and direct relationship with partners, including consumers. To be successful, companies must offer better services along with their products, because consumers are looking for quality, value, and intangible benefits, such as prestige or comfort (Chase & Erikson).

Although important to many industries and widely used, the concept of services is not easy to define. Many people ask: What is services? and What are the characteristics of services? Moreover, due to the unique characteristics of services, managing services transactions is difficult. Since the 1960s, many scholars and practitioners have discussed and researched these subjects. The next section presents the current thinking concerning definition, characteristics, and studies of services.

### Definition of Services

During the previous forty years (1960-2000), the definition of services has changed and been refined by many scholars. The first definition was offered by the American Marketing Association (AMA) in 1960. The AMA defined services as activities, benefits, or satisfaction by sales promotions. Based on the AMA’s 1960 definition, Regan (1963) defined services as activities, benefits, or satisfactions that are offered for sale or are provided in connection with the sale of goods. This view was challenged, however, in 1980, when Kotler defined services as “invisible goods given by a person or an organization, and activities or benefits without ownership” (p. 660). Gronroos further refined the definition in 1990 by focusing on interactive activity between two or more people. He emphasized the relationship among customers (i.e., external customers), employees or contact personnel (CP) who are service providers (i.e., internal customers), and managers in a services organization. His definition was:

A service is an activity or series of activities of more or less intangible nature that normally, but not necessarily, takes place in interactions between the customer and service employees and/or physical resource or goods and/or systems of the service provider, which are provided as solutions to customer problems. (p. 27)

Gronroos' definition is comprehensive and explains overall services; therefore, this definition is employed in the present study. By including many types of interactions among the relationships, the definition of services has been broadened and deepened since the early definition. The study of services has moved from a concentration on goods vs. services to a specific study of services activities (e.g., services quality, internal marketing, relationship marketing) (Fisk, Brown, & Bitner, 1993). Services is now understood to be both a specific industry and an important aspect of all industries (Goldhar, Jelinek, & Schlie, 1991).

### Characteristics of Services

Many scholars have classified the characteristics that distinguish goods from services. Since 1963, when Regan first described the characteristics of services, many scholars have further defined these characteristics (e.g., Asai, 1989; Judd, 1964; Rathmell, 1966; Shostack, 1977). Intangibility, inseparability of production and consumption, heterogeneity, and perishability are the most widely identified set of characteristics which define services (e.g., Asai; Judd; King, 1986; Rathmell; Shostack, 1977, 1984; Zeithmal, 1981; Zeithmal & Bitner, 1996).

Intangibility. Goods may be described as physical objects, devices, or things (i.e., tangible). In contrast, services are actions, performances, or deeds (i.e., intangible). Intangibility is the most commonly mentioned characteristic. Services cannot be touched, tasted, or seen before a transaction (Shostack, 1977, 1984; Zeithmal, 1981; Zeithmal & Bitner, 1996).

Actually, most services combine tangible and intangible products (e.g., footwear and sales employees' advice). For example, retail shoe stores provide not only footwear to their customers but also assistance for fitting and information about fashion trends as well as store image. Employees inform consumers on image and performance of products. Sometimes consumers cannot clearly comprehend their advice. Consumers may perceive product images based on the store environment including, for example, product display and background music (Bitner, 1990; Nicosia, 1966; Yoshida, Murata, & Iseki, 1985). Intangibility is a fundamental characteristic of services; therefore, many scholars

have studied various aspects of intangibility, (e.g., services quality, services design, services encounters).

Inseparability of production and consumption. Services are first purchased by the consumer, then they are produced and consumed at the same time (Shostack, 1977, 1984; Zeithmal, 1981; Zeithmal & Bitner, 1996). Tangible goods are produced first, sold, and then consumed (e.g., most clothing and footwear in stores). Footwear retailers first order footwear products (e.g., shoes, boots, sandals). Then, manufacturers produce products and sell to retailers. Finally, retailers sell a pair of shoes to consumers. On the other hand, in Haute Couture footwear, customers first visit a store, and they request a product. Then, workers start to produce based on the customer's request. Through a series of meetings and fit sessions, the consumer participates in the production process.

Heterogeneity. Services cannot be standardized in the way that goods can be because they are performed by and involved with humans, both services providers and consumers. Consistent performance and quality of services is difficult to maintain (Shostack, 1977, 1984; Zeithmal, 1981; Zeithmal & Bitner, 1996). For example, in shoe retail stores, an employee tries to provide the same footwear choice to customers, yet the customers have different characteristics, such as income level, taste, and emotions at the time. They have different demands for the same product. From a sneaker, one consumer may want fit and for the same sneaker, another consumer may want brand name. So, the employee has to provide a different performance to each customer.

This variability, combining with the human factor, is why consistent services delivery is difficult. Humans create the service, and for each encounter, the situation has variability in the employee, the customer and the environment. Services quality becomes a concern because of the difficulty in controlling and measuring services quality compared to goods quality. With increased mechanization and reduction of human involvement, quality for goods can be rigidly set. Similar to services, the production of fashion products has a large human component and a large dependency on human interpretation.

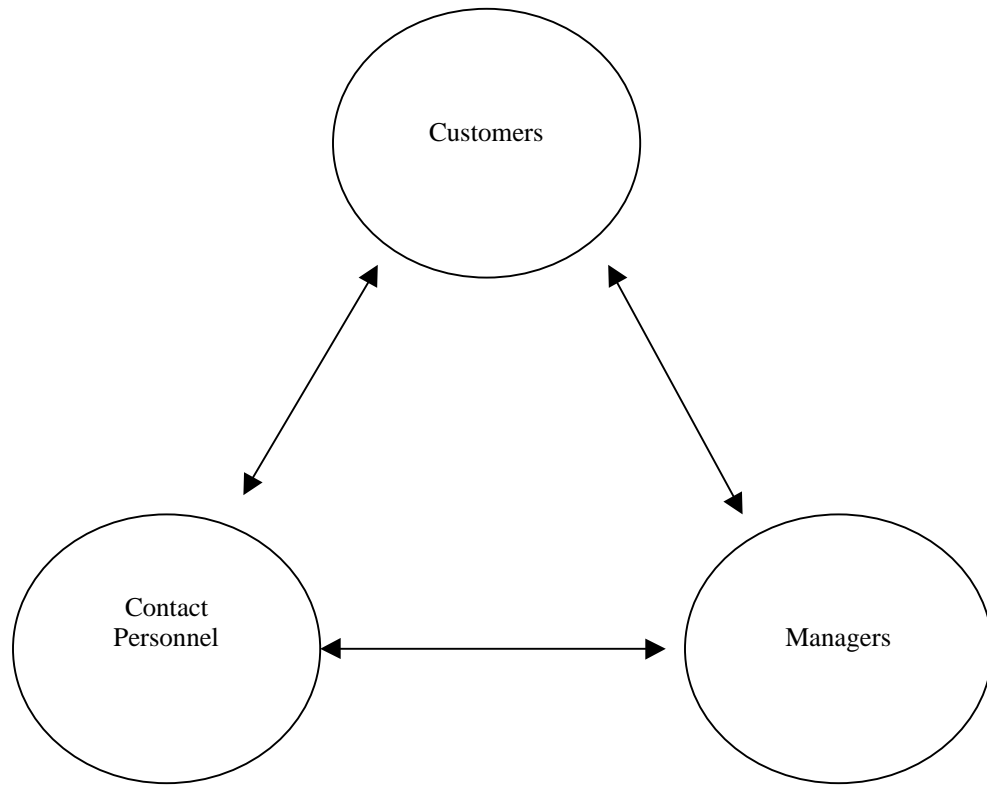
Perishability. Services cannot be stocked. Keeping inventories of services before ordering is impossible. Services is a performance or a deed; therefore, they cannot be inventoried (Shostack, 1977, 1984; Zeithmal, 1981; Zeithmal & Bitner, 1996). For example, once consumers enter a shoe store, the performance of services with a customer starts (e.g., providing suggestions and/or entertainment). If consumers do not come to the store, the services are not performed; the services cannot be stocked.

A major concern with the perishability of services is demand forecasting. Services is a deed, and an organization will need to predict consumer demand by season and for economic and social situations. Services providers must anticipate demand to have the raw materials and the employees (contact personnel) ready for the consumer demand. Stockpiling personnel and raw materials can be expensive and wasteful. This situation is similar to manufacturers in the fashion industry who make fashion goods that are highly perishable without knowing consumers' exact preferences.

The services concept is often difficult to understand compared with tangible goods because of the characteristics of services. These characteristics make the work of services providers difficult and risky when trying to standardize services transactions. Reducing the risk for services providers and customers is important, so that services organizations need to offer as much information to internal (employees) and external customers as possible. For example, doctors need to explain treatment information to their patients before the treatment is started to reduce fear and discomfort between doctors and patients. Furthermore, doctors need to provide correct information to contact personnel (CP), service providers who contact with customers directly (i.e., bank clerk or sales person). As a result of favorable services interactions, customers should feel satisfaction; therefore, providers and CP must know and control the characteristics of services to satisfy customers (Zeithaml, Parasuraman, & Berry, 1988).

### Service Encounter

Today, the service encounter is essential to add to a company's competitive position. By increasing individual communication with consumers (i.e., dyadic relationships) (see Figure 1), companies can use service encounters as a way to



↔ : Dyadic relationships

Figure 1. Overall Relationships in Service Encounter Model (Asai, 1989, 1993).

strengthen relationships (Solomon, Surorenant, Czepiel, & Gutman, 1985). For this reason, many researchers have emphasized the service encounter (e.g., Bitner, Booms, Telreault, 1990). Carlzon (1987) described service encounters as “moments of truth” (p. 6). Studies have focused on the interactions between customers and employees, clients and providers, and buyers and sellers based on satisfaction, quality, and long-term loyalty (Fisk, Brown, & Bitner, 1993; Solomon et al., 1985). Figure 1 indicates the conceptual model of interactive, overall relationships among managers, contact personnel (sales personnel), and customers. This model suggests that companies manage the dyadic relationships among partners to improve mutual satisfaction and overall service quality in service encounters. Many researchers examined the establishment of ties in a relationship between companies and consumers through the encounter (e.g., Asai, 1989; Gassenheimer, Calantone, & Scully, 1995). The reduction of the distance between consumers and companies is important to maintain the relationship. Gassenheimer, Calantone and Scully (1995) called this reduction in distance closeness.

Shostack (1985) defined the service encounter as “when a consumer directly interacts with a service” (p. 243). Heskett, Sasser, Jr., and Hart (1990) defined it as “the event at which a customer comes into contact with a service provider, its people, its communications and other technology, and the services it provides” (p.2). In studies of the services industry, customer involvement in production, long-term relationships, and the customer’s role in production and delivery are discussed (Fisk et al., 1993). The concept of service encounters may also apply to manufacturing.

### Interaction between Services and the Manufacturing Industry

Since the role of the services industry was prominently identified in the 1960s, services and manufacturing have influenced each other. The services sector has applied manufacturing concepts, such as service quality from quality control (Gronroos, 1983b; Zeithaml, Parasuraman, & Berry, 1988; Swartz & Brown, 1989), service design (e.g., blueprint) from TQM (Chase & Aquilano, 1995; Reichheld & Sasser, 1990; Shostack, 1987), and communication technology and lean production from JIT manufacturing (Chase & Garvin, 1989; Levitt, 1972; Quinn & Gagnon, 1986). In the 1980s, the manufacturing industry applied services concepts to factory operations: flexibility in

manufacturing operations (Chase & Erikson, 1988; Goldhar et al., 1991) and communication among production workers (Canton, 1988; Chase & Garvin, 1989; Quinn & Gagnon, 1986). The fundamental concepts of manufacturing goods and providing services are becoming conceptually closer.

In the 1990s, the border between services and manufacturing is not clear; however, some differences in the relationship between manufacturers and services providers still exist. The services industry is more relationship-oriented. Services are easy to copy by competitors, and many competitors try to obtain new customers within their limited market by using enhanced services. Keeping customers through services has become important (Berry, 1983; Bendapudi & Berry, 1997); therefore, customer relationship has become the key issue in research about services (Gronroos, 1997; Gummesson, 1997). Because the similarity between services and products of fashion goods is high, information from services research may have applicability for the fashion industry.

### Manufacturing Systems

Manufacturing systems have changed from craft production, to mass production, to lean production. Manufacturing companies must be reactive to the business and market conditions to stay competitive. Many companies are being challenged to develop new manufacturing systems (Womack, Jones, & Roos, 1990). Companies that do not change lose market share and go out of business.

The movement to change to mass production was promoted by many entrepreneurs, such as Eli Whitney, Isaac Singer, and Samuel Colt. They elaborated aspects of mass production for a single product; however, Henry Ford and Alfred Sloan developed the foundation for the overall system of mass production, from producing parts to selling products (Mori, 1996; Womack et al., 1990). With the change from unit production to mass production, the unit cost of production decreased and productivity increased dramatically. As a result, many people could afford automobiles and many other consumer products (Hounshell, 1984). Since the 1920s, the mass production system has been improved and has expanded around the world. The mass production manufacturing paradigm was the mainstream manufacturing system until the Toyota

production system was introduced to several major industries. The Toyota production system is a more flexible system that eliminates waste, although it is based on mass production. The basic idea of the system was developed in the 1930s by Kiichiro Toyota based on a specific market situation in Japan (Fujimoto, 1998).

Today, many industries have improved manufacturing systems by using electronic network technologies, such as Electronic Data Interchange (EDI), computer-integrated manufacturing (CIM), and flexible manufacturing technology (FMT) (Brown & Inman, 1993; Chase & Aquilano). Also, manufacturers have adopted improved systems, such as QR, mass customization, and supply chain management. As a result, productivity within factories and quality of products have increased dramatically. For many manufacturers, the communication distance among their partners has also decreased (Chase & Aquilano, 1995). With new systems, companies can respond to their customers' demands more quickly and with more flexibility. Some manufacturing companies have become more services-oriented (Chase & Erikson, 1988; Goldhar et al., 1991; Levitt, 1972). Traditional factories have become services factories (Chase et al., 1988). These new factories produce not only tangible products, but also intangible products. The newly developed manufacturing systems have returned to some aspects of craft production (Chase et al.; Womack et al., 1990).

The automobile industry has been the leader in developing many production systems, and is still a major industry in the world. Also, this industry has many related industries including electronics, oil, fiber, steel, finance, and other services industries. Changes in manufacturing in the automobile industry have influenced manufacturing in the fashion industry (e.g., bundle system, modular system, QR). For this reason, how and why the production system has changed are discussed by reviewing the automobile industry in the following section.

The Ford, General Motors (GM), and Toyota companies did not start their manufacturing systems at the same point. Leaders at these companies had learned other systems and used the information to improve their existing systems through long-term experimentation. Until the mass production system became mainstream, craft production systems were the major manufacturing system since the Industrial Revolution in the late 1800s. In the 19th century in the United States, Eli Whitney, Isaac Singer, Samuel Colt

and other inventors improved production efficiency. Hounshell (1984) refers to their production as the “American system of manufacturers” (p. 1). New technologies, mechanization, and standardization were integrated into the new production systems. Finally, Henry Ford integrated the entire system of mass production. Called Fordism, the result was the car for the masses (Hounshell, 1984; Womack et al.,1990). This system has been refined to be lean production or the Toyota System.

### Craft Production

In the craft production era (before 1900), transportation and telecommunication networks were underdeveloped in the market; therefore, distribution was slow and costly, and information was also transferred slowly and inaccurately. As a result, markets were limited, small, and divided within each region. It has been called the divided market era (Tedlow, 1990). Manufacturers tended to be located close to consumers and to be small. They were characterized by domestic production in small factories or barns. These manufacturers produced limited quantities of products because products were mainly made by hand and non-standardized parts were used. For example, automobiles were produced in low volume and many different models were made. Basically, manufacturing was make-to-order production. With custom orders and non-standardized parts, no identical models were made in the world during this era. Nationwide advertising was not done. As a result, products were high priced, and consumers had to buy products from a limited selection (Tedlow, 1990). Apparel and other personal products were also produced based on craft production during this period (Hounshell, 1984; Payne, Winakor, & Farrell-Beck, 1992). Shoes were made one-at-a-time for each customer.

Some manufacturers of such products as apparel, airplanes, automobiles, and footwear still use craft production today. When more technology and/or higher quality are required beyond what is available with mass production, craft-oriented production is needed to accomplish the production process. Many of the manufacturing processes of Bentley and Ferrari are still based on craft production. In the apparel manufacturing system, the unit assembly is a similar concept (Lin, Kincade, & Warfield, 1995). The Kimonos manufacturing process, a high quality one, is also still based on craft production. A few Haute Couture designers and handcraft designers of apparel and

footwear continue to use craft production. A segment of the footwear industry continues to produce custom shoes, especially for orthopedic and medical products. Also, some high-end footwear companies produce custom-made shoes, such as Hermes and Ferragamo (Burns & Bryant, 1997).

The characteristics of craft production (Kincade, 1996; Womack et al., 1990) are:

- Consumer requests
- Economies of scope
- Flexible and simple tools
- Highly skilled workers
- One item at a time (unit assembly)
- Small factory and small production lot size

Craft production has advantages and disadvantages. The advantages of craft production (Hounshell, 1984; Kincade, 1996; Womack et al., 1990) are:

- Flexibility
- High quality
- Original product

The disadvantages of craft production are (Hounshell, 1984; Kincade, 1996; Oliver, Kincade, & Albrecht, 1994; Womack et al., 1990):

- High cost
- High cost for research and development
- Lack of reliability and consistency of quality
- Long time commitment

### Mass Production (Ford and Sloan System)

In this section, mass production in the United States is discussed because it flourished there before this production system dominated in the world. With the development of a nationwide transportation and telecommunication system in the United States, the number/size of cities, distribution of population, income, industries, and, more importantly, productivity increased dramatically in the late 1800s (Akimoto, 1995).

Increases in population with associated increases in income provided increases in number of consumers with spending power. During the early 1900s, marketing had begun to address the market problems from this growth, especially distribution issues (Bartels, 1988). Without the population growth, the previous lack of goods, and development of a mass marketing strategy, mass production would not have existed (Tedlow, 1990).

During the early 1900s, marketing contributed to distribution systems that operated smoothly based on economies of scale (i.e., low margin and mass selling). Gradually, marketing strategies improved in the areas of branding, advertising, franchising, and market research; however, automobiles were still expensive and unreliable products. Traditionally, craftsmen produced high quality products that required low production volumes and high unit costs. Ford did the opposite. He developed a manufacturing system that produced products with high quality, low price, and high volume or mass production. Ford adopted a new marketing strategy (i.e., low price, high quality) (Tedlow, 1990). In manufacturing systems in the fashion industry, the bundle system is a similar concept to Ford's mass production system. Footwear is manufactured in mass production systems similar to apparel (Endo, 1992).

The characteristics of mass production (Hounshell, 1984; Kincade, 1996; Oliver, et al., 1994; Womack et al., 1990) are:

- Large size factory
- Economy of scale
- Narrowly skilled professionals to design products
- Production by unskilled or semiskilled workers with expensive, single-purpose machinery
- Repetition
- Standardized parts
- Standardized products in very high volume
- Unit cost
- Work-in-process between stations

Mass production has advantages and disadvantages (Hounshell, 1984; Kincade, 1996; Oliver et al., 1994; Womack et al., 1990). Advantages are:

- Inexpensive prices
- Reward for individual productivity
- Wide selection of many available products

Disadvantages of mass production (Abend, 1999; Kincade, 1996; Oliver et al., 1994) are:

- Boring working conditions
- High inventory from extra supplies, workers, and space for smooth production
- Low product variety
- Repetition of same product to reduce costly retooling
- Workers as equipment instead of as partners

### Lean Production (Toyota System)

The Toyota production system was developed under specific conditions that do not exist in all factories or in all markets; therefore, the more general term *lean production* will be used in this paper. Originally, Toyoda and Ohono did not have the idea of a lean production system. The system was changed and developed because of the specific market conditions in Japan in the 1950s. Limitations that existed were a small and segmented domestic market, the lack of capital for investment, the lack of technology, and strong unions (i.e., employees were treated as a family). These market limitations forced Toyota to be flexible and to create flexibility with the human network within the production system. Workers had to change job responsibilities quickly within the production system to meet the diversity in markets and the expanding scope of the systems applications. Fujimoto (1998) compared the Ford and Toyota systems as “an incomplete introduction of a perfect automation line and a complete introduction of an imperfect automation line” (p.74), respectively.

In the United States and other countries, many competitors started in the 1980s to produce similar products while consumers increased demand for diversity. Capital was expensive and technology acquisition slow. As a result, market conditions in these countries became similar to the original limitations faced by Toyoda in the 1950s. After the initial success of the system, the Toyota production system became widespread. The

Toyota system, in its original form, has been adopted by a few apparel/footwear manufacturers. Changing market conditions forced researchers and practitioners to study the Toyota system, generalizing the system into what is now known as lean production.

Comparing the Ford, GM, and Toyota systems, Fujimoto (1998) concluded that the Toyota system is flexible for the production process, and the Ford and GM systems are flexible for mass production based on product flexibility. The Toyota system responded to limitations in the domestic market (Fujimoto, 1998): (a) small market with divided demand in the domestic market, (b) lack of investment funds, (c) lack of technology, and (d) high volume of human capital. The reaction to these factors gave the Toyota system increased flexibility; however, this outcome was an unintentional effect for Toyota. Toyota needed to have changing variety and consequently reorganized the production system. Toyota revised the Ford system into a “demand pull system” (Fujimoro, 1998, p. 121). This lean production combines the advantages of craft and mass production. In apparel manufacturing systems, the modular system has similar concepts.

The characteristics of lean production (Abend, 1999; Bordogna, 1996; Heim & Compton, 1992; Hounshell, 1984; Kincade, 1996; Ohono, 1996; Oliver et al., 1994; Womack et al., 1990) are:

- Continuous quality improvement
- Cooperation with all levels of the organization
- Customers (sometimes consumers) involved in production
- Empowerment for employees
- Networking systems for all partners and employees
- Highly flexible systems
- Multi-skilled workers (not craft workers or uni-skilled workers)
- Organizational culture of sharing a common vision
- Team work

Lean production has advantages and disadvantages. The advantages of lean production (Abend, 1999; Kincade, 1996; Oliver et al., 1994) are:

- Application of economies of scope

- High employee morale
- High quality
- Low absenteeism and turnover
- Low inventory including work-in-process
- Low waste to save resources of workers, space, machinery, investment, time, inventory, and defects
- Production of a great variety of products

Disadvantages (Abend, 1999; Oliver et al., 1994) are:

- Conflict of changing culture
- High equipment demand
- High training cost
- High start up costs of partnership, trust development, and flexibility from suppliers

Although the lean production system has the advantages of increased flexibility and reduced waste as compared to mass production, the system continues to be an outgrowth of mass production. The focus is on issues such as reducing inventory, shortening time in production, and eliminating redundant testing. Although consumers are involved in the process, it has the restriction of distance from consumers and is market reactive, not consumer interactive. A need for an interactive production system similar to the service encounter exists if manufacturers are to become truly responsive to consumer demand.

### Quick Response Strategy

The Quick Response (QR) strategy was influenced by the lean production system during the 1980s as Toyota's production system was influenced by the textile industry during the 1950s (e.g., layout, productivity). Since the early 1980s, the QR strategy has been developed for responding to a variety of consumer demands and for competing with dramatically increasing levels of imported apparel products by eliminating waste (e.g., costs and time). Some companies have adopted aspects of the system and have achieved some successes in certain operational and financial areas (Gaffney, 1997; Ko & Kincade,

1997); however, many small and medium sized apparel manufacturers cannot exploit this system because of high costs (e.g., training, technology) and uncertainty within the market (Kincade, 1995; Kincade & Vass, 1998). As a result, today, many apparel manufacturers continue to go out of business in developed countries, and many factories are having to move from high-wage, developed countries to low-wage, developing countries.

In theory, the QR strategy is a great idea; however, the system needs to be improved and supplemented, especially for small and medium sized companies and especially in the interface between manufacturing companies and consumers. Studies show that still less than 50% of U.S. apparel manufacturers have totally implemented QR, and many U.S. manufacturers have implemented only one or two QR technologies (Kincade & Vass, 1998; Ko & Kincade, 1998). Changes must be made if it is to be applicable to the entire apparel manufacturing industry.

Definition. QR is a very broad idea, and covers the entire fashion industry from raw material companies to retailers; however, QR is difficult to understand quickly because QR is a bundle of tangible and intangible elements (e.g., use of EDI, bar codes, partnerships, reduction of time), or technology and marketing concepts. For these reasons, different approaches of definitions are presented. Lawson and Hunter (1997) defined QR as a company-wide commitment to quality, empowerment, customer service, continuous improvement, and change. Simply, QR is a business strategy that uses technologies and management techniques (Kincade, 1995) to improve productivity and reduce waste. Ko and Kincade (1997) defined QR by identifying applicable technologies.

Characteristics. Kincade, Cassill, and Williamson (1993) determined that QR has three core elements: (a) networked communication, (b) time reduction, and (c) responsiveness. On the communication side, wide varieties of networking systems and technologies are operated in the textile and apparel industry. The network among companies in the pipeline is divided into three sections: (a) textile and apparel manufacturers, (b) apparel manufacturers, and (c) apparel manufacturers and retailers (Kincade, 1995). An electronic and marketing network is essential for the QR system. Information is sent by an electronic data interchange (EDI) network and/or other communication tools among a company's partners and within a factory. This network can

dramatically reduce waste (e.g., as measured in time, inventory, and cost). The network system improves the speed of information, productivity, and responsiveness from partners and consumers.

Studies. Three main categories of research studies have been conducted about QR: (a) overall QR system (Forza & Vinelli, 1996; Kincade, 1995; Lowson & Hunter, 1997); (b) apparel manufacturers' implementation (Kincade & Cassill, 1993; Kincade, Cassill, & Williamson, 1993; Kincade & Ko, 1998); and (c) apparel retailers' implementation (Fiorito, May, & Straughn, 1995; Ko & Kincade, 1997; Leung & Yeung, 1995). The missing part in this research area is to identify the relationship between product manufacturers and consumers. These researchers recommended a future study to provide information on how to develop the interface between manufacturers and consumers.

Technologies. The QR strategy requires a variety of technologies for different areas. Many researchers list QR technologies (e.g., bar coding, EDI, point of sale [POS] system, and unit production systems [UPS]) (e.g., Fernie, 1994; Fiorito, May, & Straughn, 1995; Kincade, 1995). Individual companies need to adjust QR systems for each company's environment; hence, adopting a QR strategy is difficult for some manufacturers.

Future. Modern, improved electronic network systems make it possible for the relationship among partners, including consumers, to become closer. The old model is linear and sequential with limited contact between two adjacent pipeline segments (see Figure 2). The new model has multiple pathways so that the relationships among segments are more direct (see Figure 3). The fashion industry pipeline is starting to include networking among all the partners, including consumers.

Rising labor costs, increasing volume of unsold goods, and growing waste in production and marketing are forcing manufacturers to reassess their manufacturing and marketing systems. Consumer participation is essential for the elimination of waste because, with fickle and changing consumers, a manufacturer will make products that do not sell if manufacturers are without consumers' input. Unsold products waste resources. Many articles found in academic and trade journals emphasize the need for consumer information, yet many researchers still conduct research based on the old paradigm of

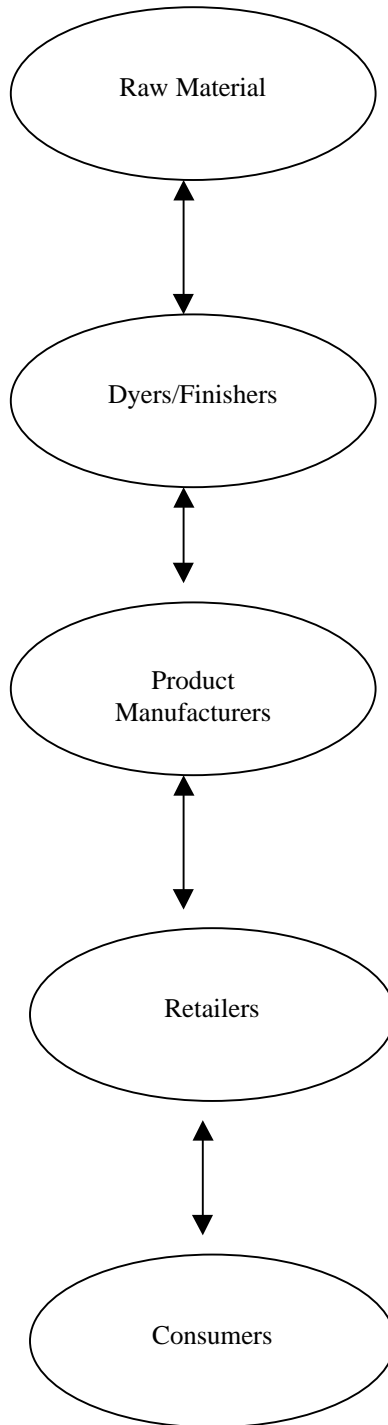


Figure 2. Relationship Models in The Fashion Industry: Old Model of The Pipeline

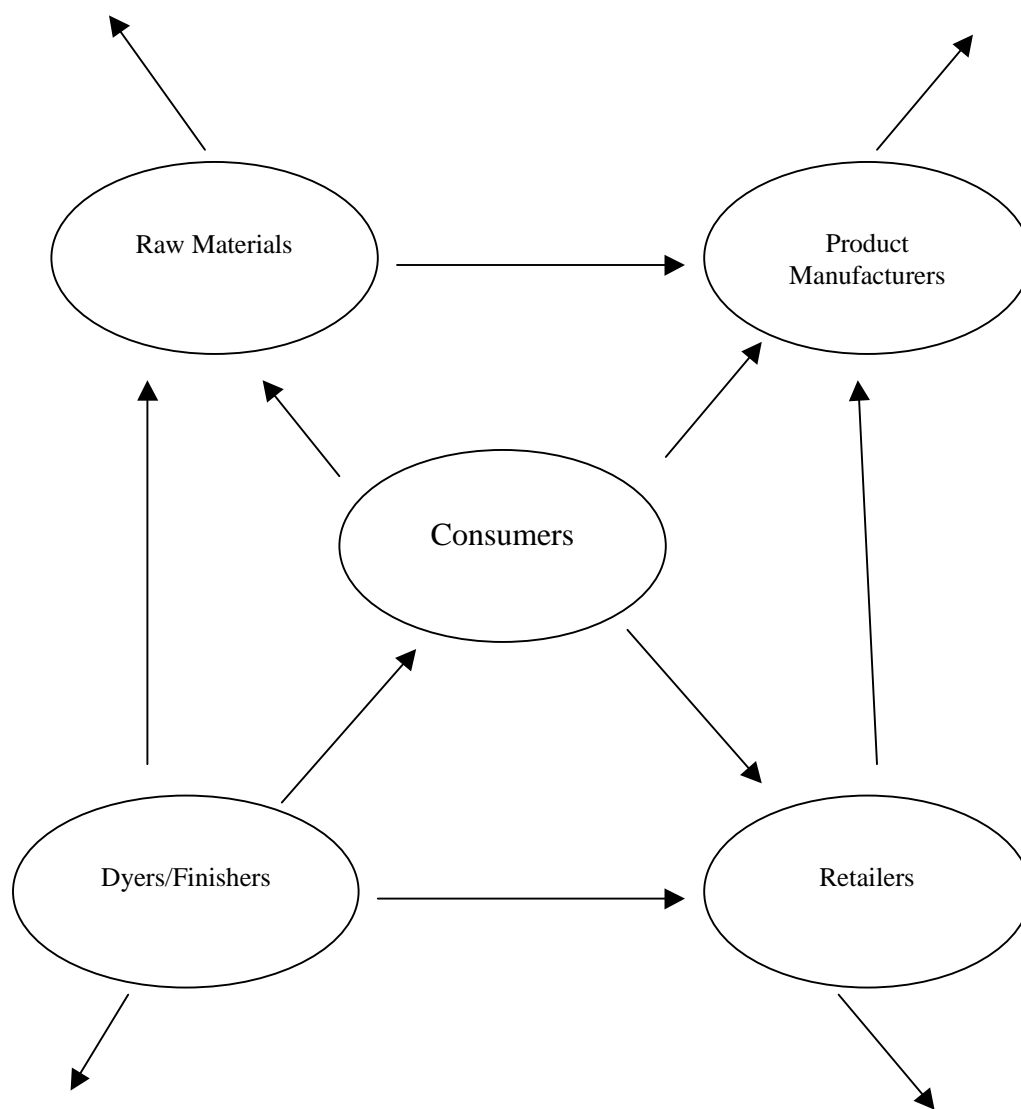


Figure 3. Relationship Models in The Fashion Industry: New Model of Company Relationships

mass markets and/or segmented markets. Some researchers have discussed a system of mass customization, but that term implies a continued dependence on mass production processes. The dyadic or two-way flow of information that is described in RM, the flexibility of the service encounter, and the responsiveness of lean production must be integrated to create a new production system. A key to this new system will be the free flow of information between producer and consumer without restrictions of time, geographic distance, and middlemen or intermediaries. Today, consumer behavior is different from that in the 1920s or 1970s. New ways to collect information and to implement QR strategies are needed for the completion of the new market paradigm.

In the footwear industry similar to the apparel industry, competition many sources has increased for several decades (Footwear Industries of America, 1998). One of the factors in this change is the increasing amount of discretionary income of people who purchase footwear (Burns & Bryant, 1997). Consumer demands for footwear have been changing faster than ever before. Consumers are able to purchase shoes as fashion goods and not just as utilitarian products. Footwear manufacturers have found it difficult to catch up with the increasing demand for footwear. Also, footwear manufacturers, as apparel manufacturers, face severe competition from low-labor cost production in several countries. To compete with imported footwear from low-cost labor countries and to respond to consumer demands, footwear manufacturers have introduced new technology and systems such as CAD and JIT (Endo, 1990).

#### Summary: Marketing, Services, and Manufacturing Systems

The purpose of this study is to explore new relationships between consumers and manufacturers in the fashion industry, specifically footwear, so that manufacturers in this industry may build close, direct, long-term relationships with their consumers. These relationships have the potential to produce fashion products at a reasonable price for individual consumers by using “tailor services” (Berry, 1983, p. 26) and direct information from consumers (Sterne, 1996). Goldhar et al. (1991) provided some evidence to support the idea that manufacturers must incorporate services to remain competitive. Shorter product life cycles, highly diversified markets, increased quality standards, and knowledgeable consumers have all contributed to pressure for

manufacturers, and footwear manufacturers are receiving these pressures. To respond to these pressures, manufacturers in the footwear industry must seek new strategies and apply the concepts of services and RM to manufacturing.

RM is the glue that can bind services and manufacturing together and that can connect companies with their consumers. RM can provide guidance for developing direct connections between manufacturers and consumers for the benefit of both. Berry (1983) proposed conditions of practical approaches to RM for services firms where ongoing desires for services are expressed by consumers. Today, these approaches can apply to the manufacturing industry, especially manufacturers in the footwear industry. Manufacturers need to change from a transaction to a relationship approach to consumers. Figure 4 shows the changing relationships among manufacturers, retailers, and consumers. Traditionally, manufacturers have had direct relationships with retailers but at some distance. When competition has intensified, their relationships have become closer. At the same time, relationships between retailers and consumers have also become closer. Now, in many industries, all three groups are developing closer relationships, especially the services industry; however, relationships between manufacturers and consumers in the fashion industry are rare. The fashion industry still maintains distance between consumers and manufacturers. Manufacturers in the fashion industry and in particular the footwear industry must build relationships with consumers because that is the only way to reduce waste and increase consumer purchases.

The major RM strategy is to attract and retain consumers by offering incentives, benefits, trust, and value (e.g., Berry, 1983; Gronroos, 1997). For example, if consumers were to perceive a benefit or value from a relationship with the manufacturer, this perception would increase consumer loyalty, reduce distance between partners and extend in the long-term relationship. To proceed with developing direct relationships with consumers, manufacturers must integrate the concepts of RM, services, and manufacturing systems. This research intends to show how to enhance this new relationship by investigating ways to incorporate consumers into the manufacturing process through one new communication process.

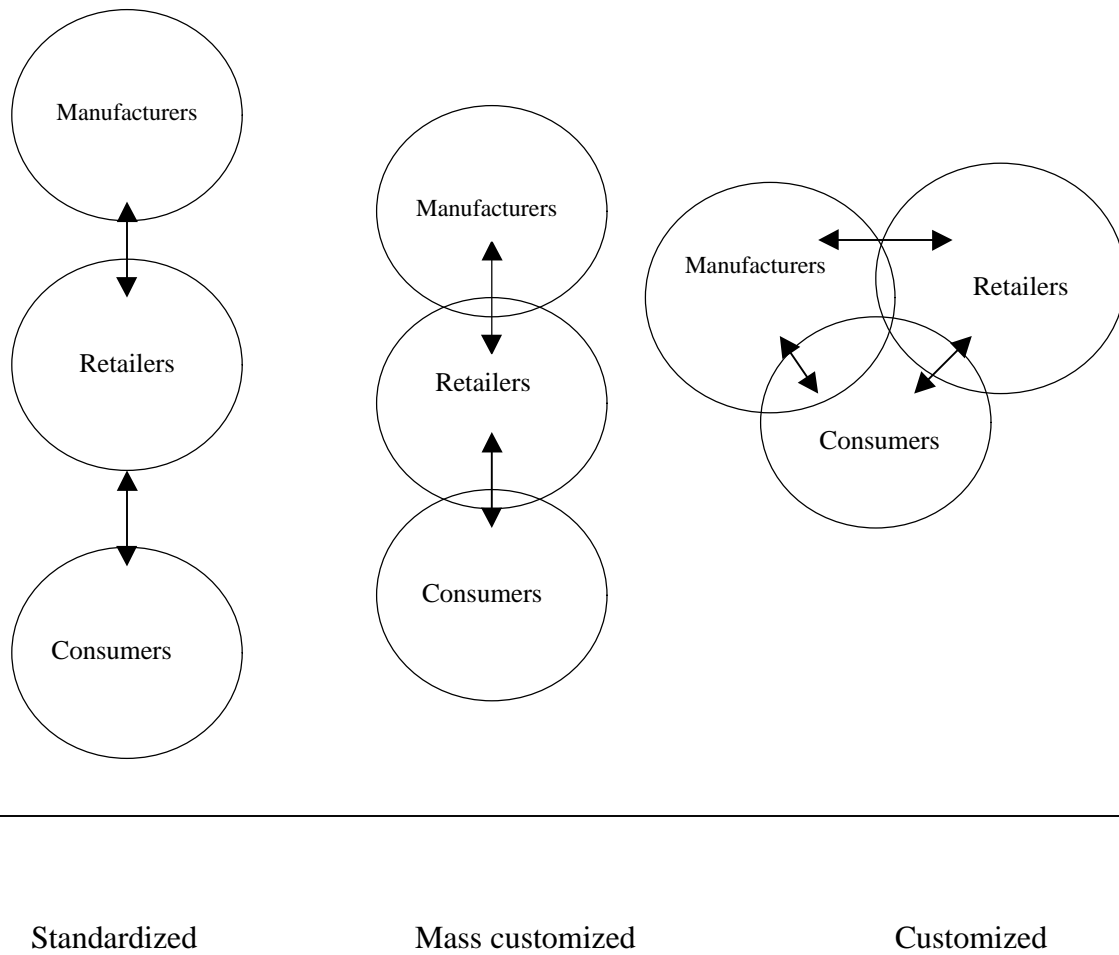


Figure 4. The Relationship among Manufacturers, Retailers, and Customers in Three Production Systems

(Adapted from Davis, 1997; Endo, 1995)

\*  $\longleftrightarrow$  Flow of relationship (e.g., information)

## CHAPTER III

### Conceptual Framework and The Model

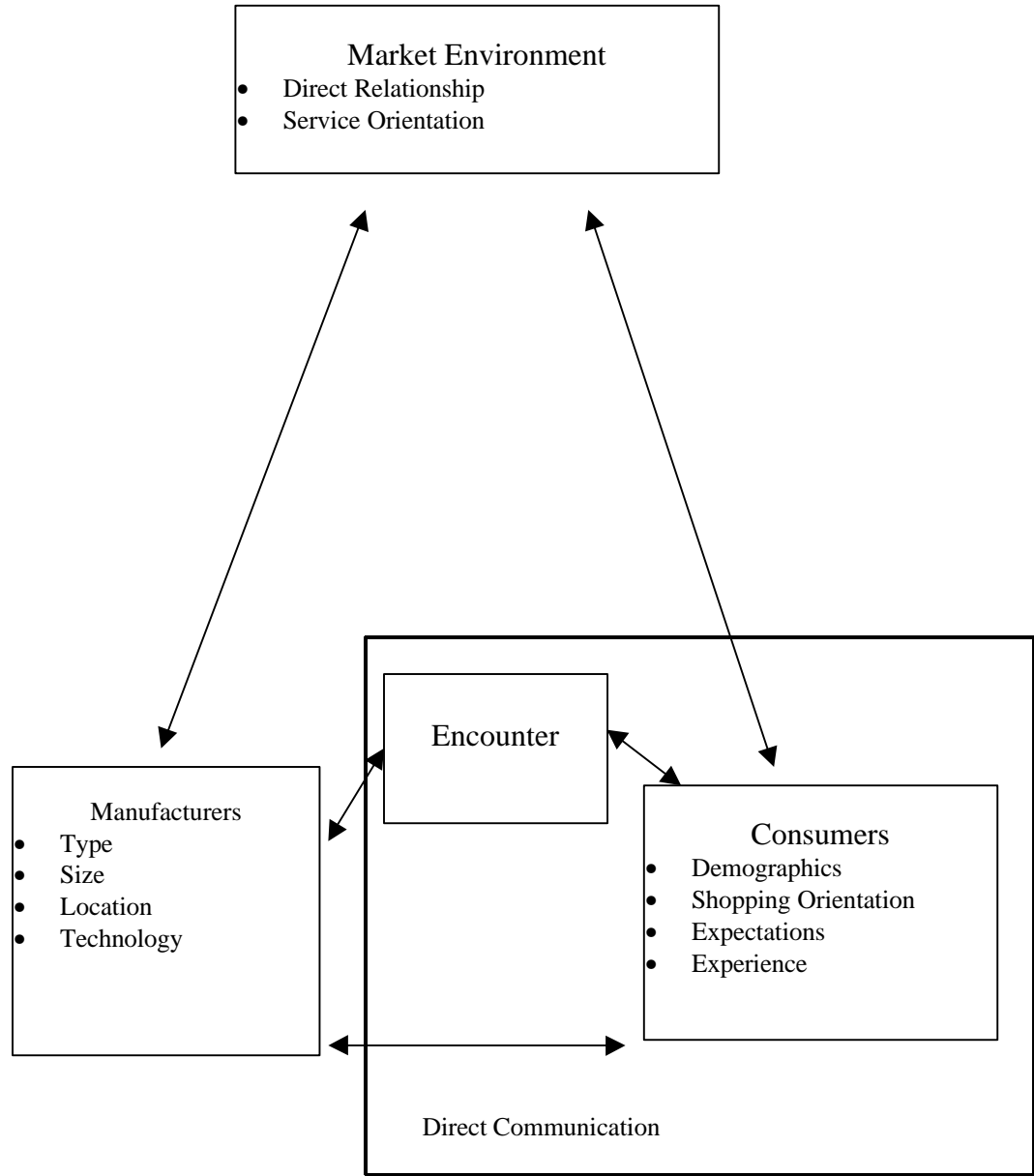
This section proposes and discusses the conceptual framework and the graphical model used in the study. The conceptual framework is developed based on three fields, which are integrated and reinforced: relationship marketing, services, and manufacturing systems. The overall conceptual framework consists of four factors: market environment, consumers, manufacturers, and encounter between consumers and manufacturers (Figure 5). The structure of the model is developed based on Gronroos conceptual model (1983b, 1990).

Among the four factors in Figure 5 are two segments of the fashion industry pipeline (i.e., manufacturers and consumers). They are shown by two boxes, which include a listing of their pertinent characteristics. The interaction between these two market sectors is represented by the box between manufacturers and consumers. The interaction involves the characteristics of the encounter (i.e., goods and services). The relationship as shown in this model between manufacturers and consumers is developed through direct communication. The overall market environment including direct relationship and services orientations influences manufacturers and consumers.

Basically, four factors (i.e., market environment, consumers, manufacturers, encounter between consumers and manufacturers) were discussed in Chapters I and II; however, the discussion was broad and general. To bridge the gap between Chapters I and II and the rest of the chapters, this section describes each factor.

#### Market Environment

Relationships between consumers and other organizations have become direct and individualized based on new marketing concepts (e.g., relationship) and advanced technologies in communication and distribution. The closer the relationship becomes, the more companies need to respond to their consumers' demands precisely and quickly (Mittal & Lassar, 1996; Tax, Brown, & Chandrashekar, 1998). Because fashion



— Study Focus

Figure 5. Overall Conceptual Framework: Overall Relationships among Market Environment, Consumers and a Manufacturer.

products are seasonal and perishable like fresh foods, this relationship is extremely important to fashion products manufacturers.

### Manufacturers

Several industries exist, which include the three-way relationship of manufacturer, retailer and consumer, such as automobile, fashion, home furnishings (Diamond & Diamond, 1997). Within the fashion industry umbrella, several industries exist as classified by product type such as apparel, footwear, and jewelry. The footwear manufacturing industry is similar to the apparel manufacturing industry in general in terms of design and production (Burns & Bryant, 1997). Actually, footwear is strongly influenced by apparel products. Both products have seasonal cycles, exhibit fashion trends and involve fit and style choices by consumers. For much research and discussion in the clothing and textiles field, apparel is generalized to include footwear; however, some differences between the two products and industries do exist (Diamond & Diamond, 1997; Dickerson, 1991). Footwear production requires operators to handle small parts of leathers and other materials and includes the use of plastic, nails, and glue rarely used by apparel operators. Footwear retailers need to have large inventory space for the variety of size (i.e., widths and lengths), which are not substitutable (Burns & Bryant, 1997). Apparel manufacturing has been studied by several researchers in many fields as documented in Chapter II. Common variables of study include size, type of product, location, and technology (e.g., Kincade & Cassill, 1993; Kincade, 1995).

### Consumers

In the study of the fashion industry, researchers have studied a variety of variables based on consumer behavior: demographics, shopping orientation, expectation, and experience. Demographics include age, gender, income, family size, computer skills, and education (Engel, Blackwell, & Miniard, 1995; Lewison, 1991; Wimmer, 1994). Dunne, Lusch, and Gable (1995) define demographics as “characteristics that help us know who customers are” (p. 69). Demographics show researchers the identity of certain groups (Dunne, Lusch, & Gable). Demographic questions for this study were developed based on previous consumer behavior research (Chen-Yu, 1995; Ko, 1995; Moye, 1998) and

were adjusted after pilot studies (Endo & Kincade, 2000). For this study, these questions include: age, computer skills, current working status, and expenditure for shoes.

Hawkins, Best, and Coney (1989) define shopping orientations as “shoppers’ styles that place particular emphasis on certain activities” (p.73). Each consumer has different reasons to purchase products (Kwon, Paek, & Arzeni, 1991); therefore, comprehending shopping orientations is important to sell products to consumers (Shim & Kotsiopoulos, 1993). Shim and Kotsiopoulos investigated a typology of shopping orientation for female apparel consumers. They developed nine shopping orientation factors: (a) confident/appearance, fashion conscious, (b) brand-conscious loyal, (c) convenience/time-conscious, (d) shopping mall-oriented, (e) local store-oriented, (f) apathetic toward Made-in-U.S.A., (g) catalog-oriented, and (h) economic/price conscious, and (i) credit-oriented.

Shopping orientation questions were developed based on previous shopping orientation researchers (Ko, 1995; Moye, 1998) who simplified the Shim and Kotsiopoulos (1993) questions. The following factors were utilized in this experiment: (a) brand-conscious loyal, (b) convenience/time-conscious, and (c) economic/price conscious.

Researchers have emphasized understanding and responding to customer expectations for furnishing services because expectations influence satisfaction (Gronroos, 1993; Parasuraman et al., 1991; Swan & Trawick, 1981). Also, expectations could change over time (Parasuraman et al., 1991). Knowing consumer expectations is important for providing better services to consumers. Dunne, Lusch, and Gable (1995) mention that a consumer cannot imagine the expectations without considering their experiences. Expectation develops from previous experience, word-of-mouth, advertising, and consumers’ needs (Bateson, 1995; Zeithamal & Bitner, 1996), but not through the direct relationship between the consumer and manufacturers because such a relationship is rare. Therefore, a measure of what consumers expect of the relationship is included in the study. The questions utilized are based on studies and theories by Oliver (1981) and Parasuraman et al. (1991) and pilot studies by Endo and Kincade (2000).

Experience with goods and services affects consumers’ expectations, and vice versa (Gronroos, 1990). In particular, performance of products, as a relationship develops over time through purchasing products, can affect expectations and other shopping

behaviors (Kincade, Redwine, & Hancock, 1992). Therefore, understanding the relationship experience is important during the experiment in the research. Experience questions were adapted based on studies by Churchill and Surprenant (1982), pilot studies by Endo and Kincade (2000), and research by Westbrook (1981).

### Encounter between Consumers and Manufacturers

Although many consumers purchase apparel products and footwear from retail stores, shopping at home such as through catalog shopping, TV shopping, and Internet shopping has become popular. In retail stores, the physical facility is the encounter place. On the other hand, no physical place is associated with in the encounter between consumers and manufacturers in Internet shopping or catalog shopping; however, the Internet encounter has many intangible elements such as providing service information 24 hours a day (Hoffman & Novak, 1996).

This research focuses on this place-free market encounter from the consumer side. In this study, the researcher investigated the encounter of a consumer with a manufacturer, specifically, a manufacturer of personalized or customized products. Mittal and Lassar (1996) investigated the role of personalization in service encounters. They indicated that personalization affects customer experience and evaluation of service. Mittal, Kumar, and Tsiross' (1999) study concerned the encounter in services and goods over time in terms of product satisfaction, service satisfaction, and behavioral intentions. They used several attributes to measure the satisfaction level of services and products, and found that some product attributes and services were significant in repetitive purchases.

Products and services can be described in terms of categories or product criteria. Product category questions for this research were developed based on Baber (1998), Endo and Kincade (1997), Rossi (1997), and Vikas et al. (1999). For fashion goods, products and services aspects of the encounter include: (a) fit, (b), comfort, (c) size, (d) color, (e) overall quality of the product, and (d) overall quality of the services.

Moreover, consumer evaluation for products may change during the relationship between consumers and companies (Oliva et al., 1992); therefore, an overall evaluation for products and services levels is included at the end of each phase.

### Direct Communication

Currently, consumers and manufacturers can connect directly to manufacturers by eliminating retailers and using a variety of communications tools: e-mail, face-to-face, fax, letter, and telephone. Today, the tool for commerce with the most potential and with increasing use is a web site on the Internet (Barry, 1999; Hoffman & Novak, 1996; Sterne, 1996). The web site is technologically the best tool to connect manufacturers and consumers and to provide each with information about the other.

In the past ten years, the Internet has expanded 2,000 % and continues to grow at a rate of 100 % every year (Allans study as cited in Mehta & Sivadas, 1995). In 1997, an estimated 50-60 million people were online in the world (CommerceNet/Nielsen, 1997; IntelliQuest, 1998; NUA, 1998 study as cited in Department of Commerce/International Trade Administration, 1999). Companies consumed \$43 billion over the Internet last year (Anders, 1999).

The U.S. Department of Commerce indicates that electronic commerce covers all communication activities among businesses, organizations, governments, and individual. Electronic commerce characterizes transactions where “both the money and the product are exchanged over the Internet” (Barry, 1999, p. D-1).

The Internet, in electronic commerce, has advantages (Barry, 1999; Kotler, 1999; Van den Poel & Leunis, 1999):

- Decreasing overhead cost
- Decreasing distribution cost
- Furnishing more individualized goods and services
- Enabling small and medium size companies to be competitive
- Enabling all consumers to have access all over the world and at any time.

Also, the Internet has disadvantages (Barry, 1999; Kotler, 1999; Van den Poel & Leunis, 1999):

- Lack of privacy
- Insecurity of payment
- Delay in receipt of products (waiting time)

- Unknown quality of materials and products before ordering.

Direct communication through the Internet between manufacturers and consumers in the fashion industry has some benefits for both parties (Nakajima & Karasuno, 1996; New brand, 2000). With web sites, manufacturers can gain consumer data directly and quickly, and they can use this information for many marketing activities, such as new product development and new promotions. Also from web sites, companies can get consumer information, such as size and color preference, so that the ease of maintaining consumer loyalty for a long time is increased (Hanrahan, 1999; Ponder, 1999). For consumers using a web site, they can purchase new and unique products, choosing style, design, color, and size (Strassel, 1999). Also, consumers may purchase products inexpensively because of direct purchasing (Van den Poel & Leunis, 1999). As the market becomes services-oriented, more attention needs to be paid to this direct communication tool.

Recently, some researchers conducted research on topics related to electronic commerce in the fields of direct marketing, electronic shopping behavior, communication, and distribution (e.g., Carter, 1996; Hoffman & Novak, 1996; Mehta & Sivadas, 1995; Van den Poel & Leunis, 1999). These studies mainly investigated consumer behavior related to the format and use of the new web site environment in Internet commerce. In manufacturing in the fashion industry, the study of direct communication between consumers and the manufacturer is rare; therefore, the researcher used studies and questionnaires based on other products (e.g., software) and questionnaires (e.g., Carter, 1996; Mehta & Sivadas, 1995). Mehta and Sivadas found that targeted consumers responded positively to direct communication on the Internet. Color is an important issue in Web site formation, and match of color to actual products is important for Internet shoppers (Web consumers, 1999). Direct communication questions in studies about the Internet inquire about: (a) Internet usage characteristics, (b) consumer attitudes, and (c) information from a provider (Boyt, 1994; Endo and Kincade, 2000; Mehta & Sivadas, 1995; Mittal et al., 1999; Van den Poel & Leunis, 1999). The purpose of this study is not to investigate the variations and input of these variations of a web site, but to use the site to explore consumer behavior using the researcher's version of a web site.

### Limitations of Static Model Research

Most marketing research about goods and services evaluates a single episode of consumer behavior for satisfaction, relationships, service quality, or goods quality. Realistically, however, consumers, based on personal reasons, purchase services and goods constantly from the same or different companies. Sometimes a consumer may reject a product and services because of very small mistakes made by a company. For example, if consumers cannot see the price tag easily, they can get annoyed with the store or product. Companies may never know the reasons for a lost sales opportunity. To try to discover the reasons and to evaluate this consumer behavior, some researchers conducted Gap Analysis Model research based on comparing the consumer's expectation and perception (e.g., Brown & Swartz, 1989; Headley & Choi, 1992; Parasuraman et al., 1985). With Gap analysis, static model research could find the reasons, yet does not realistically show the nature of an encounter between consumers and goods and services providers.

To try to minimize the differences between the static model and the dynamic shopping process, Gronroos (1993) suggested developing a dynamic model research approach because "the expectations of a given customer change continuously and the quality perception thus also changes continuously during the service encounter" (p. 14). For example, his approach emphasizes that the model should investigate how consumers' expectations are developed and how their expectations change when consumers evaluate experiences and expectations.

### Limitations of Services and Goods Research

Since services research began in the 1960s, the studies of goods and services evolved separately. When quality concepts were mainstream topics in many industries during the 1980s, studies of both product and services quality began to become popular. Actually, many products are a bundle of goods and services products. Many goods-oriented companies now emphasize customer services. Much research, however, still focuses only on goods or service quality. Research studies with a single focus do not address this bundle of product and service. Gronroos (1993) suggested that the integration of research on goods and services quality is necessary for reliable evidence.

### New Research Approaches

De Toni, Nassimbeni, and Tonchia (1994) and Gronroos (1997) compared traditional and relationship marketing approaches (see Table 1). For studies in relationship marketing and services, they emphasized long-term relationship, consumer involvement, services, and real time information exchange. With similar concepts, Gronroos (1983b) developed the customer relationship life cycle to explain long-term relationships with consumers.

Ravald and Gronroos (1996) suggested future research for relationship marketing: Other important issues are how the relationship itself influences the perceived value on an episode level, as well as the development of perceptions of value over time in a relationship. As regards studying relationships, a dynamic approach is necessary in order to provide an understanding of how a relationship evolves over time. (p. 28)

Gronroos (1993) insisted on the need for future research on service quality with dynamic models instead of static models. Moreover, he proposed the integration of quality models with services and goods products as well as consumers and industries for future research.

### Relationship Spiral Model (Dynamic Model at the Encounter of Services and Goods)

Manufacturers' relationships with consumers are like catching a ball or shaking hands - both partners need to be involved. Companies have to have fresh information about consumers to provide better goods and services. Moreover, to eliminate waste during the long-term relationship with consumers, companies need information. For example, for a custom made suit, a company knows the consumer's preference and size after the first suit is ordered, so the company and consumer may need to exchange only a little information which eliminates extra time and cost when ordering the next suit. The relationship is like a spiral to improve the relationship.

Table 1. Comparison of Two Marketing Research Approaches

	Traditional marketing approach	Relationship marketing approach
Place (market)	Specific (segmented)	General (anywhere)
Price sensitivity	Higher	Lower
Product characteristics	Mainly tangible elements	Higher intangible elements
Time perspective	Short-term focus	Long-term focus
Quality	Provider-based	Customer-based
Relationship with companies and consumers	One-way	Two-way
Involvement of consumers	Lower	Higher
Consumer information	Ad hoc consumer survey or indirect source	Real-time consumer feedback system

(Adapted from De Toni, Nassimbeni, & Tonchia, 1994 and Gronroos, 1997)

To explain long-term relationships with consumers, a model was needed. Based on Gronroos' studies (1983b, 1993), the framework and the models for this study were developed and adopted to guide this study. This multiple phase model represents the flow of activities in the relationship between consumers and a manufacturer; therefore, each process is not clearly divided such as between the initial and order stages. No clear division or barrier exists between any two stages and treats consumption as a process instead of a single action. This multiple phase model diagrams how consumers shop, purchase, and consume products through a direct relationship with a manufacturer.

The model has two phases. The first phase represents the initial shopping and first purchase by a consumer (see Figure 6). The second phase represents a continued relationship between manufacturer and consumer and the reorder process (see Figure 7). Each model consists of four stages: Initial stage and Order stage, Before consumption stage, After consumption stage, and Total Evaluation stage.

This model diagrams how consumers shop, purchase, and consume products through a direct relationship with a manufacturer. Specifically, the variables in the model that were investigated are perceived services and goods quality, satisfaction, expectation/perception of goods and services, technological preferences for the communication, consumer involvement in production, time perspective for the relationship, company location, price of the product, and product (goods and services) customization. The research experiment was conducted twice using the same procedure each time.

### Phase One

In the *initial stage*, companies have the potential to involve consumers in a relationship (see Figure 6). Consumers will evaluate the company and products during this stage based on previous experiences, word of mouth, present experience (e.g., waiting time), and personal needs (Oliva et al., 1992; Parasuraman et al., 1991; Walker, 1995). If they are interested in the products and are accepting of the company, they will move to the order or *purchase stage*. The closeness they feel with the company is a measure of the distance in the relationship. This distance is called closeness or tightness by some researchers (e.g., Gronroos, 1999; Jackson, 1985). Distance is not an exact quantitative measure but rather a summation of the consumer's evaluation of products and services, and overall evaluation of the company. If consumers move forward in the cycle, they are forming a relationship with the company. If they have negative feelings, they may not move to the purchasing stage.

If the products and services match their needs, consumers will buy the product and move to the *consumption stage*. Or if the products do not match their needs, consumers will cancel the relationship. Yet, consumers may restart the relationship at a later time or for a different product. In the *consumption stage*, consumers will again evaluate services and the product. Finally, if the overall quality evaluation is positive, they may participate in the relationship cycle again, or if the evaluation is not positive or does not meet expectations, they may not participate in a second cycle or Phase Two. No further purchases or lack of repurchase may occur (Kincade, Giddings, & Chen-Yu, 1998; Kincade, Redwine, & Hancock, 1992).

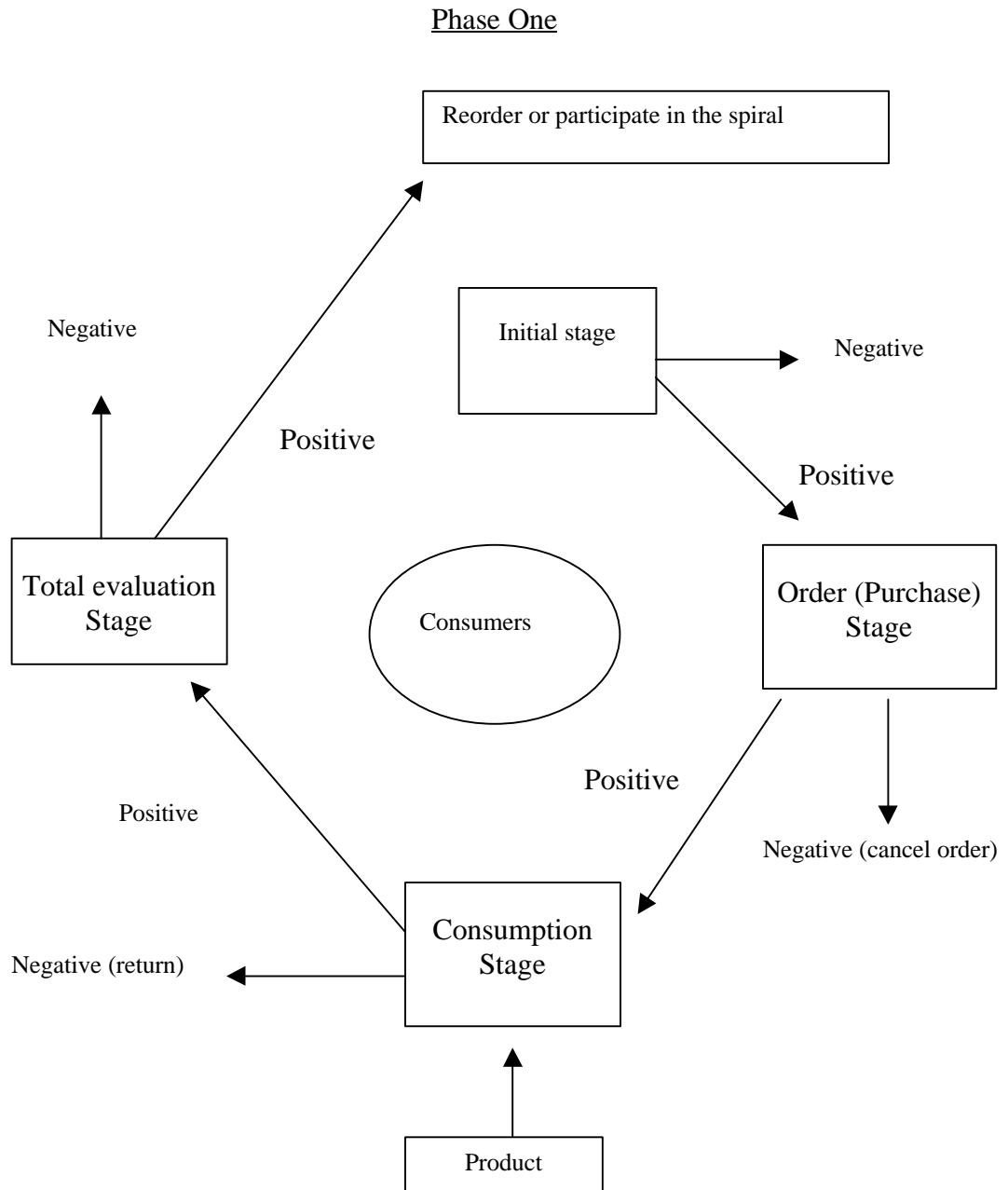


Figure 6. Relationship Spiral Model: Phase One (Adapted from Gronroos, 1983b, 1993)

## Phase Two

Having more need for the product and the services, consumers may again participate in the relationship cycle with the same company. Yet, some consumers may not participate again because of personal reasons, including no additional need for the product (see Figure 7). On the consumers side, they already know how to order products and how to determine fit. On the manufacturers side, they already have information about the consumers size and preferences; therefore, they may produce the product faster than for the first order. They may not measure or try on product again because the manufacturer already knows their information. Also, some questions may be similar or not be asked at all.

## Summary

This chapter discussed the conceptual framework for the relationship between a manufacturer and consumers, and proposed the model based on this framework. Also, limitations of previous research and models were discussed. Previous marketing research has not measured the consumer's purchasing of bundle of goods and services products and has not examined the purchasing process over time, long-term basis. To respond to these limitations, a new model representing the RM approach was presented. The next chapter constructs the research design based on the conceptual framework and model in this chapter.

Phase Two

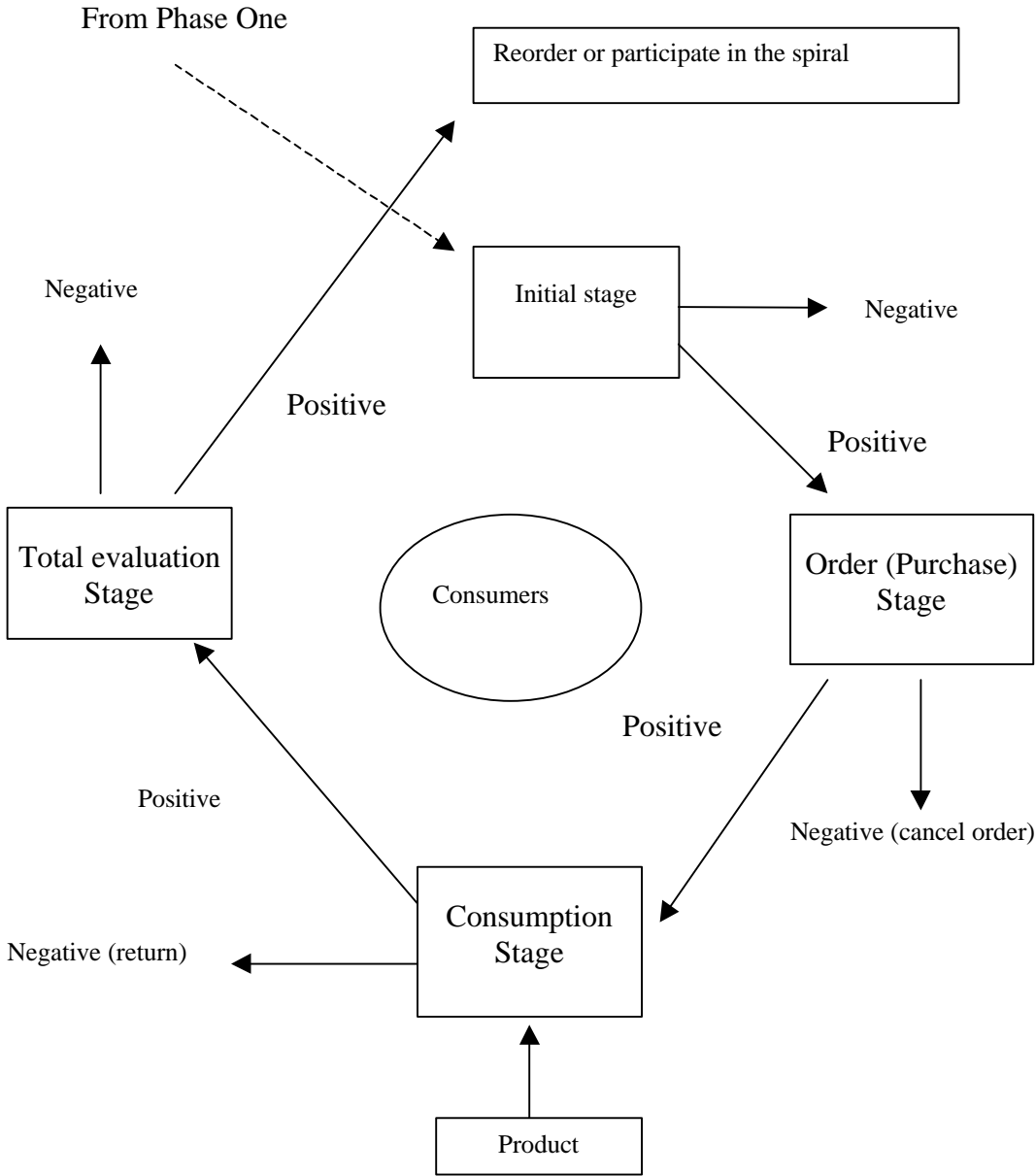


Figure 7. Relationship Spiral Model: Phase Two (Adapted from Gronroos, 1983b, 1993)