

## **Customer sharing: a new driver of strategic networks in the contemporary retail industry**

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## **Abstract**

Companies form networks in search of various benefits. An emerging form of strategic networking is the customer relationship network consisting of actors that share their customer databases in order to benefit of the shared customer base. The aim of our paper is to explore how a joint marketing network based on shared customers works and develops. The empirical foundation of this paper is based on a qualitative empirical study, which consists of exploring a strategic network that comprises seven independent companies in the Finnish retail industry. The study is carried out from the perspectives of the key node and the partners in the network. Our study contributes to the business networks literature by identifying six levels of customer sharing in the strategic network: the match of organizational values, customer base matching, extending offerings, cross selling, improved concepts and new business innovation and the development of cooperative relationships in the strategic network. In the beginning, partners seek cost-effective new customer acquisition through sharing their customer bases and access to each others customers. As these wins are gained, closer cooperation and better targeting and cross selling can bring additional benefits. The next challenging step is to learn to arrange the various offerings of the parties into joint concepts, and to develop new offering packages and concepts together with other partners. Only after experience and learning of cooperation through these levels can the network succeed in developing new business innovations. Another contribution is to describe the development of customer relationships networks and motivates and benefits at different levels. An analysis of a prevalent retailer network reveals how the realization of gains for both the entire network and its individual members is determined by the evolution stage and management of the network. Our study suggests that the levels actually depict on both horizontal and vertical growth of business in the strategic network, which may take place simultaneously.

## **1. Introduction**

Business networks are the source of firms' distinctive competitive advantage (Borch and Arthur, 1995; Gulati et al., 2000; Jüttner and Schlange, 1996; Möller et al., 2005). Dependence on network relationships and the maintenance of such networks might dictate the core survival strategy of firms in the global economy (Chapman et al., 2002). The network approach stems from the idea that each company in the market has several different relationships with customers, suppliers and other business actors. Networks are sets of relationships between firms, where companies engage in multiple two-way relationships to bring increasingly complex products and services to the market (Aldrich, 1998; Cravens, 2006). Thus, companies are able to enhance their effectiveness and competitive advantages through the network of various actors. Systematic networking activity depicts contemporary business.

There are strong incentives for firms to intense relationships with their customers. Collaborative relationships are of growing importance to customers and suppliers alike (Ford, 1997). Proponents of relationship marketing seek to develop and maintain long-term ties to their customers in the hope of having a loyal customer base (Morganosky & Cude, 2000). Moreover, prior studies in the industrial markets indicate that a supplier's potential for value creation to customer increases in relative importance as relationship moves through the life cycle (Eggert et al., 2006). This leads to the notion that customers' trust and loyalty enable their suppliers to gain relationship-specific advantage over current and potential competitors. In addition, they enable the emergence of a new phenomenon that is especially visible in the retail industry. The leading retailers' concepts are increasingly based on building strategic networks and sharing customer information with their partners in order to benefit of the shared customer base. The aim is to take advantage of other firms' customers' trust and loyalty to their suppliers, as well as strengthen the customers' loyalty by creating value added.

The rise of customer sharing could ensure winning business models in the network economy. In the fundamental form, customer sharing refers to business actors that share their customer databases with other firms in the strategic network. In its advanced form, customer sharing results in novel offerings based on multi-actor collaboration. Both of these forms require the development of intense business relationships

among the network partners. In fact, organized collaboration, such as customer sharing, among the companies involved is an important driver of strategic networks (Gadde et al., 2003). Networks have been analyzed with different theoretical backgrounds and methods, at different levels, and with different results and conclusions. This diversity promotes a better understanding of the antecedents, drivers, dynamics, and effects of relationships and networks (Ritter & Gemunden, 2003). However, despite the fact that strategic networks have proven their potential in creating and capturing value for multiple parties (Jarillo, 1988; Elfring & Hulsing, 2003), prior research lacks understanding of customer sharing among the network context.

The aim of the paper is to explore how a joint marketing network based on shared customers works and develops. We consider “customer relationship networks” as networks of partners based on shared customer bases and discuss the concept by exploring how customer sharing drives business opportunities from the perspective of networking. In concordance with the objectives of firms’ relationships with customers, the aim in strategic networks is to establish long-standing relationships and commitment to working together to support the best interests of the shared customer base. The evolution of the networking enables firms to benefit of each other in time. Hence, our study focuses on the drivers, benefits and levels of customer relationship networks by analyzing the phenomenon in the retail industry context. We are especially interested in the following specific research questions:

- (1) What is customer sharing in the strategic network context?
- (2) What are the different levels of strategic network evolution?
- (3) What are the motives and rationale for firms to share their customer base?
- (4) How does customer sharing drive business challenges and risks in these levels?

Our paper is structured as follows: After this introduction, we discuss the theoretical foundations of customer sharing from the strategic network perspective. We then proceed with a conceptual framework to describe the different levels of development in customer relationship networks. After that, we illustrate the framework a case study on customer relationship network in the retail industry. The study provides us with an analysis of the drivers, benefits and levels of customer relationship networks. Finally, we conclude the study by discussing the theoretical and managerial implications derived from our analysis and recommend some avenues for future research.

## **2. Theoretical background**

Research and development of networks inch towards strategic networks. Concurrently, successful networking is claimed to become the basis of competitive advantage and the key to successful business models lies in understanding the dynamics of strategic networks (Allee, 2000; Tapscott et al., 2000; Timmers, 2003; Miles et al., 2006). Some authors have attempted to identify how to develop and manage different types of strategic networks and their initiatives (Jarillo, 1988; Möller et al. 2005). Despite that already Håkansson and Snehota (1995) called for more extensive insights on the firms’ strategy formulation and its implementation in the network context, there is still a lack of understanding among researchers and managers with regard to the motives and drivers of collaboration. Companies enter complex business relationships to exploit and develop their resources, and to create and maintain the basis for their competitive advantage (Hung, 2002). Strategic networks enable them to adapt rapidly to market changes and combine knowledge and capabilities beyond their own possession in order to create new business models.

Actors’ interests, perceptions and positions are interesting subjects in the network context. These issues have been of key concern in the research literature on networks from the perspective of industrial network approach (INA) since the early 1980s (Easton, 1992; Ford, 1997; Håkansson and Snehota, 1995). According to Håkansson and Johanson (1992), network actors have five characteristics: they (1) perform and (2) control activities that are based on (3) control over resources and (4) develop relationships with each other (5) through exchange processes. Furthermore, Holmlund and Törnroos (1997) point out that the actors are goal-oriented; they act in order to make economic gain and to increase their control over the value-creating network. Actors have differential knowledge about activities, resources, and other actors in the network, and they provide both information and opportunities to identify new business alternatives. However, their interests regarding the objectives and position in the network are often temporal, and may be markedly different in the future.

Specific characteristics of industries make the difference in creating customer loyalty and the retail industry remains a challenge. According to Morganosky and Cude (2000) there appears to be a lack of loyalty to any particular food retailer, thus causing considerable non-intended sharing of customers among competing retailers. Keeping in mind that loyalty may increase involvement in relationships retailers such as Tesco pursue catching up in the customer loyalty race by setting up customer-loyalty programs and using customer-card systems (Clayton-Smith, 1996). More advanced forms of customer-focused strategies employ the concept of customer sharing. The idea behind customer sharing is that firms purposefully share their customer information with other firms and allow these partners an access to their customer base in exchange of getting information and access to their partners' customer base. The reciprocal link partnership allows the firms to benefit from each other's market strengths and target new customers, even they said function independently. According to Hofmann (2005), membership of a data exchange network and the role played in it will become important new parameters of competition. Customer knowledge is increasingly recognized as a key strategic resource in any company's success (Rollins & Halinen, 2005).

The mainstream of industrial relationships focuses on research and development networks, supplier networks, or productive activity in industrial settings based on interaction, relationships and networks (e.g. Håkansson, 1982; Turnbull & Valla, 1989; Ford, 1990). However, network research pays little attention to the drivers and motives of collaboration and the emerging business opportunities in different stages of network evolution (Eggert et al., 2006). Moreover, the development of the network economy has transformed business practices. A major shift occurs in the marketing efforts. Given the abundant information on customers and products, marketing responsibility has changed from managing products for sellers to managing relationships with customers and to facilitating decision-making for customers (Rygielski et al., 2002). In addition, new power structures will emerge within the data exchange contexts where actors have shared customer bases. Despite recognizing the critical role of sharing customer base, the emerging literature on customer sharing does not consider the issue in business networks, rather in dyadic supplier-customer relationships (e.g. Liu & Serfes, 2006).

A customer rarely gets all the services he or she needs from one supplier (Nylander et al., 2002). As firms and other organizations time and again recognize this fact, there have emerged new marketing strategies that employ co-branding. Prince and Davies (2002) describe the strategy of co-branding as something that occurs between companies with two or more distinct brands marketed together to form a unique composite offering that adds value for the consumer. When co-brands are presented as a new consumer option, the success of the venture will be influenced by both the product fit and brand fit between each of the co-brands. The decision about whether to co-brand is based on two conditions: the opportunities for creating a competitive advantage, and the operational benefits that will result. When these conditions are favorable, a firm must pick the right co-branding partner. The criteria include, e.g., compatible goals, compatibility between brands, investment requirements and arrangements, prospective partner's organization culture and values, customer orientation and its commitment to the agreement (Doz and Hamel, 1998; Prince & Davies, 2002; Geringer, 1991; Dacin et al 1997; Brouthers et al., 1995; Kanter, 1994).

The popularity of partnering suggests that entering alliances enhances the competitive position of the respective partners (Häussler, 2005). However, customer sharing in networks is something more than that. Gundlach and Murphy (1993) explain how co-branding agreements differ from strategic alliances. At the outset, co-branding agreements are likely to be initiated through the informal exchanges of information and intentions. The next step is typically traditional contractual exchanges, a formalized and binding agreement between two independent contractors or suppliers with the aim of involving each firm in the other's brand-building or marketing operations. In contrast, strategic alliances usually begin directly with nontraditional contractual exchanges, which involve working together to develop new products, technological edges, or sourcing efficiencies. Also Spekman et al. (1996) point out that co-branding agreement may be strategically motivated to gain competitive advantage. Customer sharing in networks shows aspects of all these strategies, but includes an array of actors that pursue developing their relationship from an initial stage of sharing customer databases and customer knowledge, into co-branding of goods and services, and ultimately providing joint offerings. We call such evolutionary and purposeful settings as customer relationship networks.

### **3. Methodology**

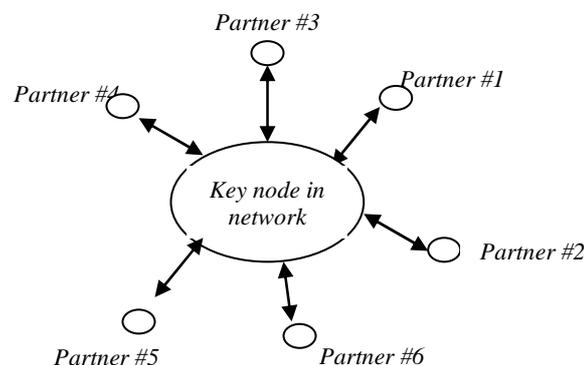
We used both deductive and inductive analyzes in our research process. In order to investigate how customer sharing drives business opportunities during the evolution of strategic network, we approached our research theme through a qualitative empirical study. The analysis consists of exploring a strategic network that comprises seven independent companies in the Finnish retail industry. These firms are medium sized and large firms that have between 50 to 5000 employees. We studied the case companies thoroughly by collecting primary data using several research methods: semi-structured interviews and the workshop method. In addition, our material comprised secondary data in the form of bulletins, magazines, memos, and confidential company reports.

The interviews were conducted in 2004-2005. Lincoln and Guba (1985) suggest a case be discussed from the perspectives of all parties. Moreover, Yin (1989) states that findings or conclusions in a case study are likely to be more convincing and accurate if they are based on several different sources of information. Thus, the interviews covered a total of 15 informants representing all the parties. The informants included senior management, such as CEOs, Chairs of the Board, and sales directors. Data collection continued until repetition of data occurred without discovery of any new themes. Workshops incorporated 15 participants, as well, and took place at a university decision making laboratory.

Hirschman (1986) suggests that using multiple human observers enhances the reliability of the study. The interpretations of multiple observers were compared to determine whether the empirical data were dependable and consistent. In addition, Hirschman (1986) states that an investigator is not presumed to be emotionally neutral and personally distant from the phenomenon of interest. Therefore, the investigators communicated with representatives of the parties not only during interview sessions but also afterwards. Furthermore, Lincoln and Guba (1985) suggest an audit trail and an audit process for establishing conformability. These actions ensured that the data was carefully collected and recorded, and analyzes were reliable. The researchers also kept a diary of the research, which describes and opens up the documentation, and contains field notes. The diary was a methodological recording of the research process and data collection, as Yin (1989) recommends.

#### 4. Case study

Despite the economic significance of strategic networks, there is little literature on their development, especially on those where customer relationships are the key driving force. This case describes how a strategic network works and develops. Further, the case depicts the merits and possibilities of a strategic network by analysing a Finnish case company and its partner network. The studied strategic network is one of the leading networks in the Finland and possesses approximately 1.2 million loyalty card members. There are around 2.43 million households in Finland, which means that most of households are loyalty card members of that supplier. Its strategic network consists of multiple actors and business, a key node and six partners in network (Figure 1).



**Figure 1.** Our case network in the retail industry

The strategic network in our case study encompasses most areas of customer's daily life. The key node is the retailer who has runs multiple businesses areas (groceries, restaurants, car trade, building, hotels, and gardening). Partners of the network include a bank and insurance companies, a mobile operator, an electric company, companies working on the welfare areas, a furniture shop, and travel agencies. The retailer selects

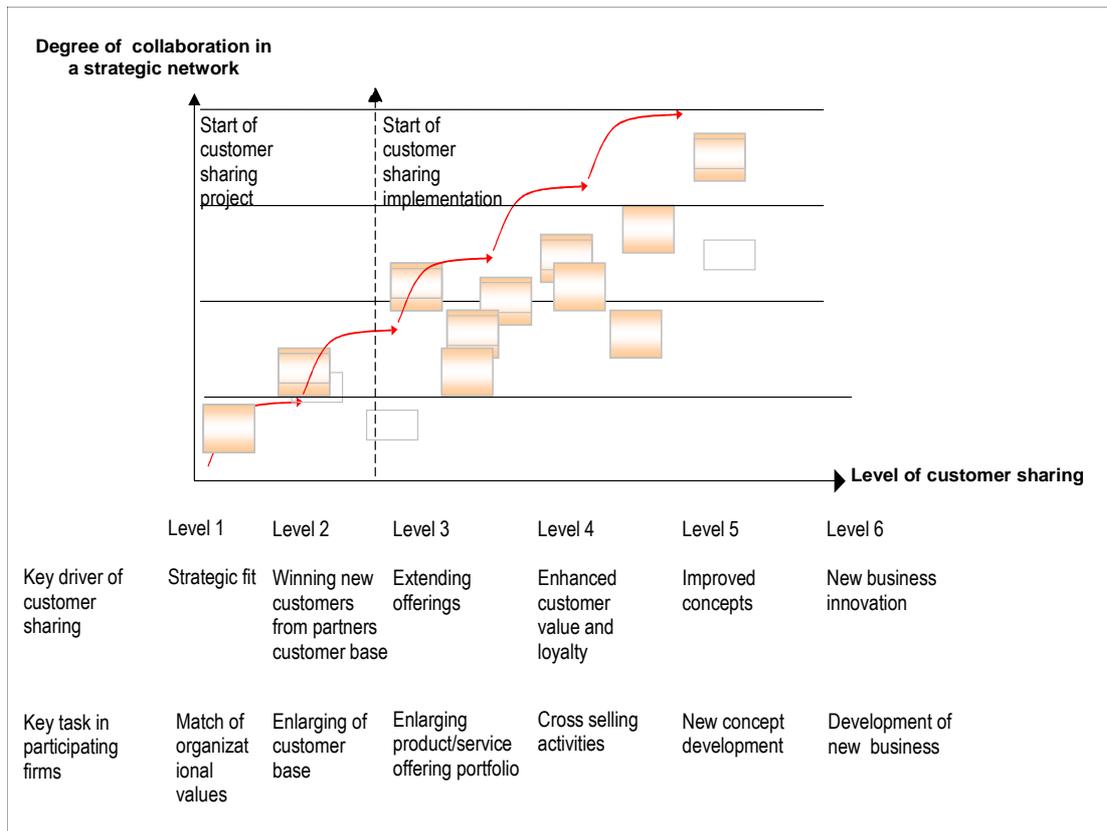
the partners in order to complement its product and service offerings, thus, they are not direct competitors of the key node. The strategic and operative co-operation is coordinated and orchestrated by retailer, the key node. One of its primary tasks is to manage the customer base of the strategic network. The customer base consists of loyalty card members and is facilitated by the data collected of their purchases from the whole network. The key node supplements their offering to its loyalty card member customers. The loyalty card members are rewarded on a regular basis by their monthly purchases and the strategic network card reflects loyalty to key node partner in network.

The strategic network is in the state of constant change. New partners join the network every while and then. The partners defray annual fee for being a member of the strategic network and take care of the share of loyalty reward based on loyalty card members' monthly purchases at their shops. The partners may also resign from the network for commercial reasons, such as if the expected value does not materialize from cooperation. The motives and rationale for the actors to join the strategic network are heterogeneous. However, they can be broadly categorized in terms of financial, relational, learning, and technological opportunities.

#### ***4.1 Motives and rationale of customer sharing in strategic networks***

Motives and rationale are not static by nature but emerge based on co-operation in the network. Our analysis suggests that cooperation in customer sharing develops on six levels in strategic networks, which are illustrated in Figure 2. The materialized benefits are depicted throughout the development of the network. The key node and partners co-operate at different levels simultaneously, based on realities of businesses. Different partners may have proceeded on different levels. Next, we will describe the different levels and discuss why partners join the network and are willing to share their customer bases.

*Level 1: Match of organizational values* – A key reason of the retailer is to maintain the attraction power of the network. Moreover, it pursues to ensure the width of its product/service offerings to customers and boost the growth of its businesses. Because of these aims, it constantly looks for new partners to invite to the strategic network; the eventual idea is to increase product and service offerings for the loyalty card members. Retailer, the key node player, evaluates the needs and the strategic fit of a potential partner. Strategic fit here means that the node firm evaluates partner's organizational culture and values, possible contributions, and expected benefits over time. These are prerequisites for joining the network. The need stands for partner's complementary capabilities to fulfil customers' desires. Conversely, the partner evaluates the expected benefits for joining the network. Typically, a partner gains an access to a large customer base of the network. Furthermore, the partner benefit of the strong brand of the network. It will also become a member of knowledge sharing and learning network, which boosts the growth of business and strengthens the firm's competitive position, brands and attraction power to the consumers. However, the partner has to meet strict criteria related to its size, available capabilities to provide high quality products and services, complementary capabilities, as well as the willingness to share its expertise. During the negotiation and evaluation common goals will be agreed, cooperation formed, and the structure of co-operation in the strategic network established. This elects mutual contract between the key node and the partner.



**Figure 2.** The six levels model of customer sharing in collaborative networks

*Level 2: Customer base matching* – The retailer markets and sales a plethora of products and services of the strategic network to the loyalty card members. It, as the key node, stresses the renewal of offerings to meet the needs of customers, when a new partner joins the network. It targets to increase the attraction power to both loyalty card members and the partners. The key node aims to attain new customers and loyalty card members, as well as increase the customer loyalty, and further the sales. The main motive for a partner to join the strategic network is to extend their customer base. The partner will use its entry to the network in its marketing; “purchase with us and you will gain all the benefits of our partner network”. The key node and partner agree on loyalty rewards to cover all product and service portfolios of partners. Marketing is geared to the joint customer base, where partners can achieve new customers for themselves. The key node facilitates the large-scale sales of partners’ entire product portfolio. However, the partners enhance markets and sales of their products and services gradually in order to ensure the sufficiency of its resources. Level 2 provides the actors in the network with efficient and rapid way to attain new customers by investing marketing to this customer base. Furthermore, it provides cost-effective input/output marketing ratio.

For the key node the motive has been to offer complementary offerings and to increase customer loyalty through increased product offerings. The prerequisite for renewal is that new partners are admitted to the program. The key node claims that its vision is to offer consumers cost-effective services for everyday life and encompass all vital areas of life. This initial form of cooperation allows for the parties to increase their businesses and achieve customer loyalty for both the key node and the other parties. Moreover, all parties test and evaluate one-to-one cooperation in limited product and service portfolios. In addition, the parties increase their attraction power and facilitate the convenience of shopping by physical location, such as shared shopping mall, closely located shops. In our case, an example of this is an optic store in a retailer’s outlet. This collaboration makes it feel more like a shopping mall for the customer and fosters emotional on-stop shopping through broad line the offerings. Yet, there are challenges. The customer base matching has been proved efficient because the turnover and market share has increased in the parties of network. However, the benefits of customer base matching decrease in tandem with new customers from the key node at the long term. Ultimately, there are no further benefits to the partner, i.e. to gain new customers from the customer base of the loyalty card members, but there is clear benefit for the key node player to

further act with other partners: offering complementary services to its offerings and to strengthen the customer loyalty to its loyalty card members.

*Level 3: Extending offerings* – The key node, i.e. the retailer, aims to strengthen the customer loyalty and further advance sales of its businesses as well as of the entire networks. Together with other parties it continues to widen their one-to-one collaboration, which was started through limited product and service portfolios at the previous level because of limited resources. The parties tighten their bilateral co-operation to enlarge the product and service offerings at this new level. Enlarging product and service offerings to existing customer base of the key node is an evident and recurrent way to keep key node and partner's businesses in a growth curve. In our case, an example of this is a shift of a mobile service operator's marketing effort to make customers extend their mobile phone service subscription with a wireless Internet broadband subscription. In addition to that, the partner develop new tailored product offerings and sell the products to other channels that comprise other customer bases. The parties also maintain their attraction power and improve the convenience of shopping. There is more intensive knowledge sharing activity in terms of understanding and segmenting customer bases in the strategic network. Once the customer base is large enough, it becomes lucrative for all parties to co-develop joint offerings for the customers. All parties win the trust of each other and the joint goals will be developed. For the key node player there is clear benefit to further offer complementary offerings and to strengthen the customer loyalty of its loyalty card members. Joint goals are needed to proceed to the next level of cooperation, which is identified as cross selling. Cross selling becomes a viable next form of collaboration.

*Level 4: Cross selling* – The network cooperation manifests itself in cross selling activities between the key node and a partner in the strategic network. Jointly agreed customer segments are a prerequisite to deepen the cooperation between the key node and a partner. Cross selling takes also place between two partners in the network. However, multiparty cooperation within the strategic network is scarce even though it starts to flare. The parties broaden their customer understanding by sharing and analyzing customer data as well as identifying new customer segments together. They seek the potential benefits by analyzing and identifying the lucrative segments of each customer base. This leads to a better understanding of customer. The parties join and analyze each others' customer bases and target joint marketing campaigns of product and service offerings based on their analyses. Cross selling pursues achieving a bigger share of customers' purchases. The parties increase the sales of existing products and services through cross selling to most potential customers, which is based on joint customer analysis and segmentation. They focus on potentially the most profitable customer segments which just need to be facilitated to get a bigger share of the customer wallet. Cross selling to other parties' databases is also evident and a recurrent way to boost each party's business by identifying the developed segments, which leads to tighten the cooperation between parties. The parties maintain bilateral co-operation and test the multiparty co-operation.

*Level 5: Improved concepts* – Identification, measurement and realization of benefits are prerequisites to evolve cooperation in the strategic network. All actors in the network have received clear and measurable business benefits, but the partners do not have to strongly commit the strategic target of network. The long term strategic target of the network is to maintain the card member's loyalty and commitment to the network and have a bigger share of customers' wallet by providing competitive and broad product offerings. A short term interest is to gain customers without intending to stay in the network in the long term perspective. Actually, the partners have been able to combine their short term and the strategic network's interests. The parties' motives are now to increase the sales of individual product/services by bundling existing products and services. There should be strong and clear strategic commitment to the cooperation, which takes place through a joint service, business model and concept development between multiple parties. The service, business model and concept development in the strategic network enable the benefits such as the quick development of a new product, extensive test and evaluation possibilities, as well as joint marketing possibilities. These provide the actors with both the economics of scale and scope.

The structure and compatibility of key node player's strategic network with that of partners are disputable. The partners are selected from the key node's perspective in order to complete its product and service offerings. No multilateral or bilateral further business opportunities are concerned at that level. This causes that there are restricted possibilities to identify joint service, business model, or concept development possibilities for the whole network. The development of these takes place between those parties that have natural fit with each other's offerings. In our case, an example of the joint product development is in the

area of welfare business, in which offerings support all parties' businesses. Another possible fit are the product supplements of each party, such as the combination of insurance and a product or a combination of financing and product. Possible conflicts or disagreements may arise between parties when identifying new emerging business areas. Therefore it is essential to settle motives, benefits, results and expectation of each party in advance. These will tighten the multiparty co-operation of strategic network.

*Level 6: New business innovation* – Co-operation targets to develop new concepts, services and products, which are based on understanding the needs and motives of all partners in the network. The number of actors declines along with proceedings to upper levels. The development of new business innovation presupposes clear, mutual and strategic choice of parties, in which risks and benefits are evaluated. There are different ways to conduct new business development in the strategic network: internal product development of an individual partner; broadening and combining product and service offerings with partner's offerings (partners); and the development of new networked offerings (parties outside of network). New business innovation targets to increase sales to existing customers as well as acquires new customers. Our analysis shows some indicators of new business innovation development in the strategic network fostered by learning of new businesses that fit the offering portfolio of a company. In our case, an example of this is a service targeted to loyalty card members, which contributes to specific areas, events or episodes of life, such as the removal into a new address, or change of the marital status of loyalty card members. The parties in the network need to co-create the change of residence services and wellbeing services to existing customers and establish completely new business arenas.

**Table 1.** Summary of actors' motives and rationales in a strategic customer relationship network.

| <i>The level of network evolution</i>          | <i>Motives and rationale of the key node in strategic network is to</i>   | <i>Motives and rationale of partners in strategic network is to</i>  |
|--|---|--|
| <i>Level 1, Match of organizational values</i> | <ul style="list-style-type: none"> <li>• evaluate needs and strategic fit of partners</li> <li>• look for new partners for the strategic network</li> <li>• maintain attraction power of network and width of its product/service offerings</li> <li>• boost the growth of business</li> <li>• elect discussion, negotiation and evaluation into mutual contract</li> </ul>   | <ul style="list-style-type: none"> <li>• evaluate and judge benefits to join the network</li> <li>• access to a large customer base of the network</li> <li>• access to a strong brand of the network</li> <li>• access to knowledge sharing and learning networks</li> <li>• boost the growth of business</li> <li>• strengthen one's competitive position, brands and the attraction power to consumer</li> </ul>  |
| <i>Level 2, Customer base matching</i>         | <ul style="list-style-type: none"> <li>• market and sale broad product offerings and renewal to meet the needs of customers (new partners join the network)</li> <li>• increase the attraction power of network to partners and loyalty card members</li> <li>• attain new customers (and loyalty card members)</li> <li>• increase customer loyalty and further sales</li> <li>• test and evaluate bilateral cooperation with partners in limited product and service portfolio</li> <li>• increase the attraction power and convenience of shopping by physically close stores such as a shopping mall</li> <li>• sale the whole product portfolio of partners</li> </ul> | <ul style="list-style-type: none"> <li>• market entry of partner to network</li> <li>• utilize the network in one's market promises, "purchase us and you gain all the benefits of network"</li> <li>• attain new customers cost-effectively</li> <li>• increase the attraction power and convenience of shopping by physically close stores such as a shopping mall</li> <li>• market and sale one's products and services gradually in order to ensure sufficient resources</li> </ul> |
| <i>Level 3, Extending offerings</i>            | <ul style="list-style-type: none"> <li>• strengthens customer loyalty and further sales</li> <li>• tighten bilateral co-operation</li> <li>• maintain the attraction power and convenience of shopping</li> </ul>   | <ul style="list-style-type: none"> <li>• offer broader product/service portfolios</li> <li>• increase customer loyalty and commitment</li> <li>• tighten bilateral co-operation</li> </ul>   |
| <i>Level 4, Cross selling</i>                  | <ul style="list-style-type: none"> <li>• broaden customer understanding by sharing and analyzing customer data, constructing new customer segments together</li> <li>• increase sales of existing products and services through cross selling to most potential customers</li> <li>• take a bigger share of loyalty card members' wallet</li> <li>• target product and service offerings</li> <li>• maintain bilateral co-operation and test</li> </ul>   | <ul style="list-style-type: none"> <li>• broaden customer understanding by sharing and analyzing customer data, constructing new customer segments together</li> <li>• increase sales of existing products and services through cross selling to most potential customers</li> <li>• take a bigger share of loyalty card members' wallet</li> <li>• target product and service offerings</li> <li>• maintain bilateral co-operation and test of multiparty co-operation</li> </ul>       |

|   | multiparty co-operation  |   |
|---|--|---|
| <i>Level 5, Improved concepts</i>       | <ul style="list-style-type: none"> <li>• increase sales of individual product/services through bundling existing product and services</li> <li>• improve service, business model and concept development</li> <li>• learn new business opportunities that fit the offering portfolio of the company</li> <li>• tighten the multiparty co-operation of strategic network</li> </ul> | <ul style="list-style-type: none"> <li>• increase sales of individual product/services through bundling existing product and services</li> <li>• improves service, business model and concept development</li> <li>• learn new business opportunities that fit the offering portfolio of a company</li> <li>• tighten multiparty co-operation of strategic network</li> </ul> |
| <i>Level 6, New business innovation</i> | <ul style="list-style-type: none"> <li>• co-create new concepts, services and products</li> <li>• establish new business arenas</li> </ul>   | <ul style="list-style-type: none"> <li>• co-create new concepts, services and products</li> <li>• establish new business arenas</li> </ul>  |

#### **4.2 Identifying and managing challenges and risks in the strategic network**

The overall challenge of the key node is to maintain the existing loyalty card members' interest to the loyalty program in a strategic network and attain new loyalty card members. This means that the key node's business development targets not only on one level but all the six levels simultaneously. The partners constantly monitor the benefits of cooperation in network. Several risks and challenges can be identified on different levels of the network evolution. The ultimate risk is that the actors in the network do not share the same goal.

*Level 1: Match of organizational values* – The network is in the state of constant change because of the strategic choices of parties, such as merger or acquisition, as well as investments to specific business areas. The partner evaluates options to achieve customer loyalty through the network. A partner may hold its position in the network and continue cooperation with the strategic network or it may resign the network and continue with its own loyalty program. Further, the partner may join another strategic network and start its activities there, thus, gaining other benefits from there. The key node's perspective is to explore and substitute lost product and service portfolios when a partner resigns from the network. This means that the retailer faces risks to loose attraction power of the network and the width of its *product/service offerings*.

*Level 2: Customer base matching* – A partner has invested in joining the strategic network. It faces a cost risk if the business does not grow as planned. From the key node's perspective there are sunk cost risks, because the key node has invested in evaluating, learning, and co-operating with the partner. The lack of growth of partner's business ultimately causes the diminishing volume of loyalty rewards, and loosing the attraction power of network.

*Level 3: Extending offerings* – The key node may fail to add real value to loyalty card members. This means that the loyalty card members do not buy products or services, or the offerings do not fit the overall portfolio of network. This means stagnation of the businesses in the strategic network. The partner has a challenge ensuring its resources in expeditious growth at the short time period. On the other hand, partner's business may also become stagnated. Hence, loyalty rewards turn into extra costs without true benefits.

*Level 4: Cross selling* – The ultimate risk of cross selling is that further sales do not take place. The parties may also face the situation where they lose their knowledge of customer segments and segmentation methods to another party. This may occur, for example, when a partner resigns from the strategic network.

*Level 5: Improved concepts* - Both parties share challenge to ensure resources to tighten and development of cooperation. This is especially true when cooperation takes place on different levels, with multiple parties as well as several different activities, services, concepts etc simultaneously. This may also lead that the challenges to development and management of concept. The parties have risk to lose your part of own business to network. The key node may also lose knowledge of business concept and its competence to resigning partner or even to other network. Further, the parties may face challenges to ensure partners willingness to further development of concepts. An example of this is that a partner is not interesting to develop and share the concept with others. Rather the party likes to do development work and receive results by itself.

*Level 6: New business innovation* – All parties share the challenge to ensure needed competences and resources for new business innovation. The parties have a risk to loose the developed innovation to

resigning partner or even to other network of actors. Thus, they have to ensure that the profits of new business innovation meet the investments. Moreover, they face the risk that the innovation may boost new business a little but reduces radically their existing business. The challenges and risks of individual partners in strategic networks differ on the basis of the study, which is summarized in Table 2.

**Table 2.** Business challenges in the strategic network

| <i>The level of strategic network evolution</i> | <i>Key node’s challenges and risks</i>  | <i>Partner’s challenges and risks</i>   |
|---|---|---|
| <i>Level 1, Match of organizational values</i>  | <ul style="list-style-type: none"> <li>• explore and substitute lost product and service portfolio when a partner resigns from the network</li> </ul>   | <ul style="list-style-type: none"> <li>• evaluate options to achieve customer loyalty though the network</li> <li>• hold one’s position in network</li> <li>• resign the network</li> <li>• join another network</li> </ul>   |
| <i>Level 2, Customer base matching</i>          | <ul style="list-style-type: none"> <li>• profit risk, sunk costs</li> </ul>   | <ul style="list-style-type: none"> <li>• cost risk; business does not grow</li> </ul>   |
| <i>Level 3, Extending offerings</i>             | <ul style="list-style-type: none"> <li>• fail to add real value to customers</li> <li>• stagnation of the business</li> </ul>   | <ul style="list-style-type: none"> <li>• ensure resources to expeditious growth</li> <li>• stagnation of the business</li> <li>• loyalty rewards turn into extra cost without true benefits</li> </ul>  |
| <i>Level 4, Cross selling</i>                   | <ul style="list-style-type: none"> <li>• boosts sales</li> <li>• lose knowledge of customer segments and segmentation methods to a resigning party</li> </ul>   | <ul style="list-style-type: none"> <li>• boost sales</li> <li>• lose knowledge of customer segments and segmentation methods to a resigning party</li> </ul>  |
| <i>Level 5, Improved concepts</i>               | <ul style="list-style-type: none"> <li>• ensure resources to develop cooperation</li> <li>• lose part of one’s business to network</li> <li>• lose knowledge of business concept and its competence to resigning partner or even to other network</li> <li>• ensure partners willingness to further development of concepts</li> <li>• ensure the development and management of concept</li> </ul>                          | <ul style="list-style-type: none"> <li>• ensure resources to develop cooperation</li> <li>• lose part of one’s business to network</li> <li>• ensure willingness of strategic network to further development of concepts</li> <li>• ensure the development and management of concept</li> </ul>   |
| <i>Level 6, New business innovation</i>         | <ul style="list-style-type: none"> <li>• ensure needed competences and resources for new business innovation</li> <li>• lose developed new business innovation to a resigning partner or other network</li> <li>• ensure that profits of new business innovation meet the investments</li> <li>• new business innovation boosts the new business a little, but reduces existing business of parties dramatically</li> </ul> | <ul style="list-style-type: none"> <li>• ensure needed competences and resources for new business innovation</li> <li>• lose developed new business innovation to resigning partner or other network</li> <li>• ensure that profits of new business innovation meet the investments</li> <li>• new business innovation boosts the new business a little, but reduces existing business of parties dramatically</li> </ul> |

### 4.3 Paradoxes in the strategic network

The strategic network with shared customers boosts and drives business opportunities to all parties of the network. Loyalty card members are drawn into the network because of its attractive product and service portfolio and loyalty rewards. For the key node and the partners it increases card member’s loyalty and accelerates the sales to the customers. However, several paradoxes may be identified in the network. First, there is the question of non-balanced benefits in the network. That is, business opportunities do not occur equally to all partners in the network. This is due to that the challenges of partners differ; they are on the different levels of the strategic network evolution. Furthermore, despite of the possibilities in the strategic network, it is not always easy to realize the full benefits of the network. The partners have even contradictory interests. The input/output ratio of benefits, expectations, and motivations is not equal for all parties. The benefits and motivation are realised in co-operation, which takes place between parties.

Benefits of partners dry out unless new benefits are realized and utilized. Further benefits must be developed. An example of this is a tool to increase the understanding of the benefits in being in the network, such as the discounted customer value. This means that a benefit of maintaining the loyalty of card members must be greater than the cost of maintaining the loyalty of the card members. Moreover, there are plural

commitments to the strategic network. A partner may engage in several strategic networks (e.g. be a partner in many networks) and tap customer bases of these networks for marketing its products and services through multiple channels. Therefore, there is no real commitment to a specific network.

There is a lock-in mechanism in the customer relationship networks, because the product and service portfolio encompasses the vital areas of customer's life and the share of loyalty rewards increase by the amount of purchases. The network may be locked in the success of network. The investments are targeted to twirl daily operative routines instead of proceeding to the next levels and investing to future earnings. However, mere loyalty rewards do not lock loyalty card members into the strategic network rather each individual party in the network needs to provide high quality and competitive products and services. A lock-in mechanism may turn out a lock-out mechanism of the network for the partners. This means that the benefits of network do not expand further and the input/out ratio decreases. Thus, further common interests are difficult to discover. The loyalty fee turns into an extra cost, which is still reasonable business behavior if the loyalty fee decreases the drop-out rate of customers.

Customer relationship network provides a strategic and operational forum for sharing and exploring business knowledge. This knowledge includes, e.g., customer segmentation and its methods, and marketing processes to all parties. The network can combine competences of different parties. When sharing crucial business competence there is always a risk that a new competitor appears nearby the firm's primary business area. However, the broad customer bases of the key node player have value to partners of the strategic network. Further business offerings are conducted to customers with the help of joint analysis of customer bases. The customer loyalty and the share of loyalty member's wallet increase. This learning and confidence enables the development of a new concept. However, there is a risk that several parties may develop similar new products or services, or target to expanding into the same business area based on each other's business experience, which causes that the parties may become the competitors for each other. Table 3 summarizes the paradoxes in the strategic customer relationship network.

**Table 3.** Paradoxes in the strategic network

| Paradox  | Description of paradox  |
|--|---|
| Non-balanced benefits  | Business opportunities do not occur equally, which reflects to the sustainability of network  |
| Partner benefits dry out unless new benefits are realized and utilized | Further benefits must be developed. The benefit of maintaining the loyalty of card members must be greater than the cost of maintaining the loyalty of card members                       |
| Plural commitment to strategic networks                                | A partner may engage in several strategic networks (e.g. be partner of many networks) and tap customer bases of networks for marketing its products and services through multiple channel |
| Lock-in mechanism of network   | The investments are targeted to twirl daily operative routines instead of investment to future earnings   |
| Forum to share and explore business knowledge                          | The strategic network is a forum to share knowledge and experience; it may cause the parties to become competitors  |

To sum up, in the empirical analysis we described the development of a customer relationship network in the retail industry. That is, we identified the motives and benefits of collaboration at different stages of evolution of a network that has shared their customer bases. Our results suggest that cooperation based on customer sharing develops on six levels. First, shared values are a prerequisite for joining the network (level 1). The key motive for a new partner to join the network is to extend its customer base (level 2). The rationale for a firm here is to offer complementary services to its own offerings and to strengthen the

customer loyalty. In its strategy manifestation one of our case firms informed that their vision is to offer cost-effective services for everyday life. Cooperation allows for gaining more business opportunities and achieving customer loyalty by each participant. The third level of the customer sharing in the network is to extend firms' product and service offerings. Once the customer base is large enough it becomes lucrative for the parties to develop joint offerings for the customers. Cross-selling becomes a form of cooperation at level 4. This requires that partners first trust each others and develop the common goals. The fifth level of customer sharing contains joint offerings or improved business concept development. The sixth level of cooperation pursues developing new business innovation, which is based on understanding the needs and motives of all partners in the network.

## 5. Discussion and conclusion

In this paper, we focused on depicting the customer sharing in strategic network of actors. The perspective was to examine the evolution of a strategic network in the retail industry. The study was carried out from the perspectives of the key node and the partners in the network. That is, we aimed first to describe both theoretically and empirically what collaborative relationships in the networks are, and pursued identifying the strategic network evolution in the retail context. Moreover, we analyzed the parties' challenges and risks to join in the strategic network and discussed the paradoxes related to the customer relationships network.

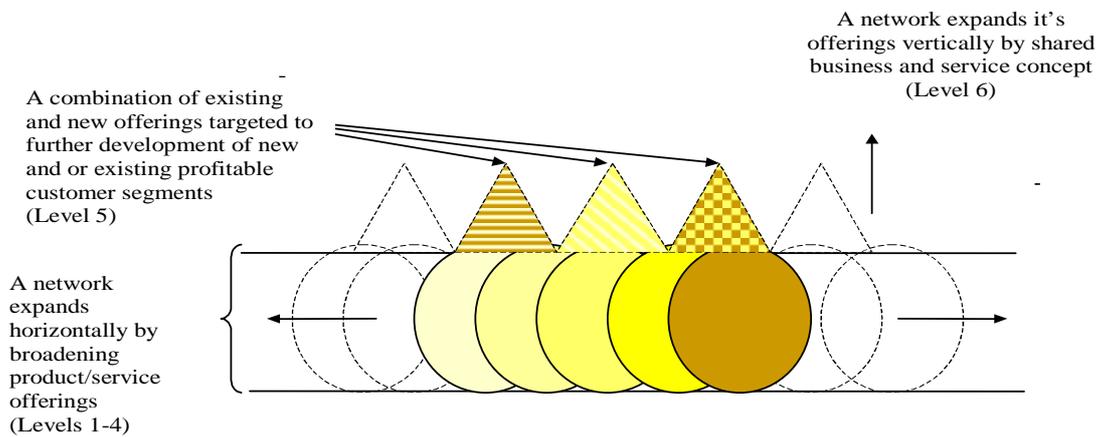
Our key premise was that collaboration will allow parties of the strategic network to extend their profit potential quickly and cost-effectively. The combination makes it possible for managers to make their companies more competitive. All partners will benefit of the shared customer base if they do not compete with each other, rather represent different areas in the retail industry. Collaborative efforts will also maximize production gains and shorten business development cycles for their shared customer base. For example, partners seek cost-effective new customer acquisition through sharing their customer bases and access to each others customers. As these wins are gained, a closer cooperation and better targeting and cross selling can bring expand additional benefits. The next challenging step is to learn to arrange and develop new offering packages and concepts together with the other partners. Only after experience and learning of cooperation through these stages can the network succeed in developing new business innovations.

The findings of our empirical study suggest that the strategic network evolves in collaboration between partners, customer sharing reaches new levels of collaboration and enables novel business opportunities to the partners of the network. Thus, shared customer databases and systematic network collaboration built on them will increasingly shape competition in the retail industry. Customer sharing will form the basis of superior business models for retailers and their strategic network partners. Hence, our study contributes to the business networks literature by identifying six levels in the strategic network: the match of organizational values, customer base matching, extending offerings, cross selling, improved concepts and new business innovation and the development of cooperative relationships in the strategic network. It should be noticed that all relationships in the strategic networks may not necessary have to go through each phase in the given order, but may jump directly into an advanced level. However, in our case network both the relationship development and customer sharing activity have been sequential throughout its history. This begs the question: is the organic network relationship development the superior to abrupt relationship development in both short and long term perspectives?

Another contribution is to describe development of customer relationships networks and motivates and benefits at different levels. An analysis of a prevalent retailer network reveals how the realization of gains for both the entire network and its individual members is determined by the evolution stage and management of the network. Our study suggests that the levels actually depict on both horizontal and vertical growth of business in the strategic network, which may take place simultaneously. To sum up, a partner of a strategic network has ultimately three choices in a strategic network:

- To stay at the same level of strategic network evolution
- To proceed to the next level by seeking new business offerings
- To resign from the co-operative strategic network.

In general, a strategic network, such as a customer relationships network, has different directions of growth. Our study suggests that the levels actually depict on both horizontal and vertical growth of business in the strategic network, which may take place simultaneously (Figure 3). At the moment the primary interest of our case network is targeted to existing loyalty card members by encompassing their vital areas of life. This means that the network is expanding horizontally by broadening its product and service offerings, which is described on levels 1 to 4. A combination of existing and new offerings targeted to further development of new or existing profitable customer segments represents level 5. Partners are identified and recruited to the network or the key node may start new business areas. Level 6 in the figure depicts this option. Simultaneously, the strategic network co-develops product and service offerings and expands vertically as described (Levels 1-4)



**Figure 3.** Strategic network’s options to grow

Using the framework of customer sharing along the strategic network evolution has many challenges and paradoxes. Firms need to take these paradoxes into account if they pursue development progress in the strategic network. Many of the paradoxes are related to the benefits of being and collaborating in the strategic network. First, there are non balance benefits in the strategic network. This means that business opportunities do not occurred equally, which reflects to sustainability of network. Second, benefits of partners dry out unless new benefits are gained. Further benefits must be developed. An example of that is a benefit of maintaining loyalty of loyalty card member must be greater than a cost of maintaining loyalty of loyalty card member. Third, there are plural commitments to the strategic network. This means that a partner may engage in several strategic networks (e.g. be partner of networks) and tap customer bases of networks to marketing its products and services marketing channel. Fourth, there is a lock in mechanism into the strategic network because the product and service portfolio encompasses vital areas of life and share of loyalty rewards increase. This means that the investments are targeted to twirl daily operative routines instead of proceed to the next levels and invest to future earnings. Last but not least the strategic network is a forum to share knowledge and forum decrease risk to identify turning point of businesses but it may turn to share parties businesses. The authors suggests to draw the following further research hypothesis based on the suggested framework of customer sharing along strategic network evolution and revealed paradoxes: (1) strategic networks emerge and flourish, if they enable multiple and extended benefits to different parties, (2) partners will stay in a strategic network if it increases customer loyalty of the members, (3) the overlapping business risks kill co-developed business and a partner may resign from the network.

There are some limitations in our study. Our analysis is based on existing collaborative strategic network in limited, relatively short time period. This calls for analyzing more collaboration and its development in the strategic network on the long run. As the suggested framework of customer sharing along strategic network evolution emphasizes strongly the emergence of collaboration, we suggest the future studies should reveal the following further research question based on conducted research: what the different types and structures

of strategic networks of collaborative relationships are, how strategic networks of collaborative relationships emerge, what the factors affecting to emergence of strategic networks are, and how to organize and manage the strategic networks that are based on collaborative relationships.

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