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"Making connections": insights into relationship marketing from the Australasian stock and station agent industry

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Abstract

Relationship marketing has received little attention from business historians who have favored the study of branding, associational advertising, market research, and the role of marketing agencies, particularly in relation to modern consumer manufacturing. Although the term relationship marketing is of recent origin, we analyze its practice under a different guise, "connections", over several centuries: we draw on the extensive archival evidence of a rural business services industry in Australia and New Zealand. Relationship marketing's emphasis upon close and enduring individual customer relationships mitigated uncertainty of performance and behaviour, on both sides of the transaction, created by a long and geographically extended supply chain. The success of these relationships contributed to the primary industry-led economic development of both nations.

Keywords

making, insights, into, marketing, australasian, station, agent, connections, relationship, stock, industry, ERA2015

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‘Making connections’: insights into relationship marketing from the Australasian stock and station agent industry

Relationship marketing, with its focus on close and enduring customer relationships, is a key aspect of modern marketing strategy. While its origins as an analytical concept date back only a quarter of a century,[1] recent literature points to a longer practice under different nomenclature. Larson’s study of interwar marketing manuals reveals support for extended customer exchanges, as do the case studies of Keep et al of four industries based upon published business histories.[2]

In this paper, we extend the scope of the historical analysis of relationship marketing in a number of important ways. The geographic and sectoral context of our study, an Australasian rural services industry, is quite different from previous historical evidence, which has focused on business relationships among American firms in a manufacturing and urban context. Our study covers an entire industry and extends over the second half of the nineteenth century and through the first half of the twentieth century. The source for our study is the voluminous archival records of the leading firms in the Australian and New Zealand stock and station agent industry in contrast to the use of published sources in previous work.

These extensions of historical scope are important. It enables us to address whether the identification of relationship marketing in earlier periods of history extends beyond the specific context of American economic development in urban manufacturing. It examines whether relationship marketing was a strategy that had found support across an entire industry and marketing system and was sustained over a longish periods of time. Finally, the use of archival sources provides the depth and detail to analyse the complexities of business relationships.

As providers of financial, marketing, and technical services to wool growers, agents played a key role in the resources-led development of Australia and New Zealand, and, in the process, the industry's leaders rose to become among the largest and most enduring corporations in both countries in the twentieth century. The study commences with a brief review of the relationship-marketing literature, followed by a description of the historical context of the Australasian pastoral sector and the role of the key firms in the stock and station agent industry. It then examines and explains the adoption of relationship marketing by stock and station agents, focusing particularly on the drivers of this strategy and how these relationships evolved over time. We offer an evaluation and measurement of the relationship-marketing practices and conclude by summarizing the broader significance of our study.

RELATIONSHIP MARKETING

Berry introduced the concept of relationship marketing in 1983, although its intellectual antecedents trace back through the literature of the previous thirty years. He defined relationship marketing as, "attracting, maintaining and…enhancing customer relationships".[3] He placed particular emphasis on strengthening the relationship with existing customers, thereby shifting the focus from attracting new customers that had dominated much of the earlier literature. Customer retention through the building of long-term relationships and based on cooperative behavioral traits are ideas that feature strongly in subsequent definitional and conceptual writing about relationship marketing.[4] The principal benefits of relationship marketing for the seller are the ability to reduce customer disaffection (switching) rates and to develop additional business with existing customers through broadening and extending the relationship.[5] The buyer mitigates their search and negotiation costs and uncertainty.

Dwyer, Schurr, and Oh helpfully distinguished between the discrete transaction of ‘traditional’ marketing exchanges and the ‘relational’ one of ‘modern’ relationship marketing.[6] We can distinguish the relational from the discrete exchange by its ‘thickness’ and duration, that is, its more extensive communication, broader content, involvement of forms of social exchange, and development over time. These basic insights are the foundations for a subsequent literature, which focuses on the transaction properties of relationship marketing, particularly the central role of trust, commitment, cooperative intentions, contact intensity, and mutual disclosure.[7] Underlying much of this work, therefore, is the idea of interaction and mutuality in place of traditional assumptions of buyer passivity in the marketing mix literature.[8]

Different degrees or levels of relationship marketing are achievable depending on the extent of integrating forces. One categorization distinguishes between financial, social, and structural levels. Price incentives are the basis of the lowest, or financial, level, which is thus most susceptible to dissolution. The social level embodies social encounters into the relationship and as such involves more customization and a greater endurance potential. According to Berry, the highest degree of customization and endurance is at the structural level, which involves the creation of binding structures such as the transfer of physical infrastructure.[9]

The personal qualities of the buyers and sellers serve as a prerequisite to successful relationship marketing. Customers need to be 'loyalty-prone', seeking a long-term supplier, rather than 'deal-prone', that is, easily receptive to better offers from competitors. Such segmentation may require firms to adopt a dual strategy, relational with the former and discrete transactions with the latter. Equally important is a service culture within the selling firm and the selection of staff personally suited to relationship building that are willing to remain with the firm in the long term to sustain specific customer exchanges.[10] Staff expertise and commonalities with buyers provide further relevant qualities.

Relational exchanges exist over time, which has generated a 'process', or stages of development, literature. Dwyer et al introduced a five-stage model, which tracks awareness, exploration, expansion, commitment, and dissolution. Subsequent researchers modified and adapted this model, or introduced their own separate version.[11]

The benefits of thick and enduring marketing relationships go beyond the initial motives of more business for the seller and less searching for the buyer. The mutual flow of information in the relationship provides many benefits. Thus, it mitigates the problems of performance ambiguity, wherein the buyer is seeking to assess the quality of the seller's goods and services, and of goal incongruence, wherein different aims by buyer and seller may lead to opportunistic behavior if asymmetric information exists. Fuller information also provides for stronger mutual feedback mechanisms, where the seller gains important market information, and the buyer further advises about the product. The value attached to the relationship on both sides may also invoke beneficial exchanges that do not lead directly to further sales activity.

The history of relationship marketing is contested terrain. Most authors see its practice as running parallel to its conceptual evolution in the later decades of the twentieth century.[12] They emphasize the growing importance of service industries and heightened levels of competition in the contemporary business world. Relationship marketing was practised intermittently under other names in earlier periods according to several authors. It was practised during 1910-35 before the effects of wartime shortages and a postwar boom caused a reversion to discrete or transactional marketing, according to Larson's study of marketing journals and manuals.[13]

However, relationship marketing existed in pre-industrial society, according to Sheth and Parvatiyar, but fell into decline during the industrial era, before its resurrection in the post-industrial era. The industrial era generally delimits around the mid-eighteenth to mid-twentieth century although these authors provide no specific dates. 'Direct marketing', in their view, is the key to these historical shifts. In the pre-industrial era, buyers and sellers of agricultural produce and handicraft goods dealt directly with each other and built enduring relationships and networks to counter an uncertain world. Industrialization, particularly in its mass production guise, decoupled buyer and seller with the advent of specialist intermediaries and functional division within large corporations. In the post-industrial era, Sheth and Parvatiyar argue, the return of direct selling, hyper-competition, increased services, and greater customer expectations all contributed to the resurgence of relationship marketing.[14]

Business historians, who might be expected to provide a more detailed account of the evolution of relationship marketing, have written very little on the subject, focusing instead on the broader notion of modern marketing, particularly as it relates to the servicing of both mass and segmented markets by large-scale manufacturers.[15] Branding, associational advertising, market research, marketing agencies, institutional arrangements, and modernised logistical systems have received valuable coverage.[16] Our focus is different from most of this work through its investigation of a business-to-business rural service industry, rather than consumer-oriented manufacturing. Many of the marketing strategies researched by business historians have provided important insights into attracting customers and building loyalty.

The history of branding is of particular note with its focus on the customer's relationship loyalty with the product. Koehn's study of branding, for example, showed the successful building of customer loyalty around powerful brand names in six case studies across two centuries. Relationship marketing, by contrast, focuses on directly on relationship loyalty between buyer and seller rather than through the product name.[17] Our work distinctively focuses on the manner in which the fostering of 'thick' personal business relationships sustained customer loyalty, and it provides a focus on strategies where social relationships have been particularly important.

PASTORAL EXPANSION AND THE DEVELOPMENT OF THE STOCK AND STATION AGENT INDUSTRY

Pastoral output has been a mainstay of the economic development of Australia and New Zealand since the early years of British colonization. Wool production in Australia was under way by the first decade of the nineteenth century and by the 1830s sheep numbers, wool output and exports were all rising rapidly. High British wool prices together with the opportunity to sell livestock to new settlers provided strong incentives. Following British colonization of New Zealand in 1840, settlers rapidly established sheep stations on the country's rich grasslands resulting in a similar expansion of output in the following decades. Initially, large landowners who were among the earliest British settlers dominated the pastoral sector in both nations. In the second half of the nineteenth century, many large estate owners subdivided their land into smaller farms under the pressure of government policy, aided by technical change and refrigeration, which made smaller units viable.[18] Families operated many of these new farms, aided by a few hired hands.

Wool's low rate of perishability made its easy to export, initially to Britain but increasingly to Continental Europe, North America and Japan by the early twentieth century. Australasia rapidly developed into the leading international wool-producing region: for example, it supplied two-thirds of British wool imports by 1870. Unsurprisingly, wool was the principal export of both nations, accounting for approximately 30 to 50 per cent of export value between the 1860s and World War One.[19] Wool, gold, grain and the ancillary services they generated made Australasia one of the wealthiest regions in the world in the second half of the nineteenth century.[20]

The stock and station agent (hereafter 'agents') industry emerged in Australia from the 1840s and New Zealand from about the 1860s in response to the rapid expansion of sheep farming.[21] Agent firms grew up in small country towns; most were local mercantile traders who recognized new business opportunities in the burgeoning pastoral sector. They provided a range of business services to farmers whose limited resources and remoteness from product markets heightened their need for specialist intermediation. These services particularly included marketing the farmer's wool clip, arranging the purchase and sale of livestock and farms, and providing farming supplies. Many agents also organized financial support and offered general business advice to farmers. They generated income through commissions (sale of wool, livestock, and property) or reselling (farm supplies) or a mixture of the two (finance and equipment).

The larger agents consolidated their position after 1880, when the repatriation of the wool market from Britain to Australasia offered these firms the opportunity to become wool brokers as well as agents, operating the major auctions around the capital cities of both nations. Incorporation and national expansion followed such that these firms ranked among the largest corporations in each country by the early years of the twentieth century.[22] In the second half of the twentieth century, the agent industry fell into relative decline, a product of the growth of large vertically integrated agribusinesses serving their own needs, and the relative contraction of the farming sector with the diversification of each nation's economy.

Frederick Dalgety, the founder of one of the agent industry's most successful firms, began as an importer and wholesaler in Victoria during the 1840s before turning to stock and station agency in the following decade. Like several other pioneers, he operated a handful of regional branches, each with substantial autonomy and a separate partnership consisting of Dalgety and several local entrepreneurs. Not until the mid-1880s did he merge the branches into a single legal entity. He undertook organizational consolidation, national expansion, and moved into wool broking in the following decades.

Dalgety, along with the New Zealand Loan & Mercantile Agency (1865), operated in both nations. Elders (1839), Goldsbrough Mort (1848), and Australian Mercantile

Loan & Finance Company (1863) were the other leading firms in Australia. Their counterparts in New Zealand were Wright Stephenson (1861), Murray Roberts (1868), and National Mortgage & Agency Company (1864). Thus, five or so companies dominated the industry in each nation, a picture that remained largely unchanged until the later decades of the twentieth century. Table 1 shows the combined market share of the leading five firms in each country according to their wool broking activities. In most cases, voluminous archival material survives for these organizations, which includes detailed correspondence, board minutes, annual reports, managers' reports, accounts, and a range of internal enquiries.

Table 1: Five-firm concentration levels in wool broking

THE MARKETING SYSTEM IN THE AUSTRALASIAN PASTORAL SECTOR

The marketing of Australasian wool was an enormous enterprise, which involved the financing, transporting, storing, selling and exporting of the annual clip. Many actors participated – farmers, insurance firms, railway companies, shipping agents and shipping companies, wool classers, selling brokers, and wool buyers. Money changed hands along this chain for services rendered. However, the parties to these transactions did not buy and sell at arm's length or solely on the basis of price. The wool trade depended on relationships and organisations whose role was to further the aims of the parties through negotiation and communication. Agents were a focal institution of this marketing system, intermediating between the farmer and the wider world of national and international business connections including most of the groups mentioned above.

In other markets, the agents played a similar intermediary role – between individual farmers in the sale of livestock and properties, between farmers and banks in providing finance, and between farmers and suppliers in the market for agricultural raw materials and equipment. The breadth of services provided by agents, and their key intermediation role, underlines the importance of the development of close, broad-based, and long-term relationships with individual farmers.

Figure 1. Agent-intermediated marketing system in the Australasian pastoral sector

In a later section of this paper, we show that agents invested substantial resources in relationship marketing, which the heavy valuation of customer goodwill in their balance sheets reflected. In order for relationship marketing to pervade the industry, it needed to benefit both farmer and agent. Farmers face many sources of business uncertainty. Output is subject to climatic and other environmental impacts, while high fixed costs (land, equipment, and committed plantings) make short-term adjustment difficult. Farmers are also price-takers in fragmented global markets. Farming in nineteenth-century Australia and New Zealand presented further sources of uncertainty. Most settlers were accustomed to a very different climatic, geological, and geographical environment, as well as different cost structures, in Britain, and some had no previous experience of farming or running a business. Added to this, many farmers needed to sell in distant overseas wool markets and possessed limited financial resources. These circumstances fostered the emergence of specialist rural intermediaries – the agents – to provide services that helped farmers meet these challenges.

With respect to marketing, uncertainty derived from its complexity. The wool auction system gave most farmers the best prices but it involved a series of sequential functions, performed by multiple intermediaries, with specialist knowledge. These processes included receiving wool from individual farms, carriage to a major port, overseas shipment, storage in London, warehousing, sorting, weighing, and display for inspection in showrooms, the conduct of the auction, completion of sale documents, outweighing, payment, and removal to a warehouse or delivery to the final user. Adding to the uncertainty was the long time horizon derived from overseas sale.[23] Thus, farmers faced immense challenges in assessing the quality of service provision (performance ambiguity). In contrast to many service industries, though, the farmer did not directly observe many functions: brokers sold the wool far away from the farm gate, and the major banks provided finance. Invisible structures and processes increased uncertainty.

The asymmetric information experienced by farmers was also an issue for agents. They had to be confident of the good motives of the farmer (goal congruence), for example, that the woolsacks contained the stated wool quality and that livestock auctioned on behalf of the farmer was in good health. Where the agent also provided finance to the farmer, the company's livelihood was more directly at stake. Consequently, most of the farmer's work unavoidably went unobserved by their agent. In an environment of poor communications and great distances, the search costs on both sides – of finding a new agent or customer – were considerable, reinforcing the benefits of relationship loyalty.

Relationship marketing, with its emphasis on close, long-term, trusting relationships, offered a possible solution to these problems for both farmer and agent. It promised to mitigate goal incongruence through reduced information asymmetries, and provided a 'credence' solution to performance ambiguity by drawing judgments about the service provider.[24] Circumstances appeared propitious for the building of such relationships. A manager and no more than one or two employees staffed most small country branches, and therefore the opportunity for close one-to-one relationships existed. The social context also acted in favor of relationship building. Stocks of social capital were high in these small rural settlements, with their emphasis upon trust and community living, reinforced in many cases by the social and cultural propinquity of a common heritage. Many individual towns had extended links to particular families and towns in Britain. They shared a common pursuit of farming in the face of unfamiliar climatic, financial and economic challenges. The long distances from, and poor communications with, other settlements and major centers emphasized a sense of internal identity, boundary, and self-containment.[25]

The conceptual literature emphasizes the importance of internal marketing, or developing a service culture within the firm, as a prerequisite to relationship building strategies. Firms expected staff members selected for deployment in front-line positions to be capable of building one-to-one relationships with customers over long periods, and they might share with them common socio-economic traits and personality traits.[26] With the possible exception of their head offices, all agent employees were on the 'front line', dealing regularly with local farmers. The employment of many former farmers as local branch managers reflected the weight agents gave to expertise, personal connection, and background similarities.

Agents attached substantial weight to individual personality traits, particularly an aptitude for relationship formation in general, and willingness and indeed desire to use social settings to forge such connections. The Australian Mercantile Loan and Finance Company (AMLF) emphasized that local managers had to be 'greatly respected' by local clients & have 'much influence in, and knowledge of, the districts'.[27] They found the perfect employee in 1928:

> He [Whyte] is 32 years, strong, active young man, knows the district from top to bottom, popular with the people and holds free entry into any homestead in the area. He is being married next year to one of Albury's best-known families. He is a good ferret, and…if he is seen talking to anyone in the street, it is sure to be a man from whom he is likely to get business'.[28]

Similarly, the Dalgety company was conscious of employing someone 'whose position also socially admits of his talking to our clients not only in...business...but on equal and friendly terms'.[29] An advanced aptitude for office skills came somewhat lower down the list of priorities.[30] Elders preferred outdoor types, whose only office was under their hat.[31] One industry manual noted enticingly how agents regularly conducted business in the local pub.[32] Company evidence confirms that branch managers received generous social expenditure accounts for the specific purpose of entertaining farmer clients. Agents sought to locate their office in a central part of each town to ensure a range of social interactions with farmer clients.[33]

THE RELATIONSHIP-MARKETING STRATEGIES OF AGENT FIRMS

In this section, we investigate the type of relationship-marketing practices developed by agents. It particularly interrogates whether these practices varied between companies and over time, and investigates how individual relationships developed and, in some cases, unraveled.

Relationship marketing appears to have developed as a strategy of myriad small local firms, which constituted the industry in the middle decades of the nineteenth century. Focused upon the country towns of the south-eastern colonies of New South Wales, Victoria and South Australia, it was their local nature – in connections and orientation – that was the foundation for building personal business relationships. In addition, since large landowners dominated pastoral output, fostering a few key relationships promised substantial returns in the form of handling large wool clips. For many of these firms, renting small offices, business connection was their main operating asset.[34]

The expansion of settlement into remote areas with poor communication, including the inland Western districts of New South Wales by the 1870s and the vast colonies of Queensland and Western Australia by the 1880s and 1890s, emphasized the extent of information asymmetries between farmer and agent and therefore the need to build trust and confidence in business relationships. However, the rapid spread of settlement meant there were often insufficient local stock and station agents to serve these communities. Instead, a few enterprising and well-resourced agents undertook much of the work, supported in many cases by incorporation and broadened company ownership from about the 1880s.

These large-scale firms, particularly beginning with Goldsbrough Mort and Dalgety in Australia, were also the pioneers of the local auctions, gradually replacing the sale of wool in London between about 1880 and 1920. As brokers, they faced additional fixed costs associated with operating auction rooms and showrooms in the port cities around Australasia, and therefore required a large and regular supply of wool clips.

Thus, the fostering of close marketing relationships with farmers was vital to their corporate strategy.

However, agents faced problems nurturing relationships with farmers as the firms became national in character and lost much of the local appeal of being embedded in a particular community. Larger companies had the option of moving employees around as part of an internal labor market, for example promoting an individual from a smaller to a larger branch.[35] In addition, tension developed between local needs and preferences and a broader national company set of policies and standards.

The companies were aware of the problems that national expansion presented to them in sustaining relationship-marketing strategies. They responded in several ways particularly through utilizing their greater resources. They hired travelers for the specific purpose of visiting farmers to foster existing or new business by personal interaction. This was particularly important in newly settled areas where many farmers had not been on the land long enough to have developed strong business relationships, and where distance combined with poor communication and infrastructure emphasized the importance of such visits. The leading agents supplied cars to their travelers to facilitate visits and were amongst the earliest owners of car fleets in Australia or New Zealand before World War One.[36] Small firms struggled to match this policy; a small Victorian agent, Hepburn Leonard, lamented, 'There really ought to be someone in the office during the time I am away as people say they can never find me'.[37] Additionally, the large firms expanded their range of customer services and provided preferential treatment in return for loyalty. Thus, they began to offer a full range of marketing, financial, and business services, while differential terms included lower loan rates and discount on supplies.

If these policies were unsuccessful, the larger firms had recourse to acquiring smaller local firms as a means of buying their customer relationships. This was a common practice of Elders and Goldsbrough Mort in the 1920s and 1930s when the economic downturn meant there were many vulnerable and often cooperative agencies available for potential acquisition. Since most smaller firms were privately owned and their principal asset (their customer relationships) was intangible and rarely accurately reflected on their balance sheet, takeover negotiations were often drawn out and not always successful. The challenge for the acquiring firm, prior to the acquisition, was to make an accurate estimate of the value of the customer relationships. While it might have access to the number of bales of wool normally received from each customer, estimating the degree of loyalty in each case was far more problematic. Subsequent to a successful takeover, the challenge was to hang on to those customers in the face of the switch from a local to a national firm.

As we noted earlier, the pastoral industry is highly cyclical, and this is also evident in the Australasian case. Australia experienced a significant downturn in the 1890s due to drought and financial crises. The interwar depression of the 1920s and 1930s hit the pastoral sector of both nations hard. Economic downturn presented problems and opportunities for the use of relationship marketing. On the one hand, companies had to trim costs in line with falling revenues, their commissions being a percentage of the wool price. Fewer resources meant cutting back on marketing expenses such as entertainment accounts and on-farm visits. On the other hand, smaller clips and lower prices emphasized the importance of securing as much business as possible. However, relationship marketing was unlikely to secure additional business in the short term since, as we have seen, it is a longer-term strategy. With this in mind, downturns presented the opportunity for agents to forge longer-term relationships by assisting farmers suffering financial hardship. Companies shifted resources from entertainment and visits to providing direct financial assistance for existing longer-term customers, or for new customers as a means of initiating a commitment that farmers would reward through loyalty in good times.

While relationship marketing appears to have expanded in many industries in the post-World War Two era, it declined in the pastoral industry because of profound changes to the rural sector. We saw earlier that the stock and station agent industry was in decline over this period due to the replacement of many small farms by large vertically integrated and capital-intensive agribusinesses, who took responsibility for much of their marketing, finance, and business service needs. Economic forces drove these changes, particularly adverse movements in the terms of trade for rural products and the pressures to adopt large scale cost-reducing technologies. With the change in ownership and operating structure went the decline of many rural communities populated by small family farms and their workforces who were at the centre of relationship-marketing strategies.[38]

Farmer-agent marketing relationships often developed through particular stages. Our evidence is guided by, but also enriches, the conceptual literature on the processes of relationship marketing. As we noted earlier, Dwyer et al identified five phases of the development of a relationship marketing type of business connection, notably awareness, exploration, expansion, commitment, and dissolution. This approach provides a helpful framework for describing how agent-farmer relationships developed over time.

At the awareness stage, agents and farmers sought business with one another. In small close-knit country towns, word of mouth played a key role as news circulated about a new settler farming in the area, a change of ownership of an existing property, or even a souring of a farmer-agent relationship. Agents also planned intergenerationally:

> …the young men of today are going to be the customers of tomorrow…keep a lookout for all the likely young men in your districts – not only those that are likely to have money but also those that seem to have the necessary energy and qualities that bring success. Good young men are always worth helping.[39]

Relationship marketing is a two-way street. The farming community knew the reputation of each agent through the business they conducted with local farmers, by their sponsorship of exhibitions, social and sporting events, and by acting as advocates of additional infrastructure. Agents, indeed, built marketing relationships with communities as a whole.[40] While reputation gave farmers an indication of the effectiveness of past service delivery, they were also interested in the agent's 'capabilities', that is, what might be delivered in the future. Each firm had overlapping but distinct capabilities. For example, Goldsbrough Mort was a pioneer of local wool auctions in Australia, while AMLF concentrated for longer on selling in London. In New Zealand Wright Stephenson were highly regarded for their knowledge of animal bloodstock and their supply of fertilizers.

Awareness rapidly moved to exploration as bilateral interaction commenced. As part of his aptitude for relationship building, the agent judged and then segmented his customers, for example between those who were 'loyalty prone' and 'deal prone', focusing his efforts on the former. Referring to Robert Linton in 1907, Murray Roberts described him as, 'a loyal and strong supporter of our firm'.[41] Such types remained with the same firm over long periods, often intergenerationally, while others changed agents every few years. Dalgety referred to these as 'floating clientele, who flit from broker to broker'.[42] The historical evidence, though, points to an agent strategy more complex than a bifurcation into loyal or deal prone customers.

Each customer was of different value but the evidence suggests three preferred types. Larger operations promised greater wool commissions for agents. Well-run, financially stable businesses required less time and tailored advice from the agent. Finally, some farmers had their own set of relationships by dint of their farm size, wealth, social and political role, duration in the district, or other embodiments of standing in the community. Good relations with such farmers reverberated through the community. Elders noted in 1936 that, 'securing Mr Campbell as a client will strengthen our position in the district as he has a large following…prominent among Western Australian station owners'.[43] The company financed another farmer who had 'done quite a lot for us in the surrounding districts'.[44] For each of these preferred customer types — income-generating, operationally stable, and community standing — the agent would invest more heavily in relationship building even if the initial evidence suggested a limited reputation for loyalty.

The exploratory strategy was careful and probing. The agent (or farmer) would seek an initial introduction, ideally in a social context, and follow this up with a bilateral meeting. Trust-building 'probes' ensued — the agent might provide some market information, or offer some business or household consumables on credit. The farmer would reciprocate by paying these accounts and inviting the agent to his home.[45] This facilitated closer personal interaction, while enabling the agent to observe the farm, gauge its potential business volume, and offer some tailored business or technical advice. These ‘probes’ were designed to test capabilities as well as build trust. Where the farmer fell into one of the preferred categories, the agent took larger more risky steps to advance the relationship.

If the relationship passed successfully through these mutual explorations, the range and volume of business services expanded rapidly. This normally included handling the farmer’s wool and livestock sales and providing medium to long-term finance. It might also include zero-priced services such as business advice and commercial information. Berry classified three different levels of relationship marketing, financial, social and structural, according to the degree of customization offered and the endurance potential.[46] The lowest level, ‘financial’, occurred in most agent-farmer relationships. The terms of financial engagement were multi-tiered depending on whether it involved long or only short-term accommodation and whether the contract included standard or preferred (customized) terms on interest rates and collateral. Conversely, Wright Stephenson noted, ‘if farmers with spare cash deposit it with us [at interest]…they bring their business here also…some of these are amongst the closest clients that we have’.[47] Long-term finance could help to tie the farmer into an ongoing business relationship, which involved the cross-selling of other goods and services. However, it was rarely sufficient by itself to bind most farmers for the long term if relationships soured, and the accompanying sense of obligation through debt was inimical to notions of mutuality and trust, which lie at the core of relationship marketing.

The 'social' level evidences the more common pattern of a relationship reinforced by social engagement. This closer bonding helped relationships overcome disagreements. Thus, an alternative to the tied loan contract was a 'moral guarantee' to participate in cross-selling, which could only work within the context of social interaction. Agents segmented customers between 'tied' and 'free' clients and particularly targeted their social marketing relationships to the latter, who were financially unencumbered to agents, in order to retain their loyalty. Bailey nicely illustrates the battle between AMLF and its competitors for 'free' clients.[48]

Berry describes the third and highest level as 'structural', which involves the creation of binding assets such as shared infrastructure.[49] Agents were not in the habit of providing physical infrastructure for individual farmers although they did invest in facilities for farmers as a whole such as warehouses, auction facilities, and livestock sale yards. Nonetheless, it is not clear that structural links contain greater potency than social in relationship marketing; like financial ties, they created obligations rather than mutuality.

Commitment represents the most advanced stage of buyer–seller relationship building. Both sides had made a credible commitment, due to the extent of the time frame of the relationship and its broadened nature during the expansion phase. As a result, monitoring costs (for performance) and search costs (for switching) reduced significantly. Thus, agents made fewer on-farm visits and completed only brief reports on the state of the account. Murray Roberts noted in 1897 regarding their John Speedy account that it, "…hardly calls for comment. The client is an old and respected connection, perfectly safe although unsecured".[50] Preferential treatment was sometimes offered as the glue of the relationship at this stage, such as through partial commission rebates, lower interest rates or, as above, no loan security. Nonetheless, at the commitment stage the agent, and indeed the farmer, began to yield the returns on their earlier investments in time and money.

It is not clear from the literature what happens when close marketing relationships breakdown. Dissolution was often the result of performance dissatisfaction from either side, such as evidence of opportunistic behavior by the farmer or a better offer from another agent. Termination was simplest where engagement consisted solely of financial ties. Structural levels had higher switch costs, while the social level of relationship marketing was the most problematic to disentangle in light of the cooperative and wide-ranging social connections. While demonstrating loyalty to long-standing customers, inevitably companies had to weed out some social accounts particularly in economic downturns. The termination by an agent of a long-standing relationship stretching across several generations could be a source of great resentment and risked the defection of other customers within a social or kinship network. Elders wished to dissolve their relationship with L. J. Lewis in 1932 but were constrained by the fact that his brother Harry owned three sheep stations and sold all of his wool through the firm; they concluded that, 'blood is thicker than water...Harry Lewis may...view...our refusal to assist his brothers...an unfriendly attitude'.[51]

While we might expect the (often unilateral) dissolution of the relationship to be much more rapid than its original formation, this was often not the case. Both sides stood to lose from the breakdown of the relationship in light of the cost of developing it in the first place and the benefits that had ensued. Therefore, except in cases of serious opportunism, such as fraud, or the sudden financial collapse of either party, unravelment occurred through discrete stages involving signaling by both parties. In the case of an underperforming account, the agent emitted signals such as reducing credit terms. If this failed to invoke a positive response, the agent moved to a crisis management phase where he proposed strategies to strengthen the farmer's business. If the farmer cooperated, the agent might take other steps to aid the cyclically affected farmer such as negotiating repayment moratoriums with lending banks.[52] The agent also trod carefully for fear of eliciting opportunist behavior from a farmer suspecting termination of the relationship. One closely watched Otago farmer was suspected of 'feathering his own nest with a view to walking off the property'.[53]

MEASUREMENT AND EVALUATION

Measuring the extent and value of relationships is problematic. Agents made conscious efforts at relationship building with their farmer clients but would not have formalized these actions as 'relationship marketing'. Alternative terminology appears in their correspondence, most commonly that of 'making connections'. By 'connection', they meant the process of developing a sustained relationship, not a discrete or one-off transaction.

Numerous examples exist of use of the term 'connection'. Murray Roberts noted of J. D. Cruickshank in 1905: "by our assisting Mr Cruickshank financially when he first started business, we have thereby secured a valuable connection". A Dalgety report in 1936 analysed 'retaining old and securing new connections'. In 1937, Elders noted of one of its acquired firms, 'to what a large extent the development of the business….has been dependent on the personal work and connection'. In a reflective managers' conference of 1960, Dalgety lamented that their recent national and international expansion, which had involved shifting staff around the organisation, had weakened their local connections, noting ‘we never leave anyone in one place long enough to build up a personal connection’. Further examples of the use of this term are provided below. [54]

Firms had invested heavily in these connections for most of their history. Their records reveal that this generated many long-term, often intergenerational, customers for each firm. They felt considerable disappointment at the loss of long-term customers, and showed angst when they had to take difficult decisions to reduce relationship-marketing activities during downturns. Third parties also recognized the strength of the agent–farmer relationship; insurance companies, farming equipment suppliers, and general goods traders all sought to use agents as a conduit into the farming market.[55]

Building these relationships, however, required considerable company resources. Time investments were particularly heavy and yet difficult to disentangle from other day-to-day activities. Each branch manager, for example, would meet and greet farmers at a wide range of social functions, including some hosted or sponsored by the firm itself.[56] Travelling to remote properties was also a major incursion on an agent’s workload as we saw earlier. Companies developed a range of policies to build customer relationships. Company manuals exhorted employees to be ‘keen and energetic’ in their dealings with clients.[57] Long-term employment, enabling relationship building between individual employees and farmers, was encouraged through a variety of measures: employee shareholding, non-portable company pension schemes, death benefits, long service leave, in-house magazines, and internal promotion. Elders and Wright Stephenson began pensions schemes as early as 1913, with most of the other major firms following suit in the 1920s. Wright Stephenson commenced an in-house magazine, *The Wrightsonian*, in 1919, which contained advice and encouragement to employees.[58]

In some cases, agents took relationship-marketing strategies too far. They periodically expressed concern about the expense of the policy. James Kidd, Sydney manager of AMLF, suggested as early as 1904 that the system of visiting farmers was an extravagant waste of money and was effectively ‘grovelling’ for business in a most ‘undignified’ manner.[59] The wool broking associations made regular attempts, especially during the interwar slump, to agree a reduction in relational investments by its agent members.

The value agents placed on marketing relationships came to the surface during takeover activity. The most common term used during merger and acquisitions discussions was ‘goodwill’.[60] Firms were clear and consistent about the meaning of the term — it was the value embodied in its list of loyal customers built up over time through its relationship-marketing practices and in the quality of its staff which had fostered these relationships.

The success of merger negotiations often hinged on reaching agreement over the goodwill value, the acquiring firm focusing its due diligence activities on its accurate measurement. As part of this process, they established which staff would remain with the firm after acquisition, and made detailed assessments about their effectiveness and the closeness of ties to farmer clients. The acquirer then calculated the value of each ‘connection’, particularly in terms of wool commissions generated, the main income source for agents. Based on their knowledge of human capital and wool commissions, they ‘calculated’ a capitalized value for goodwill.

In many cases, the acquiring firm expected to keep all relevant staff, maintained the entire customer list, and obtained a written agreement with the former owners not to conduct future business in the area.[61] This final requirement indicates the risk of customer defection based on established relationships with the existing owners of the firm. The new owners closely monitored these conditions in the years following the acquisition. In these circumstances, they paid a high price for the goodwill, often the most valuable asset purchased. Archival evidence gives an insight into what would otherwise be highly confidential information, revealing that many takeover valuations placed goodwill at forty to sixty per cent of total company value.[62] Goodwill was often the only asset of small firms, who leased their premises and office equipment.[63] This, in itself, testifies to the priority accorded to relationship marketing.

CONCLUSION

Business historians have written little about relationship marketing — even while widely investigating other customer loyalty strategies such as branding. This may be the consequence of a conceptual literature that largely assumes that relationship marketing is a practice evident only in recent decades. Its common location in business-to-business service industries reflects a sector of the economy that has received sparse historical attention when compared with the rise of consumer manufacturing.

Our investigation of the Australian and New Zealand stock and station agent industry identifies relationship-marketing practices in the nineteenth century long before the evolution of the analytical concept two decades ago; instead, agents commonly used the epithet, ‘making connections’. It extends the industrial and geographic scope of relationship marketing beyond the specific American urban and manufacturing context, and thus is suggestive of its broader deployment in earlier historical eras.

In seeking to evaluate how generalisable are our findings, we note that relationship marketing was an appropriate strategy for this industry. It mitigated various sources of uncertainty associated with unobserved behavior by both agent and farmer, the former the consequence of a complex marketing chain and the latter from the remote location of many farms. A close farmer–agent relationship, built on mutual credibility, trust, and loyalty, mitigated sources of goal incongruence and performance ambiguity. The strength of social capital ties in many local rural communities reinforced the wisdom of this approach.

Relationship marketing strategies evolved and changed in tune with the directions of the stock and station agent industry and, more broadly, the wool trade. Small local firms who built relationship marketing organically on the backs of close-knit communities dominated the early years of the stock and station agent industry in the mid-nineteenth century. By the later decades of that century, a series of changes in the industry, including the repatriation of the wool market to Australasia and the expansion of wool production into remoter areas, fostered the growth of large, national corporate agencies for whom relationship marketing emerged less naturally. Their response was to leverage their superior resources to build such relationships through entertainment accounts and the hiring of travelers. If this failed, they sought to acquire smaller firms with their own set of local connections, an exercise which historically illuminates the financial value of relationship marketing as captured by goodwill calculations. The difficulty of retaining clients loyal to the acquired firm sometimes compromised such a strategy.

The specific nature of the archival evidence we have used enables us clearly to distinguish relationship marketing from other forms of extended buyer–seller interaction and from customer loyalty based upon branding. Our study additionally enriches and extends the conceptual framework for relationship marketing, particularly in relation to the categorization of groups of customers, the different levels or strengths of relationship marketing, and the process of disengagement.

Finally, we nuance our study differently from previous evidence of early relationship marketing.[64] In particular, we disagree with Sheth and Parvatiyar's timing of the temporary decline of relationship marketing in the industrial era of the nineteenth century due to the decoupling of buyer and seller. While the rural services industry differs from their industrial mass production context, their explanation of relationship marketing as the product of direct marketing is relevant to our study. Agents intermediated, for example, between the Australasian wool seller and the European wool buyer and, indeed, coordinated multiple intermediaries including freight forwarders, insurers, and auctioneers. The indirectness of buyer and seller was thus immense, geographically, temporally, and functionally, but this did not prevent the building of strong relationships between farmer and agent. Conversely, 'distance' was the principal source of uncertainty that required strong relationships. Relationship marketing need not only occur directly between buyer and seller, there are convincing reasons why it can be the product of a buyer or seller relationship with an intermediary.

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Figure 1: Agent-intermediated marketing system in the Australasian pastoral sector

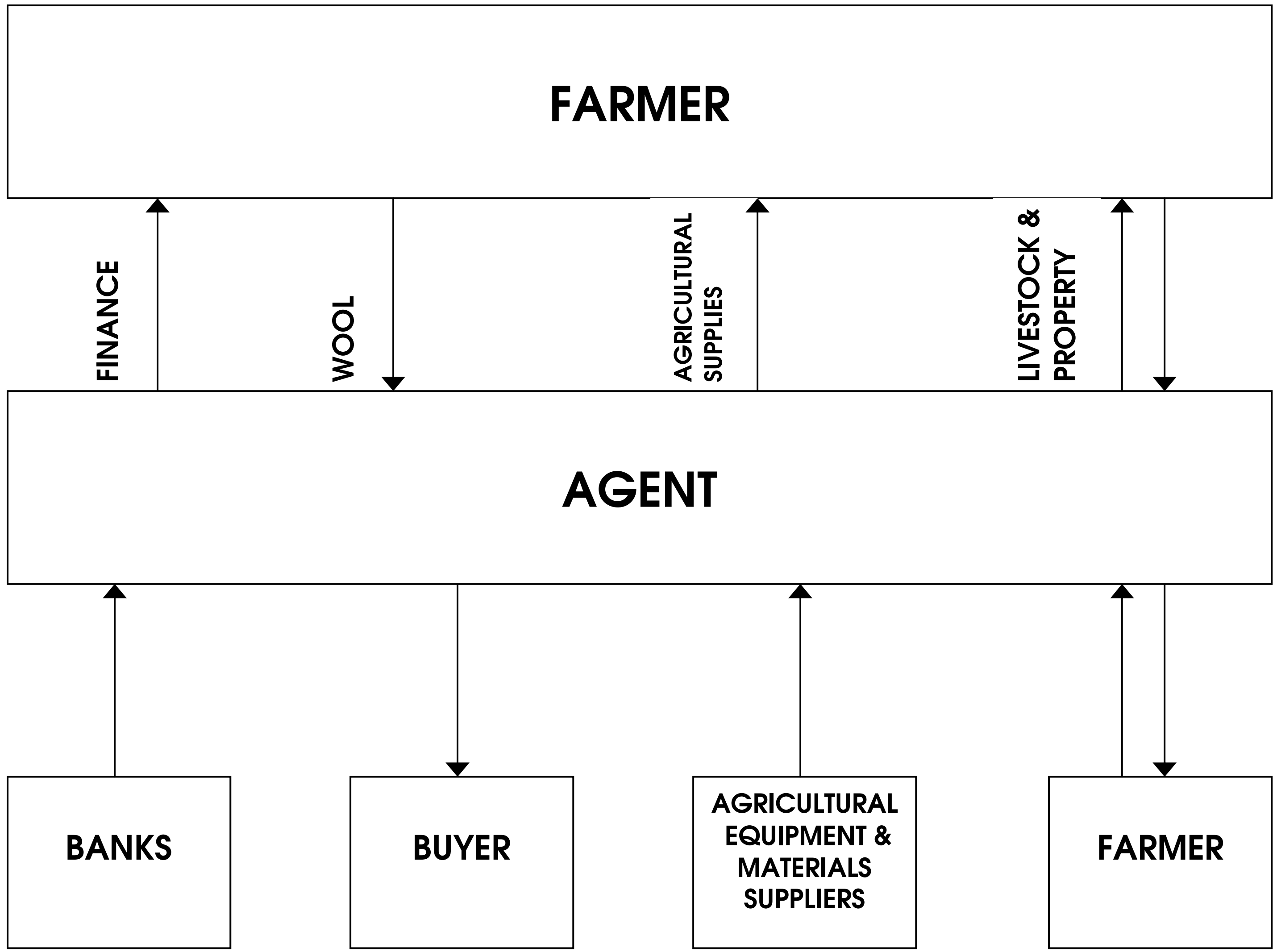

Table 1: Five-firm concentration levels in wool broking

	Australia	New Zealand
Year	5 firm	5 firm
1891-1900	0.55	
1901-10	0.51	0.51
1911-20	0.49	0.48
1921-30	0.52	0.50
1931-40	0.51	0.52
1941-50	0.50	0.49
1951-60	0.54	0.53
1961-70	0.65	0.64
1971-80	0.62	0.70

Source: Ville, *Rural Entrepreneurs*, p. 27

1 Parvatiyar & Sheth, " Domain and Conceptual."

2 Larson, “Relationship Selling”; Keep, Hollander & Dickinson, "Business-to-Business Relationships”

3 Berry, "Relationship Marketing," 25.

4 Jackson, *Industrial Customers*; Gronroos, "Relationship Approach”; Vavra, *Aftermarketing*; Heide, "Interorganizational Governance,"; Morgan & Hunt, " Commitments-Trust Theory "; Parvatiyar & Sheth. "Domain and Conceptual".

5 Berry, "Relationship Marketing," 168.

6 Dwyer, Schurr, & Oh, " Buyer-Seller Relationships,", 11-13.

7 Anderson & Weitz, "Use of Pledges”; Doney & Cannon, "Nature of Trust"; Morgan & Hunt, " Commitments-Trust Theory"; Crosby, Evans, & Cowles, "Relationship Quality”,69.

8 Gronroos, "Quo Vadis Marketing?”, 352.

9 Berry, "Relationship Marketing”, 160.

10 Berry, "Relationship Marketing", 156-62.

11 Dwyer, Schurr, & Oh, "Buyer-Seller Relationships"; Borys & Jemison, "Hybrid Arrangements”; Evans & Laskin, "Relationship Marketing Process”; Parvatiyar & Sheth, "Domain and Conceptual"; Wilson, "Integrated Model".

12 Webster, "Changing Role of Marketing,"; Morgan and Hunt, "Commitments-Trust Theory."

13 Lagrosen & Svensson, " Seminal Framework”; Larson, “Relationship Selling.”

14 Parvatiyar & Sheth, " Relationship Marketing” 126-138.

15 Laird, "Alfred D. Chandler” .

16 Church, "New Perspectives"; Church & Godley, " Modern Marketing"; Tedlow, *New and Improved*; Tedlow & Jones, *Rise and Fall*; Fitzgerald, "Ownership, Organisation and Management"; Fitzgerald, "Products, Firms and Consumption".

17 Wedgwood built personal relationships with socially elite customers but as a means of building a brand for a much larger consumer market. Koehn, *Brand New*, pp. 34-5.

18 Butlin, *Australian Economic Development* 100-1, 108; Roberts, *Australian Land Settlement* ch. 28; Hawke, *Making*, 32, 95; Gould, "Twilight of the Estates," 2-3.

19 Pinkstone, *Global Connections*;; Rice, *Oxford History* table 4, 597.

20 Hawke, 76; Maddison, *World Economy*, 60, 61, 67, 87, 100, 142, 146, 149, 180, 181, 188.

21 The terms farm and farming are widely understood to explain livestock and arable production. In Australia and New Zealand farming has sometimes been associated with arable production only.

22 In 1910 six of the top ten non-financial firms in Australia were stock and station agents: Ville & Merrett, "Large Scale Enterprise," 34..

23 An increasing volume of wool was auctioned in Australian capital cities from the late nineteenth century although this was still remote from farming communities, refer Ville, "International Market,".77

24 Bowen & Jones, "Transaction Cost Analysis," 431-432.

25 Ville, "Social Capital Formation".

26 Crosby, Evans, & Cowles, "Relationship Quality," 71, 76; Berry, "Relationship Marketing,of Services" 162.

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27 Correspondence, AMLF archives 97/36/30/2; 97/36/16/1, Noel Butlin Archive Centre, Canberra (hereafter NBAC).

28 Correspondence 24.11.1928, AMLF archives,

29 Doxat's letters, 9 December 1887, Dalgety archives N8/24, NBAC.

30 In looking for a manager for their new Brisbane office, AMLF emphasized 'practical knowledge of pastoral matters'; any deficiency in office routine could be supplied by a competent accountant. AMLF archives ref 97/36/27/2, correspondence 1898.

31 Accounting procedures 1902, Elders archives, N102/262, NBAC.

32 Webster, *Century of Service*, 13.

33 AMLF 97/36/30/2, 97/36/16/1, correspondence.

34 Such evidence was revealed during takeover discussions, for example Elders of Wilson Bolton & Co in 1944/5 where connections were its only asset Correspondence, Elders N102/312.

35 Dalgety managers' conference 1960, Dalgety archives, ref 163/27.

36 Christensen, 'Structural and functional', p. 59.

37 Correspondence of William Turner, 1864, Hepburn Leonard archive 62, 12, NBAC

38 Hawke, "Making," 238; Tsokhas, *Markets*, 204.

39 Report to Management Committee, 1906, Wright Stephenson archives, Wrightson company archives, Auckland, reference number WS 0585.

40 Board minutes 1878 variously indicate their support for improved local rail links, NZLMA archives MSY 1385, Turnbull Library, Wellington.

41 Murray Roberts archives, Wrightson company archives, Auckland, reference number, 0575.

42 Manager's report 30 June 1942, Dalgety archives, ref 100/1/35/20.

43 Board memoranda 1936, Elders archives, ref N102/38.

44 Company correspondence 1923, Elders archives, N102/25.

45 Many agents introduced publications containing farming and commercial information, which was circulated to their customers. For example, Wright Stephenson introduced Farm Economy as a monthly publication from 1922. Sometimes branches produced simple circulars tailored to local needs.

46 Berry, "Relationship Marketing,of Services" 160.

47 Report to Management Committee 1906, Wright Stephenson archives, ref WS 0585.

48 Bailey, *Pastoral Banking*, 241.

49 Berry, "Relationship Marketing of Services"

50 Murray Roberts archives, ref 0575.

51 Company correspondence 1932, Elders archives, N102/29.

52 For example, Goldsbrough Mort in 1893 and NMA in 1933. GM archives, , reference number Barnard Q 50 box 4 file 4, NBAC; correspondence, NMA archives, Hocken Archives, Dunedin, reference number UN 28, box 19.

53 Board Minutes 7, 11 February 1932, Otago Farmers archives AG 728., Hocken Archives, Dunedin.

54 Murray Roberts archives, ref 0575; Dalgety branch reports, Dalgety archives, ref 100/1/30/33; Elders archives, ref N102/312; Dalgety managers' conference 1960, Dalgety archives, ref 163/27.

55 John Pottie, a pioneer of proprietary veterinary products, used the intermediation of 'local agents' to reach his farming market, refer Fisher & Stanton, "Marketing Veterinary Products", 163-73.

56 Board memoranda 1950, Elders archives, ref N102/38.

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57 Annual reports, NMA archives, ref UN 28, box 3.

58 Elders archives, ref N102/375; Wright Stephenson annual report 1913, Wright Stephenson archives, ref 0001.

59 Letter 8 December 1904, AMLF archives, ref 97/36/16/18.

60 Elders N102/319 correspondence, 1937 acquisition of Hague, 1947 acqusition of De Garis; Goldsbrough Mort 2A/30/35, correspondence re 1937 attempted acquisition of De Garis; AMLF 162/82, 1949 Ann Report of Gen Mgr, re company policy on goodwill. See Ville, "Social Capital Formation " for further evidence of the use of 'goodwill' by agents.

61 During AMLF's acquisition of Australasian Mortgage Agency in 1904, the acquirer believed it could count on most of the existing farmers, capitalised the value of this business, and additionally looked at business recently lost by AMA, which had hit hard times, and estimated how much of this might also come back. Correspondence 6 April 1904, AMLF archives, ref 97/36/26/22.

62 Ville, "Social Capital Formation"

63 For example, in its acquisition of Wilson Bolton & Co in 1944/5, the only cost to Elders was •10 000. Elders archives, ref N102/312.

64 Blasczak mentions relationship marketing practices in her study of American pottery and glass manufacturers, 1865-1945, but it is not a central part of the work, refer Blaszczyk, *Imagining Consumers*.