

**The importance of and ways to develop relationships with
customers who purchase online.**

Services and Relationship Marketing

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1 Contents

1	Contents	1
2	Executive summary	2
3	Introduction	3
4	Good practice	5
5	Bad practice	7
6	Conclusion: key factors in communicating online	9
7	Bibliography	11

2 Executive summary

This report begins by highlighting the importance to online businesses of developing relationships with customers. It then states ways in which this can be done by analysing good and bad practice and providing a range of examples of each. It concludes by discussing the key factors that need to be considered when marketing online.

The results of the analysis showed that companies which succeed in building relationships with customers online are those which, first and foremost, customers trust to carry out their transaction securely and deliver the product in a good condition at the stated time. The content, appearance and ease of navigating the website and the dialogue between the company and customers are also highly important. Companies that have had little success in developing relationships with customers online have often not paid sufficient attention to these factors.

Finally, it is established that although operating online offers firms considerable advantages, a major disadvantage is that the servicescapes (Bitner, 1992) companies can use to connect with the customer are limited. The report discusses ways in which companies need to compensate for this in order to ensure online relationships are developed.

3 Introduction

Developing relationships with customers is becoming increasingly important considering current market trends. Offline retailers (such as supermarkets) are offering increasingly homogeneous products and online retailers offer a similar range of goods and services. As products diverge, price is becoming a key competitive strategy. However, differentiation is far more profitable and sustainable, and may be achieved through developing and maintaining a relationship with customers.

Relationships are beneficial

Relationships are beneficial for organisations as they enhance customer satisfaction. Furthermore, Reichheld and Sarrer (1990) state that a relationship with customers substantially boosts company profits, claiming that most companies can increase profits by almost one hundred percent through retaining only an additional five percent of their customers. Merrington (2002) emphasises it is 6 to 7 times more expensive to attract a new customer than it is to retain an existing one. Separate research, undertaken by Royal Mail in 2002, shows that acquiring customers is as much as thirteen times more expensive to retaining an existing one (Roll, 2003). When the perceived financial benefits of having relationships with customers are taken into account, the importance of relationship marketing to business success becomes clear.

Growing importance of e-business

Due to the reliance of long-term success on relationship marketing, it has become an important and highly debated topic in both academic and the business circles (Papadpoulou et al. 2001; Geissler, 2001; Ha, 2004). In a similar way, the critical importance of e-commerce to business successes has also been established over the past seven years. The internet is a convenient way for consumers to shop, removing the problems of 'mobility, access, carriage, and opening hours' (Mintel, 2005). In 2004, internet shopping overtook mail order as the most popular form of home shopping (Mintel, 2005). Leading UK retail analysts group Verdict (2006), report that online shopping grew 15 times faster than the rest of the retail sector in 2005. Online sales in the UK were £8.2 billion in 2005, an increase of 18.9% on 2004, and these increasing online sales are expected to continue to rise (BBC, 2006). A prediction that may be supported by broadband take-up in the UK, expected to reach 60% by the end of 2006 (Zendor, 2006). As the number of companies moving to a clicks-and-mortar platform grows, competition online will intensify, with the market becoming more saturated, companies should therefore differentiate through developing relationships with customers.

Trust is essential in online relationships

Whilst the importance of the internet and having relationships with customers can be demonstrated, online relationships can only be established when the consumer perceives the online business it is dealing with is trustworthy (Hoffman et al. 1999). Consumers who deem a website trustworthy are more comfortable making a purchase and have confidence in the information supplied by the company. If

the experience is positive, a relationship can develop and evolve into a '*deep dependence*' relationship (Salam et al. 2005). In a deep dependence relationship, trust facilitates the deepening of the relationship between the customer and business towards a long term risk reducing relationship (Salam et al. 2005, Hoffman et al. 1999).

Finally there is the particular relevance of online marketing in a service relationship. Every purchase contains elements both of product and service. Having already explored the increasing centrality of online marketing in general, it is important to note that services, specifically, may benefit greatly due to the easily accessible 24 hour environment, capable of linking consumers and service providers across the globe.

4 Good practice

There are a number of factors to consider in building a positive relationship with customers, the following section considers examples where companies have succeeded in this objective.

Trust Mark One of the central factors to building relationships with customers online is that of security. Security is a powerful attribute to inspire trust and is vital to a strong brand, such as Tesco or Amazon. For this purpose there is a scheme which promotes safe shopping online, affiliated companies are able to display a “Trust Mark” on their websites.

Ways of facilitating trust online Security is the cornerstone of an online relationship and is linked to that of trust, not only in the security of information but also that the purchase will meet the customer’s expectations and will be delivered punctually. Davies et al (1999) claim that as customers have little opportunity to physically control the quality when purchasing online “trust is considered to be the essence of the relationship.” (Page 322). The company can take several steps to reduce risk for the customer. They could offer refunds for returned products or allow the buyer to pay only on delivery. The company Ideal Watches allows the customer to inspect their purchase on delivery and only if they are satisfied do they pay the delivery person. Another way is to provide up to date advice about the product. Companies can also allow the customer to be involved in the sale. An example of this is by checking train times; in this case the customer gains control over the situation and is therefore likely to blame the company if something goes wrong (De Chernatony and McDonald, 2005). Another form of involvement is used by ICI allowing customers to test the product in a virtual environment. Through their website, ICI Paints create long-term relationships with customers by providing detailed information about latest trends and styles and colour co-ordination. The aim is for customers to see ICI as the friendly experts in the field. ICI also allow customers to decorate a virtual room to test which colours go well together. This reduces the risk of the purchase being inappropriate, thus increasing the chance of satisfaction and ongoing loyalty to the company.

Content and appearance The content and appearance of the website is another important factor in building up positive online relationships. Cuthbertson (2000) identifies a great online experience as one of “the most consistent drivers of repeat purchases.” (Page 7). Websites must be clear and simple to navigate and customers should be able to contact someone for help. A study by Marshak (2000) showed that being able to contact support personnel increases trust in a company. The aesthetics must look professional and suit the purpose of the website. Colours can be used to evoke certain feelings in a customer. For example, yellow and orange suggests excitement; however, this would not be appropriate for the website of an accountancy firm where trust is a far more important factor. In addition, a website should maintain customer interest and contain only relevant information so as not to confuse or

irritate customers. Interactive formats also increase customer involvement in the product, thus customers feel that they have a relationship with the company. How the extent to which the company should make its website interesting depends on the offering and target market. For example, Disney's website, aimed at children, is very colourful with noises and Disney interacts with visitors through online games. The language used to communicate with customers contributes to relationship-building. Virgin Atlantic uses upbeat, fun language, for example, at the top of their home page they say "hello gorgeous!" to welcome customers, which makes the online shopping experience more pleasant and could potentially increase brand loyalty.

Communication Yet another factor is communication, providing the company with a great opportunity to increase loyalty. Companies can keep a record of purchases made by consumers and email them with offers that they might be interested in or offer them extra services when they make their purchases. This forms relationships between the buyer and seller and as it is personalised, the customer feels that the company knows and values them. An example is Amazon's emails offering customers new books they are likely to be interested in. However communication is much more effective as a two-way process. Varey (2002) claims that "marketing that only talks to supposedly listening customers is unrealistically one-sided and thus misguided." (Page 85). Weight Watchers encourages customers to support each other in chat rooms, which adds a further level to the relationship, giving the customer some ownership of the brand. The site also has an emergency panic button customers can press if they are tempted to eat forbidden foods. This encourages them to rely on the company further strengthening the two-way relationship.

Value and feedback Finally, there are two additional factors that need to be considered. Firstly, that the relationship has to be of value to customers. Relationships will fail if customers perceive them as reducing choice and taking away the opportunity to act opportunistically. (Palmer, 2005). Secondly, constant feedback and management of complaints is required because the recovery of dissatisfied customers leads to a higher level of customer satisfaction (Bruhn, 2003). Collecting customer feedback online is often easier than in an offline retail environment and allows firms to strengthen relationships with customers.

5 Bad practice

It is clear from the previous discussion that there are many online retailers that are making concerted efforts to satisfy customers and build profitable two-way relationships. However, many clicks and mortar retailers still have a great deal to learn and their mistakes provide important lessons when considering how to build up relationships online.

A study by Holloway et al (2003) reported on service failure, identifying six areas where online retailers fall down:

1. Delivery problems
2. Web site design problems
3. Payment problems
4. Security problems
5. Problems with product quality
6. Customer service problems

Payment and delivery problems

The most fundamental of these problems, was reported to be delivery problems. There is an expectation that once a product is ordered it will be delivered within a reasonable time. An example of bad practice in this area is WH Smiths. One individual interviewed mentioned that when ordering a book from the companies' online facility, they were told the item was in stock and that it would be delivered using standard delivery. This raised an expectation which was enforced by past experience with WH Smiths that the item would be delivered within 3-4 days. However, two days later, a standardised and impersonal email was received which said the item requested was in fact out of stock and could not be delivered for a further two weeks. In terms of customer relationships with the company the incident raises two important issues. Firstly the use of a generic email does not make the individual customer feel valued and secondly the ordering system being used by the company should have recognised that the product was already out of stock, before allowing an order to be placed. It is important to bear in mind that WH Smiths is at the mercy of its suppliers. However, trust is crucial to any relationship and by failing to keep their customers informed, WH Smiths will effectively lose any trust that exists for the employee.

Security and customer feedback problems

The next issue to draw attention to is security. When using a credit card online, a customer needs to feel secure. As noted earlier, some websites have started to use Trust Marking. However this is only part of the solution. A company's response when there is a problem is also vitally important to protecting a relationship with a customer. For example eBay, the online auction site, has seen a number of breaches of security and attacks on users of their service. Whilst this is inevitable considering the system eBay have established, the experience of many users is compounded by the lack of direct contact

with eBay. The only way to contact eBay is through their website, there is no guarantee they respond personally to the problems and there is no facility for contacting the company by telephone. For a customer who cannot get a satisfactory response from eBay they may feel let down, losing trust in the organisation and possibly even the Internet itself as eBay is one of the internet's flagship companies.

Design problems Additionally, a poor quality website can pose a major problem in the development of relationships with customers online. The website is increasingly the first point of contact a potential customer has with the company, consequently the customer is likely to use it to assess the organisation's capabilities and quality before making a purchase (Bitner, 1992). This demonstrates the importance of providing appropriate cues; a website that is poorly designed, with poor navigation and poor use of colour may result in lost custom. This is in effect the servicescape in which the internet marketer must operate, whereby a consumer is affected by atmospherics, design and décor (Bitner, 1992)

Overall it is important that e-retailers learn from the bad practice of other online organisations, and take care to avoid complacency involving their own actions. As has been stated from the outset of this report, there is much to be gained by fostering good relationships with customers online.

6 Conclusion: key factors in communicating online

Attributes of the clicks and mortar platform

As has been seen, companies operating online have varying levels of success in connecting to their customers. This is a matter which can be attributed to the limited servicescapes in which they operate (Bitner, 1992). While traditional bricks and mortar formats provide the opportunity to link to an array of senses, the online operator must present their company through colours shapes and styles (semiotics), as well as the use of language (De Chernatony and Mc Donald, 2005). Yet for many service based companies, the clicks and mortar platform, is an ideal environment in which to operate because operating costs are reduced; Amazon have benefited from this in the book sales sector. The bricks and mortar platform can also offer valuable support to a an existing establishment, as seen with Weight Watchers.

This section will look firstly at the advantages and disadvantages online operation may have in comparison to traditional formats and will then examine ways in which this information may be used to best effect.

Positive factors in developing online media include

- Lower overheads
- Potential for rapid updates
- Worldwide customer base
- There is space to include comprehensive information
- Links to related information are made simpler
- Greater opportunities for effective interaction with consumers

However it is essential to ensure

- Use of up to the minute technology
- Not to alienate potential customers
- There is a personal touch maintained
- Sites stand out in the increasingly saturated and cluttered environment
- Create a strong brand in the absence of a full and diverse servicescape

Choosing how to communicate online

In terms of verbal communication the internet does not have an established and formalised format, allowing companies to use a format which is most appropriate for their customers. However, it is also noted that people tend to scan online documents to a greater extent and that many online consumers are actively involved in a search process and so rather than browsing they will tend to have an agenda. For this reason it is vital to keep information to a minimum, clearly highlighting the advantages of the company thereby pulling consumers in. Good verbal communication can have the effect of accessing quickly and effectively the broad base of consumers using the web, singling out those most likely to have an interest in the service. In addition, a clear online profile can prove crucial in the marketing of less innately

interesting services. For example, the clear and concise communication of financial services with the added convenience of online access (in comparison to the impersonal bricks and mortar service) could benefit hugely from operations online. However if the expected level of service within the industry is higher, then two-way communication becomes increasingly important. It is at this point the use of new technologies may come into play looking for example at the use of Skype and MSN for online customer service applications. Here a level of personal service may be brought to this low contact environment however there are other factors which must be considered in maintaining the appeal to the targeted customer market.

Semiotics and appropriate communication

Semiotics can be effective in creating shorthand for attracting customers. This is an essential factor to consider online as people have a greater tendency to scan information in the virtual environment. It is essential firstly to maintain a strong apparent link with any communications through other media formats while at the same time using formats that are evocative of the type of service offered, for example the use of colour and form to suggest the atmosphere and make up for the less tactile nature of the environment. In addition, other visual factors should be considered, for example the size of lettering must be appropriate if dealing with certain age groups or abilities. As well as helping to communicate clearly with consumers these factors may also be instrumental in adherence to regulation concerning accessibility.

Conclusion

In conclusion therefore, online marketing is an essential factor in the marketing of services today. However, great care must be taken to ensure that both image and technology are coherent with customer expectations and so delivery standard is high.

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