THE EFFECTS OF DIGITAL MARKETING ON CUSTOMER RELATIONSHIPS

Marko Merisavo

Marketing

April

2003

The Effects of Digital Marketing on Customer Relationships

With the possibilities to reduce costs, reach larger and new audiences, personalize, interact, and serve customers better marketers are learning how to utilize digital channels, like the Internet, email, mobile phones and digital television. The possibility to use digital channels for building customer relationships and long-term loyalty has recently gained rising attention. In this paper we present a model which shows how brand communication, service, personalization, and interactivity can help marketers boost customer relationships.

The cost efficiency of digital channels facilitates marketers' active and frequent brand communication. This helps achieve positive effects on customer-brand relationships via several routes. Customers' knowledge about marketer's products and services, and their involvement may increase. Digital brand communication can also boost sales, build positive brand attitudes, emotions, and loyalty. An increase in customers' activity can also be achieved. Interactivity in digital media offers customers better options to search for information, work as initiators, and get help. Interactivity also offers new ways to spend time with a brand, like playing games or participating on an activity on a web site. Furthermore, personalization can make customers perceive brand communication more relevant and interesting.

Digital service has the potential to provide customers with better choice, access, control, and convenience over traditional service channels. The ability of customers to actively create or shape the form of their services enhances satisfaction and loyalty. Also, marketers can create more personal services based on customers' behaviour and interests. The interactive elements of digital media can be used to create self-service options, like allowing customers to track their postal packages. Customers can also be offered additional service when buying products, such as maintenance reminders, and help for keeping their products up-to-date.

Our model helps marketers better understand and carry out digital marketing and its interactive processes from a customer relationship perspective. Also, a measurement scheme (SARAS) is suggested, that combines relevant brand, service, and loyalty metrics to track the effects of digital marketing on customer relationships.

CONTENTS

1 INTRODUCTION

1.1 Digital Marketing and Customer Relationships

The understanding of how to use digital channels like the Internet, email, mobile phones and digital television in marketing has increased, and marketers now use these channels for different purposes. For example, some use them for acquiring new customers, while some focus on serving customers better. Digital marketing communication has typically been information about products, advertising on the web, and direct marketing via email and mobile. It seems like the channels and concepts of digital marketing have been used separately and operationally, while the strategic understanding and models of how and why to use different digital channels are still developing. At the same time, marketers have acknowledged the importance of cultivating customer relationships. Consequently, there is now increasing discussion about how to use digital marketing to develop customer relationships, an approach that has not been fully utilized yet.

Reasons why marketers may not have fully exploited the opportunities of digital channels include ways of thinking and understanding, and possibly lack of experiences and models how to use digital marketing from a customer relationship perspective. It seems like in many cases attracting new customers and reducing marketing costs have become the main goals in marketing via digital channels. This is also noted by Reichheld and Schefter (2000), who discuss how marketers should concentrate attention on retaining rather than attracting customers on the Internet.

It could also be that companies have relied overly on technology. That is, high hopes of new technological innovations and the possibilities provided by them may have led too much focus on channels, not on customers and retention. Marketers have experimented with the new channels, but do they have clear strategies and visions what they want to pursue with digital marketing? Like Accenture states it:

> "..as CRM evolved, many companies assumed that just bolting on new technology – such as sales force automation software or data warehouses – or adding new services would enhance customer relationships. This assumption was as pernicious as it was false. After all, you can't sell what people don't want to buy, no matter how efficient and service oriented your sales channel" (Accenture 2002).

With a growing number of e-marketing books, there seems to be a focus on short-term operational issues, like carrying out online marketing campaigns. Instead, among many others, Godin (1999), Novak and others (2000), Brondmo (2000), and Zeithaml (2002) have given emphasis to the customer relationship and service perspectives of digital marketing. It is believed that digital channels can be used to create unique and positive experiences to customers, and build trust and relationships in the long term by mixing all aspects of products, service, brand, and communication – not just transactions (Wind *et.al.* 2002, 247). For example, Kwak and others (2002) found that product information requests over the web are positively related to online purchases. However, there is still little information and empirical research on how digital marketing channels can be used to boost customer relationships.

To look the use of digital channels in marketing from a customer relationship perspective offers several benefits to a marketer. Brand communication can be frequent and personalized, and different options for a dialogue exist. The benefits of dialogue include learning from and about customers, revealing their needs and interests, and being able to provide them with better and more personal service. From a customer perspective, the Internet has given power to get up-to-date information, ability to more easily compare products and services, and to get in touch with marketers (see e.g. Robins 2000; Coupey 2001, 44). Furthermore, in digital environment customers increasingly use self-service and have more options to initiate action (e.g. give feedback, check account balances, request and personalize marketing communication). From the customer perspective, perceived value of using digital channels and interacting with a marketer can come several ways. It could be money, time, information, convenience, pleasure, entertainment, assistance, social interactivity, prestige, or something else the customer appreciates.

This paper examines how marketers can use digital channels to develop and strengthen customer relationships. In our framework, brand communication, service, personalization, and interactivity are suggested to be the key elements.

1.2   Research Question

The objective of this paper is *to examine how digital marketing affects customer relationships*. We focus on the effects of communication on loyalty.

1.3 Definitions

Digital marketing is marketing and interaction via digital channels: Internet, email, mobile phones, digital TV, etc. Digital marketing includes communication (e.g. offers, newsletters), service (see below), and tools for customer-managed communication and interaction (FAQ's, games, etc). Both marketer and customer can initiate interaction. Digital marketing as a term is more extensive than e-marketing because it encompasses marketing via digital channels independent of the medium, be it Internet, mobile, or any other.

Digital service (e-service) is service via digital channels. Examples of digital services include e-tailing, online banking, discussion boards, order tracking, mobile weather services, personalized web pages, etc.

Customer relationship refers to a relationship between customers and companies, service providers, and brands. From a customer perspective, the existence of a relationship refers greatly to an attitude: perception of mutual way of thinking, i.e. two-way commitment (Grönroos 2000). From a company point of view, relationship is usually considered existing when a customer has made the first or repeat purchase, although the line between prospects and customers is in many cases thin. In this paper, the main interest is in existing business-to-consumer relationships, especially in consumer-brand relationships.

Brand loyalty is the biased (i.e. non random) behavioural response (i.e. purchase) expressed over time by some decision-making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (decision making, evaluative) processes (Jacoby & Chestnut 1978, 80). That is, for brand loyalty to exist, a pattern of repeat purchase must be accompanied by a positive attitude towards the brand. We think that purchasing behaviour is the ultimate sign of brand loyalty, but also intrest, knowledge, emotions, and activity expressed by customers can reflect brand loyalty (e.g. perceived fun, recommendation of products or services, feedback, spent time on a web site).

Customer loyalty is considered very similar to brand loyalty, differing only in the object of loyalty. That is, a customer may be loyal to a certain store or provider of products or services, but not necessarily to a particular brand. For example, a customer may always shop at Sears but does not care about the brand of the DVD player to be purchased (customer loyalty); yet

another customer may have a favourite DVD player brand that could be purchased from any store (brand loyalty).

Interactivity is the ability to address an individual or a group and the ability to gather and remember their responses, and to address the individual or a group once more in a way that takes into account their unique responses (Deighton 2000, adapted). We suggest that interactivity also includes customer feedback, inquiries, participation in product/service development, etc, because both marketer and customer can initiate interaction and typical communication processes (i.e. marketing message→response) are not always followed.

1.4   Structure of the Paper

In *Chapter 2* we develop a model for understanding how digital marketing affects and enhances customer relationships. *Chapter 3* suggests a measurement scheme for tracking the effects of digital marketing on customer relationships. *Chapter 4* summarizes how digital marketing affects customer relationships, discusses the findings of this paper, and suggests issues for future research.

2   BOOSTING   CUSTOMER   RELATIONSHIPS   WITH   DIGITAL   MARKETING

2.1   Central Elements of Digital Marketing

Interactive marketing, one-to-one marketing and customer relationship management (CRM), as well as brand management and service management emphasize the importance of building and managing customer relationships, and offer each useful models to understand how customer relationships develop. The literature reveals certain concepts and trends that could be central elements in boosting customer relationships with digital marketing. First, brand communication is identified as an important way to create customer loyalty. Second, the Internet is considered a good tool for customer service. Third, personalization is expected to create value for customers. Fourth, interactivity is presented as one of the major advantages of the Internet and other new marketing channels. We think that brand communication and service are the key elements when boosting customer relationships via digital marketing, and elements of personalization and interactivity can be mixed into them to reinforce the effects (see Figure 1). We suggest that digital marketing can affect positively on customers'

knowledge about products and services, involvement, buying behaviour, attitudes, loyalty and activity.
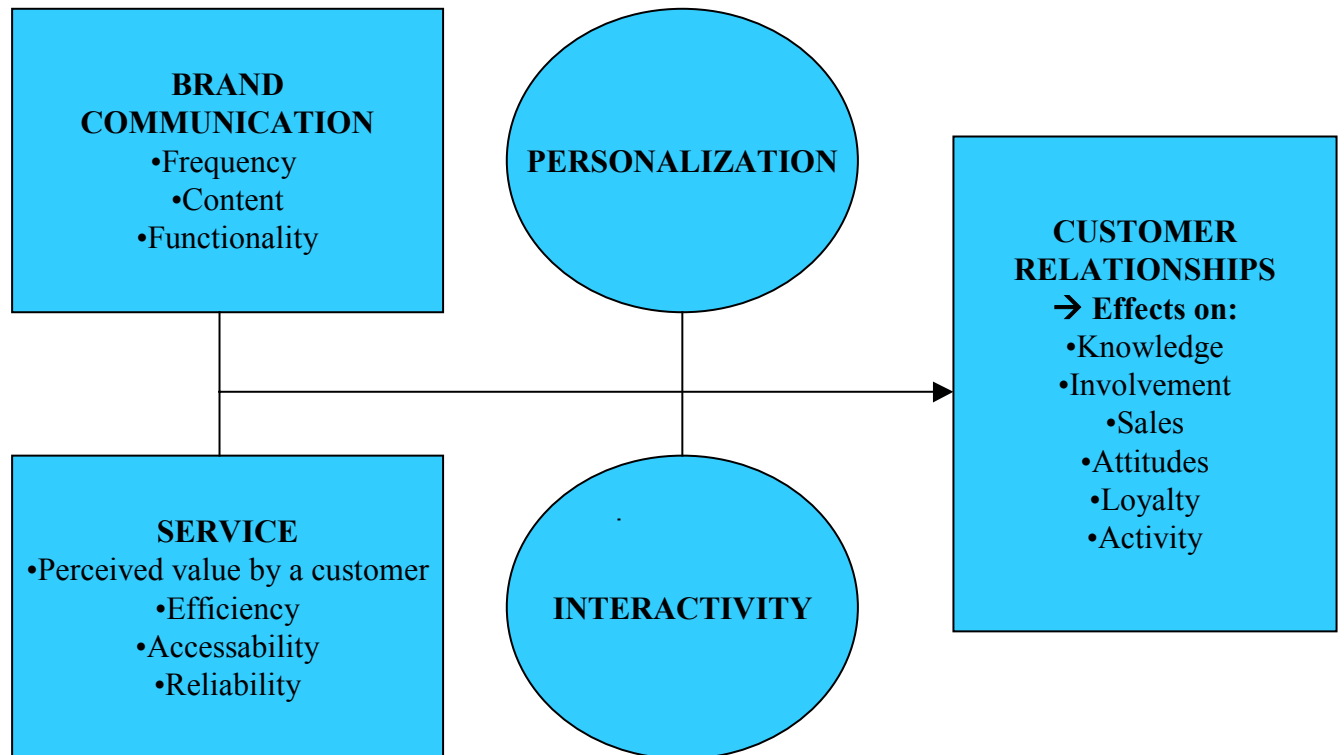
Figure 1. Central elements in boosting customer relationships with digital marketing

Three main factors in brand communication are expected to affect customer relationships: frequency (e.g. how many brand messages per week), content (e.g. promotional offers or information), and functionality (e.g. how easily customers find information on a web site). Brand communication can also be personalized. For example, segmentation or customer profiles can be used to create different messages for different customers, sent via their preferred channels. In addition, brand contacts can be interactive, which means that customers can search for information, make inquiries, give feedback and engage in various other activities with marketers or each other, by playing games on brand's website, chatting with other brand users, etc.

Digital service that is perceived valuable by customers is expected to affect customer relationships positively. This value could be money, time, information, convenience, pleasure, entertainment, assistance, etc. Efficiency and accessability of the service are also important, which could mean easy access to a web site, ability to find desired service options and

information associated with them with minimal effort. Reliability of the service is as well essential, for example the technical functioning and safety of an online bank. Digital service can also be personalized, for instance by offering different service options for different customers, and remembering their individual preferences of service situations. Various elements of interactivity, like online chat with service personnel, can be combined to digital service.

In the model, brand communication and service are treated as separate elements, acknowledging that some times digital communication can be considered as service, (as Brondmo 2000 suggests for permission-based email), while in other cases it may be seen as promotion. Brand communication and service do not always have to be personalized or interactive in order to have effects on customer relationships. Adding personalization and interactivity can, however, increase the positive effects of digital brand communication and service on customer relationships. Personalization and interactivity have to be connected to either brand communication or service to have effects on customer relationships. For example, online service often includes brand communication (newsletters, offers, etc.), and personalization may require interactive tools for collecting information on customer preferences. The interrelated effects of digital marketing and ways how to use this model are illustrated with examples in Section 2.6.

2.2 Brand Communication

Digital channels offer opportunities to keep up frequent brand communication [1] with customers. Digital marketing can be used to create brand communication that customers perceive informative, entertaining and interesting, as well as it builds interactive brand contacts.

2.2.1 Frequent Brand Communication – Benefits of Being in Touch

Concepts of effective frequency and recency are central in brand advertising. Effective frequency implies that repeating messages to consumers will translate to awareness and learning, and eventually result in action. Recency theory emphasizes timing, suggesting that

---

[1] With "brand communication" we refer to generally all communication between the brand and customers. This complies the view that the process of building brands and customer relationships is much more than traditional media advertising of (see e.g. Aaker & Joachimsthaler 2000, 42; Duncan & Moriarty 1998).

advertising is most effective when it occurs close to the time when consumers are ready to buy. (Broussard 2000)

Marketers seek optimal frequency: too little advertising and communication may be ineffective while too much is waste of money. Active and regular communication can have several positive effects on customer relationships. A response to communication does not always have to be a direct response by the consumer (e.g. purchase, inquiry, etc.), frequency effects are established and brand attitudes potentially enhanced already when a consumer processes more information about the brand (Berger & Mitchell 1989). That is, when a brand keeps in touch with its customers it evokes commitment in the form of positive affective responses (emotions, feelings, moods, primary affect, satisfaction) about the brand in the consumer's mind (see Dick & Basu 1994). Building brand commitment also leads to additional benefits in information-processing, as commitment limits the impact of negative brand-related information to the target attribute of communication and enhances the impact of brand-related positive information to other related attributes, which leads customers to restrain switching inducements (Ahluwalia *et.al.*2001).

Brand literature shows how frequent communication has positive effects on customers' brand loyalty, and customer-brand relationships are deepened (see e.g. Aaker 1996; Kapferer 1998). First, consumers engage in brand relationships to simplify buying and consuming tasks, information processing, and maintain cognitive consistency and a state of psychological comfort and gratification (Sheth & Parvatiyar 1995b). Later on, when the relationship develops, a consumer may begin to perceive a brand as a person, a trusted friend who is part of his or her everyday life (Fournier 1998; Aaker 1997). Brand trust is influenced by the consumer's evaluation of any direct (e.g. trial, usage, satisfaction in consumption) and indirect contact (advertising, word of mouth, brand reputation) with the brand (Keller 1993; Krishnan 1996). For instance, satisfaction is only one sign of brand loyalty. In line with that Delgado-Ballester and Manuera-Aléman (2001) argue that in many cases traditional satisfaction programmes alone are not enough for building brand relationships; especially in high involvement situations, brand trust has a stronger influence on customer commitment than overall satisfaction.

CRM literature similarly suggests that marketers benefit from being in regular and active contacts with their customers to build and maintain loyalty (see e.g. Barnes 2001; Cram

2001). The development of customer-brand relationships can be described as a process of communication. For instance, Barnes (2001, 259-261) suggests that a brand can be conceptualized as moving through four stages on its journey from being merely a name to being a genuine relationship partner: *brand awareness* (using advertising to make customers in the target segment aware of the brand) → *brand characteristics* (associating the brand with certain characteristics and positioning it against competitors) → *brand personality* (attaching personality traits to the brand that are appreciated by the consumer) → *brand relationships* (the brand becomes important in the life of the consumer).

From a company point of view, digital channels offer cost efficient possibilities to a brand to keep frequently in touch with customers. For instance, email is in effect substantially cheaper to send than conventional paper mail (see e.g. Brondmo 2000). Therefore, communication frequencies can be increased with digital marketing.

We conducted a survey of email marketing where data was gathered from 988 consumers who were users of a multinational cosmetics brand and had received regular permission-based email messages from the marketer (Merisavo 2001). Our empirical data showed that a regular contact with consumers by email has positive effects on brand loyalty. Consumers exposed to email marketing recommended the brand to their friends more than those who had not received emails. Email also activated consumers to visit retail stores, buy products, and visit the brand's site on the Internet via links. Furthermore, brand attitudes were more positive among the consumers who had received email as opposed to those who had not. It was noted that consumers with higher brand loaylty appreciate regular communication from the brand more than less loyals. From this data we conclude that email offers marketers an opportunity to further strengthen brand loyalty among already loyal customers by keeping in frequent contact with them. The results match with traditional advertising research suggesting that repetition of brand's advertising has stronger effects (responses, satisfaction) on those consumers who already use the brand and are familiar with it (see Tellis 1988; Ehrenberg 1974).

Brand communication via digital channels is also effective from the recency theory perspective, as interactivity allows customers actively receive or seek advertising and other information at the moment they want (usually when they consider buying something). That is, the timing of brand communication can be perfectly matched, which is more difficult to

achieve through traditional media. Indeed, to compensate the timing problem, interactive elements that are accessed through digital channels are often attached to conventional media (e.g. direct response ads). For instance, mobile phones can be used with print media as a reply channel.

In summary, we propose the following hypotheses:

Hypotheses 1. Increased frequency of brand communication enhances brand loyalty.

Hypotheses 2. Brand communication that is expected, and is received or accessed when desired by customers has a positive effect on brand loyalty.

2.2.2   *Internet and Mobile Marketing Cases*

The Internet and mobile devices can be powerful channels for brand communication. Here we describe few cases that illustrate how these channels can be used to strengthen customer relationships.

> EVA Airways Corporation (EVA Air) is Taiwan's leading independent airline. In 1996, the company launched its long-term e-business strategy with a new Web site, (www.evaair.com), with the goal of better serving customers by providing information on flights and other offerings.
>
> EVA Air believes that travel and the Internet are inseparable. Indeed the Internet is a crucial success factor in the airline industry. Austin Cheng, Junior Vice President of Corporate Planning Division of EVA Air, said, "We are operating in an extremely dynamic industry where information keeps changing and growing at a skyrocket pace. The greatest challenge is to keep our customers abreast of the latest information. Providing schedules, fares, flight changes and cancellations in an accurate and timely fashion is a must.
>
> By transferring Web content publishing duties to individual business departments, the airline can update its content from various sources in real-time. On top of conventional printed marketing materials and customer call centers, customers can check the airline's latest news online, including special promotion packages and the mileage balance for their frequent flyer programs anytime. Such value-added services help enhance EVA Air's customer relationship and increase customer loyalty.
> (www.vignette.com)

The Internet is also changing customers' purchace processes, and is becoming an increasingly important part of them.

A recent study by Vividence Corporation reveals that auto manufacturers need more than spotless showrooms to capture and retain customers. According to the study, visitors who have a positive experience at an auto maker's Web site are 64 percent more likely to become a sales prospect. In contrast, a negative experience results in consumers being 31 percent less likely to make a future purchase. Add to this that 94 percent of those surveyed use the Internet to begin the car shopping process.

The Internet is a no-hassle touchpoint where prospects can conduct research without the pressure of a salesperson. As a result, a rich, cross-channel experience for prospect and current customer alike can make the sales difference. The ability to customize vehicles, search dealer lots, save model and option preferences, and obtain quotes online all have an impact. "Auto manufacturers stand to make a serious impact on vehicle sales if they can effectively capture consumers on the Web and offer them a fantastic customer experience," says Jeff Greenberg, president and CEO of Vividence.
(Peppers & Rogers Group 2002)

Initial research on mobile marketing shows that it can work, too. Barwise and Strong (2002) explored the effectiveness of SMS messaging as an advertising medium for reaching young adults. Results of permission-based mobile advertising were encouraging: 51 % of the consumers were very satisfied, and 42 % fairly satisfied to the service. Furthermore, mobile advertising generated high levels of readership, advertising awareness, stronger brand attitudes, and direct responses. Also, consumer wear out was low and response levels remained quite constant during the test period. Barwise and Strong conclude that permission-based mobile advertising has great potential as an advertising medium, especially for campaigns for low-ticket items aimed at younger consumers, keeping in mind that messages must gain attention, be relevant, and an explicit permission is essential.

Kiss 100 is Emap's radio station for young London, dedicated to playing music that helps you live and stay sexy. Flytxt and Angel Uplifting Marketing began working together in November 2001 with Kiss 100's 'HeySexy' SMS database of over 56,000 mobile numbers. The database was built up from promotional activity with Angel over the previous months. Objectives of SMS marketing were to encourage loyalty by rewarding listeners with exclusive SMS games, offers and competitions, only open to the 'HeySexy' database, and drive people to listen to the station via 'listen to win' mechanics.

The results so far are good. The 'Heysexy' database attracts an average response rate of 13% when users are asked to interact, and engages them in one-to-one dialogue with Kiss 100. Listeners' loyalty is also increased from through rewards and exclusive offers.
(www.flytxt.com)

Mobile marketing also works for service companies, as the following case illustrates:

> Hilton Hotel group uses SMS with success. As part of a marketing program to increase guest numbers to its hotels and build customer loyalty, the luxury hotel chain included SMS in its marketing tools. Using SMS has allowed the hotel to get the messages out instantly and at the most appropriate time of day. The use of SMS as a direct marketing tool has resulted in a 10-25% uptake of offers sent out by the hotel and has proved to be an integral part its direct marketing and loyalty strategy. (www.bandt.com.au)

Mobile marketing is recognized to hold future potential, especially the development of multimedia features, like colourful displays, melodic sounds, and built-in cameras gives many possibilities for marketers to innovate.

2.2.3 Regular Email Marketing Contacts

For financial reason it is not hard to see why email communication is expanding rapidly. The cost of sending a large number of email messages is marginal compared to print mail. Email also offers possibilities for targeted and personalized communication. In effect, email has become a widely adopted marketing medium. According to a recent survey by e-Dialog 32 percent of survey respondents rank email as their most important marketing medium, and 82 percent rank it in their top three (Peppers & Roger Group 2002).

Marketers today use different forms and techniques of email, such as newsletters, reward programs and community building (see e.g. Brondmo, 2000; Roberts *et. al.*, 2001). According to an email solutions agency Quiris leading marketers understand that email fits into the marketing mix in the following ways (The Long-Term Email Advantage 2002):

- Builds long-term loyalty
- Gives customers a common medium with marketers
- Cost-effective up-selling and cross-selling channel
- Competitive differentiation with new information products
- Excellent personalization and CRM vehicle
- Preferred service channel for many customers

Their research shows that leading marketers are beginning to move beyond the basics of email marketing, from a campaign-focused approach to long-term and more sophisticated, personalized permission email marketing programs [2], for example:

- *Personalized content*: e.g., customizable news, weather and sports reports
- *Rules-Based notifications*: e.g., city-specific airfare bargains, new book releases per favourite genres, birthday reminders, product replenishment alerts
- *Account updates*: e.g., custom stock portfolio updates, frequent flyer miles report, electronic utility bill, monthly account activity/balance
- *Transaction statements*: e.g., purchase receipt, shipping confirmation, complaint processing acknowledgement
- *Service convenience emails*: e.g., proactive service tips and alerts, new value opportunities, product update information

Newsletters, as Brondmo (2000) suggests, "are perhaps the most common vehicles for establishing ongoing dialogue with customers, probably because they provide a terrific mechanism for communicating a highly personalized blend of information, entertainment, and promotions." Newsletters can be effective drivers of brand loyalty, like our study of a multinational cosmetics brand's email marketing showed (Merisavo 2001, see Section 2.2.1). Consumers receiving email in our study were already familiar with the brand, and had favourable attitudes toward it. Indeed, the source of communication plays a central role in how communication is valued and processed. Information from a trusted source regarding the attitude object is expected to influence attitudes more strongly and feel more personal than from sources with vested interests such as advertising, which may be counter argued and thus not have as strong effects on attitudes (Dick & Basu 1994; Smith & Swinyard 1988;Howard-Brown 1998). This is especially important with email, as many customers have started to decline messages from unknown senders to avoid unsolicited commercial email. However, as noted in our research, when customers recognize and trust the sender, email can generate high levels of attention, activate customers to visit stores and buy products, and build brand loyalty.

---

[2] Quris uses the term "program" in the sense of a marketing program – i.e., an ongoing customer-development initiative with a clear scope in terms of objectives, budgets, project responsibility and so on.

2.2.4   Indirect Brand Communication: Brand Communities

Like in the offline environment, there is also word-of-mouth communication in digital environment, one visible form of that being a brand community. Brand communities are important for a marketer, because brand knowledge and experiences are quickly spread via them, and new opportunities for brand communication are opened.

In brand communities customers interact with each other and brands, by communicating via different channels or face-to-face. In many cases, consumers and marketers jointly build brand communities. These communities may form around any brand, but it is more likely for brands with a strong image, a rich and lengthy history, threatening competition, and that are publicly consumed (Muniz & O'Guinn 2001). Marketers are encouraged to create brand communities, because customers belonging to them are more loyal than others; they are less apt to switch brands and more motivated to provide feedback (McAlexander *et.al.* 2002).

Digital environment offers great tools for community building. In the Internet, it is quite easy for any one to start building a virtual brand community by creating web pages. Indeed, many brand communities on the web are created or initiated by individual users and clubs, not by companies. Virtual communities can have greater geographical scope and narrower focus than most offline communities (Wind *et.al.* 2002, 97). Nevertheless, brand communities often mix the offline and online environment, as community members often meet and discuss both on the web and in the real world. Importance of community web pages to consumers' day-to-day lives is demonstrated by their rich content, continuous update and modification, and active discussion (Muniz & O'Guinn 2001).

> Dynamiitti.com is a Finnish brand community site that connects together the drivers and enthusiasts of five Japanese car brands (Honda, Mazda, Mitsubishi, Toyota, and Nissan). The site offers a discussion board with various topics for each brand, as well as areas for general discussion of driving and racing. Members share their views of new models, accessories, repair services, tests, and so on. Generally the news spread very quickly within this community. There is also a market forum, where community members can buy and sell cars and other stuff. This community converges virtual and physical communities, as active members regularly meet each other and join events also in the bricks-and-mortar world.

Brand communities represent both opportunities and challenges for companies. There is an opportunity to build an online infrastructure where brand users freely share their brand

knowledge, experiences and feelings with each other. This information can easily be collected by the marketer, which gives an important inside view for the customers. Active community members can be considered as opinion leaders who can be used to test new ideas and concepts, and hopefully to spread positive word-of-mouth. There is also an opportunity to communicate directly to the brand users. For example, a representative of the marketer can be an active member of the brand community who joins everyday discussion among the other members. Also, ads can be placed for a sponsored brand community site.

On the other hand, company's ability to control the discussion of brand communities can be relatively limited or non-existing. The company may be able to facilitate the discussion to a certain extent, but it cannot actually control what consumers discuss. A strong brand community may even collectively reject marketing efforts or product changes (Muniz & O'Guinn 2001). Even on sponsored brand community sites advertising must be kept at minimum level to prevent members being annoyed by too many commercial messages.

As virtual brand communities make customers spend more time with the brand and actively seek and spread information about it, we propose the following hypotheses:

> *Hypotheses 3.* Activity in virtual brand communities increases customer's brand knowledge and loyalty.

2.3   Digital Services

The development of the Internet and other new channels has made it possible for firms to create new services and develop interactive and relationship-building contacts with their customers (Grönroos 2000, 11). To further emphasize the importance of online service, extensive survey data from more than 2000 e-tail sites shows that price-sensitive customers may be the least loyal, whereas customer service support is the main factor that attracts repeat buying (Reibstein 2002). Indeed, the most experienced and successful companies using the Internet are beginning to realize that the key to success is not based only on presence or low prices, but instead on delivering electronic service quality (Zeithaml 2002).

2.3.1   *The Nature of E-Services*

Information service is that aspect of service in which information is the primary value exchanged between two parties (buyer and seller), and it is currently the highest growth area

in service (Rust & Lemon 2001). For example, the Internet is basically a network that allows the interchange of data and information, and many Internet services are quite intangible in their nature (e.g. search engines, news sites, e-magazines, online brokerage). Overall, digital channels offer many possibilities to provide service and go beyond the ordinary functions like access to goods and order fulfilment. The following statement describes well the nature of e-services:

> "E-service is more than order fulfilment, more than responsiveness to inquiries, e-mail and status requests. The true nature of e-service is providing consumers with superior experience with respect to the *interactive flow of information."*
>
> (Rust & Lemon 2001)

The digital environment is also changing the way customers interact with firms to create service outcomes. The importance of self-service is increasing, as customers more often use online banking, automated hotel checkouts, reserve flights over the Internet, track their packages and so on. That is, today's customers commonly interact with technology, not with the service firm employees, to create service outcomes. (Meuter *et.al.* 2000)

Customers can also actively create or shape the form of their services (i.e. personalize). For example, Yahoo! allows users to track their own stock portfolios, manage addresses and calendars, and follow news and information of interest to them, that is, to create their own service packages.

2.3.2   Valuable E-Services

Like in the offline world, marketers are now applying different techniques to create better service experiences also in the digital environment. The focus of digital marketing is now shifting from creating transactions to create service (Rust & Lemon 2001). [3] In effect, satisfaction with e-service is most often driven by the fact that customers perceive it better than the alternative, i.e. interpersonal method of service delivery. Particular benefits include saved time, easy use, and for some customers even avoidance of service personnel (Meuter *et.al.* 2000). In fact, many customers are very satisfied using e-services. A study sponsored by CRM vendor Kana found that 56 percent of consumers stated that interactions over the Web

---

[3] Similar shift in marketing focus has been seen in the traditional environment (see e.g. Sheth & Parvatiyar 1995a)

or via email represent their most positive customer experience (CyberAtlas 2002). Rapid response times to customer inquiries were recognized to be important for providing a positive customer experience. Similarly, in a study we conducted of service channels of a mobile operator's customers, we found that 50 percent of customers preferred the Internet or email over the telephone because they felt these channels were more efficient and flexible, offered better tools for documentation, allowed more control, were more convenient, and saved time (Pesonen 2002; see Bateson 1985; Bateson & Hui 1990 for service measures).

Overall, the service perspective seems to be very important and contemporary issue for marketers who use the digital channels. In a recent survey among 33 leading Finnish companies from different parts of the value chain (marketers, media, etc.) managers were asked about their experiences and views on what kind of digital marketing works. They most commonly answered: "Marketing that creates most added value to customers", and they clearly identified service to be one way to create that added value (Merisavo *et.al.* 2002). The interviewed managers recognized the following e-services valuable for customers:

- Entertaining and useful "online worlds" (e.g. food and cooking related web site)
- Ability to check and change personal information
- Highly targeted offers or invitations
- Constructed environments for social interactivity (games, chats, etc.)
- Personalized services and communication in the form of own mobile phone model
- Real-time info on sports results
- Providing some exclusivity to customers via the use of digital channels (e.g. sneak previews, rumors)

In effect, these results match well with previous research. In a study conducted among 1211 online customers the following factors were found to affect positively loyalty toward an e-retailer (Srinivasan *et.al.* 2002):

- *Customization* - tailoring products, services and transactional environment to individual customers
- *Contact interactivity* – availability and effectiveness of customer support tools, and the degree to which two-way communication is facilitated
- *Cultivation* - providing relevant information and incentives to customers

- *Care* - attention to details in orders, resolving breakdowns, informing the status of orders

- *Community* – the extent to which customers are provided with the opportunity and ability to share opinions among themselves through comment links, buying circles, and chat rooms provided by the e-retailer

- *Choice* – the ability to offer a wide range of product categories and great variety of products

- *Character* – creative website design creating an overall image or personality through the use of inputs such as text, style, graphics, colours, logos, and slogans

Most of these antecedents of e-loyalty, "7Cs", as Srinivasan and others call them, are service-oriented, which gives further evidence of the importance of e-service in building customer relationships. Also emphasizing the importance of service over other features when building customer loyalty via digital channels is the interesting evidence suggesting that sensory attributes, particularly visual cues, will influence choice to a lesser extent online than offline (Degeratu *et.al* 2000). This result suggests that designing eye-catching web site is not the key to a success; it is rather service and content that drive purchases and build customer relationships online.

There is evidence indicating that consumers may become highly loyal to a specific site. According to December 2001 Internet-usage ratings by Jupiter Media Metrix, 76 percent of the 13.5 million adult visitors to the top 10 standalone career Web sites were exclusive to just one site, while 15 percent used two competing top 10 sites and only seven percent visited three or more (Association for Interactive Marketing 2002). It seems like two distinct groups of users have emerged, the large majority who choose one site and surf it exclusively, and the minority who are active, intensive users of multiple sites.

2.4 Personalization

One of the advantages of digital channels is the ability to identify individual customers, and gather information from and about them. Personalization is expected to be an element that can work to boost customer relationships by creating more personal, interesting and relevant brand communication and better service. That is, in this paper we focus on how

personalization mediates the effects of brand communication and service on customer relationships.

2.4.1   *What We Mean by Personalization?*

Personalization as a concept is rather vague. Different terms are being used when talking about it. For instance, following terms can be understood close to personalization: customization, targeting, segmentation, profiling, and one-to-one marketing. It is beyond the scope of this paper to explore the differences and relations of these terms. Instead, it is enough to acknowledge that personalization can mean different things to different people. Furthermore, it is important to see that personalization is not a one-shot action; rather it is a process of interacting and learning between customers and marketers. It is helpful to divide personalization in three broad categories:

- Personalization executed by customers who fill their own preferences and state their interests, and the company uses these profiles to address them individually (e.g. newsletters, Yahoo!'s customized web pages)

- Personalization executed by a marketer: based on customers' behaviour or characteristics (e.g. targeted promotions based on buying behaviour, special offer on a customer's birthday)

- Predictive group personalization (i.e. collaborative filtering) executed by a marketer: recommendations, offers, communication, etc., based on the similar behaviour, interests or characteristics of other customers (e.g. book recommendations to anonymous browsers of Amazon.com).

In the Internet, many forms of personalization can be made automatic by systems and software. That is, similar to presented above, Parsaye (ref. Mohammed *et.al.* 2002, 635) has conceptualized personalization of Web sites as follows: 1) customization – the system's ability to customize items by allowing individual users to set their own preferences, 2) individualization – the system's ability to customize itself to the user based on the user's exhibited behaviour, and 3) group characterization – the system's ability to customize itself to the user based on the preferences of the other users with similar interests.

To have positive results with personalization on customer relationships calls for that customers really appreciate personalization. There is some evidence that they do. For example, a study sponsored by CRM vendor Kana found that almost 75 percent of

respondents cited personalization as a major contributor to their most satisfying purchasing experience, online or offline (CyberAtlas 2002). The study was based on a cross section of consumers who have made purchases in both online and offline environments. According to the study, personalization capabilities including self-service, personalized voice or e-mail interactions, the ability to track purchases and requests, and knowledgeable customer service representatives who are educated in the customer's history with a business contributed to 73 percent of the most positive customer experiences. More than one-third of the respondents noted that lack of personalized customer care contributed to their least satisfying customer experience.

2.4.2 Personalizing Brand Communication

One clear object of personalization in brand communication is the content of messages. Content in digital media seem to be very important, as it is argued that consumers tend to be more critical when evaluating content in the web than in print media (Gallagher *et al*. 2001).

The personalization possibilities of digital channels can be used to produce more relevant messages to customers, even according and up to their individual wishes. Nevertheless, it seems that personalization has focused too much on selling and transactions. Although tailored offers and promotions can be very valuable for customers, they also welcome richer content. That is, customers may appreciate information on new products, tips on usage, news related to their life-style and spare time activities, invitations to events, and so on.

Indeed, a survey of email marketing of a cosmetics brand showed that loyal consumers appreciate regular communication and various other information content from the brand, not just offers (Merisavo 2001). In more detail, consumers found following message content especially useful: special sales offers (90% of all respondents), information about new products (89%), contests (68%), news about beauty in general (68%), information about events (43%), links to Internet pages (43%), and information about international makeup trends (41%). Moreover, the desired content links to communication frequency; those consumers who appreciate regular contacting want to hear on all of the above items from the marketer. On the other hand, respondents who appreciate regular communication less find special sales offers and competitions especially useful but do not appreciate other content of communication as much. What is interesting to note is that despite the respondents said they would like offers, they were pleased with the mailings that did not contain any offers. This

suggests that email without an offer can work towards building customer loyalty, whereas direct marketing textbooks still advice marketers to include an offer in a mailing. Results clearly imply that different customers want to hear different things, depending on their relationship with the brand or marketer. That is, it may be worth for a marketer to consider personalizing brand communication, both its frequency and content.

Similarly, research on loyalty programs for packaged goods brands shows that different brand communication results in different loyalty effects with various types of consumers. In a recent study, it was found that the best way to increase brand loyalty are web sites or newsletters (intangible incentives), which content is cue-compatible (i.e. relate to favorable brand associations), in contrast to tangible and cue-compatible incentives (e.g. gifts), which may even decrease loyalty, and to cue-incompatible and intangible incentives, which have no effect on loyalty (Roehm *et.al.* 2002). For example, it was found that a newsletter or web site that emphasized a soft drink's refreshness (a favourable brand association) enhanced brand loyalty, whereas drink insulator as a gift lowered it, and a fitness web site or news letter had no impact on loyalty. However, two mediators, prior brand knowledge and shopping enjoyment, were found to affect the change of brand loyalty. That is, the favourable effect on brand loyalty was seen *only* for those consumers, who had low brand knowledge and shopping enjoyment, while there was no effect on consumers with high knowledge and shopping enjoyment. Also, the effect of tangible and cue-combatible incentives on brand loyalty of consumers with high-knowledge and shopping enoyment was negative, while there was no effect on the consumers with opposite traits. These results imply that prior brand knowledge and shopping enjoyment could be used as targeting factors when personalizing brand communication. [4]

Even though Roehm's and others' (2002) results on loyalty programs are interesting, they give evidence only for relatively simple products like soft drinks, and do not say much about long term effects of personalized websites or newsletters on customer relationships of different type of products and services. In a case of an airline company, for example, it would be interesting to explore how newsletters of different content and levels of personalization

---

[4] Intrestingly, the results concerning no effects or negative effects of brand communication on the brand loyalty of those cnsumers with high prior brand knowledge are opposite to suggestions of traditional advertising research (see Tellis 1988; Ehrenberg 1974).

work for different customers of to enhance their brand loyalty. Do they appreciate information on schedules, low-priced tickets, travelling destinations, mileage points, or what do they find valuable?

To conclude, brand communication that is perceived interesting and relevant by customers is important for building brand loyalty and customer relationships. Companies must find the right combination of frequency, channels, content, and personalization for different customers and brands. We propose the following hypotheses:

> *Hypotheses 4.* The more relevant and interesting customers perceive brand's messages, the more brand loyal they become.

2.4.3 Personalizing Service

There can be different levels of personalized services. Sterne (2000, 235-244) recognizes following personalization levels:

- Recognition (greetings, name)
- Making recommendations (based on collaborative filtering)
- Making customer service recommendations (solutions to problems
- Profile access - password required (customer-modifiable profiles, dynamic content)
- Explicit versus implicit information (what customers tell and what can be objectively perceived of them)
- Anticipation engines (proactive personalization based on sophisticated data analysis)

This list just tells, that there are many ways to personalize service in the interactive media, and the requirements are also different. Some personalization options require extensive information from the customers but others work also on anonymous users. Also, the requirements for hardware, software and competences are different for the marketer. There is not one way to create personalized services that work, instead they need to be tailored for each business case. Lands' End case is a great example and a success story how personalized service works in online business:

> Lands' End embraced the Internet early on, opening their e-commerce business in July of 1995 featuring only 100 products along with their familiar and humorous editorial content. Internet sales now account

for approximately 20 percent of our overall sales and they have become the leading online seller of apparel in the world.

For over 25 years, Lands' End has been a leading direct merchant of traditionally styled, casual clothing for men, women and children, as well as soft luggage and products for the home. The site has grown consistently, offering every Lands' End product, featuring personalized shopping accounts, and hosting 38 million visits in fiscal year 2000. Known for unmatched customer service and affordable products of exceptional quality, Landsend.com extends Lands' End's one-to-one relationship with customers via personalized shopping aids such as Lands' End Live™ (talk to a customer service agent while shopping online), Your Personal Model™ (build a wardrobe based on individual shape and lifestyle), and Oxford Express™ (get help selecting dress shirts).

"Our number one priority has always been serving the customer, so the most critical thing for us has been translating our distinctive customer service to the e-commerce space," explained Terry Nelson, the e-commerce Marketing Manager for Lands' End.

Company's email newsletter has half a million opt-in subscribers. "As opposed to printed catalogs, the customer in permission-based marketing is telling us what information they would like us to send them," added Nelson. "So our customers tell us the frequency with which they would like us to contact them as well as the topical information that they're interested in receiving."
95% of Lands' End opt-ins chose the weekly newsletter frequency versus the monthly or twice monthly frequencies also offered. So most people get 52 newsletters a year.

The team decided the newsletter and the site would have separate functions. The site would be where selling went on. The newsletter would be the site's ambassador, quietly reminding customers to visit the site when they needed that extra pair of chinos, by building a strong branded relationship with them week after week throughout the year.

Lands' End maintains a personal touch amid large e-mail campaigns. "A number of weeks ago, we sent out an e-mail about the difficulties of our new construction here in Dodgeville," Nelson states. "It was obviously not a selling message, but we got a number of very positive responses from our customers saying that it was hilarious and they just appreciated our perspective on things. We viewed it as a way to build a closer relationship with our customers."

Adapted from:
www.responsys.com/corporate/customers/cs_landsend.asp
http://library.marketingsherpa.com/barrier.cfm?CID=1997

2.5   Interactivity

2.5.1   *The Nature of Interactivity and Its Effects on Loyalty*

Digital environment offers opportunities to turn communication from one-way to interactive. Interactivity may consist of different elements, depending on the channel and media being used. For example, on web sites interactivity can be in the form of customer support tools (information, search processes, etc.) and two-way communication (contact forms, chat, etc.), as well as games and entertainment. Customers are engaged in a search or dialogue with firms and brands, where information and actions flow both ways. The firm is not always the party that starts the interaction or dialogue, instead in many cases customers act as initiators. It would be beneficial to explore if interactivity has effects on customer and brand loyalty. Research among the first in this topic suggested that interactivity has an impact on customer loyalty, at least for two reasons:

- Interactivity enables a search process that can quickly locate a desired product or service, thereby replacing dependence on detailed customer memory (Alba *et.al.* 1997)

- Interactivity increases the amount of information that can be presented to a customer (Deighton 1996; Watson *et.al.* 1998)

Stewart and Pavlou (2002, 381) stress the different nature of measurement in interactive media: "Research that treats marketing communication as an independent variable, useful for predicting consumer response, ignores the reciprocal influence that consumer response has on subsequent communication". That is, any response to marketing communication, including that of simply attending may be contingent of other factors. Perhaps due to this complexity, the psychology behind the development of customer loyalty on basis of interactive marketing methods is not well understood. There are many questions yet to be answered. For instance, it would be interesting to find out if those customers who use interactive communication options (designed by the company) are more loyal than those who do not use them. Do customers want interactivity with companies and do they find it more desirable in the digital environment than in the traditional? Are their attitudes different towards a brand that offers interactivity than toward a brand that does not?

Kwak and others (2002) found that product information requests over the web are positively related to online purchases. Similarly, interactivity was confirmed to have a positive effect on loyalty toward an e-retailer in a study conducted among 1211 online customers, where availability and effectiveness of customer support tools, and the degree to which two-way communication was facilitated were independent variables (Srinivasan *et.al.* 2002). When customers can easily search and find desired services or support, and filter out the information they need, they see this as a convenience and as better service. In effect, companies are increasingly offering customers interactive tools to make better decisions about financial issues, purchases, health care, and other complex issues (Wind *et.al.* 2002, 180). The same is true in b2b sector, for example, eRoom provides collaboration tools in a form of digital workplace to help companies bring together cross-functional, cross-enterprise teams to build and manage relationships with customers, partners and suppliers, to innovate in the design, development and delivery of products and services.

It was found in an experiment that consumer's past shopping and browsing experiences on the net are likely to affect behaviour in the following situations (Menon & Khan 2002). Specifically, if consumers are exposed initially to pleasing Internet websites with low stimulation and information load, they are more likely to engage in subsequent approach shopping behaviours, and they will browse more, engage in more unplanned purchasing, and seek out more stimulating products and categories. Furthermore, if websites encountered initially are higher in stimulation and information load, consumers are *less* likely to engage in similar behaviour. Thus, Menon & Khan suggest that marketers should carefully consider the emotional impact of initial encounter with a website since it can affect consumers' subsequent behaviour. For example, if a marketer wants consumers to do direct tasks on the website (e.g. registering, making a purchase), and deeper browsing is not required or even desired, those websites should be designed with arousing stimuli. Clearly these results have implications for the design of websites, personalization and online advertising.

It seems like the initial studies of the effects of interactivity on loyalty have focused on online purchasing and measuring sales, which might be a limited view for understanding interactivity. It would be beneficial to explore more how consumers use the structural characteristics of interactive media. The reasons consumers seek, self-select, process, use, and response to information are critical for understanding responses to communications (Stewart & Pavlou 2002).

2.5.2   Getting Customers to Spend Time and Interact with a Brand

Digital environment offers consumers new ways to spend time with a brand. There is no more necessity of going to stores to see products and to talk with sales people. Over the Internet consumers can access a vast amount of product information, view 3D-images and test different product variations, as well as play games and interact with other brand users. New digital environment and emergence of multiple channels has created opportunities for marketers to be more creative than before. For example, Nokia has invented an every year game event:

> In *Nokia Game* players will be called upon to collect, and act on a series of clues, delivered via a host of channels – including the Internet, press, radio, e-mail, telephone and TV. Those that successfully put all the pieces of the puzzle together will be rewarded with a chance to participate in the grand final. Gaming keeps consumers interacting with Nokia brand for three weeks. In 2001 there were over 600.000 players from 28 countries. (www.nokiagame.com)

In the interactive environment like the Web, consumers may reach a state in which their sole attention is focused solely on the universe contained within the boundaries of their network navigation experience (Luna *et.al.* 2002). This can be commented like "I completely lost the track of time." Such a state has been labelled *flow* in previous research (e.g. Csikszentmihalyi & LeFevre 1989; Csikszentmihalyi 2000; Hoffman & Novak 1996). Developing games and online experiences is a new area for traditional brand marketers, which turns around the old concept of one-way brand communication. Previous means like sponsoring and offline events have not disappeared, but they are now more mixed with the online world. For example, some pop-artists have shown their live concerts on the Internet for free on the sponsor's web pages.

To conclude, researchers' views toward the effects of interactivity on customer loyalty seem to emphasize the importance of customers who are active, and who work as initiators. We think that interactivity is likely to mediate the positive effects of brand communication on loyalty by increasing the number of brand contacts and spent time with the brand. Similarly, interactivity in service means that customer have better tools and options to control service situations, get help in problematic situations, and to modify their service profiles, etc., which is likely to bring them more value. Based on this discussion, we propose the following hypotheses:

Hypotheses 5. Increased time spent with the brand (online) by a customer increases brand loyalty.

Hypotheses 6. Brand loyalty of customers who are active, and who initiate communication (i.e. who make product inquiries, give feedback, update service profiles, etc.) is increased.

2.5.3   Challenges of Interactivity

As discussed, there are many ways to interact in digital environment. In addition to understanding better the customer perspective on interactivity, there are also technological challenges. The technology of different digital channels is not equally suitable to support convenient interactivity. It could be said that today the Internet is most developed and offers most options to interact (chats, discussion forums, games, and so on). At the moment, mobile phones are not yet fully suitable for extensive Internet surfing or transferring big amounts of data. Instead the most popular form of mobile interaction today is an SMS message, which has a narrow space limit of 160 characters. At present, digital TV is still developing in most countries and full interactivity by using it is yet to be obtained. Thus, the Internet, along with email seems to be today's most important vehicle for interactive marketing. However, the pace of mobile device development (including multimedia messaging and 3G mobile phones) is fast, and within few years they may also be very central marketing tools.

Besides technology, another challenge of interactivity is the privacy of customers, that is, the rules how to collect and use customers' personal information. The laws and conventions that concern privacy issues vary in different countries. For example, privacy issues have become a major concern in the USA, as many companies have exploited customer information by sharing it to third parties, and bombarding customers with too much marketing messages. On the other hand, in Finland privacy has not become such a hot issue, as marketing regulation of government has been tight, and companies have used digital channels more carefully, usually respecting customers' privacy.

Furthermore, interactivity places demands on the structure of companies, the way they organize themselves and their processes. Firms must have proper channels and enough resources for handling customer-initiated interaction, like feedback and inquiries. In fact, some companies have difficulties even in the basic responses to customers' communication.

For example, it was found that on average it takes 21 hours for e-tailers to respond to customers' email inquiries, and 18 percent of the sites never respond (The DMA's State of the E-Commerce Industry Report 2002).

2.6   Using the Model

We have now described how brand communication and service, mediated by personalization and interactivity can have positive effects on customer relationships. However, the flow of effects is not always direct; instead it may involve a process of interaction between marketers and customers. To illustrate, few examples are given.

Figure 2 illustrates a case of a marketer of an online search/alert service. This service allows customers to create their own personalized search profiles (e.g. for cars, jobs, apartments). Search profiles will be run automatically at specified intervals and alerts with desired information are sent to customers on preferred channel, when the object of search is found. For example, a customer has specified to prefer a job of marketing manager in FMCG sector in London, and wants to get alerts twice in a month via email. So, every two weeks the marketer sends him an email notification of open posts in the given area, with a job description and contact details.
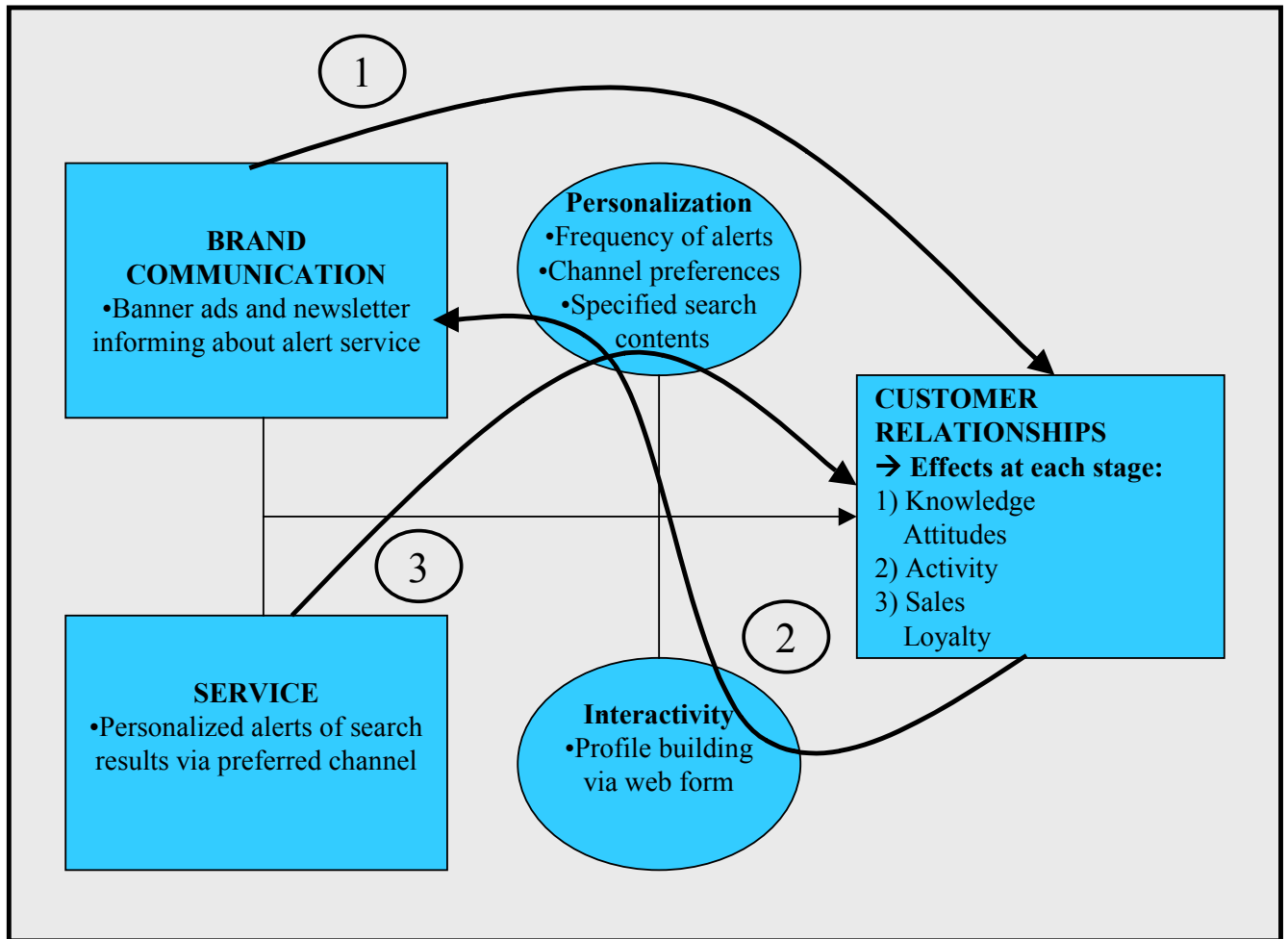
Figure 2. The interactive marketing process and effects of an alert service

At first stage in Figure 2 the marketer informs potential users of the alert service, describes how to use it, and suggests trying it. This may be achieved with banner advertising and newsletters, for example. Effects on customer relationships at this stage include increased knowledge about the service and brand, and potentially changed attitudes.

Moreover, if the marketer's initial communication is successful it activates customers and makes them respond. At stage two customers use interactive tools, like web forms, to build their search profiles and give preferences. In other words, customers communicate to the brand, and personalize the alert service for them.

At stage three, the marketer sends personalized alerts to customers via their desired channel. These messages can make customers to contact the seller and buy products being searched

(e.g. a car), as well as enhance their attitudes and loyalty toward the provider of the alert service (e.g. a media).

As we see, the model of digital marketing can be utilized to describe different cases. Figure 3 illustrates how digital marketing of a car dealer might work.
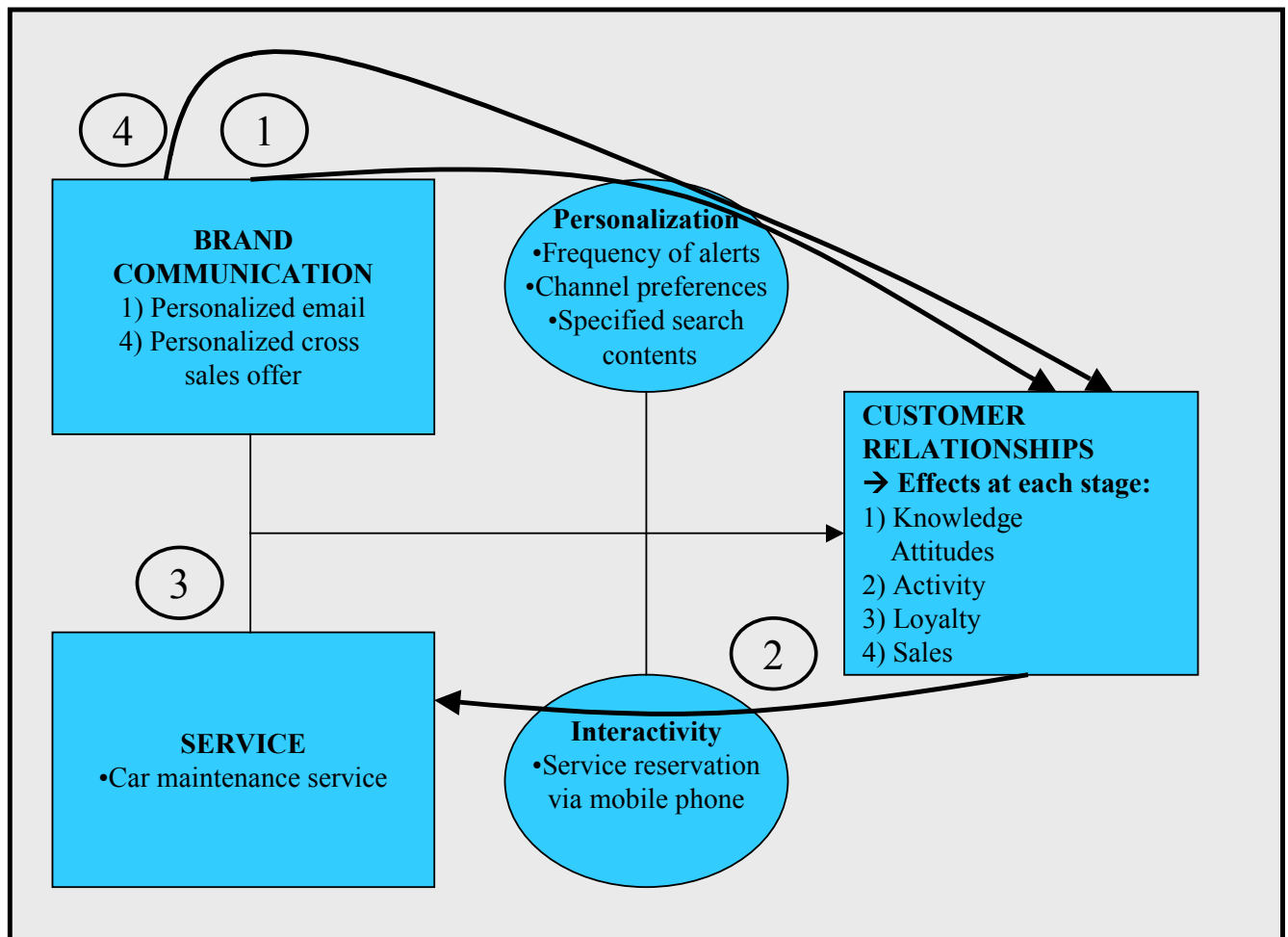
Figure 3. The interactive marketing process and effects of a car maintenance service

At first stage the car dealer sends a personalized email to its customers. This email invites car owners to a maintenance service, for example at the moment when a certain mileage is estimated to be driven. Customers are opted a possibility to reserve their maintenance time via mobile phone. Thus, customers' knowledge about service needs and different options is increased. Perhaps their attitudes also become better, as they feel the car dealer takes care of them.

At second stage the customer might respond by using his mobile phone to reserve the maintenance service.

At third stage the customer drives his car to the service. If he is satisfied with the service, and the whole process, loyalty towards the car dealer might be increased.

Finally, at stage four the dealer might use information gathered in the service process to send personalized cross sales offers, For example, if the service personnel perceive that tires have worn out, an offer for new tires fitting that car might be sent.

2.7   Mediating Factors

Although we emphasize that brand communication, service, personalization, and interactivity are important in building customer relationships via digital channels, we recognize some other variables (i.e. mediating factors) that possibly affect all elements of digital marketing and must also be taken into account (see Figure 4).
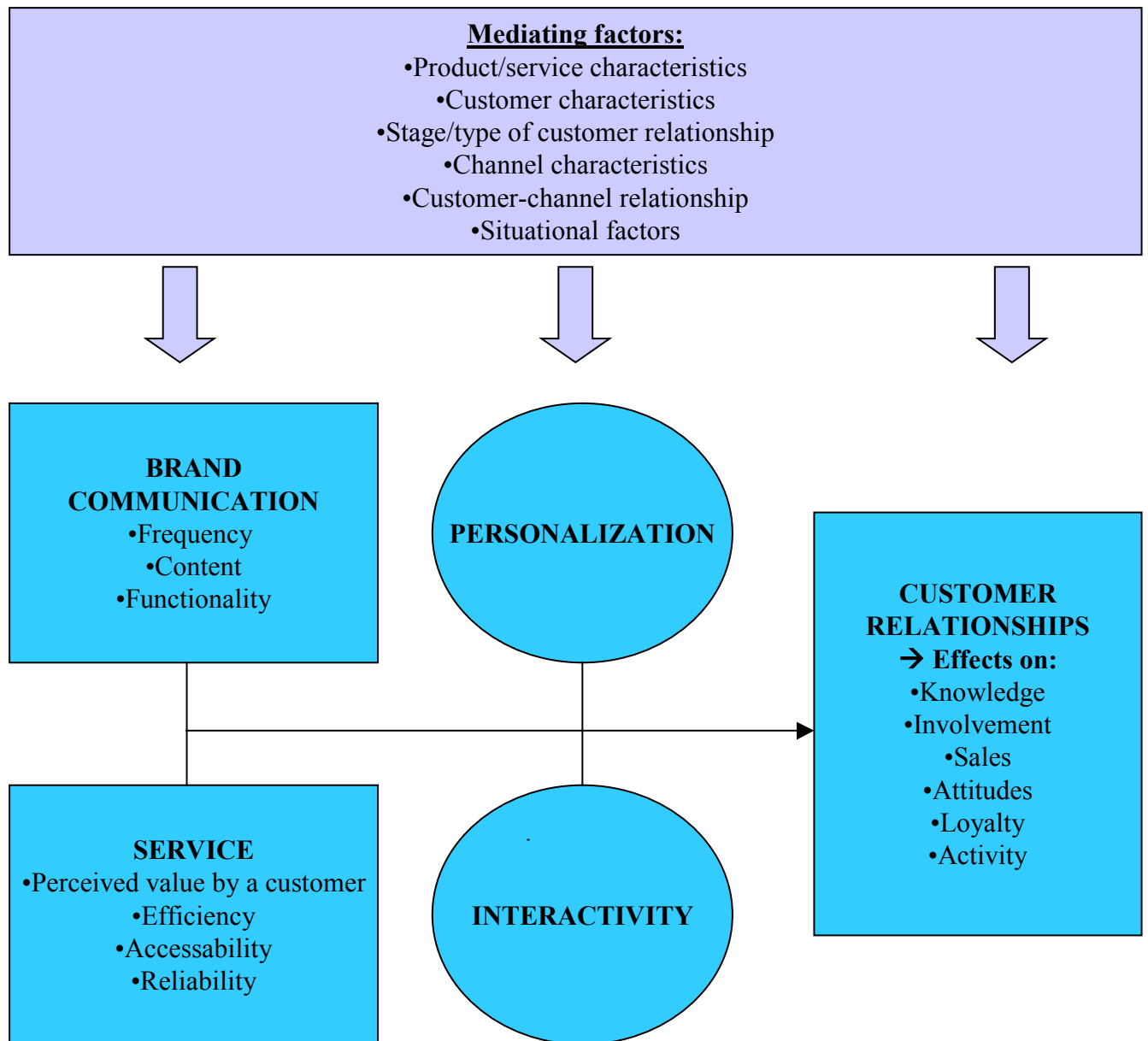
Figure 4. Mediating factors affecting digital marketing

Not all products and services are equally suitable for digital marketing, nor are all customers equally responsive to digital marketing or willing to engage in it. It is useful for a company to know which customers have the most future potential, and which are more likely worth the investments in extensive communication and relationship building. Furthermore, the current stage and type of customer relationship is likely to affect the ways and effectiveness of digital marketing. We also recognize that channel and customer-channel relationships, as well as various situational factors mediate. In the following sections we explore how product/service and customer characteristics, and different customer relationships affect the ability to enhance customer relationships with digital marketing. Channel characteristics and customer-channel

relationships are briefly discussed. Situational factors are mainly beyond the scope of this paper.

2.7.1 Product and Service Characteristics

Different products and services can be differently suitable for digital marketing, and the opportunities for relationship building can also be diverse. There are four central issues that affect the suitability of a product or service for relationship building.

First, the *level of involvement* [5] varies with different products. Consumers are more brand loyal toward high-involvement products and services, and it is suggested that it is possible to build deep consumer-brand relationships within these categories (de Chernatony 1998, 75; Pine II *et.al.* 1995; Warrington & Shim 2000). For example, cosmetics, cars and clothes are high involvement products to many consumers (see e.g. Fisher 1985; Kapferer 1998, 31).

Second, the *level of perceived risk* affects consumers' relationship orientation. Consumers are more brand loyal and willing to engage in long-term relationships with products that they perceive as high-risk. Risks can be functional, physical, financial, social, psychological or time-based (see e.g. Keller 1998, 8-9). High-risk product categories include airlines, clothing, medicines, financial services, etc. (Bhattacharaya & Bolton 2000)

Third, *product category heterogeneity*, both actual (number of alternatives, customization, etc.) and perceived heterogeneity by customers (brand images, experiences, etc.) affects the likelihood of customers engaging in relational behaviour. Perceived product category heterogeneity increases the odds of customers engaging in relationships, while homogenous product categories make customers to expand their consideration sets beyond existing exchange partners. For example, cosmetics and computers are heterogeneous product categories. (Bhattacharaya & Bolton 2000)

---

[5] Involvement denotes the perceived personal importance of an object to an individual and it refers to the intensity of the quite enduring psychological linkage between an individual and an object (Rajaniemi 1992, 29). Involvement has connections with brand loyalty; consumers can be highly involved in a product category without being necessarily loyal to a specific brand, but low product involvement usually implies that a consumer cannot be committed to a brand (Amine 1998).

Fourth, *switching costs* affect customer loyalty. Switching costs include search costs and non-monetary costs (e.g. the effort needed to form a new relationship). Customers are likely to value existing relationships more highly when search and switching costs are greater. Product categories were switching costs are high include insurances, child care, and financial services. (Bhattacharaya & Bolton 2000)

To conclude, relationship building is considered to be most efficient and plausible with products and services that customers perceive as high-involvement, high-risk, heterogeneous, and where switching costs are high. However, to avoid oversimplification, it must be kept in mind that digital channels, like the Internet, can lower the risks and switching costs that customers confront, increase commoditization of products and services, and create multiple loyalties (Dussart 2001).

2.7.2 Customer Characteristics

Kwak and others (2002) surveyed Internet users and explored consumer attitudes, Internet experiences, demographics, and personality traits that may potentially influence consumers' online purchasing, and the type of purchases they are willing to make. In the study it was found that gender (male), high income, and opinion leadership increase the odds for online purchases. Furthermore, it was found that consumers' web purchasing may not be considerably enhanced by their mere exposure to Internet advertising. Instead, online consumers' buying behaviour may be rooted in their self-generated interests with the subjects of the web before they surf the online marketplace. This relates to their life styles and interest for buying different products: consumers who frequently access the Internet buy online books, computer products, education, electronic goods, entertainment, Internet-related products, and travel more often than consumers who access the Internet less frequently (Kwak *et.al.* 2002)

Instead of looking just behaviour like purchasing, it is also important too look what drives consumer attitudes towards using online and other technology-based services. Dabholkar and Bagozzi (2002) tested the moderating effects of consumer traits and situational factors on attitudes and intentions toward using technology-based self-services. They identified ease of use, performance, and fun to have direct effects on attitudes toward using the services, and self-efficacy (level of confidence to use technology-based self-service), inherent novelty seeking, need for interaction (with a service employee), self-consciousness, perceived waiting time, and social anxiety (discomfort through perceived crowding) to be moderating variables.

Their findings suggest that marketer should develop and promote different factors of self-services depending on the level of the moderating variables, i.e. consumer traits (see Table 1).

PROMOTE:	SELF-EFFICACY	INHERENT NOVELTY SEEKING	NEED FOR INTERACTION	SELF-CONSCIOUSNESS	PERCEIVED WAITING TIME	SOCIAL ANXIETY
EASE OF USE	Low	High	High	Low	Long	High
PERFORMANCE	-	Low	-	High	Short	Low
FUN	High	High	High	High	Long	High

Table 1. Effects of consumer traits and situational factors on promoting technology-based self-services
Source: Dabholkar & Bagozzi (2002)

For example, performance should be promoted to consumers with high self-consciousness. These results show that consumer traits, as well as situational factors affect consumers' attitudes and intentions toward the use of technology-based self-services. However, like the authors themselves suggest, it would be important to find out what is the role of consumer traits and situational factors in different self-service contexts and channels. For example, do perceptions of excessive waiting times on the Internet turn off potential users and make them more demanding in terms of enjoyment?

As discussed in Section 2.2.4, virtual band communities can be efficient in enhancing brand loyalty. However, consumers' tendency to engage in web communities and other relational activities varies a lot. Mathwick (2002) identified four online relationship orientation profiles:

- *Transactional Community Members* are high in both communal and exchange traits. This group is likely to provide feedback on products and services and to engage in on-line dialogue with fellow patrons. This group is concerned about service continuity and experiences feelings like enjoyment, escapism and entertainment when using it. They are highly loyal to the site.
- *Socializers* are much more communal than exchange oriented. They are the most active joiners in the virtual environment whose communal traits fuel the virtual community social system through connections with people who share their interests in hobbies, recreational activities, politics and religion. They are less likely to engage in supportive commercial interaction (feedback) than Transactional Community Members. This group is also loyal to the site.

- *Personal Connectors* exhibit the lowest relational traits. This group may participate in special interest communities devoted to their hobbies, but they utilize the interaction mechanisms of the Internet primarily to maintain contact with family, friends and professional associates. This group is not very loyal to the site.

- *Lurkers* exhibit low relationship orientation traits. This group has a tendency to stay on the sidelines, observe, buy, but not connect on either a commercial, interpersonal or shared interest level. They are unlikely to provide feedback or to engage in chat room or email conversations. Their connections to family and professional associates are also lower than in any other group. This group is least loyal to the site.

Mathwick concludes that online marketers who invest in infrastructure designed to allow customers to connect on more than just transactional level (chat rooms, bulletin boards, sponsored interactive events) may be making wise investments, at least for a portion of their customer base. Furthermore, he argues that virtual communities appear to have a positive effect on the future loyalty intentions of participating customers. However, in practise it can be difficult for a firm to identify the relationship orientation profiles of its customers.

As marketers rush to create better e-services, it is also important to identify those customers who are worth of investing in. Keaveney and Parthasarathy (2001) contributed by identifying the profile of an online service switcher: the online service switcher is an individual that was influenced to subscribe to the service through word of mouth, rather than through research or previous experience; who used the service less; who was less satisfied and less involved with the service; and who had a lower income and education level as well as lower propensity to taking risks.

As most of the previous research efforts are concerned with Internet and online services, as well as various self-service devices (e.g. ATM's), it would also be interesting to see if same results apply to other digital channels (email, mobile, digital TV) and what is the effect of multichannel integration.

2.7.3 *Different Customer Relationships and Involvement*

Customer relationships tend to be very heterogeneous: they differ in duration, strength, interactivity, and in many other aspects. Customer relationships also change dynamically over time, and are shaped by different stages and incidents. It is likely that the current stage and

type of a customer relationship affects how to build relationships and loyalty via digital marketing.

Understanding customer relationships and interactivity calls for exploring the customer view, how do customers see their relationships with companies, products, services, and brands? Sometimes customers do not realize that they actually have any relationships. Instead, they often perceive only single incidents and encounters with products and services they engage in their daily lives. An interview study of over 300 consumers revealed that consumers most easily see their lives through *lifethemes* (Mattinen *et.al.* 2001). Lifetheme as a concept is similar to product category, but it is the customer's point of view, which often differs from the company's point of view. Mattinen and others (2001) define lifetheme "as the total combination of products and services between which a customer makes choices in a given area of needs". The level of lifetheme involvement explains the amount of thoughts, time and resources that a consumer devotes to a certain lifetheme. Also, customer's activity and initiative behaviour, as well as responsiveness are explained by the level of lifetheme involvement.

Results of the study revealed that consumers divide into two main groups: curious and sleepers. All consumers seem to have both high and low involvement lifethemes, but the curious have more of the former than sleepers. Furthermore, customers were perceived to be very different in their attitudes and consuming behaviour. This difference is explained by the level of lifetheme involvement and relationship commitment. The level of relationship commitment is defined as the amount of thoughts, time or resources that a customer directs toward a certain company or brand. It explains customer's willingness to retain a relationship, or to engage in a relationship, and describes both attitudes and behaviour.

Typology in Figure 5, based on the concepts of lifetheme involvement and relationship commitment, describes the "energy" of customer relationships.

	Independent	**Vivid**
High		

Lifetheme involvement		
	Unsure	**Friend**
Low		

	Low	High

Relationship commitment
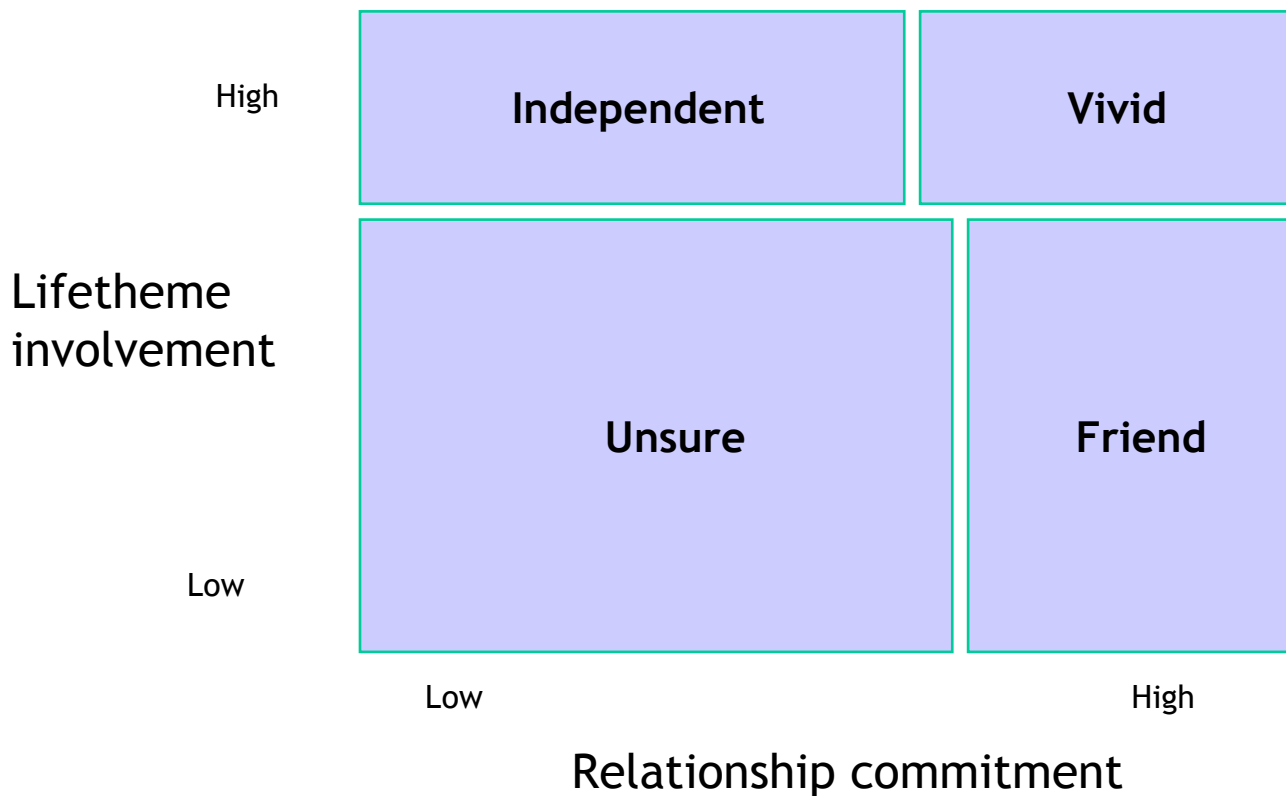
Figure 5. Customer relationship typology

Independent customers want to learn. They find valuable to master better their lifetheme, collect much information, and are willing to learn more, also by following marketing communication. Independent customers find important to act as professionals who share their information in a community. A relationship with a company is often initiated by independent customers, yet they constantly evaluate different alternatives, are critical, and find no difficulty in switching product or service providers. Brands are important to these customers, and they actively seek brands that match their expectations and images. Variety seeking and collecting different experiences dominate the behaviour of independent customers within a given lifetheme.

Vivid customers want to receive messages from the companies they like, and they permit relatively high frequencies and levels of interactivity. These customers want to be active and express themselves in a relationship. They also want to learn more and dig deeper into the lifetheme. Vivid customers appreciate that a company offers them several options, and they like to shape their own customer relationships. Expectations about quality and service are high, but these customers are often strongly committed and satisfied. Although they have

tolerance for mistakes, they are eager to give feedback in problem situations. Brand is important for vivid customers, and they choose brands that match their own values.

Friends are customers who want smooth and practical relationships; they do not seek extensive information on lifethemes. They do not want to think of different choices, they want clear, lasting and risk-free relationships. Friends are very tolerant and do not switch providers easily. They dislike frequent communication and feel it like disruption. This group is not interested in marketing messages; they want to receive only the necessary information that is related to their buying decisions. Brand image is not highly relevant to friends, as they only count experiences where easiness, familiarity, security are emphasized.

Unsure customers are not interested in engaging relationships; they just want things to run smoothly. They appreciate that a company takes care of most of the issues and makes the relationship as easy as possible. These customers want to avoid choices and dialogue, and they want companies to give clear options which to choose from. Unsure are otherwise passive but react to price changes. They do not want much communication, and want to make their own choices. Unsure customers avoid marketing messages, and they hardly recognize any brands.

Lifetheme Involvement-Relationship Commitment -model offers one tool for understanding different customer relationships, and gives a broad strategic framework for planning marketing. However, applying this framework needs more detailed information about customers and their relationships.

Similarly like customers can be involved to a lifetheme, they can be involved to a channel. Thus, customer-channel relationships must also be understood. Generally, it would be sensible to assume that involvement with a channel affects the way people use it, and how much they are exposed to brands, promotions, etc. within that channel. Results on preliminary research support this assumption. For example, the more important consumers consider the Web, the more likely they are to focus their attention on the interaction, and the more likely they are to be skilled at using the Web (Novak *et.al.* 2000). Moreover, it is found that Internet involvement affects positively Internet buying (Kwak *et.al.* 2002). Similar research on involvement would be needed for other digital channels; email, mobile, and digital TV.

In Chapter 2 we have described a theory for understanding how digital marketing affects customer relationships. In the next chapter, we present a measurement scheme that can be used to track those effects.

3   MEASURING THE EFFECTS OF DIGITAL MARKETING

In order to fully explore how digital marketing affects customer relationships, a measurement system is needed. However, there seems not to be many good, practical, and extensive measurement scales available for the digital environment. Indeed, it has been suggested that traditional measures of effects and effectiveness of marketing communication may be incomplete or may have different meanings within an interactive than within a more static context (Stewart & Pavlou 2002). Nevertheless, previous research on brand loyalty measurement and e-service quality (Zeithaml *et.al.*2000; Zeithaml 2002) offers a good starting point, and influenced the development of our suggestion for customer relationship measurement, the SARAS metrics.

3.1   Brand Loyalty Measurement

Brand loyalty is a very central concept in this paper, and many of the effects of digital marketing on customer relationships are expected to be seen through it. Therefore, it is worth exploring how brand loyalty can be measured and what is our view of it.

Despite brand loyalty is discussed a lot, and it is recognized as one of the core elements of brand equity, there is still few tools to practically measure it. In effect, the discussion how to define and operationalize brand loyalty has a long history, and there has been contradictory results (see Dick & Basu 1994; Odin *et. al*. 2001). The classical and most commonly used definition for brand loyalty states that it is a form of repeat purchasing behaviour reflecting a conscious decision to continue buying the same brand (Jakoby & Chestnut 1978). That is, for brand loyalty to exist, a pattern of repeat purchase must be accompanied by a positive attitude towards the brand. Similarly, today most researchers believe that the best way to operationalize brand loyalty is to measure both attitudes and behaviour (Rundle-Thiele & Bennett 2001). This is also the view we have taken in this paper. However, it is not always possible to measure both these dimensions in practice. Some authors suggest that if only attitudes would be measured they would predict brand loyalty as well as actual purchasing behaviour alone (Baldinger & Rubinson 1996). It is also suggested that attitude measures should be compared to attitudes toward competitive brands. For example, Dick and Basu

(1994) stress that a high *relative* attitude contributes significantly toward long-term maintenance of loyalty, and Raj (1985) showed that brand loyalty in a product class varies with the number of significant competing brands within this category. But as Rundle-Thiele and Bennett (2001) argue, there may not be a single good brand loyalty measure; instead the appropriate measurements are dependent on market type and situations.

As a criticism for the attempts to measure brand loyalty, it could be argued that in the behaviour aspect they are missing a lot of activities performed by customers other than mere purchasing behaviour. Especially, the role of customer-initiated communication is almost excluded from several conceptualisations and operationalizations of brand loyalty. What is the effect on brand loyalty, when consumers give feedback, ask and receive advices, and so on? Another concern of brand loyalty measurement relates to online environment and is discussed next.

Online environment allows to track customer behaviour extensively through click-through rates, conversion rates, cookies, etc. Instead of just measuring sales, on the Internet it is now easy to measure various other aspects of customer behaviour and activities. Relevant metrics might include number and frequency of web site visits, spent time online with different product categories and brands, etc. In content conversion analysis specific web content items can be analysed to see how effective they are at triggering certain behaviour. Also, one could measure how actively each customer plays games, takes part in contests or gives feedback. Opportunities for data collection are enormous and there is no point in trying to list all of them here. It is also important that all collected data can easily (and sometimes automatically) be saved to databases, which is a major advantage compared to offline environment. We suggest, that in addition to offline measures relevant online metrics should be included in brand loyalty measures.

3.2 Measuring Electronic Service Quality

Zeithaml (2002) states evidence indicating that service is critical to online customers and that it is generally poor. This fact drove she and her colleagues to conceptualize and measure electronic service quality (e-SQ). E-SQ has seven dimensions that form two scales: a core e-SQ scale and a recovery scale. The core dimensions are:

- *Efficiency* – the ability of the customers to get to the web site, find their desired product and information associated with it and check out with minimal effort
- *Fulfilment* – incorporates accuracy of service promises, having products in stock and delivering the products in the promised time
- *Reliability* – the technical functioning of the site, particularly the extent to which it is available and functioning properly
- *Privacy* – includes assurance that shopping behaviour data are not shared and that credit card information is secure.

Three other dimensions are salient when online customers run into problems, constituting the recovery e-SQ scale:

- *Responsiveness* – ability of a company to provide appropriate information to customers when a problem occurs, have a mechanism for handling returns and providing online guarantees
- *Compensation* – involves receiving money back, return shipping and handling
- *Contact points* – customers are able to speak to a live customer service agent online or through the phone

This scale catches well the main components of online shopping transactions. However, in our opinion, it concentrates too much on the channel (Internet) and sales, and lacks many other important dimensions of service that could affect a customer relationship. We think e-service is much more than transactions and processes surrounding e-commerce. In fact, sometimes even marketing communication itself can be perceived as a service by customers. For example, if a brands keeps in contact with its customers via email it may be perceived as a good service by customers (see Brondmo 2000). These contacts do not necessarily involve any transactions or sales offers. Also, the degree to which two-way communication is facilitated, that is, the ability to interact with other customers (discussion boards, chats, games) may be important service to some customers. Besides, we think the measurement system should be applicable to all digital channels, thus we do not concentrate only on the web, as Zeithaml and others (2000) seem to do. Our measurement scheme builds upon more broadly on the concept of value, exploring the value of a customer relationship from both company and customer perspectives. Before presenting our metrics, we explain what we mean by the concept "value".

3.3   Base for Measurement – Value Concepts

Terms "value" and "added value" are not clearly defined. These are multidimensional constructs, playing different roles, and interpreted in different ways by different people (de Chernatony *et.al.* 2000). Therefore, it is necessary to make clear what we mean by value in this paper. As the object of this paper is to explore the effects of digital marketing on customer relationships, value is a central element in defining these possible effects. We see value as a measure that is quite subjectively perceived by both a company and its customers.

First, we see that perceived benefits reflect value from the customer's point of view. Perceived benefits can be functional, emotional, or self-expressive (Aaker 1996, 95-101). Also, financial benefits and perceived trade-offs between benefits and sacrifices are important, as emphasized in pricing and strategy literature (see e.g. Monroe 1990; Leszinski & Marn 1997; Porter 1985). Second, (as explained in Section 2.3), customers appreciate service via digital channels and may see marketing communication as a service, too. Thus, we include measures of service quality to reveal customer perceptions of value. Furthermore, customers can create value themselves by being active and engaging in interactive communication and contacts with the company (e.g. personalizing their own web services). In this sense we agree to Normann and Ramírez (1994) who see that customers and suppliers jointly create value through complementing each other's activities.

From the company's point of view the ultimate value is the health of its customer relationships, which brings the profit and keeps the company in business. Thus, we think that the value of digital marketing for a company is seen not only in immediate sales and campaign results, but also in the long-term effects on customer relationships. Thus, the most important value of digital marketing for a company is the building of customer relationships through enhancing customer and brand loyalty.

To conclude, the value of digital marketing can be seen in its positive effects on customer relationships, which is reflected through the benefits that both company and customers perceive.

3.4 SARAS Metrics

SARAS metrics take extensively into account the most fundamental aspects of a customer relationship and the focus is on loyalty. Although this paper deals mainly with digital marketing, it is recognized that digital channels work in combination with traditional channels and both shape the forms of customer relationships; these metrics should be applicable to both online and offline environments. SARAS consists of the components described in Table 2.

Sales & Usage:	**A**ttitudes & Benefits	**R**ecommendation & Viral communication	**A**ctivity & Involvement	**S**ervice
Recency, frequency, and monetary value (RFM)	Brand awareness and recognition	Products/services	Involvement and interest to a life theme	Receiving a solution that suits personally
Cross and up sales	Brand preferences	Stores/service channels (e.g. web stores, mobile services)	Awareness and knowledge of a marketer's product and service offerings/options	Receiving interesting/relevant information, and learning
Share of wallet	Brand image/personality	Communication and information (email lists, websites, magazines, etc.)	Response/conversion rate to marketer's communication (e.g. joining, registering, giving permissions)	Speed, saved time, and convenience
Brand usage	Functional benefits (satisfaction to overall quality and service)	Activities (chats, clubs, games, events, etc.)	Frequency, duration and type of brand contacts (e.g. spent time on a web site)	Being recognized, treated personally, feeling understood and cared
Competitive brand usage	Economic benefits (constant, immediate, possible)		Customer-initiated communication (e.g. inquiries, feedback)	Efficiency, minimizing the risk of failure, feeling in control of the service situation
	Emotional benefits (enjoyment, entertainment, etc.)		Visits to off-line stores/events	Possibility to interact with other service users (communality)
	Social/self-expressive benefits (prestige, member in a community, etc.)		Activity in a brand community	Privacy: feeling secured

Table 2. Measuring the effects of digital marketing on customer relationships: SARAS metrics

Sales &Usage

Many metrics in this component are very similar to those that direct marketers have used for a long time. That is, measuring sales, and usage of products and services is the basic thing to do. In order to find out customer's current economic value and estimate lifetime value (LTV) it is necessary to measure recency, frequency and monetary value of sales (RFM). In addition,

cross and up sales should be measured, preferably using the RFM. In order to gain more perspective, it would beneficial to estimate how much a customer is spending on the company's products/services in a given category (share of wallet), and to find out information about brand usage (e.g. in what situations the brand is used). It would be also useful to check competitive brand usage.

Attitudes & Benefits

Attitudes and perceived benefits are important aspects of a customer relationship that connect strongly to a brand. As basic measures, brand awareness, recognition and preferences should be examined. Additionally, brand image and characteristics of perceived brand personality (see Fournier 1998; Aaker 1997) can be measured. Different benefits can connect to product, brand, service, or communication in the minds of customers. Functional benefits describe overall satisfaction to the functional quality of a product or service (e.g. a car is reliable and needs no extra repairing has a good functional value). Economic benefits may be constant (e.g. regular customer's low price), immediate (e.g. sales offers) or possible (possibility to collect points, competitions). Emotional benefits include feelings, like enjoyment and entertainment. Finally, measures of perceived social and self-expressive benefits (like belonging to a community) can also be useful.

Recommendation & Viral communication

As one aspect of loyalty and satisfaction, recommendation gives additional insights to the nature of a customer relationship. Recommendation can be divided to recommendation of products/services, stores/service channels, communication and information (e.g. websites, newsletters), and activity (e.g. online chat, event). Recommendation may be intrigued by consumers themselves (word-of-mouth), or it can be the result of marketer's viral marketing efforts (e.g. receiving points for telling a friend).

Activity & Involvement

Activity of a customer (other than just buying behaviour) is often missing from loyalty measures. In the most fundamental level, activity means involvement and interest in the general life theme of products/services offered by the marketer (as described in section 2.7.3). For example, a winter sports fan could be interested in skis, travelling offers, tickets to snowboard competitions etc. Activity is also indicated by customers' awareness of product and service offerings and options (e.g. knowledge of different types of snow boards and their

repair services). More traditional activity measures are response and conversion rates to company's marketing efforts (e.g. registrations to websites, joining fan clubs, giving different permissions). The frequency, duration and type of contacts customers have with the marketer or brand are also important to measure (e.g. spent time on a brand's web site and content explored), as well as customer-initiated communication (making inquiries, giving feedback, etc.). It is also important to track customers' visits in offline stores and events (and identify if they were inspired by digital marketing). Finally, customer activity in brand communities (both offline and online) would be valuable to track.

Service

Service is a wide component covering different measures of service encounters and perceived value from a customer perspective. One way to explore perceived value is to find out if the customer received a solution that fit his or her personal needs. It is also important to discover how much the customer appreciates the information and communication from the company and whether learning is achieved. Perceived speed of the service, customer's saved time, and experienced convenience of the service process are also things to measure. One aspect of the service experience is how well a customer feels being recognized, treated personally and whether he or she felt understood and taken cared of. Customers' perceptions of service efficiency and the risk of failure are also important aspects. Also, the feelings for interacting with other customers should be explored. Finally, perceptions of security and privacy are important to find out.

Utilizing SARAS Metrics

Overall customer relationship would be most accurately explored when there are measures from each of the component groups (Sales & Usage, Attitudes & Benefits, Recommendation & Viral communication, Activity & Involvement, and Service). However, in practise satisfactory customer relationship measures can also be achieved without some components. For example, research shows that sole attitudinal data measures brand loyalty as well as sales data alone (Baldinger & Rubinson 1996). It should also be noted that basic information like demographics are not described in the scheme, but this type of data is also important and assumed to be collected.

Most of the measurement components must be tailored to individual brands in order to achieve high relevancy. Customer perspective for measurement involves finding out their

motivations, inspirations and interactivity processes, communication modes (push, pull, dialogue), initiator roles, and incentives. It is also important to remember, that many metrics involve customers' subjective perceptions. For example, customers may feel a service slow, regardless of its actual speed.

When utilizing SARAS some components must be measured both online and offline in order to get a precise picture of the customer relationship. Naturally this depends on the nature of the product or service, as well as the brand.

Also, it is worth to keep in mind that different components may connect differently to the product/service and brand aspects, or communication aspect in the minds of customers. For example, a customer may be very satisfied to the quality of the product and yet very unsatisfied to the brand communication.

Some of the data for these metrics are directly available in electronic form (e.g. sales and click data from a website, data from CRM systems), while in other cases data must be gathered indirectly by using queries or feedback mechanisms (e.g. using pop-ups to find out brand attitudes).

Finally, it is helpful to keep in mind that measurements can be applied to different time perspectives. Some components are useful for measuring campaign results (e.g. response/conversion rates), while others are more applicable in the long term (e.g. brand image). For being able to see the long term effects of digital marketing on customer relationships requires using SARAS metrics on regular basis, and generating time series from a longer time period.

4 SUMMARY AND CONCLUSIONS

In this paper we have modelled the effects of digital marketing on customer relationships. We suggest that brand communication and service are the key elements in this. Personalization and interactivity can be mixed into brand communication and service to reinforce the effects of digital marketing on customer relationships.

Digital channels allow brand communication and contacts to be more frequent at lower costs than in traditional channels. Increased frequency of brand contacts has the potential to enhance brand loyalty by generating positive attitudes and emotions, and brand knowledge. Personalization can be used to make more relevant and interesting brand communication. Online participation and activity by customers increases the frequency of brand contacts and boosts brand loyalty.

Online service gives customers better choice, access, control, and convenience over traditional service channels. Time and place independency with the ability of customers to actively create or shape (i.e. personalize) the form of their services builds up satisfaction and loyalty. Also, marketers can create more personal services, based on customers' behaviour and interests, which creates more positive service experiences. The interactive elements of digital media can be used for better communication in service encounters, or customers can be provided additional service when buying products (e.g. being able to track their orders online), which makes more satisfied and loyal customers.

We suggest that digital marketing can have positive effects on customer relationships, which can be seen both in short term (e.g. increased sales and response rates) and long term (enhanced loyalty, attitudes, etc.). This conclusion can be tested empirically by using appropriate methods and metrics, for example the SARAS measurement scheme presented in this paper.

More research and empirical evidence is needed to better understand what are the most suitable forms of digital marketing (e.g. channels, content, modes of interactivity) that strengthen customer relationships. Ideas presented in this paper must be further tested and improved by empirical research. For example, the effect of personalization can be different on different customers. That is, some customers may feel uncomfortable with too much

personalization and thus negative effects on the customer relationship would occur. Also it would be interesting to investigate whether and how customers' use of the interactive elements of digital channels has effects on loyalty.

While focusing on digital marketing in this paper, we recognize that marketers and customers have multiple contacts and various channels that are both digital and traditional, which are often integrated. After all, online and offline environments are blurred in consumers' everyday life and cannot be thought of as fully separate environments in marketing (see e.g. Wind & Mahajan 2002). While being out of the scope of this paper, the issue of multichannel integrated marketing is still an interesting future research area.

5   REFERENCES

Aaker, David A. (1996), *Building Strong Brands.* The Free Press. New York, USA.

Aaker, David A. & Joachimsthaler, Erich (2000), *Brand Leadership,* The Free Press, New York, USA

Aaker, Jennifer L. (1997), Dimensions of Brand Personality, *Journal of Marketing Research* 34. August, pp. 347-356.

Ahluwalia, Rohini, Unnava, Rao H. & Burnkrant, Robert E. (2001), The Moderating Role of Commitment on the Spillover Effect of Marketing Communications, *Journal of Marketing Research*, Vol. XXXVIII, No. 4, pp. 458-470.

Alba, Joseph, Lynch, John, Weitz, Barton, Janiszewski, Chris, Lutz, Richard, Sawyer, Alan & Wood, Stacy (1997), Interactive Home Shopping: Consumer, Retailer, and Manufacturer Incentives to Participate in Electronic Marketplaces, *Journal of Marketing*, Vol. 61, July, pp. 38-53.

Amine, Abdelmajid (1998), Consumers' true brand loyalty: the central role of commitment, *Journal of Strategic Marketing*, Vol. 6, No 4, pp. 305-319.

Baldinger, Allan L. & Rubinson, Joel (1996), Brand Loyalty: The Link Between Attitude and Behaviour, *Journal of Advertising Research* 36:6, Nov/Dec, pp. 22-34.

Barnes, James G. (2001), *Secrets of Customer Relationship Management: It's All About How You Make Them Feel*, McGraw-Hill, NY, USA.

Barwise, P. & Strong, C. (2002), Permission-Based Mobile Advertising, *Journal of Interactive Marketing,* Vol. 16, No.1.

Bateson, John E.G. (1985), Self-service consumer: An exploratory study, *Journal of Retailing*, Vol.61, No.3, pp.49-76.

Bateson, John E.G. & Hui Michael, K.M. (1990), *The effects of perceived control and customer crowding on the service experience*, Marketing Science Institute, Report no. 90-105. Cambridge, Massachusetts.

Bhattacharaya, C.B. & Bolton, Ruth, N. (2000), Relationship Marketing in Mass Markets, In Sheth, Jagdish N. & Parvatiyar, Atul (ed.) *Handbook of Relationship Marketing,* Sage Publications, London, UK, pp. 327-354.

Brondmo, Hans P. (2000), *The Eng@ged Customer: The New Rules of Internet Direct Marketing*, HarperCollins Publishers, New York.

Broussard, Gerard (2000), How advertising frequency can work to build online advertising effectiveness, *International Journal of Market Research,* Vol. 42, No. 4, pp. 439-457.

Coupey, Eloise (2001), *Marketing and the Internet: Conceptual Foundations*, Prentice-Hall, New Jersey, USA.

Cram, Tony (2001), *Customers that count: How to build living relationships with your most valuable customers*, Prentice Hall/Pearson Education, London.

Csikszentmihalyi, Mihaly (2000), Beyond Boredom and Anxiety: Experiencing Flow in Work and Play, San Fransisco, Jossey-Bass.

Csikszentmihalyi, Mihaly & LeFevre, Judith (1989), Optimal Experience in Work and Leisure, *Journal of Personality and Social Psychology,* Vol. 65, No. 5, pp. 815-822.

Dabholkar, Pratibha A. & Bagozzi, Richard B. (2002), An Attitudinal Model of Technology-Based Self-Service: Moderating Effects of Consumer Traits and Situational Factors, *Journal of the Academy of Marketing Science*, Vol. 30, No. 3, pp. 184-201.

de Chernatony, Leslie & McDonald, Malcolm (1998), *Creating Powerful Brands in Consumer, Service and Industrial Markets,* Second edition, Buttenworth-Heinemann, Oxford, UK.

de Chernatony, Leslie, Harris, Fiona & Dall'olmo Riley, Francesca (2000), Added value: its nature, roles and sustainability. *European Journal of Marketing*, Vol. 34, No 1/2, pp. 39-56.

Degeratu, Alexandru M., Rangaswamy, Arwind & Wu, Jianan (2000), Consumer choice behavior in online and traditional supermarkets: The effects of brand name, price and other search attributes, *International Journal of Research in Marketing*, Vol. 17, No. 1, pp. 55-78.

Deighton, John (1996), The future of interactive marketing, *Harvard Business Review*, Vol. 74, Nov-Dec, pp. 151-160.

Delgado-Ballester, Elena & Manuera-Aléman, José Luis (2001), Brand trust in the context of consumer loyalty, *European Journal of Marketing*, Vol. 35, No. 11/12, pp. 1238-1258.

Dick, Alan S. & Basu, Kunal (1994), Customer Loyalty: Toward an Integrated Conceptual Framework, *Journal of the Academy of Marketing Science*, Vol. X, pp. 99-113.

Dussart, Christian (2001), Transformative Power of e-Business Over Consumer Brands, *European Management Journal*, Vol. 19, No. 6, pp. 629-637.

Dussart, Christian (2001), Transformative Power of e-Business Over Consumer Brands, European Management Journal, Vol. 19, No. 6, pp. 629-637.

Ehrenberg, Andrew S.C. (1974), Repetitive Advertising and the Consumer, *Journal of Advertising Research*, Vol. 14, No. 2, pp. 25-34.

Fisher, Anne B. (1985). Coke's Brand Loyalty Lesson. *Fortune,* August 5, pp. 40-42.

Fournier, Susan (1998), Consumers and Their Brands: Developing Relationship Theory in Consumer Research, *Journal of Consumer Research,* Vol. 24, No 4, pp. 343-73.

Gallagher, Katherine, Foster, K. Dale & Parsons, Jeffrey (2001), The Medium Is Not the Message: Advertising Effectiveness and Content Evaluation in Print and on the Web, *Journal of Advertising Research*, Vol. 41, No. 4, pp. 57-70.

Godin, Seth (1999), *Permission Marketing: Turning Strangers into Friends, and Friends into Customers*. Simon & Schuster. New York, USA.

Grönroos, Christian (2000), *Service Management and Marketing: A Customer Relationship Management Approach,* Second Edition, John Wiley & Sons, Chichester, UK.

Hoffman, Donna & Novak, Thomas (1996), Marketing in Hypermedia Computer-Mediated Environments: Conceptual Foundations, *Journal of Marketing,* Vol. 60, July, pp. 50-68.

Jacoby, J. & Chestnut, R.W. (1978), *Brand Loyalty: Measurement and Management.* Wiley. New York.

Kapferer, Jean-Noël (1998), *Strategic Brand Management,* Kogan Page, London, UK.

Keaveney, Susan M. & Parthasarathy, Madhavan (2001), Customer Switching Behavior in Online Services: An Exploratory Study of Selected Attitudinal, Behavioral, and Demographic Factors, *Journal of the Academy of Marketing Science*, Vol. 29, No. 4, pp. 374-390.

Keller, Kevin Lane (1993), Conceptualizing, measuring, and managing customer-based brand equity, *Journal of Marketing Research,* Vol. 29, February, pp. 172-183.

Keller, Kevin Lane (1998), *Strategic Brand Management: Building, Measuring and Managing Brand Equity,* Prentice-Hall Inc., New Jersey, USA.

Krishnan, H.S. (1996), Characteristics of memory associations: a consumer-based brand equity perspective, *International Journal of Research in Marketing,* Vol. 13, No. 4, pp. 389-405.

Kwak, Hyokjin, Fox, Richard J. & Zinkhan, George M. (2002), What Products Can Be Successfully Promoted and Sold via the Internet?, *Journal of Advertising Research*, Vol. 42, Jan-Feb, pp. 23-38.

Leszinski, R. & Marn, M.V. (1997), Setting value, not price, *The McKinsey Quarterly,* Vol.1, pp. 99-115.

Luna, David, Peracchio, Laura A. & de Juan María D. (2002), Cross-Cultural and Cognitive Aspects of Web Site Navigation, *Journal of the Academy of Marketing Science,* Vol. 30, No. 4., pp. 397-410.

Mathwick, Charla (2002), Understanding the Online Consumer: A Typology of Online Relational Norms and Behavior, *Journal of Interactive Marketing*, Vol. 16, No. 1, pp. 40-55.

McAlexander, James H., Schouten, John W. & Koenig, Harold F. (2002), Building Brand Community, *Journal of Marketing*, Vol. 66, January, pp- 38-54.

Menon, Sataya & Kahn, Barbara (2002), Cross-category effects of induced arousal and pleasure on the Internet shopping experience, *Journal of Retailing*, Vol. 78, No. 1, pp. 31-40.

Merisavo, Marko (2001), *Using E-mail for Relationship Marketing in the Consumer Market: Special Interest in Brand Attitudes and Brand Loyalty*, Case Lancôme (L´Oréal Finland Ltd), Master's Thesis, Helsinki School of Economics. Unpublished. (in Finnish)

Merisavo, Marko, Vesanen, Jari & Raulas, Mika (2002), *The Experiences and Views of Finnish Professionals and Managers for Using Digital Channels in Marketing*, Center of Direct Marketing Excellence, Helsinki School of Economics & Swedish School of Economics. Published in the series of LTT Research Ltd (in Finnish).

Meuter, Matthew, L., Ostrom, Amy L., Roudtree, Robert I. & Bitner, Mary Jo (2000), Self-Service Technologies: Understanding Customer Satisfaction with Technology-Based Service Encounters, *Journal of Marketing*, Vol. 64, July, pp. 50-64.

Mohammed, Rafi A., Fisher, Robert J., Jaworski, Bernard J. & Cahill, Aileen M. (2002), *Internet Marketing: Building Advantage in a Network Economy*, McGraw-Hill, New York.

Monroe, Kent B. (1990), *Pricing: Making Profitable Decisions,* 2nd ed., McGraw-Hill, London, UK.

Muniz, Albert M. Jr. & O'Guinn, Thomas C. (2001), Brand Community, *Journal of Consumer Research*, Vol. 27, No. 4, pp. 412-432.

Normann, Richard & Ramirez, Rafael (1994), *Designing Interactive Strategy: From Value Chain to Value Constellation,* John Wiley & Sons, Chichester.

Odin, Yorick, Odin, Nathalie & Valette-Florence, Pierre. (2001), Conceptual and operational aspects of brand loyalty: an empirical investigation, *Journal of Business Research*, Vol. 53, pp. 75-84.

Pesonen, Laura (2002), *Consumers' Attendance in Service Situations in Electronic Channels. Case Sonera.net*, Master's Thesis, Helsinki School of Economics (in Finnish).

Pine II, Joseph B. & Peppers, Don & Rogers, Martha (1995), Do You Want to Keep Your Customers Forever?, *Harward Business Review*, Vol. 73, March-April, pp. 103-114.

Porter, Michael E. (1985), *Competitive Strategy: Techniques for Analysing Industries and Competitors,* The Free Press, New York, NY.

Raj, S.P. (1985), Striking a balance between brand popularity and brand loyalty, *Journal of Marketing*, Vol. 49, pp. 53-59.

Rajaniemi, Pirjo (1992), *Conceptualization of Product Involvement as a Property of a Cognitive Structure,* Doctoral dissertation, Acta Wasaensia, No. 29, Vaasa: Universitas Wasaensis, Finland.

Reibstein, David J. (2002), What Attracts Customers to Online Stores, and What Keeps Them Coming Back?, *Journal of the Academy of Marketing Science,* Vol. 30, No. 4., pp. 465-473.

Reichheld, F.F. & Schefter P. (2000), "E-Loyalty. Your Secret Weapon on the Web," *Harvard Business Review,* July-August, pp. 105-13.

Robins, Fred (2000), The E-Marketing Mix. *The Marketing Review*, Vol. 1, No. 2, pp. 249-274.

Roehm, Michelle L. & Pullins, Ellen Bolman, & Roehm Jr., Harper A. (2002), Designing Loyalty-Building Programs for Packaged Goods Brands, *Journal of Marketing Research*, Vol. XXXIX, May, pp. 202-213.

Rundle-Thiele, Sharyn & Bennett, Rebekah (2001), A brand for all seasons? A discussion of brand loyalty approaches and their applicability for different markets, *Journal of Product & Brand Management*, Vol. 10, No. 1, pp.25-37.

Rust, Roland T. & Lemon, Katherine N. (2001), E-service and the Consumer, *International Journal of Electronic Commerce*, Vol. 5, No. 3, pp. 85-101.

Sheth, Jagdish N. & Parvatiyar, Atul (1995a). The Evolution of Relationship Marketing. *International Business Review,* Vol. 4, pp. 397-418.

Sheth, Jagdish N. & Parvatiyar, Atul (1995b), Relationship Marketing in Consumer Markets: Antecedents and Consequences, *Journal of the Academy of Marketing Science,* Vol. 23, No. 4., pp. 255-271.

Srinivasan, Srini S., Anderson, Rolph & Ponnavolu, Kishore (2002), Customer loyalty in e-commerce: an exploration of its antecedents and consequences, *Journal of Retailing*, Vol. 78, No. 1, pp. 41-50.

Sterne, Jim (2000), *Customer Service on the Internet: Building Relationships, Increasing Loyalty, and Staying Competitive,* Second Edition, *John Wiley & Sons Inc., NY.*

Stewart, David W. & Pavlou, Paul A. (2002), From Consumer Response to Active Consumer: Measuring the Effectiveness of Interactive Media, *Journal of the Academy of Marketing Science,* Vol. 30, No. 4., pp. 376-396.

Tellis, Gerard J. (1988), Advertising Exposure, Loyalty and Brand Purchase: A Two Stage Model of Choice, *Journal of Marketing Research*, Vol. 25, No. 2, pp. 134-144.

Warrington, Patti & Shim, Soyeon (2000), An Empirical Investigation of the Relationship between Product Involvement and Brand Commitment, *Psychology & Marketing* Vol. 17, pp. 761-782.

Watson, Richard T., Sigmund, Akselsen & Leyland, F. Pitt (1998), Attractors: building mountains in the flat landscape of the world wide web, *California Management Review*, Vol. 40, Winter, pp. 36-43.

Wind, Yoram & Mahajan, Vijay (2002), Convergence marketing, *Journal of Interactive Marketing*, Vol.16, No. 2, pp. 64-79.

Wind, Yoram, Mahajan, Vijay & Gunther, Robert E. (2002), *Convergence Marketing: Strategies for Reaching the New Hybrid Consumer*, Prentice Hall, NJ.

Zeithaml, Valerie A., Parasuraman, A. & Malhotra, Arvind (2000), *A Conceptual Framework for Understanding e-Service Quality: Implications for Future Research and Managerial Practise*, Working paper, Report No. 00-115, Marketing Science Institute, Cambridge, MA.

Zeithaml, Valerie A. (2002), Service excellence in electronic channels, *Managing Service Quality*, Vol. 12, No. 3, pp. 135-138.

Internet sources

Association for Interactive Marketing: 76 Percent Of Job Seekers Loyal To One Career Web Site
www.imarketing.org/newsResearchUpdate.php

Case study: Hilton uses SMS with success
http://www.bandt.com.au/articles/ce/0c00eace.asp (23.3.2003)

CyberAtlas Staff: Personalization Makes for Satisfied Consumers
http://cyberatlas.internet.com/markets/retailing/article/0,,6061_989061,00.html (1.7.2002)

EVA Air Enjoys the First Harvest of E-Business with Vignette
http://www.vignette.com/contentmanagement/0,2097,1-1-31-1665-1778-4044,00.html (23.3.2003)

Kiss 100 'HeySexy' Campaign
http://www.flytxt.com/casestudies/case_kissheysexy.html (23.3.2003)

Lands' End Builds Closer Customer Relationships Through Online Direct Marketing
www.responsys.com/corporate/customers/cs_landsend.asp (6.1.2003)

Lands' End Discovers Stories Work Better Than Sales Pitches in Its Weekly Email Newsletter
http://library.marketingsherpa.com/barrier.cfm?CID=1997 (6.1.2003)

Nokia
www.nokiagames.com (16.7.2002)

Paving the road to retention. *Inside 1to1*, July 22, 2002. (email newsletter by Peppers & Roger Group)

Revitalizing Customer Relationship Management: A Look into the Future.
www.accenture.com/xdoc/en/services/crm/revitalizingCRM-pov.pdf (24.6.2002)

The eMail Marketing Report 2001: Executive Summary.
www.emarketer.com (30.3.2001).

The best is yet to come for email marketing. *Inside 1to1*, June 3, 2002. (email newsletter by Peppers & Roger Group)

The DMA's State of the E-Commerce Industry Report 2002
www.the-dma.org/bookstore/cgi/displaybook?product_id=009308

The Long-Term Email Advantage: The Benefits of Lifetime Value Over Short-Term Response as the Prority for Permission Email Programs. White Paper. October, 2001.
http://www.quris.com/resources/pdfs/Quris.TheLongTermEmailAdvantage.pdf (4.11.2002)