THE VALUE OF BEING ON THE Net
- THE EFFECTS OF WEB SITES OF COMPANIES
ON CONSUMER DECISION MAKING

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Key words: Consumer decision making, customer loyalty, relationship marketing, Website

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THE VALUE OF BEING ON THE NET
- the effects of Web sites of companies on consumer decision making

by

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Abstract

The unique characteristics of marketspace in combination with the fast growing number of consumers interested in e-commerce have created new research areas of interest to both marketing and consumer behaviour researchers. Consumer behaviour researchers interested in the decision making processes of consumers have two new sets of questions to answer. The first set of questions is related to how useful theories developed for a marketplace are in a marketspace context. Cyber auctions, Internet communities and the possibilities for consumers to establish dialogues not only with companies but also with other consumers make marketspace unique. The effects of these distinctive characteristics on the behaviour of consumers have not been systematically analysed and therefore constitute the second set of questions which have to be studied.

Most companies feel that they have to be online even though the effects of being on the Net are not unambiguously positive. The relevance of the relationship marketing paradigm in a marketspace context have to be studied. The relationship enhancement effects of websites from the customers’ point of view are therefore emphasized in this research paper. Representatives of the Net-generation were analysed and the results show that companies should develop marketspace strategies while Net presence has a value-added effect on consumers. The results indicate that the decision making processes of the consumers are also changing as a result of the progress of marketspace.

Keywords: Consumer decision making, customer loyalty, relationship marketing, Website

Introduction

The purpose of this research paper is to analyse the effects of websites of companies on the decision making processes of consumers. Within the framework of the relationship marketing paradigm focus was put on the relationship and loyalty enhancement effects of websites.

Consumer decision making theories have up to today mainly been developed and tested in traditional markets, i.e. in marketplace contexts. The introduction and growth of marketspace, defined as the area in Cyberspace delimited to e-commerce, create large challenges for consumer behaviour researchers who have to examine the usefulness of
existing consumer behaviour theories and create new ones for those areas where existing theories are not applicable or missing.

Marketplace studied from a marketing perspective and analysed from the consumers’ point of view shows that there are three central questions that must be given high priority if a relationship marketing approach is applied. To create and have loyal customers is the core of a relationship marketing approach and one question we will try to answer is whether Net (Internet) presence of companies creates, maintains and enhances customer loyalty (Grönroos, 1997). Customer loyalty can be of different degree and be based on different reasons. From a company perspective it is therefore of importance to know if a website of a company has relationship enhancement effects. Customers compare in the pre-purchase evaluation phase the value of different offerings and within the framework of limited rationality (March & Simon, 1958) choose the one with the highest customer delivered value (Kotler, 1997). Whether a website of a company creates added value (Grönroos, 1997) is the third question answered in this research paper.

The research area identified in this paper is important not only due to the lack of theories encompassing consumer decision making in a marketplace or limited tests of existing consumer behaviour theories in this context, but also as a result of the enormous growth of consumers who do business in marketplace. The latest figures show that about 38 percent of households in North America in 1999 had access to the Internet, a figure that will climb to 56 percent by the year 2003 (www.forrester.com). This means that about 72 million Americans have Internet access today (www.nua.ie), which can be compared to 1.7 million Danes, 1.8 million Norwegians, 3.6 million Swedes, 1.8 million Finns, 9.9 million Germans, 1.4 million Belgians, 5 million Italians, and 3.1 million Spaniards (www.nua.ie/surveys/how_many_online). All these people will spend more and more on online shopping. The estimated e-commerce in Europe this year will surge to €36 billion and the prognosis indicates that this figure will rise to €1.6 trillion by 2004 (www.forrester.com).

Marketplace and the decision-making processes of consumers

The basic consumer decision making models indicate that a decision consists of different sub-processes and that the processes are initiated by a need recognition stage (Peter &
Olson, 1996) (Engel, Blackwell & Miniard, 1995). Sheth, Mittal and Newman (1999, p. 518) state that the question “whether to purchase something is the first level of decision”. Information search, the next stage in the decision process can be strictly internal if the decision maker thinks that s/he has enough information to make a decision. If this is not the case and further information is needed an external search is undertaken (Engel, Blackwell & Miniard, 1995). Different options in the consideration set are evaluated and the product offering with the highest perceived value is chosen (Kotler, 1997).

Technological development in combination with the fact that more and more companies are re-evaluating their integrated marketing communication strategies alter the information search processes of the consumers. Consumers who previously were considered as passive receivers of market communication have become more active. Information about perceived needs are sent to companies which are now the receivers of the information and must act thereafter (Schultz, Tannenbaum & Lauterborn, 1997). Search robots can be loaded with instructions to find products of a certain quality and price. This means that the pre-purchase alternative evaluation stage can be delegated to the decision maker’s PC and that the best options are immediately available and continuously updated.

A website as a relationship enhancement tool

Theories from the pricing literature have been used by marketing people to obtain insight into the evaluation phase of the consumers (e.g. Curry, 1985; Curry & Riesz, 1988). Kotler (1997), for example, extends the basic value model Monroe (1990) presented (Perceived value = perceived benefits / perceived price) by indicating that consumers compare “total customer value” of an offering to “total customer costs” (Figure 1).
Delivered value is according to Kotler (1997) and Zeithaml (1988) a subjective, perceived outcome of the pre-purchase evaluation phase, when total customer value is compared to total customer cost\(^1\).

The customer delivered value model is useful when single transactions are studied. The model must however be extended when a relationship perspective is used (Grönroos, 1997). Relationship marketing, which is a “reincarnation of the marketing practices of the pre-industrial era” (Sheth & Parvatiyar, 1995) can be defined as “to identify and establish, 

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\(^1\) This means that a marketer can increase the customer delivered value in five different ways. Firstly, by increasing the total customer value and preserving the total customer cost unchanged. Secondly, by keeping the total customer value at the present level and lowering the total customer cost. Thirdly, by increasing the total customer value more than the total customer cost, or decreasing the total customer costs more than total customer value. Finally, the customer delivered value can be increased by increasing the total customer value and at the same time decreasing the total customer cost.
maintain and enhance relationships and other stakeholders, at a profit so that the objectives of all parties involved are met. This is done by a mutual exchange and fulfillment of promises” (Grönroos, 1996, p. 11). The total perceived value model Grönroos (1997) proposes consists of two main dimensions. Perceived value, which Zeithaml (1988, p. 14) defines as “the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given”, has a transaction (transaction benefits/transaction costs) and a relationship dimension (relationship benefits/relationship costs). How these two dimensions vary in importance in a time perspective and during the evolution of a relationship between a customer and a company is discussed by Björk (1999) (Figure 2).

\[
\text{Total Perceived Value} = \frac{\text{Transaction benefits}}{\text{Transaction costs}} + \frac{\text{Relationship benefits}}{\text{Relationship costs}}
\]

Figure 2. The total perceived value model. Source: Björk (1999)

The transaction value (transaction benefits/transaction costs) dimension is the dominating one at the beginning of a relationship while future relationships and transactions can only be anticipated. Repetitive purchases from a company can be an evidence of customer loyalty and the consumer is moving from left to right in Figure 2. Different tactics can be used by companies to created bonds (between the consumer and the company). Of these tactics websites (of companies) can, for example, enhance loyalty if the information, purchase and additional advantages presented are valued. Smooth running relationships with a company may create relationship value (see Figure 2, P_n), which can be of a value-adding character. Established relationships can also function as exit barriers if the company fails in a single transaction.

Garner (1999, p. 40) claims that “the Internet gives companies new ways to create customer relationships and build sales”. To do this companies have to open up their
strategy portfolios and include Web-based loyalty programs as an integrated part. Websites can according to several authors and researchers be used to create and enhance relationships if they are perceived as delivering customer value (Armstrong, & Hagel III, 1996; Ghosh, 1998; Weiber & Kollmann, 1998). Hypothetically one can assume that an appreciated website moves the customer up the customer loyalty pyramid (Lowenstein, 1997). Cross and Smith (1995) discuss customer bonding. The customer, who at the first level is a passive receiver of the communication only, becomes more and more committed to the company in the next levels if the marketing people manage to create trusting and rewarding relationships. The importance of a purposeful dialogue between the customer and the company is stressed by McKenna (1991) as it is the building block loyalty is built on. Customer loyalty, which can be defined as a “customer’s commitment to a brand or a store or a supplier, based on a strong favorable attitude and manifested in consistent repatronage”, is based on a behavioural and an attitudinal dimension (Sheth, Mittal & Newman, 1999, p. 701). The importance of these two dimensions can also be found in the brand loyalty definition presented by Antonides and van Raaij (1998). They define brand loyalty as “a series of repeat purchases of the same brand, frequently accompanied by a positive attitude towards the brand” (Antonides & van Raaij, 1998, p. 270). A customer who makes repetitive purchases from a company and also has a positive attitude towards it is defined as loyal. The importance of emotions for true loyalty must be stressed. Craft (1999, p. 18) claims that “to understand loyalty, a manager must distinguish between repeat purchase behavior and true or emotional loyalty”. This is supported by Kandampully (1998) who stresses the importance of creating emotional bonds to the customers. The importance of creating and having loyal customers is discussed by Reichheld (1996).

A website can from a marketing perspective have different effects on the behaviour of the consumer. Perceived customer delivered value is a result of a cognitive process and a website will have a value adding effect if it increases the benefits of an offering or reduces the costs. This means that a website of a company can balance the model presented in Figures 1 and 2 in a more advantageous way from a customer perspective. A perceived added value effect should in a relationship marketing context result in a higher propensity to purchase from a company, a stronger commitment, and have a loyalty enhancement effect.
Born in the 70s, the N-generation

The N-generation (Net generation, N-gen), defined as people born in the late 70s or early 80s, will have different purchase and consumption patterns in relation to their predecessors. The X generation, i.e. people born between 1963 and 1977, have experienced a life without computers (Tulgan, 1996), which is not the case with the N-gen. Marketspace is for the N-gens (people belonging to the Net generation) a natural part of their daily life and they are all well accustomed to computers. Patrick (1998, p. 56) states that the N-gens are “active consumers. They select, reject and discriminate”. Tapscot (1998) has identified five characteristics of the N-gens and as a result of their background and the characteristics of marketspace they want options, want customisation, want to change their minds, try before they buy and are not interested in technology as such, but what technology can do for them. The N-gens do not have to adapt their consumer behaviour to the computer world because it is already a part of it.

The readiness to meet the virtual environment is different in different segments, which most highly will influence the behaviour of consumers. The Net generation and the generations which will follow (for example the Z generation (people born in the 90s), Duff, 1998) have (and will have) a higher computer literacy level in comparison to the X-generation (Cole-Gomolski, 1998; Tulgan, 1996) and the O-generation (older generation, i.e. senior people who have discovered the potential of the Internet) (Ettorre, 1998), and it therefore seems relevant to separate the segments and study one at a time.

The empirical study

An Internet based survey was carried out in autumn 1999. 350 questionnaires were sent out to students at one university in Finland. Four of the questionnaires returned were incomplete and could not be used for further analysis. Another 19 of the respondents had to be omitted due to their age, i.e. not belonging to the N-gen. The final sample size consisted of 87 respondents, which means that the response rate was 24.8 percent. The response rate was not high but can be accepted in this kind of studies.

The questionnaire consisted of three sections and the question type used corresponds to the one used by large research companies such as Survey.net and Forrester research.
Demographic questions and questions related to the Internet behaviour of the respondents were raised in the first section of the questionnaire. The opinion of the Internet as an information source was analysed using the questions in the second section. Relationships and loyalty effects of websites were studied using the questions raised in the third section. The questionnaire was pre-tested before use.

Results

The results will be presented in this part of the research paper in the same order as the questionnaire was structured.

Sample demographics

Young people between 15 and 24 years of age belong to the Net generation. In this respect the sample analysed is somewhat biased towards the upper age limit. None of the respondents was younger than 19 years of age and the oldest respondents were 24 years of age. 55.2 percent of the respondents were men and most of the respondents (82.8%) have access to a computer at their place of living (hall of residence). Of these computers 45.8 percent are Internet connected (Table 1).

The first requirement for e-commerce to take place seems to be fulfilled. Besides access to marketspace at the universities a large share of the students also have access to the marketspace at their place of living.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sex</td>
<td></td>
</tr>
<tr>
<td>women</td>
<td>44.8</td>
</tr>
<tr>
<td>men</td>
<td>55.2</td>
</tr>
<tr>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>4.6</td>
</tr>
<tr>
<td>20</td>
<td>12.6</td>
</tr>
<tr>
<td>21</td>
<td>24.1</td>
</tr>
<tr>
<td>22</td>
<td>9.2</td>
</tr>
<tr>
<td>23</td>
<td>17.2</td>
</tr>
<tr>
<td>24</td>
<td>32.2</td>
</tr>
<tr>
<td>cont.</td>
<td></td>
</tr>
</tbody>
</table>
Table 1. Demographic characteristics

The Internet behaviour of the Net generation was analysed using three questions. How often and for how long they are online each time they visit the Internet were the two questions first asked. Most of the respondents visit the Internet daily and the respondents are on average 47 minutes on the Web. What the N-gens do online is shown in Table 2.

Table 2. Activities on the Net
Activities related to e-commerce (purchase, communicate with companies, and information search) are, as can be found in Table 2, of high priority when the N-gens are online. The most popular activity was however personal communication. Of the respondents analysed 69 percent claim that they have favorite websites which they visit more often than others, which was the third question asked.

Purchase behaviour

The purchase behaviour of the respondents was analysed and the share of respondents, who answered yes to the initial question raised in this section was as high as 89.7 percent. This means that most of the N-gens have visited websites where products can be purchased or ordered. The most common frequency of which the respondents visit such sites was two times a month (11.5%). 42.5 percent of the respondents have purchased a product online, but a majority (55.2%) answered that they have not done that yet. The reasons for not having engaged in online shopping were: no need (47.1%); difficult to evaluate the quality of the products in advance (26.4%); no credit card (21.8%); no experience of online shopping (20.7%); do not want to disclose credit card number (16.1%) or personal information (11.5%). Neither price of the products sold online (1.1%) nor delivery time (5.7%) were considered barriers to engaging in online shopping. The respondents who had not yet done any online shopping said that the reasons for their behaviour were not lack of product or company information. Nor was online shopping considered to be too complicated.

Respondents who have engaged in online shopping were asked what influenced their last purchase. Seven factors were listed with the possibility of completing the list with one more. Price (37.9%) and convenience (37.9%) were the two most often mentioned factors by the respondents, followed by simplicity (21.8%) and completeness (14.9%) of product information.

Product and company information found in a marketspace

Four questions were used to analyse how the Net generation perceive the information distributed in a marketspace. 50 percent of the respondents claimed that they could find unique product information on websites (information which could not be found in a
marketplace) and that the product information found in a marketspace was perceived by a majority (57.7 percent) of the respondents as good or very good. The information about companies found in a marketspace was also considered very good or good by 72.1 percent and half of the respondents stated that they could find unique company information on the Net.

The effects of websites on the decision making processes of the N-gen.

The respondents were asked if the emergence of marketspace had influenced their purchase behaviour of any product category. Most of the respondents (47.6%) had a neutral attitude, but 27.9 percent of the respondents said that it had influenced and 25.6 percent answered no. The decision making processes preceding purchase of music, literature, stocks and computer programs were product groups which have got a new dimension, i.e. the effect of websites was pronounced.

Does a website have any effect on the decision making processes in a marketplace. 45.3 percent of the respondents claimed that they agreed completely or partly with the statement that they with a higher probability purchase products from companies with a website in comparison to companies without one.

Four central concepts related to the relationship marketing paradigm were identified and analysed in this article. The effects of a company website on the perception on affinity, added-value, relationships and loyalty were analysed (Table 3).
<table>
<thead>
<tr>
<th>A website</th>
<th>completely agree</th>
<th>agree partly</th>
<th>neither nor</th>
<th>disagree partly</th>
<th>disagree completely</th>
<th>cannot tell</th>
</tr>
</thead>
<tbody>
<tr>
<td>increases the felt level of affinity</td>
<td>3.5</td>
<td>33.7</td>
<td>30.2</td>
<td>15.1</td>
<td>14.0</td>
<td>3.5</td>
</tr>
<tr>
<td>has value-added effects</td>
<td>17.6</td>
<td>54.1</td>
<td>10.6</td>
<td>8.2</td>
<td>5.9</td>
<td>3.5</td>
</tr>
<tr>
<td>enhances the felt relationship towards the company</td>
<td>5.8</td>
<td>50.0</td>
<td>16.3</td>
<td>16.3</td>
<td>11.6</td>
<td>0.0</td>
</tr>
<tr>
<td>increases the level of loyalty towards the company</td>
<td>2.3</td>
<td>19.8</td>
<td>31.4</td>
<td>18.6</td>
<td>23.3</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Table 3. The effects of a company website on perceived affinity, added-value, relationships and loyalty

An analysis of the figures presented in Table 3 indicates that websites are relevant in a relationship marketing approach. 55.8 percent (5.8 + 50.0) of the respondents claimed that a website of a company has a relationship enhancement effect and 37.2 percent (3.5 + 33.7) stated that a website increases the level of felt affinity. Although a majority of the respondents found the information provided on a website value-adding, only 22.1 percent (2.3 + 19.8) were of the opinion that a website increases their level of loyalty to the company.

Communication behaviour in a marketspace

Two distinguishing characteristics of the communication in marketspace are friction free and multidirectional. Communication between customers and companies as well as the one found between customers and discussion groups (newsgroups) were analysed in this article. The respondents were asked how they would communicate if they were satisfied with a product they had bought and how they would communicate if they were disappointed with the product. The respondents could answer in three different ways. No, I
would not tell the company (discussion group) was the first option. I would probably tell the company (discussion group) was the second option, and yes I would definitely tell the company (discussion group) was the third one. The results presented in Figure 3 indicate that a majority of the respondents would tell the company as well as the discussion group about their negative experiences with the product they have purchased. A completely different communication pattern can be found when the respondent is satisfied with the product. A distinguishably larger share of the respondents claim that they would tell the discussion group about their positive experiences with the product. Only some few respondents (5.7%) would give positive feedback to the company.

Figure 3: Communication behaviour in a marketspace.

The communication behaviour found in this research can from a strategic management perspective not be neglected. The probability of communicating bad experiences back to companies is equally high as the one by which consumers tell other consumers. The probability of a consumer communicating positive experiences to other consumers (belonging to a discussion group) seems to be much higher in comparison to the feed-back given to companies. Companies focusing on word-of-mouth strategies have a new area to
master and the results indicate that communication flow is more intense in a marketspace than the one found in a marketplace.

Conclusions

The development of a marketspace in parallel with a marketplace influences the behaviour of the consumers and challenges the creative thinking of marketing managers’ (Breitenbach & Van Doren, 1998). Graham (1999) discusses some examples of how the new technology alters the behaviour of consumers. He says customers want everything faster but the decision processes are taking longer. To contact customers is easy but to create relationships seems to be even more difficult today. To give customers the right information is essential as well as to be prepared to act when the customer is ready. The customers want everything to be easy and more for less, and finally, he says customers want consulting and security. A company must provide the customers with value in order to be competitive and the value received must be relatively greater than that expected from the competitors (Zeithaml & Bitner, 1996). Woodruff (1997, p. 151) writes “customer value-based competition represents the next major shift in management practice” and Kandampully (1998) states that companies must delight the customers in order to be competitive.

To understand the behaviour of consumers and how total perceived value is generated has a new dimension as a result of the development of marketspace. The value of being on the Net was analysed in this paper and a specific focus was put on the effects of Web sites on the decision making processes of consumers as well as on the relationship and loyalty effects.

Access and use of the Internet as an information channel was, as expected, high among the Net generation. Almost fifty percent of the respondents had already done some online shopping and the interest in marketspace challenges marketing managers to think in new terms. Especially the results which indicate that websites have value-added effects and influence felt relationships must be analysed seriously. The results clearly indicate how important it is to integrate marketspace strategies in a relationship marketing management approach. A website of a company did not in this study mean higher loyalty towards the company, although the respondents claimed that Net presence of companies influences
their decision making processes. Positive and negative product experiences are communicated differently in a marketspace. Both companies and discussion groups are informed about bad experiences whereas positive experiences mainly are addressed to other customers belonging to discussion groups.

The results presented in this research paper must be interpreted with some caution due to two circumstances. Firstly, the sample size was small, which may violate the reliability of the study. Follow-up studies are therefore needed to corroborate the presented results. Secondly, relationship marketing is a complex phenomenon including multidimensional concepts such as loyalty, relationships and added value. These concepts were studied using one-dimensional questions only, which may influence the validity of the presented results. The next study could include more dimensions related to each concept in order to improve the concept validity.

Different segments behave differently in marketspace. The behaviour of senior consumers (the O segment) is interesting due to the following reasons. This segment of consumers is growing, the seniors have time to visit the Web, and they have a lot of spending power (Leventhal, 1997). How this segment behaves in marketspace and whether this segment possesses some unique characteristics marketing people should be aware of are only two areas that should also be given high research priority.

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www.nua.ie/surveys/how_many_online/europe.html (30.12.1999)