

CUSTOMER VALUE ENHANCEMENT THROUGH E-CHANNELS IN THE GROCERIES RETAIL NETWORK

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Abstract

The article discusses theoretical aspects of how electronic channels can enhance customer value in light of the retail network. The article represents work in progress. Electronic channels are regarded as means to integrate the customer into the retail network, consisting of e.g. suppliers, additional service providers and additional service providers. The retail firm represents the nexus of the network. Network theory, channel theory and customer value theory are explained to establish a basis for the further research. A basic model of customer perceived value and consumer shopping processes is introduced, which connects theory and practice. The model will be used in the further research for connecting the customer's value chain with the value chains of the electronic channels. The two e-Channels under focus are online shopping via PC and mobile commerce.

Keywords

Electronic channels, networks, channels, retailing, customer value, customer perceived value, e-commerce, value enhancement, grocery shopping, online shopping, mobile commerce.

INTRODUCTION

The research should answer the following question: "How can e-Channels enhance customer perceived value in the groceries retailing network?" e-Channels comprise online commerce and mobile commerce.

E-Channels contain online shopping via Internet, and mobile commerce, that includes any handheld information and communication device (but most usually, the mobile phone). The retailing context is on groceries shopping, a category of consumer goods. This choice has been made because consumer shopping processes for groceries are more homogenous within the category, than compared to shopping goods or specialty goods.

Customer-perceived value is defined for this study as the result of the consumer's evaluation of the perceived benefits and sacrifices perceived in shopping processes. The retailer can use electronic channels to enhance the customer value, which means to increase benefits and decrease sacrifices.

The purpose of this research is to study how using electronic channels in the retailers' business network can enhance customer perceived value in groceries shopping. This includes analysing customer value creation in light of customer's shopping processes in the retail setting. We regard the retail firm as embedded in a network of relationships, including business-to-business relationships (B2B), employee relationships (B2E) and customer relationships (B2C). We aim to find out more about retailing network's value adding structure and the critical points where this value network can be connected to the customer's value creation processes with electronic channels. In order to build a bridge between customer value creation and retailing value network, the characteristics and possibilities of electronic channels will be investigated.

The motivation behind this study was that many e-Commerce projects have failed because they were too technology driven instead of being customer driven. This research should help retail firms to form a more realistic set of expectations about the opportunities of e-Channels for enhancing customer-perceived value in order to plan their e-Channel strategy more effectively and concentrate on the value offerings that realistically enhance customer value.

The following pages contain the discussion and presentation of definitions and concepts that are relevant for our study. First, the setting of the study is described, which is the value-creating network of the retailer. Second, a more detailed description of the retailer's tasks within the network is presented, followed by the definition of its electronic marketing channels. Subsequently, issues related to customer value are discussed and the concepts of customer value we use will be clarified. Finally, the characteristics of online commerce and mobile commerce are described briefly. This article presents work in progress and describes the first stage of this particular research project, which has been mostly theoretical up to present.

Background and Objectives

As a result of market saturation and increased competition in the consumer goods (e.g. as sold in supermarkets) and shopping goods market (e.g. as sold in department stores), customer centric food and non-food retailers (such as S Group (Fin), Kesko (Fin) or Tesco (UK)) are looking for additional cost savings and revenue drivers. Additional cost savings are achieved through integrating and reconfiguring the retail supply chain to manage B2B network relationships more effectively, which has attracted numerous research efforts (e.g. Bowersox *et al.* 2002, Möller & Halinen, 1999; Anderson *et al.* 1994).

However, *customer centric retailing* means to enhance the relationship between the retailer and the customer by using a portfolio of additional offerings and delivery methods. Additional offerings include the diversification into new services and products, while additional delivery methods mean to engage in new marketing channels, respectively electronic channels (e.g. online shopping and mobile commerce). For new consumer and shopping goods marketing channels, most research efforts have been directed to online grocery shopping (e.g. Heikkilä,

et al. 1998; 2000; Morganosky & Cude, 2000; Raijas & Tuunainen, 2001) or focused on information search (Alba et al. 1997). Non-food items as part of the consumer goods retailer's online offering have received less attention since they are seen as less problematic and are covered through research on specialist retailers (e.g. Christensen, 2000; Ratchford et al. 2001).

Today, the online business of consumer goods is dominated by traditional retailers (e.g. Tesco, UK) because their resources in cash flow, purchasing power, existing store networks and merchandise expertise proved to be crucial for engaging in electronic channels. However, the challenge for retailers is that their core business cannot be digitized as for example in retail banking (Mols, 2001), which causes them to build digital offerings *around* their core business in order to leverage the opportunities of e-Commerce. This has lead retailers to offer additional products and services that have not been associated with the retailer before, but are perfectly digitizable and therefore offer an opportunity to leverage the customer base without big investments in physical assets (Eagle et al. 2000).

Further, retailers improve the value of the total offering by combining the online sale of physical products with virtual information and interaction services such as nutrition information and virtual communities, which might lead to value enhancement through additional service offerings (e.g. Heikkilä, 1998). However, most studies on creating value through new service development (e.g. Lovelock, 1992; Johne & Storey, 1998) or building customer online communities to create value (Stabell and Fjeldstad, 1998; Fjeldstad and Haanaes, 2001, Balasubramanian & Mahajan, 2001) seem to ignore retailing, and especially food and non-food retailing.

The customer benefit of the electronic channel has been demonstrated through the success of online channels but the value of added services is still unclear (Raijas & Tuunainen, 2001; Morganosky & Cude, 2000). However, electronic channels and especially the combination of all channels can offer value through a more flexible access to the retailer's services paying tribute to the proliferation of customer needs (e.g. Möller and Halinen, 1999).

In addition to the Internet, also mobile commerce solutions are increasingly considered as a marketing channel. Several retailers, such as the Finnish Anttila and Ruokavarasto are testing mobile commerce applications but mainly for mobile advertising. However, mobile commerce must offer possibilities that are more driven by customer demand and offer ways to enhance the customer's value perceived to have a future in food and non-food retailing.

The result of our previous study has also shown that specifically for convenience goods and specialty goods selling retailers, there has been extensive attention to CRM, customer development, loyalty programs, and branding (Windischhofer, 2002; Laine, 2000). However, there is a research gap on how e-Channels increase benefits and lower sacrifices - not just by using the Internet as means for shopping but to make all shopping processes easier by combining the Internet with the mobile e-Channel and physical channel (Windischhofer, 2002).

We assume that electronic channels do enhance customer value, which will subsequently generate a market for new offerings and services - but only in a certain combination of

contexts. Changing only one variable of the online marketing mix might eliminate the value of the entire offering.

By context, we understand it as “factors that are not totally in the decision power of relationship parties and that affect or condition the birth, development, and death of a relationship” (Mittilä, 2000). This means that only certain customers (socio-demographic context) appreciate a certain value offering (retail offering context) in a certain stage of the purchasing process (situational context).

THE RETAILER AS NEXUS OF A VALUE CREATING NETWORK

Industries are facing increasing competitive pressures due to market saturation, internationalization, the proliferation of customer needs (e.g. Möller and Halinen, 1999; E. Anderson *et al.*, 1997), and the disruptive effects of information technology (e.g. Christensen, 2000). As a consequence, corporations are redesigning their business relations (Short and Venkatraman, 1992) and building stronger links with their business partners to gain competitive advantage, especially by deploying information technology (e.g. Malone *et al.*, 1987; Gurbaxani and Whang, 1991; Möller and Halinen, 1999).

Because a firm’s service or product offering consists of aggregated value-adding tasks, the scope of those tasks usually lies outside a single firm’s capabilities. Traditionally, these activities have been aggregated within rather linear process flows of traditional value chains and value systems (Porter, 1985). However, competitive advantage is increasingly created by firms that look outside their dyadic relationships and recognize the environment they are operating in as a setting of various stakeholder relationships (J.C. Anderson *et al.*, 1994) that need to be managed effectively (e.g. Möller and Halinen, 1999).

Information technology is significantly changing the way firms are managing their relationships within their markets and the firm’s internal and external processes, described by Malone *et al.* as hierarchical relationships (Malone *et al.*, 1987). IT reduces internal and external coordination costs, allowing firms to engage in more dynamic and complex relationship settings (Gurbaxani and Whang, 1991). Therefore, the firm can operate within a set of dynamic exchange relationships with other business partners, creating a business network (Wilson and Kothandraman, 2001).

Business networks consist of a mixture of vertical relationships (e.g. manufacturer, wholesaler, distributor) and horizontal relationships (e.g. purchasing alliances). Möller and Halinen suggest another dimension by distinguishing number and closeness of relations, when they express to regard business networks and their relationships “as a continuum ranging from high interrelatedness between a limited number of actors to relatively low interrelatedness of multiple actors” (1999:424). While numerous publications regard business networks as a set of business – to – business relationships (e.g. Wilson and Kothandraman, 2001; Möller and Halinen, 1999; Anderson *et al.* 1994; Sharma *et al.*, 2001), fewer sources integrate the consumer as a part of the network (Normann and Ramirez, 1993; Bovet and Martha, 2000).

Certainly, the extent to which the consumer is seen as part of the network depends on the observed firm’s position in the value chain and the nature of its business. Because food and nonfood retailing is in its nature a distributor business, the retailer represents the nexus between corporate business partners and the end consumer. Therefore, it is reasonable for us

to follow Normann and Ramirez who extend the business network concept to a concept of the value-creating system, “within which different economic actors – suppliers, business partners, allies, customers – work together to co-produce value” (1993:66). While several sources refer to the same phenomenon as business web, value net, value system or use other terms, we will from now on refer to Normann and Ramirez’ value system as *value network*.

For the purpose of this research, a value network is defined as “a set of relationships between actors that share the creation of a certain offering as a common goal and contribute to this goal by co-producing customer value through their activities and resources.” In retailing, those actors especially include manufacturers, suppliers, wholesalers, the retailer and the consumer, who all actively participate in co-producing value. This definition deliberately includes the consumers as a group that can actively co-produce value, in particular customer value. It should also provide a bridge between the value for the customer (from the customer’s perspective) and the value of the customer for the organization (e.g. customer life time value), as it has been argued by several proponents of relationship marketing (e.g. Payne and Holt, 2001).

We believe the notion of integrating the customer into the value network also pays tribute to the self-service activities consumers are engaging in the retailing marketing channel. In physical retailing, customers are for example taking care of delivery to their homes, and in virtual retailing they conduct for example unassisted orders via the Internet or participate in product tests and marketing surveys. Therefore, interactive distribution channels, or so-called e-Channels offer various opportunities for customer participation in the value creation process (e.g. through the interactive transmission of information) that are enabled by the technologies of e-Commerce.

DISTRIBUTION CHANNELS AS VERTICAL LINKAGES IN THE RETAIL VALUE NETWORK

The notion of integrating the customer into the value network automatically integrates the customer in the distribution channel. Distribution channels, or also referred to as marketing channels or vertical channels, can be described as “a network of systems” that consists of interdependent actors involved in the process of making a product or service available for consumption or use (Stern *et al.* 1996:2). Distribution channels “evolve and change continuously in order to serve their markets best” (Stern *et al.* 1996:2) and therefore they are dynamic networks (e.g. Andersson, 1992).

While distribution channels are described to be networks themselves (e.g. Bowersox and Morash, 1988; Andersson, 1992), they are embedded in the value network of the firm, which consists of all actors and relationships. Therefore, the network consists besides vertical channel relationships also of horizontal relationships, such as between the retailer’s chain outlets or purchasing alliances with other retailers. However, for the purpose of this research, a marketing channel approach will be taken, which investigates the relevant relationships among actors of the distribution channel.

In retailing, distribution channels consist of vertical relationship chains of differing density, depending on whether supplier, retailer or consumers interact directly or by using

intermediaries such as agents or wholesalers (e.g. Bowersox *et al.* 2002). ICT (Information and Communication Technology) is increasingly reducing the number of hierarchical channel actors and therefore “compressing” channels (E. Anderson, *et al.* 1997).

While the traditional distribution channels were characterised by a product and information flow starting at the supplier and ending at the end-consumer, the information flow is increasingly coming from the consumer’s and retailer’s side (e.g. Laine, 2000). The role of ICT for these developments is crucial, because ICT is bringing the channel actors closer together and allows a bi-directional flow of information that creates a retailer/consumer relationship, in which the consumer owns more power than before (Doherty, 1999).

The tasks which are performed in the distribution channel can be seen as a set of activities that add value to the products and services sold to end users (Levy and Weitz, 1998). These activities have also been described as “marketing flows”, which “should be arranged in a manner that results in customer satisfaction” (e.g. Bowersox and Morash, 1988:58). The eight basic marketing flows include possession (physical exchange), ownership (title transfer), promotion, negotiation, financing, risking, ordering, and payment (Vaile *et al.* 1952, as cited in Bowersox and Morash, 1988). Kotzab and Madlberger (2001:447) describe the main tasks of a traditional retailer as: 1) providing the consumer with the necessary assortment of offerings, 2) managing the logistic tasks such as transportation, breaking bulk and inventory handling, and 3) providing advice, advertising and credit functions to ease the purchase of the customer.

DEFINITION OF E-BUSINESS CONCEPTS AND CATEGORISATION OF E-CHANNELS

In order to gain a total picture of the area of this research, the meaning and relations of the terms *electronic business*, *electronic commerce* and *electronic channels* have to be clarified. In this research these terms construct a hierarchy of concepts that are used to explain the retailing organization’s involvement in electronic operations within its business structure.

Electronic Business (e-Business) is the broadest term and it compasses all levels of company’s electronic operations. E-Business is considered as a strategic issue for companies because of its widespread impact on company’s products, processes and markets. For the purpose of this study we will adopt the concept of e-Business defined by Chaffey (2002, 8):

“[E-Business comprises] all electronically mediated information exchanges, both within an organization and with external stakeholders supporting the range of business processes.”

Though some authors (e.g. Turban *et al.*, 2002, 5) give a similar meaning for e-Business and e-Commerce, we will define them separately. In this research e-Commerce is narrowed down to commerce related interactions and transactions conducted in electronic networks. In this meaning we see e-Commerce as subpart of e-Business. To be exact, we refer to a definition of e-Commerce modified from the definition of Turban *et al.* (2002, 4):

“Electronic Commerce (...) describes the process of buying, selling, or exchanging products, services, and information via ICT (Information and Communication Technology) - enabled networks, including the Internet.”

Though ICT refers to a wide range of technologies, we will concentrate on the ones that the electronic channels discussed in this research are based on. These channels are defined by the devices customers use to enter the channel. In this research we will investigate besides computers, also mobile devices and Interactive TV as devices of electronic commerce.

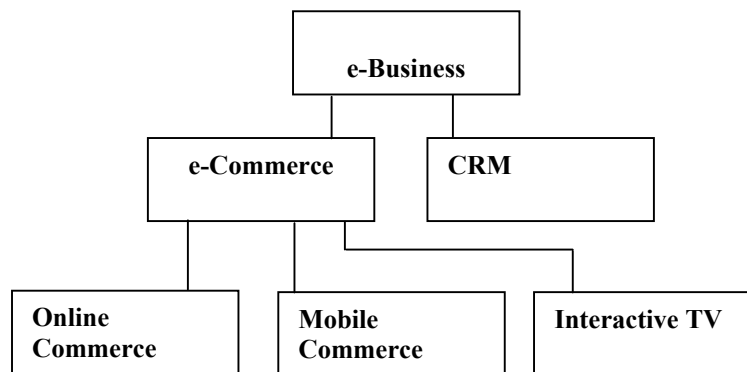


Figure 1. Relations of main concepts of the research. (iTV is not included in the research)

Relations of these main concepts are presented in figure 1. The reason that CRM is integrated into the picture arises from the definition of e-Business. The CRM-box describes the importance of the customer as a stakeholder of the organisation. Further, the customer knowledge, gained through CRM (or e-CRM), is a major factor in guiding and controlling company's value creating processes (e.g. Laine, 2000; Windischhofer, 2002).

ELECTRONIC CHANNELS

ICT is affecting physical distribution channels (e.g. in the form of interactive e-channels), which requires the redesign of existing, physical channels and the creation of alternative channels (e.g. E. Anderson *et al.* 1997), such as e-Channels or innovative physical store formats. Further, distribution systems are changing in order to reflect the customer's changing purchasing patterns (e.g. E. Anderson *et al.* 1997), and “in particular their potential preference for multichannel sourcing of the product (Cespedes and Corey, 1990:75). “Customers may wish to buy a product through different channels at different points in time depending upon the size of the purchase, how urgent a particular order is, or whether the purchase is an initial buy, a routine buy, or a modified rebuy” (Cespedes and Corey, 1990:75).

E-Channels are means by which e-Commerce interactions and transactions are conducted. The commercial interaction that takes place in a certain channel is affected by characteristics of the channel. Though e-Channels are characterised by their interface, they should rather be described by the processes and relationships gathered around them.

E-Channels are here defined as “[...] a chain of relationships between companies and customers and between companies and their partners/sellers. These chains, also called marketing channels, are interdependent organizations linked to deliver a product or a service to the marketplace via an electronic customer interface” (based on Kalakota and Robinson, 2002).

We will argue that these channels have different kinds of value chains, that is, value adding relationship structures, which create both possibilities and bottlenecks for customer value creation in the retail network.

We see e-Channels not just as means to buy and sell goods and services, but also to provide and transmit information interactively within the network for purposes of e.g. marketing or relationship building.

The design of new channels and redesign of existing channels changes existing marketing flows and creates new ones as well. For example, the creation of an Internet e-Commerce channel requires the retailer to manage additional tasks such as 1) connectivity (providing a virtual store front), 2) interactivity (managing information flows that allow the consumer to actively participate in purchasing and other activities), and 3) security (providing secure transactions) (Kotzab and Madlberger, 2001:447). In addition, the retailer has to take care of tasks, which the consumer has done before when shopping in physical stores, such as picking, packing and transportation (ibid. 2001:446). Kannan (2001) described the marketing flows of the Internet to consist of an information flow, negotiation flow, product/service flow (for digital products and services), transaction flow and promotion flow. He points out that due to the characteristics of the Internet, these flows are sometimes quite different from those that occur in traditional channels (Kannan, 2001).

Developing the process capabilities that are required to engage in new distribution channels has been noted as a critical issue by numerous authors pointing out that especially logistics competencies (as usually owned by large mail order businesses) are required for succeeding in e-Channels (e.g. Doherty, 1999, Alba *et al.* 1997). Managing processes effectively is one issue, while creating attractive offers for customers to engage in interactions (e.g. purchasing and information search) has been of at least the same significance. Successful food and non-food retailers such as Tesco (UK) and Carrefour (F) have found it difficult to direct customers to their virtual store fronts without adding new products to their online offerings or by diversifying into new services such as financial services.

New services are developed by retailers and their partners to create relationships that are lasting longer and go deeper in order to increase customer life time value (e.g. Ghosh 1998; Normann and Ramirez, 1993). Further, the aim is to leverage the retailer’s customer base by cross-selling products and services through electronic channel linkages, which have established with the retailer’s online customers. From a theoretical perspective, e-Channels can create in the right context a customer – retailer relationship which is long-term, formal, and has a “membership” character, and is delivering service continuously to the customer (Lovelock, 1992).

The rise of e-Commerce channels further enables the retailer to provide services on the virtual store front the customers can get for themselves without requiring sales assistance from the

service provider (e.g. Ghosh, 1998). Therefore, the assumption can be made that e-Channels could enhance the customer's possibilities to take part in the value creation process of the network (e.g. Normann and Ramirez, 1993), which as a consequence will accrue more power to the consumer and to enhance their integration into the retail network.

THE CUSTOMER VALUE IN RETAIL CONTEXT

In general, customer value can be explained as the buyers' evaluation of the product purchase (Lai 1995, 381). This evaluation is based on the consumer's perceptions in the buying and consumption processes. Zeithaml (1988, 14) defines customer-perceived value as: "...consumer's overall assessment of the utility of a product based on a perception of what is received and what is given". This definition points out that customer value is a relation of certain benefits and sacrifices that the consumer perceives and assesses. To understand this assessment, we have to separate concepts of *consumer values* and *customer value*. According to Payne and Holt (2001, 161) customer value refers to a preferential judgement and is the result of a trade-off and an interaction. Consumer values are the criteria by which these judgements are made and are beliefs by nature.

To extend the concept of customer value beyond product assessment, the context of the assessment must be clarified. We suggest that the assessment is situated in buying and consuming processes which together form the customer shopping process. The buying process compasses activities beginning at the problem recognition and ending at the post-purchase evaluation of process (e.g. Kotler 2000). The buying process is followed by the consumption process. The buying process is not a goal by itself, but a way of achieving wanted consumption experiences (Kuusela & Rintamäki 2002). The value creation of a customer takes place within the shopping process. Figure 1 (next page) describes the customer shopping process in retail environment and the assessments of benefits and sacrifices during it.

Consumption experience consists of all the things that the customer can perceive or sense during buying or consuming product, service or information. Berry et al. (2002, 86) divide these perceived "experience clues" into two categories. The first category concerns the actual functioning of the good or service. It includes clues that are usually interpreted by logical thinking. The second category extends the concept customer value beyond the judgement of product attributes. It concerns the emotions of consumers, which are created by clues like smells, sounds and customer service-related factors. These clues create feelings for customer in consumption experience and are major factor in creation of customer perceived value. The emotional and affective clues are also called hedonic benefits, compared to utilitarian benefits described in the first category (e.g. Kuusela & Rintamäki 2002, 30).

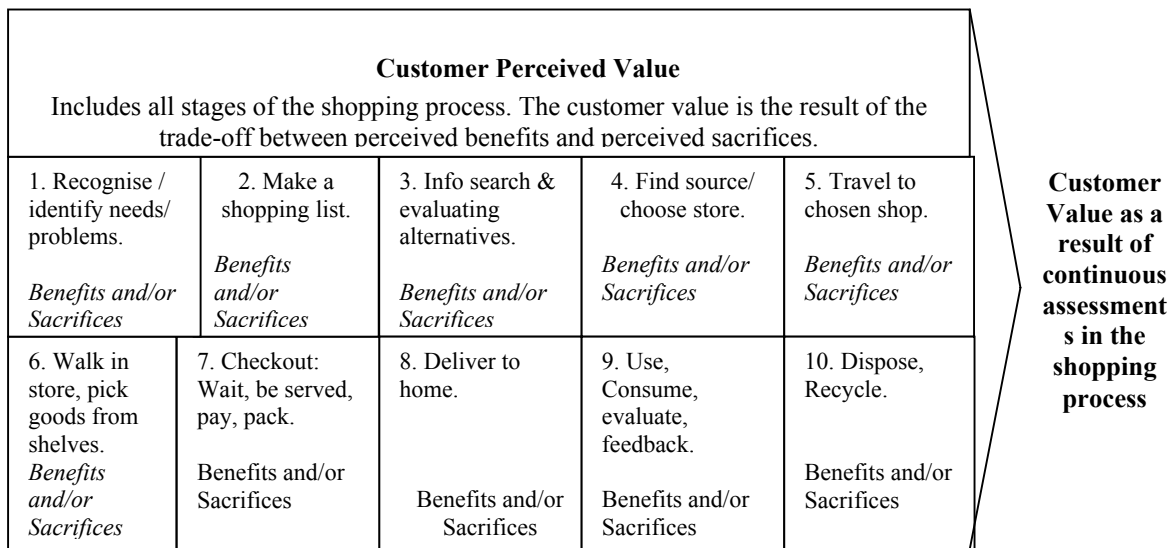


Figure 1. A Process of the Link between Customer Perceived Value and Shopping Processes¹.

Customer value is created in consumption experience. It has both utilitarian and hedonic aspects. Furthermore, it is a result of assessment of customer perceived benefits and sacrifices, which will be discussed more detailed in next chapter. Now we turn to explain the hierarchical construct of customer value.

Earlier we have separated the meaning of customer value and consumer values. Consumer values play a part in customer value formation, since it represents consumer's valuation on consumption or possession of products (Lai 1995, 381). This valuation can be understood as customer's objectives, which guide him/her in the consumption process. These objectives are translated into consequences, which the customer is looking for in the buying process. Customer transaction experience includes attributes, which cause certain consequences. These attributes can be either concrete or abstract. The consequences these attributes are creating are perceived as benefits or sacrifices. When the attribute creates consequences that are meaningful for the customer's objectives, they are perceived as a benefit. (Kuusela & Rintamäki 2002 20, 37) These benefits are then compared to sacrifices in the consuming experience. As noted before, perceived customer value is a result of these assessments.

Consumption experiences are valuable for customers only if the benefits in them are valuable for customers' objectives and exceed the sacrifices in the experience. Because of differing objectives, customers' evaluation of benefits and sacrifices are subjective by nature. To understand these personal and subjective processes, we must clarify the context of this evaluation, which is the customer's value chain.

Customer's value chain can be understood as a combination of customer's value creating activities (Ravald & Grönroos 1996; Normann & Ramirez 1993). The beginning of

¹ Based on: Heikkilä, J., Kallio, J., Saarinen, T., Tuunainen, V.K. (1999), "EC of groceries for elderly and disabled – A comparison of alternative service models", Table 1, "Consumer buying process of groceries: bundle based model", p.392, Information Technology & People, Vol. 12, No. 4, pp. 389-402.

customer's value chain can be found in consumer values, since they represent the ultimate goal of customers' activities. When companies are aiming to provide customer value, this goal should direct their processes, through their own and customer's value creating activities (Ravald & Grönroos 1996).

Normann and Ramirez (1993, 66) argue that companies, with their partners and allies, work together to co-produce value. They form a value-creating system, which customers are a part of. As part of the value-creating system, the customers are acting to create value for themselves. As mentioned earlier, this value-creating system is a mean to understand organization's value delivery, since it integrates two sides of the value creation, the value for customer and the customer's value for the organization (Payne & Holt 2001, 175).

According to Normann and Ramirez (1993,68), new opportunities for value creation are gained by combining activities of the company and activities of the customer to offerings in novel ways. The value proposition of a certain offering is influenced by the means of purchasing and consuming it. As a result, the value proposition of company's offering is different if it is offered through the online channel than it is in traditional channels (Keeney, 1999). The purpose of this research is to analyse how it is possible to deploy electronic marketing channels for enhancing customer perceived value by lowering sacrifices and increasing benefits perceived by the customer in the customer value experience. The logic of this question is described in figure 2.

The following points are described in the figure 2.

1. The customer value experience is the starting point for the retailer to develop the retail offering.
2. The retailer's offering is structured according to the potential in the value experience to further enhance the customer perceived value. The context of the customer/retailer relationship determines the appropriateness of e-Channels for enhancing the customer value.
3. Electronic marketing channels (mobile commerce channel and Internet – based channel) are deployed for enhancing customer value by lowering sacrifices and increasing benefits perceived by the customer.

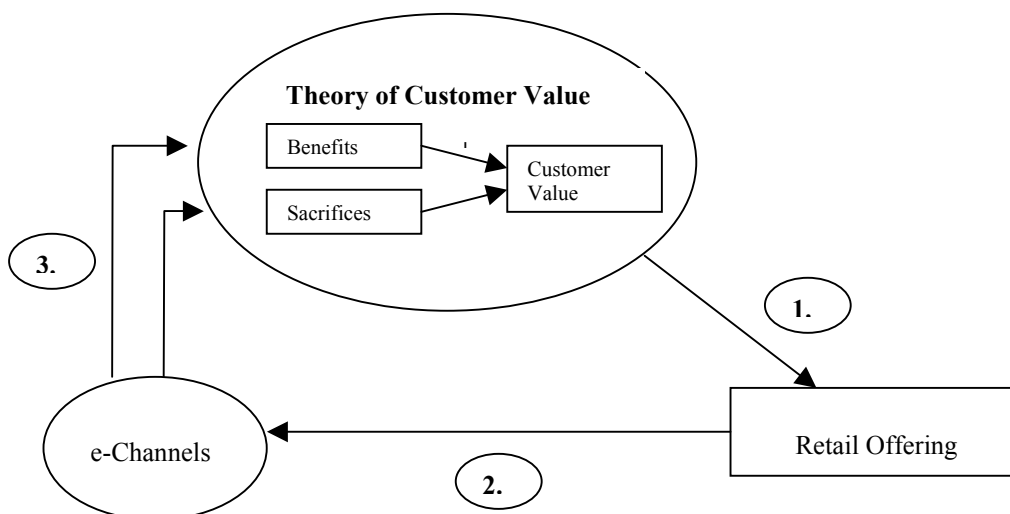


Figure 2. The Logic of Customer Value Enhancement in Retailing through e Channels.

The nature of the benefits and sacrifices perceived by the customer

Customer value is the relation of customer perceived benefits and customer perceived sacrifices. Due to this value equation, customer value can be enhanced either by increasing customer perceived benefits or decreasing customer perceived sacrifices. Customer perceived benefits are positive consequences of consumption of a product, service or information (Kuusela & Rintamäki 2002, 29). Customer perceived sacrifices, on the other hand, include "...all costs a buyer incurs when they make the purchase." (Payne & Holt 2001, 168) The benefits are often perceived on the abstract level, while sacrifices can be very concrete (Kuusela & Rintamäki 2002, 29).

In the customer value literature, customer perceived benefits are a widely discussed area, but the sacrifices are often left with less conversation. We will argue, on the basis of former research done in the area, that customer perceived benefits and sacrifices can be divided into three categories: offering-related benefits and sacrifices, process-related benefits and sacrifices, and relationship-related benefits and sacrifices.

The offering-related benefits are benefits that are usually referred, for example, as product benefits (Lai 1995, 383) or product/service attributes and performances (Payne & Holt 2001, 168). They are the result of buying, possession or consumption of a product, service or information. Similarly, there is sacrifices, sometimes called negative consequences (Payne & Holt 2001, 168), that are related to offering. The price is the most obvious one. Adding customer perceived value through offering-related benefits and sacrifices can be done by adding extra benefits to the core offering or by reducing the sacrifices, for example lowering the price.

The process-related benefits and sacrifices are a result of the buying and consumption processes. Lai (1995, 385) calls these benefits "logistic benefits", since they include the delivery of the offering. The ease of buying and short delivery times are examples of process-related benefits. Also the characteristics of marketing channels and the customer service can add benefits or sacrifices for customer (Kuusela & Rintamäki 2002, 33).

Also relationships create value for partners (Payne & Holt 2001, 170). The reason for purchasing for customer from certain retailer might be simply because he has already a relationship with the retailer (Ravald & Grönroos 1996, 23). Relationship may have both positive and negative influences on customer perceived value. Kuusela and Rintamäki (2002, 34) suggest, that the benefits of a relationship usually deal with personal contacts, social benefits and feelings of belonging. One of the most important relationship-related benefit is the trust between parties. It lowers customer-perceived risks in buying. But relationships also have costs. Maintaining the relationship can take time and it may sometimes lead to buying at higher prices than offered by other suppliers. These are relationship-related sacrifices.

ONLINE COMMERCE AND THE CONSUMER

During the past several years, three e-Commerce channels have been argued as promising, whereby the Internet sales via PC are by far the strongest, followed by interactive TV and mobile commerce (PC World.com, 2001).

According to data collected between April and May 2002, 62% of Finnish population aged between 15 and 74 has used the Internet. The value of e-Commerce sales for 2002 had been estimated for € 870 million, including orders and purchases from abroad worth approximately €120 million (Statistics Finland, 2002).

In Finland, access to the Internet resembles the offline population in socio-demographic context rather closely already. Concerning purchasing behavior, most sources – whether internationally or in Finnish context – state that higher educated Internet users buy products more often through the Internet (e.g. Morganosky and Cude, 2002; Dholakia and Uusitalo, 2002). Dholakia and Uusitalo (2002) suggest in their research that gender differences as they exist in offline shopping might not exist in online shopping². They also argue that genders perceive utilitarian benefits (usefulness, efficiency, convenience) rather similar while hedonic benefits (shopping as joyful activity) are more important for women. Online grocery shopping is used mostly by higher income families in suburban areas with young children, and where both parents are employed (e.g. Morganosky and Cude, 2002; Dholakia and Uusitalo, 2002). Dholakia and Uusitalo (2002) also state that families with at least one child under five years of age perceive utilitarian and hedonic benefits of online shopping as highest, whereby the utilitarian and hedonic benefits for store shopping is lowest among those families.

Morganosky and Cude have conducted a series of studies about shopping behavior for online groceries, and conclude that purchasing size, transaction amount, perceived benefits and the willingness to purchase all groceries online has increased over time (Morganosky and Cude, 2002). Dholakia and Uusitalo (2002) state that past home shopping experiences positively effect the perception of shopping benefits (utilitarian and hedonic) for online shopping.

The profitability of customers plays a crucial role in online shopping to reach a sufficient order size per delivery. In groceries retailing, the Pareto rule (80% of profits are coming from 20% of customers) is closest resembled, since 20% of customers account for 78% of sales. In online clothing, travel and books sales, the concentration is lower, with 60% of sales coming from the best 20% of customers (Boston Consulting Group, 2001).

Purchases via Internet remain very low in Finland, with only 9% of users having bought something through that channel³, compared to 25% who bought in the same period from mail order. Boston Consulting Group has classified the European countries into the following three categories of Internet penetration and purchasing behavior. The first group includes countries with high Internet penetration and high proportion of Internet users who purchase from the web (e.g. Germany and UK). The second group represents countries with lower Internet penetration and lower purchases (e.g. France and Italy). The third group includes Sweden, the Netherlands and Finland, which have a high Internet penetration but a low rate of Internet users who purchase on the web (BCG, 2001).

Among Finnish consumers, clothes and shoes are the most popular with 30% of the survey group having purchased something from this product category, closely followed by books with 29% and hobby products with 27%. The food and drink category is in the Finnish market insignificant, with only 2% of Internet users having purchased something out of this category

² For a more detailed discussion of consumer characteristics in online shopping see for example Dholakia and Uusitalo (2002).

³ Roughly half of those have also conducted their payment via Internet.

within the survey period (Statistics Finland, 2002). The share of groceries (food and drink) purchases has been highest in the UK where 23% of online shoppers have purchased groceries online, followed by France with 18%, while in Germany they amount for only 10% and again Finland's sales in this category remain insignificant with just 2% (Ernst&Young, 2001).

Consumer's online shopping behavior is starting to affect offline sales already⁴ though specifically for groceries retailing, those effects remain in most countries insignificant due to the low market share of online grocery shopping, except in the UK and in France. The UK market is a role model for many European Countries, where online groceries sales have been strongest – also due to Tesco's success in that business (e.g. Ernst and Young, 2001; The Economist, 2000). Whether online shopping can succeed in any European Country just as in the UK remains doubtful and depends on many factors.

In the Finnish market, online grocery businesses restrict their activities mainly to the Helsinki area, where population density and customer buying patterns are more advantageous than in the rest of Finland (e.g. Rajas and Tuunainen, 2001). According to the Finnish Statistics Bureau, citizens in the Helsinki area purchase more through the web than elsewhere in Finland (Statistics Finland, 2002).

In the European average, the three main reasons for consumers to shop online have been argued to be *good selection of products*, *competitive prices* and *convenience*. In general, customers expect to see lower prices on the Internet than in stores in every category, though in online grocery shopping only roughly 50% expect that (Ernst and Young, 2001).

Consumers demand save transactions and confidentiality of their personal sales data, which calls for retailers to build trust and provide secure transactions (Ernst and Young, 2001). According to Boston Consulting Group (BCG), excellent operational performance and well-designed web pages are considered by consumers as predetermining for their satisfaction. Customer satisfaction is crucial for increasing the purchasing volume and transaction frequency per shopper. BCG argues that satisfied consumers spent during a 12 month period 71% more money and conducted 2.5 times more transactions than dissatisfied customers (Boston Consulting Group, 2001).

MOBILE COMMERCE

Because the value proposition of a certain offering is influenced by the means of purchasing and consuming it, the value proposition of company's offering is different if it is offered through online channel than it is in traditional channels (Keeney 1999, 533-534). The same is true for mobile commerce.

Mobile commerce is often described as a natural extension of e-business (Turban et al. 2002,825), transactions conducted while on the move (Kalakota and Robinson 2002, 8) or as a new aspect of consumerism and a more powerful way to speak with consumers (Norhiah and Leestma 2001, 104). Here, mobile commerce is defined following Turban et al. (2002,74):

⁴ See e.g. Ernst and Young (2001) and Boston Consulting Group (2001). Tesco claimed that 50% of its online customers is cannibalization, meaning these customers do shop less in the Tesco stores because they shop online at Tesco, while 25% are new customers, and 25% are purchasing even more offline, since they purchase also online (The Economist, 2000).

“[Mobile commerce is] the conduct of e-commerce via wireless devices.”

Following the relationship of these two definitions, we can argue that in m-commerce the process of buying, selling, or exchanging products, services, and information takes place in a wireless environment. The advantages of m-commerce, usually stated in comparison to e-commerce, are reachability (presuming the device is activated), known location of the user and personal nature of mobile device (Kehoe, 2000, 45).

Mobile commerce is not just e-commerce in wireless environment. It has its own characteristics that separate it from e-commerce. According to Turban et al. (2002, 827-828) m-commerce has two characteristics, mobility and reachability. Mobility means that a mobile device is with the user in all occasions. The user can operate with it anytime there is a need for it. Reachability refers to the instant reachability of mobile device owner despite the time or location. Figure 3 presents these characteristics with their derived value-added attributes.

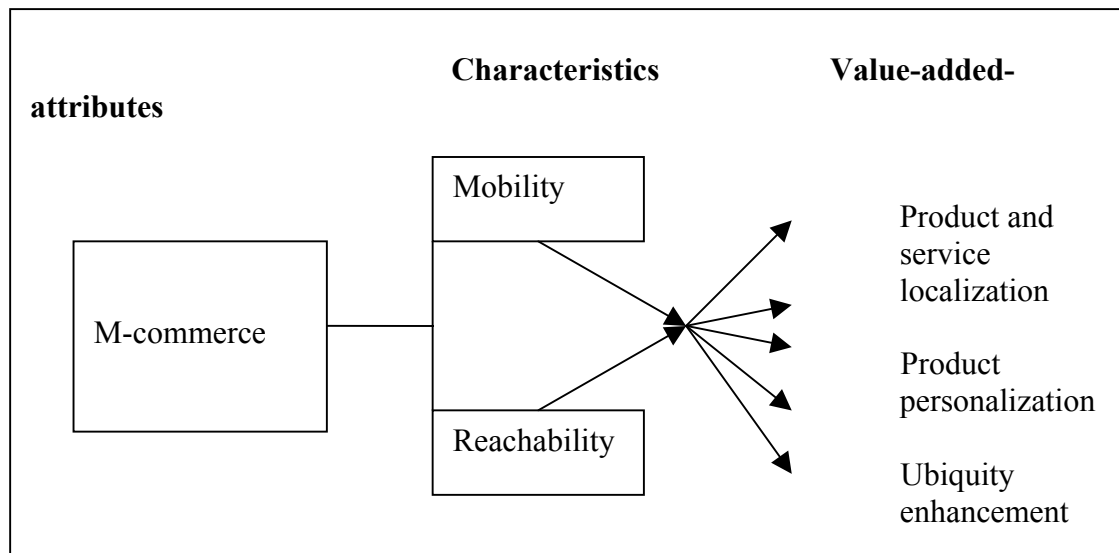


Figure 3. The characteristics of M-Commerce (Turban et al. 2002).

The value-added attributes of m-commerce (Figure 3) are not described here in more details, but are used as preunderstanding for the later stages of the research. They will be used to formulate more detailed scenarios of m-commerce potential for retailing in the second phase of the research process (see figure 5).

The characteristics in figure 3 describe m-commerce's ability to break the barriers of time and location. They can also be applied to evaluate the potential of business applications of m-commerce from customer's perspective. Advani and Chounhury (2001, 45-46) raise the question of "the wireless quotient" of the applications. They state that the relevance of wireless depends on the extent to which users appreciate m-commerce characteristics. More precise, the relevance depends on the extent to which user's goals are time- and/or location-sensitive. Time sensitivity is described with either the urgency of consumer's need or the spare time in consumer's situation that cannot be used for another purpose. Thus, m-commerce is needed in activities that are either time-critical or time-killing. Location

sensitivity is high in situations when either the exact location matters or wired connection is not available. These situations can be called location-critical and location-killing. According to Advani and Choudhury applications are most likely to succeed if they have advantages both in terms of time and location. This logic is described in figure 4.

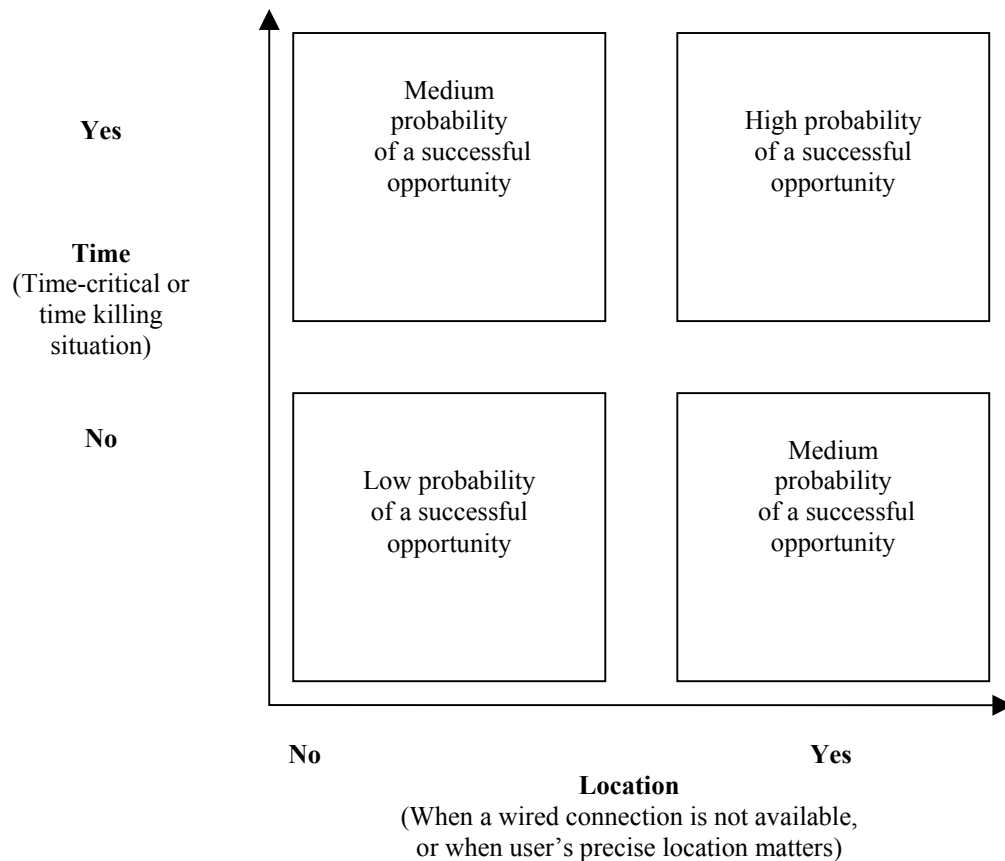


Figure 4. The Wireless Quotient (Advani & Choudhury 2001, 45).

In this research, we will study the possibilities that mobile commerce is creating for customer value enhancement in customer's shopping process in retailing. This means that mobility and reachability, time and location sensitivity, are applied to a limited scope of actions and situations. We will investigate if these characteristics can be valuable for varying the retail offering to enhance customer value in certain contexts.

THE STRUCTURE OF THE RESEARCH AND THE METHODOLOGY

The research starts with a literature review to build a theoretical background of customer value experience in the retail context. Further, traditional customer shopping processes in retailing will be described and the nature of e-Channels and retailing value chain will be investigated.

In the empirical part, data will be gathered in three stages. Customers of a certain segment will be chosen and interviewed about their shopping processes. These processes represent the

customer value experience and assist identifying the demands that are driving the retail offering. Second, the retail side will be investigated by describing briefly the traditional supply chain processes. Within this stage, a workshop will be made with business professionals/specialists to get a picture about their plans and views about e-Channels. A range of value enhancement possibilities will be described. Third, the second round of customer interviews will be conducted, where the possibilities for value enhancement through e-Channels will be offered to customers. Following this integration of e-Channel possibilities and customer value experience perspective, we plan to give an overview in what context a certain group of consumers perceives meaningful enhancement of their value experience with e-Channels as a part of the offering.

The course of the research will follow five steps presented in figure 5.

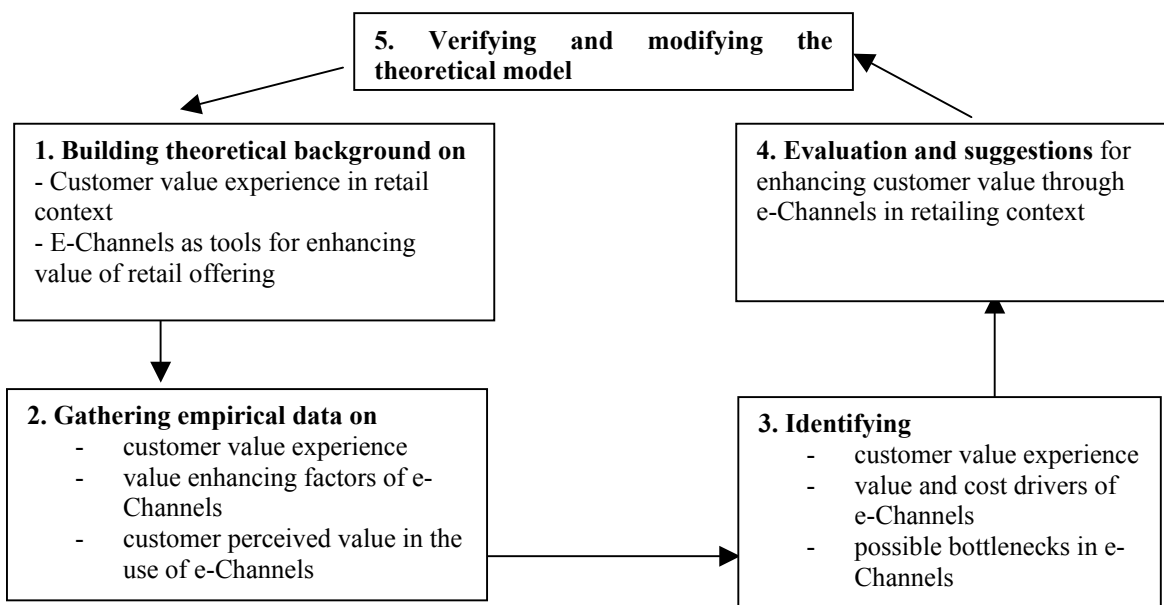


Figure 5. The course of the research

FINAL COMMENT

The article has discussed the question of how electronic channels can enhance customer value in the retail network. To approach this question network theory and channel theory have been referred. More importantly, customer perceived value has been chosen as the unit of analysis to investigate the potential of electronic channels in retailing. This choice highlights our concern of innovativeness directed only to technical aspects of applications at the expense of business solutions suitable for customer-centric organizations.

This article has represented work in progress. It means that we are still in progress of ongoing efforts to build a framework for analysis of the e-channels, as also are e-channels in progress of finding the right forms as a part of today's business.

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