

# Challenges of Finnish B2C E-commerce: Achieving Competitive Advantage through Brand and Service Marketing

Information Systems Science

Master's thesis

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## **ABSTRACT**

### **Objectives of the study**

The main goal of the study was to find out how marketing could potentially be used to improve the competitiveness of Finnish B2C web stores. This is an extremely important question because of the radically increased significance of e-commerce in Finland and the fact that both marketing and international competition are seen as great challenges by the Finnish web stores.

### **Academic background and methodology**

In order to answer the research question a very thorough investigation of existing literature was conducted on the topics of competitive advantage, success factors, consumer behavior and technology, e-commerce and e-service quality, the significance of satisfaction, trust and loyalty in e-commerce context as well as influence, dynamics, methods and channels of marketing communications. After this, an empirical study was conducted using qualitative methods. Semi-structured interviews were used to collect data from web store merchants, as well as experts dealing with web stores and experts on consumers and markets.

### **Findings and conclusions**

The findings of the research revealed several critical issues for B2C e-commerce success and gaps in the marketing know-how of Finnish B2C web stores. The main conclusion was that the overall level of know-how and knowledge among Finnish web stores is too low. Additionally, the best method of achieving competitive advantage is through strategic differentiation, which then again is best reached through the brand, service and product offering based positioning – all made more effective by localization. Several recommendations for the web stores as well as other parties are made in the thesis.

**Keywords** E-commerce, B2C, success factors, competitive advantage, digital channels, multichannel integration, service marketing, localization, differentiation strategies, web marketing, social shopping, consumer decision making

## TIIVISTELMÄ

### Tutkimuksen tavoitteet

Tutkimuksen päätavoitteena oli selvittää millaisin markkinointilähtöisin keinoin voitaisiin potentiaalisesti parantaa suomalaisten verkkokauppojen kilpailukykyä ja lähitulevaisuuden menestystä. Tämä on äärimmäisen tärkeä kysymys, sillä verkkokaupan merkitys on kasvanut huomattavasti ja lisäksi aiempien tietojen perusteella suomalaiset verkkokaupat kokevat juuri markkinoinnin sekä lisäksi kansainvälisen kilpailun uhan suurimmiksi haasteikseen.

### Kirjallisuuskatsaus ja metodologia

Tutkimuskysymykseen vastauksen tuottamiseksi suoritettiin ensin peripohjainen katsaus olemassa olevaan kirjallisuuteen kilpailuedusta, menestystekijöistä, kuluttajakäyttäytymisestä ja teknologiadaptaatiosta, verkkokaupan ja e-palveluiden laadusta, tyytyväisyyden, lojaliteetin ja luottamuksen merkityksestä sekä markkinointiviestinnän dynamiikasta, vaikutuksesta, kanavista ja keinoista verkkokauppakontekstiin sovitellen. Tämän pohjalta suoritettiin empiirinen tutkimusosa kvalitatiiviseen tutkimusmetodologiaan nojaten. Verkkokauppiailta, verkkokaupan parissa toimivilta asiantuntijoilta sekä markkina- ja kuluttaja-asiantuntijoilta kerättiin semi-strukturoiduilla haastatteluilla tietoa nykytilan mahdollisimman laajapohjaiseksi kartoittamiseksi.

### Tulokset ja päätelmät

Tutkimuksen tuloksena paljastui useita kriittisiä suomalaisen verkkokaupan potentiaaliseen menestykseen vaikuttavia tekijöitä, sekä puutteita verkkokauppojen markkinointiosaamisen ja -tietämyksen parissa. Tehokkaimmaksi kilpailuetua tuottavaksi strategiaksi todettiin differaatio ja parhaat keinot differoitua suomalaiselle kuluttajaverkkokaupalle löytyvät brändin, palvelun ja tuotetarjoonnan positioinnin kautta sekä tehokkaan lokalisaation hyödyntämisessä.

**Avainsanat** Verkkokauppa, menestystekijät, kilpailuetu, kansainvälinen kilpailu, verkkomarkkinointi, sosiaalinen ostaminen, brändimarkkinointi, palvelumarkkinointi, lokalisaatio, kanavaintegraatio

# TABLE OF CONTENTS

|   |           |
|---|-----------|
| <b>1. INTRODUCTION .....</b>                              | <b>1</b>  |
| 1.1 Situational Overview .....                            | 1         |
| 1.2 Motivation and Research Gap.....                      | 3         |
| 1.3 Research Questions and Goals.....                     | 5         |
| 1.4 Scope and Limitations .....                           | 6         |
| 1.5 Structure of the Thesis .....                         | 7         |
| <b>2. E-COMMERCE SUCCESS.....</b>                         | <b>9</b>  |
| 2.1 Competitive Advantage & Success Factors .....         | 9         |
| 2.1.1 Competitive Advantage .....                         | 10        |
| 2.1.2 Critical Success Factors .....                      | 11        |
| 2.1.3 Measures of Success.....                            | 12        |
| 2.2 Consumer Behavior .....                               | 13        |
| 2.2.1 Attitude, Intentions and Behavior .....             | 14        |
| 2.2.2 Purchase and Repeat Purchase .....                  | 19        |
| 2.3 Satisfaction, Trust and Loyalty .....                 | 23        |
| 2.3.1 Satisfaction and Quality .....                      | 24        |
| 2.3.2 Trust and Quality .....                             | 29        |
| 2.3.3 Loyalty and Quality .....                           | 36        |
| 2.3.4 Summary of Quality Prerequisites.....               | 41        |
| 2.4 Marketing and Communications .....                    | 42        |
| 2.4.1 Influence, Brand and Positioning.....               | 42        |
| 2.4.2 Dynamic Marketing.....                              | 46        |
| 2.4.3 Media and Channels .....                            | 48        |
| 2.4.4 Summary of Marketing Communications.....            | 53        |
| <b>3. RESEARCH FRAMEWORK, DESIGN AND METHODOLOGY.....</b> | <b>55</b> |
| 3.1 Framework of Success.....                             | 55        |
| 3.2 Goals of the Empirical Research.....                  | 59        |
| 3.3 Research Method .....                                 | 60        |
| 3.4 Data Collection and Analysis .....                    | 62        |
| 3.5 Reliability and Validity.....                         | 67        |
| <b>4. RESEARCH FINDINGS .....</b>                         | <b>69</b> |
| 4.1 Prerequisites and Critical Issues.....                | 69        |
| 4.1.1 Trust, Satisfaction and Loyalty.....                | 69        |
| 4.1.2 Significance of Quality and Marketing.....          | 73        |

|   |            |
|---|------------|
| 4.1.3 Summary .....                                   | 77         |
| 4.2 Differentiation Methods .....                     | 78         |
| 4.2.1 Brand and Service .....                         | 79         |
| 4.2.2 Product Offering and Price .....                | 85         |
| 4.2.3 Localization and Multichannel Integration ..... | 88         |
| 4.2.4 Summary .....                                   | 93         |
| 4.3 Marketing Challenges.....                         | 95         |
| 4.3.1 Planning and Resources.....                     | 95         |
| 4.3.2 Methods and Channels .....                      | 98         |
| 4.3.3 Marketing Analytics and Data.....               | 109        |
| 4.3.4 Summary .....                                   | 117        |
| <b>5. CONCLUSIONS AND RECOMMENDATIONS .....</b>       | <b>119</b> |
| 5.1 Findings Summary .....                            | 119        |
| 5.2 Recommendations for Web Stores .....              | 122        |
| 5.3 Recommendations for Others .....                  | 128        |
| <b>6. SUMMARY .....</b>                               | <b>132</b> |
| 6.1 Thesis Summary .....                              | 132        |
| 6.2 Limitations and Contributions .....               | 134        |
| 6.3 Suggestions for Future Research.....              | 135        |
| 6.4 Concluding Remarks .....                          | 136        |
| <b>REFERENCES.....</b>                                | <b>139</b> |
| <b>APPENDICES.....</b>                                | <b>158</b> |
| Appendix A: B2C E-commerce Sales in Finland 2010..... | 158        |
| Appendix B: E-commerce Quality Attributes .....       | 159        |
| Appendix C: Interview Themes .....                    | 162        |

## LIST OF FIGURES

|   |    |
|---|----|
| Figure 1: The Theory of Reasoned Action (Ajzen & Fishbein, 1975 & 1980).....            | 15 |
| Figure 2: The Theory of Planned Behavior (Ajzen, 1991) .....                            | 15 |
| Figure 3: Technology Acceptance Model (Davis et al., 1989; Venkatesh et al., 2003)..... | 17 |
| Figure 4: TAM2 (Venkatesh & Davis, 2000) .....  | 18 |
| Figure 5: EC Consumer Behavior (Turban et al., 2010).....                               | 21 |
| Figure 6: 13-Step E-Commerce Consumer Behavior Model (Markellou et al., 2006) .....     | 22 |
| Figure 7: Quality & Satisfaction (adapted from Cheung & Lee, 2005) .....                | 28 |
| Figure 8: E-satisfaction Model (Anand, 2007) .....                                      | 28 |
| Figure 9: EC-Trust Model (Lee & Turban, 2001) .....                                     | 32 |
| Figure 10: Future of Trust in e-tailing (Bourlakis et al., 2008).....                   | 33 |
| Figure 11: The Online Store Success Model (Adapted from Yoon & Kim, 2009).....          | 34 |
| Figure 12: Trust Formation Sequence (Papadopoulou et al., 2001).....                    | 36 |
| Figure 13: Loyalty measured through relationship (Adapted from Liang & Chen, 2009) .    | 39 |
| Figure 14: A summary of the effects of loyalty.....                                     | 40 |
| Figure 15: A web marketing funnel based on AIDA (Luukkonen & Railo, 2005).....          | 43 |
| Figure 16: The Marketing Communications Conceptualization .....                         | 54 |
| Figure 17: The Framework of E-commerce Success .....                                    | 56 |
| Figure 18: Success framework highlights based on research results .....                 | 78 |
| Figure 19: Updated marketing communications .....                                       | 94 |

## LIST OF TABLES

|   |     |
|---|-----|
| Table 1: A hybrid model of customer loyalty (Dick & Basu, 1994) .....               | 37  |
| Table 2: From mass marketing to relationship marketing (Turban et al., 2007).....   | 47  |
| Table 3: Advantages and limitations of advertising media (Turban et al., 2007)..... | 50  |
| Table 4: A digital channel advantage matrix (Angel, 2006) .....                     | 52  |
| Table 5: Success framework connections .....  | 57  |
| Table 6: The interviewees of the empirical research.....                            | 64  |
| Table 7: The companies/organizations the interviewees represent .....               | 65  |
| Table 8: Research main findings .....   | 121 |
| Table 9: Potential differentiation angles for Finnish web stores.....               | 123 |

## **ABBREVIATIONS AND DEFINITIONS**

B2B (Business-to-Business) = a business transaction that occurs between two companies

B2C (Business-to-Consumer) = a business transaction that occurs between a company and a consumer

BAM (Brick and Mortar) = a business model based on physical store presence

BnC (Brick and Click) = a business model that integrates e-commerce and physical store presence

CaM (Click and Mortar) = a business model that integrates e-commerce and physical store presence

CPA (Cost per Action) an online advertising pricing model, where the advertiser pays for each specified action linked to the advertisement.

CPC (Cost per Click) = an Internet advertising model, where advertisers pay when the ad is clicked

CRM (Customer Relationship Management) = methodologies, tools and capabilities that help a business manage customer relationships in an organized way.

CSF (Critical Success Factor) = an element that is necessary for an organization or project to achieve its mission

DMA (Direct Marketing Association) = a global trade organization, based in the US, which seeks to advance all channels of direct marketing

EC (Electronic Commerce) = the same as e-commerce, buying and selling of products or services on the internet and other electronic networks.

eCRM = electronic CRM

e-tailer = electronic retail merchant

e-tailing = electronic retailing

eWOM = electronic Word-of-Mouth communications

IS (Information Systems) = an academic/professional discipline bridging the business field and the well-defined computer science field that is evolving toward a new scientific area of study

ISS (Information Systems Science) = an academic discipline of IS

KSF (Key Success Factors) = the same as CSF

PoS = Prerequisites of Success



POS (Point of Sale) = the location where a transaction occurs

PPC (Pay per Click) = an Internet advertising model, where advertisers pay when the ad is clicked

RSS (Really Simple Syndication) = a family of web feed formats used to publish frequently updated works

SEO (Search Engine Optimization) = the process of improving the visibility of a website or a web page in search engines via natural or un-paid search results

SEM (Search Engine Marketing) = a form of Internet marketing that seeks to promote websites by increasing their visibility in search engine result pages through the use of paid placement, contextual advertising, and paid inclusion.

TAM = (Technology Acceptance Model) = an information systems theory that models how users come to accept and use a technology

TAM2 (Technology Acceptance Model 2) = an expansion of the TAM theory

TPB (Theory of Planned Behavior) = a theory about the link between attitudes and behavior proposed by Icek Ajzen

TRA (Theory of Reasoned Action) = a psychological behavioral theory created by Martin Fishbein and Icek Ajzen

UTAUT (Unified Theory of Acceptance and Use of Technology) = an information systems theory that attempts to integrate the main competing user acceptance models

WOM (Word-of-Mouth) = oral communication and the passing of information from person to person

WOMM (Word-of-Mouth marketing) = an unpaid form of promotion in which satisfied customers tell other people how much they like a business, product, service, or event

# 1. INTRODUCTION

## 1.1 Situational Overview

Electronic commerce, commonly known as e-commerce, has changed the world radically since the invention of online shopping by Michael Aldrich already in 1979 (Tkacz & Kapczynski, 2009). From the humble beginnings of the 90s' Amazon.com and the likes, e-commerce has grown into a 506 milliard € worldwide mega business in 2011 and in Europe alone the e-commerce market is currently worth 157 milliard € (Rao, 2011). The changing effects of e-commerce can be considered as one of the most significant changes in the entire history of commerce (Leskinen, 2011) and it is thus obvious that e-commerce has finally become a critical part of the overall business environment, both globally and locally.

Because of the growth of e-commerce and the effects of the surrounding phenomena of the digital information era, the shopping behavior of consumers is also changing radically. In fact the whole purchase decision making process is changing because of the increased amount and availability of information. A powerful example of how fast the change is currently taking place is that whereas in 2010 consumers in the US still used just over 5 digital sources for their decision making, in 2011 they use more than 10 sources (Google / Shopper Sciences, 2011) - in only a year the amount of sources used has doubled.

The surrounding drivers of change are also important. Whereas the significance of physical retail outlets for shopping decisions has dropped by almost half from 60% in 2010 to 31% in 2011 and general online presence has increased only slightly in significance from 31% to 39%, the new channels of social media and mobile have almost doubled their significance for the consumers during the same time (Google / Shopper Sciences, 2011) – once again, in just a year of time. Therefore it is without a doubt that the whole landscape of e-commerce is also changing its form.

Finland has however long lagged behind in the development of e-commerce. Traditionally, the U.S. has been the most developed country of e-commerce application,

whereas on a European level Britain and Germany have also been developing much faster than Finland (Leskinen, 2011). This is very interesting considering the fact that Finland was once considered as one of the most technologically advanced among the European nations.

Nevertheless during the last couple of years Finland has finally been able to catch up. Even the last few of the significant big retail players of Finland are finally entering the e-commerce market and the pioneering era of Finnish e-commerce is starting to be over (Leskinen, 2011). Up to 67% of the adult population of Finland have bought something from a web store (Roponen, 2011a) and the total size of the B2C e-commerce market in Finland was up to 9.4 milliard € in 2011 (Roponen, 2011b).

The growth rate has however already slowed down from its highest levels of up to 23% in the last couple of years (Kärkkäinen, 2011). The Finnish e-commerce markets are facing a stage of stabilization (Leskinen, 2011) and the coming maturity of the market naturally means that organic growth will mostly be achieved only in certain product niches, in new user groups of senior people and from abroad. This means that without question the rate of competition in the Finnish e-commerce market is going to grow significantly in the near future. At the same, time foreign web stores have rushed into the Finnish market and have captured close to one fifth of the sales (Roponen, 2011b).

To summarize, e-commerce has become an extremely important area of business, and therefore also an increasingly important area of research. It is change that drives the need for new research. Firstly the size and significance of the e-commerce market of Finland has increased significantly. Secondly consumers make an increasing amount of their decisions in the internet and use more sources and media channels than ever before. Thirdly, the nature of commerce and retail is becoming increasingly channel-integrated and multichannel solutions are most probably soon a norm rather than an exception. Especially the current revolution of mobile penetration and upcoming consumer applications of augmented reality will most likely boost the amount of sales made via electronic and mobile channels, thus further fortifying the importance of e-commerce for both global and local consumer business.

## 1.2 Motivation and Research Gap

As discussed previously, the significance of e-commerce has immensely increased in the past few years. Any kind of research relating to the topic could be considered timely and important already based on the effect that e-commerce has on the global as well as Finnish business environment. Therefore it is not surprising that the field of e-commerce has already been studied quite much. Still, it is apparent that there is overabundance of areas and angles within the field of e-commerce research where the research has gaps or that have not been studied yet. On the other hand the amount of research for e-commerce has sometimes been considered too little and there have been remarks of worries on behalf of this and especially the angle of marketing calls for more research (e.g. Taylor & Lee, 2009)

A lot of the previous research has also been done in the emerging era of e-commerce, and the constantly changing environment mandates new research be produced to keep the contextual angle relevant for concrete business applications. The rapidly changing role of e-commerce and the development in regard to the wider consumer and business environments, together with the changing world of technical and content related aspects, means that older research on e-commerce is probably not completely valid any longer, and that further timely research on the area should be produced constantly to keep up with the changes of the environment.

If the deeper meanings of e-commerce management are then taken into consideration, it is impossible to avoid the topic of marketing. Marketing is vital for e-commerce, because of the intangible and virtual nature of the digital realm – no one can even find a web store if it is not marketed. Jari Muhonen, the former CEO of Verkkoteollisuus Ry, the industry body of Finnish e-commerce, has even said that e-commerce is pure marketing and that a web store itself is therefore just one of the marketing tools. Interestingly, marketing then again is precisely the area of business that Finnish web stores consider most challenging (*Verkkokauppalvelitys 2010, 2010*). Therefore it is more than logical to research Finnish e-commerce especially from a marketing angle.

Yet another issue that the Finnish web stores consider as an enormous challenge is the threat of international competition (*Verkkokauppalvelitys 2010, 2010*). The sales of

Finnish web stores have steadily increased every year, but at the same time the amount of purchases that Finnish consumers make at foreign web stores has also increased. In 2010, the amount of purchases from foreign web stores was close to one fifth of all Finnish B2C e-commerce (Nykänen, 2011; Roponen, 2011b) and in certain product categories the foreign sales reached almost half of the whole category (Roponen, 2011b). Because of this there is a considerable need for research of Finnish B2C e-commerce that would look at the market from a marketing perspective but also consider the threat of international competition.

Because the impact of marketing is especially significant in the B2C side of commerce and because especially in the B2C field the foreign web stores have been able to gain market share, it is especially the B2C side that is relevant to study in this case. When looking more closely inside the B2C e-commerce field of Finland, it is the categories in the retail and physical products side of the business where the Finnish stores have lost more of the markets (Roponen, 2011b), and additionally this is an area of e-commerce that has been predicted to grow in the near years. Up to 44% of all Finnish e-commerce consists of sales of physical goods (Roponen, 2011b) and within just five years 25% of all everyday items of Finnish people will be purchased via the web (Leskinen, 2011). Therefore to study the Finnish B2C e-commerce, especially from the point of view of the sales of physical goods, and considering the threat of international competition is the most logical angle for the research at hand.

In addition to this general significance of the subject, there is a clear research gap distinguishable in this angle of research. After discussions with several experts of e-commerce, it seems clear that there is no previous academic or market research that would have been done especially about potential new success factors and competitive advantage of Finnish B2C web stores selling physical goods from the angle of marketing, international competition and product sales. Some case study based examples of research on the success of web stores exist, but nothing that would give a more general wider view of the field. Also there is no research that would consider the view and needs of the web stores themselves, balanced together with views from outside experts working with the stores. This is exactly the gap that the research at hand aims to fill.

In addition to all the previously mentioned issues regarding the importance of the topic, there are further motivational factors that have affected the selection of this specific topic of research. Firstly the thesis work was commissioned by Sanoma, a leading media group in the Nordic countries, and they implied that the topic at hand would be extremely interesting and useful for the field of Finnish e-commerce. Secondly, the topic suggestion raised significant interest within discussions with Finnish experts of e-commerce. Thirdly there is a substantial amount of personal motivation and interest towards the topic from the point of view of the author of this thesis. All of this put together make the topic of this thesis not only interesting and highly motivating to work with, but also important and useful for the field of business and academia alike.

### **1.3 Research Questions and Goals**

The main research question of this thesis is: “How can marketing be used to improve the competitiveness of Finnish B2C web stores?”

In order to be able to answer the main research question, several sub-questions had to be formulated in order to collect the right information. The following three are the most important sub-questions to be answered in this thesis:

1. What are the most important generic marketing based success factors for B2C e-commerce?
2. More specifically, what are the most relevant success factors based differentiation methods for Finnish B2C web stores, considering the context of the growing international competition?
3. What kind of challenges and needs are there and what kinds of changes, new tools or methods, especially from the marketing communications perspective, do the web stores need in order to successfully take advantage of the potential success factors and differentiation methods in the near future?

In order to answer the first sub question a wide literature review of existing research and literature has been conducted and is presented in the 2<sup>nd</sup> section of this thesis. The information for the first sub question is extended through empirical research as well as

generating information to answer the second and third sub question and form a wider image of the topic area in general.

#### **1.4 Scope and Limitations**

The first obvious limitation regarding the scope of research is that only Finnish B2C e-commerce will be considered, as already stated in subsection 1.2. Secondly in regard to the arguments for the scope of physical product sales presented also in subsection 1.2 as well as the fact that further constraints for the scope of research had to be made to ensure research quality, this research mostly addresses e-commerce that is based on the sales of physical goods. However some references to the service sales as well as content side are made, since in the current consumer business landscape it would be foolish to ignore these issues as the whole core of business is becoming more and more consumer experience based, which means that the product, service and other content might be quite inseparable from each other. Also the field of grocery web sales has mostly been discarded in this thesis, because of its unique nature in comparison to the other sales categories.

After stating these main limitations to the scope of research, another issue to be considered is that the research targeted mostly SME sized businesses. This is because the field of the biggest Finnish consumer web stores is very homogeneous and one of the goals of the research was to create a more diverse picture of the B2C e-commerce field. On the other hand, the web stores that are slightly smaller than the biggest ones are also the ones that could be considered in need of more help and new useful information in comparison to the Finnish retail giants. This target focus however does not completely rule out the possibility of using the results of this research for the development of e-commerce in general.

A third main limit and focus point for the research to be mentioned is marketing. It was already stated in previous subsections that the research at hand looks at the topic from a marketing angle. However, because of the nature of e-commerce, theories of Information Systems Science (ISS) will also be somewhat considered in the research. In the research at hand marketing is seen as a strategic way of business thinking that

considers the whole value chain of e-commerce, while also at the same time placing big weight on the role of marketing communications and brand building. In addition to this, the research is based on a consumer driven angle, because the biggest impact on B2C marketing is made by consumer behavior and its changing form.

It has also been said that only a maximum of 10% of the success of web stores is technology (Leskinen, 2011) and therefore it is not logical from the point of view of the research at hand to take a deeper look at technical details of e-commerce. Naturally from the point of view of the research scope it would not even be possible to extend a technological perspective in the research, because the time and other resources for the research are limited and the scope of research would be too wide.

Some other limitations of the research, decided upon in order to make the research manageable and ensure its quality, are the following:

- The research aims on discovering issues that the web stores themselves as well as other parties working with the web stores can have an actual concrete effect upon, especially from a marketing perspective. In other words the challenges and opportunities as well as concrete needs and a possible selection of methods in order to survive in the near future e-commerce market as a Finnish web store are looked upon.
- External and internal resources, organizational management angles, more specific technical issues as well as external and internal factors outside of the concrete reach of the web stores themselves are mostly left outside of the scope of the research.
- Although channel integration is considered a vital part of the future of commerce, the relationship between brick and mortar stores, the web and mobile is not considered in detail, because this would make up for a complete research of its own. The topic is however touched upon.

## **1.5 Structure of the Thesis**

In this introductory section of the thesis the background situation, motivation and research gap, the goals of the research and the research question, as well as the more in



detail scope and limitations of the research have been discussed. The second section, the literature review, takes an in-depth look at what has been written about the topic area before in academic literature and relating sources. The goal of the second section is to generate an answer the first research sub question.

In the third section of the thesis a framework of success for B2C e-commerce is introduced based on the findings of the literature review section. This framework functions as the basis of the topic area for the empirical research of the thesis. The fourth section then again introduces the goals of the empirical research as well as its qualitative methods. The collection of data, its analysis process as well as the quality and reliability of the methods are discussed in detail.

The fifth section presents the main findings based on the analysis of the empirical data and in the sixth section further conclusions are drawn upon them. After this, recommendations for improving the competitiveness and success of Finnish B2C e-commerce are presented in two subsections. Finally in the seventh and last section a summary of the entire thesis is presented. The contributions and limitations of the work as well as suggestions for future research are also discussed together with some final concluding remarks.

## **2. E-COMMERCE SUCCESS**

The goal of this second section of the thesis is to generate an answer to the first sub research question in the form of an extensive review and analysis of previous literature and theories. Based on the information from this second section, a generic framework for the empirical research will be created and presented in the third section of this thesis.

The literature review starts from the introduction of the concepts of competitive advantage and critical success factors as well as discussion on their possible measure. Building upon those concepts some basic theories of consumer behavior and technology adaptation are introduced to create a basis for the main understanding of the consumer in the e-commerce context. This is followed by an analysis of satisfaction, trust and loyalty as possible prerequisites of successful e-commerce. The section concludes with a subsection on marketing and communications, discussing why marketing is the key issue in contacting the consumers and maintaining a specific image of the web store in their minds in order to generate traffic and sales.

### **2.1 Competitive Advantage & Success Factors**

In this subsection the theories of competitive advantage and key success factors will be introduced and connected with the e-commerce research at hand. Special qualities of e-commerce in relation to these theories will be discussed and the measures of success to be used in this thesis will be determined.

The theory of competitive advantage, as well as success factors, both relate to strategic decisions. Overall taking the e-commerce strategy at the heart of the activities of a company is extremely important. Michael Porter states: "Many have argued that the Internet renders strategy obsolete. In reality the opposite is true" (Porter, 2001). In order to take advantage of e-commerce's potential to improve business performance strategic decisions need to be made (Fraser et al., 2000; Karagozoglu & Lindell, 2004; Tuunainen, 1999) and the more advanced internet strategy is adopted, the better is the perceived performance (Weltevreden & Boschma, 2008).

### **2.1.1 Competitive Advantage**

The theory of competitive advantage was originally proposed by Michael Porter in 1985 to address criticism towards the theory of comparative advantage (“Competitive advantage - Wikipedia,” n.d.). “Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation.” (Porter, 1985).

In e-commerce context the traditional competitive advantage should be integrated with the possibilities of the internet (Porter, 2001). There are two main strategies for competitive advantage that e-tailers currently follow: cost leadership and differentiation (Serrano-Cinca et al., 2010), which are the same as the two basic Porterian competitive advantage types. What this means in B2C e-commerce context is multifold. Firstly cost leadership could be used by keeping a low as possible price level, which logically at least partly automatically might lead to bigger sales, since the e-sales environment has a great number of tools for price comparison and a lot of the consumers are selecting their merchant based on the price. The effects of pricing in e-commerce have been studied extensively through economic theory for example by Saastamoinen (2010), who states that reputation related issues can create possibilities for price premiums. The concept of loyalty also relates to pricing possibilities and can for example protect a web store from price competition (Kocas, 2004).

Secondly differentiation can be achieved in many ways, such as providing a special selection of items not found anywhere else, customizing items or creating completely unique items. Another way is to specialize in some certain genre of products or just differentiate through branding, marketing communications, site design, pricing or any other possible variable. Several web stores have differentiated through finding a specific niche and specializing in narrow product lines with a wide selection, which leads to customer loyalty and favorable ratings in shopping portals (Serrano-Cinca et al., 2010).

Thus it overall seems that through the advantage of differentiation and price, some of the most potential sources of competitive advantage overall lie within the realm of the offering of the merchant, more precisely put – the price and selection combo of the products or services. These two attributes have also been mentioned several times in literature as important success factors of electronic business and e-commerce (Anand, 2007; Horsti, 2007). Therefore the perspective of competitive advantage in relation to the attributes of price and selection, which produce the offering of a merchant, will be included the empirical research of this thesis.

### **2.1.2 Critical Success Factors**

The concept of success factors was developed by Daniel (1961) and it was later on refined by Rockart (1981). It is extremely popular in several different fields of business research, including management science, information systems science and marketing. Both “Key Success Factors” or KSF and “Critical Success Factors” or CSF are used quite interchangeably to refer to the same method widely. In this thesis the term Critical Success Factors or CSF will be used from now onwards.

In its core, CSFs is a top-down analysis of certain core issues, things that must go well and are vital to the current activities as well as future success of a business (Boynton & Zmud, 1984). CSFs are thus the most important things that contribute to the success of an organization or a business. CSFs are also defined as “The factors that are a necessary condition for success in a given market” (“Glossary of Marketing Definitions” 1998). Therefore the CSF theory can also include the concept of succeeding in a specific market context, which fits more than well to the research at hand.

The CSF theory has also been criticized for example for its validity and the simplifications that might be done when using the method (Boynton & Zmud, 1984). Another area of critique has been market dynamics: if certain factors are to be found the most effective success drivers of a certain market and everyone starts to take advantage of them, then they will in a while no longer be the defining success factors (Chamberlain, 1968). Nevertheless CSFs is a commonly accepted theory in IS research (e.g. Akkermans & van Helden, 2002; Boynton & Zmud, 1984; Shank et al., 1985; Teo & Ang, 1999). In the case of the thesis at hand, the CSF theory can be considered a very logical fit for mindset of

the research, because CSFs give an opportunity of quite easily gaining a wide understanding of consumer market-driven aspects of e-commerce that can be used to generate successful online business.

### **2.1.3 Measures of Success**

Because the whole idea of the theory of critical success factors relates to achieving success, the measures of this success should be determined. Numerous classical measures of success have been identified in literature. Examples include growth in customer base (Peppers & Rogers, 1999), increased sales (Griffith & Krampf, 1998), profit (Teo & Too, 2000), return on investment (Barua et al., 2001), customer lock-in (Carl Shapiro et al., 2000), and productivity (Barua et al., 2001) as well as operational excellence (Morash & Clinton, 1998; Quinn, 1999). Additionally there are several new e-commerce related success measures such as global reach (Demers & Lev, 2001), customer loyalty (Demers & Lev, 2001; Molla & Licker, 2001), stickiness (Demers & Lev, 2001), customer responsiveness (Hoogeweegen & Wagenaar, 1996; Teo & Too, 2000), customer acquisition (Barua et al., 2001; Gonsalves et al., 1999) and customer retention (Parthasarathy & Bhattacharjee, 1998). Some even more recent measures could include for example the social media aspects such as Facebook likes.

The key issue is to determine what kind of measures of success would most logically fit the research at hand. Firstly, as the motivation for this research relies strongly on research and reports on the sales development of Finnish e-commerce, it would seem very logical to measure success in this research through sales to have a base of comparison. Secondly, many of the previously mentioned other success measures also relate to sales or are antecedents to sales, or enable increased sales. Thirdly, the sales perspective would be an excellent fit with the sales orientated nature of B2C e-commerce, and it also fits with the marketing perspective. Therefore it is most logical in this thesis to define the basic measure of success and the goal of successful web commerce in the research at hand to be increased sales. As the research in this thesis is strongly consumer orientated, it is also important to acknowledge that increased sales are naturally directly connected with purchases, and re-purchases, from the consumer

perspective – so success can be measured through generating purchases and repurchases.

Since sales alone do not create a successful business operation, it is somewhat illogical to have purely a sales increase based point of view and not have a look at the complete picture. However, for the sake of keeping the research scope manageable and the results interpretable, it is necessary to keep a tight focus. This is why it is presumed that a logically performing business operation will keep its costs on a level that will generate profit in relation to the sales. Naturally sales can generate less or more revenue, depending on the prices of the products being sold – and at the end margins make the bottom line. This has to be left out of the main focus of the success measures in the research, but price premium related issues will nevertheless be discussed in this thesis.

As purchases and sales can now be defined as measures of success for the research at hand, the prerequisites of success should still be defined. As discussed in sub subsection 2.1.1, offering is one of the key ways to produce competitive advantage, and most definitely increase sales, and thus achieve success within the measures of sales – so the right kind of offering is definitely to be considered as one of the main success influencing factors. However there is a huge amount of other issues that also affect sales. The main view to be taken in this thesis is a consumer driven one, and thus next some most relevant theories of consumer behavior will be discussed to link e-commerce consumer behavior with purchases and repurchases, and thus sales increase.

## **2.2 Consumer Behavior**

In this section the theory of consumer behavior will be discussed, with a marketing emphasis, and connected with the context of electronic commerce. First consumer behavior will be defined, after which several different models relating to consumer behavior will be presented. Finally, it will be explained how they are connected with the issues of electronic commerce.

The American marketing research foundation defines consumer behavior as “the dynamic interaction of affect and cognition, behavior and the environment by which human beings conduct the exchange aspects of their lives” (Bennett, 1995). This

definition thus suggests that there are three main parts in consumer behavior: the affect, cognition and behavior of an individual consumer. Affect could be interpreted as feelings about stimuli and events (Arnould, 2004), cognition as thinking processes (Peter & Olson, 2005) and behavior as the actual physical actions of the consumers. These three constructs are then affected by the surrounding environment, which includes everything external surrounding the consumers that can affect their affect, cognition and behavior, including social acceptance.

Why this should be considered extremely important in relation to the research at hand is because of the consumer driven nature of B2C e-commerce. Only by understanding the behavior of the consumers and what kinds of issues affect it, can it be understood how to make a web store more successful.

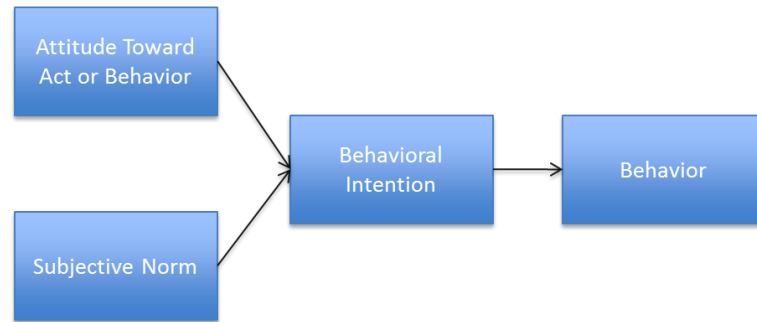
### **2.2.1 Attitude, Intentions and Behavior**

After first defining the perspective that will be taken on consumer behavior in this thesis, it is now possible to go through some of the models from previous scientific literature relating to consumer behavior and how they fit with the B2C e-commerce context.

As was stated before, affect and cognition are some of the main elements of consumer behavior. Affect and cognition also affect the attitudes of the consumers (e.g. Aaker, 1987; Arnould, 2004; Ruiz & Sicilia, 2004; Vakratsas & Ambler, 1999), although several different views on attitude formation and the whole construct of consumer attitudes have been presented (Arnould, 2004; Shiu et al., 2009). Nevertheless it is accepted that attitude leads to behavior. It has also been proposed that customer attitudes are highly important measures of e-commerce success (Mehta & Sivadas, 1995). There is a set of models originating from social psychology that explain these connections, namely the most important ones are the theory of reasoned action or TRA (Fishbein & Ajzen, 1975) and the theory of planned behavior or TPB (Ajzen, 1985).

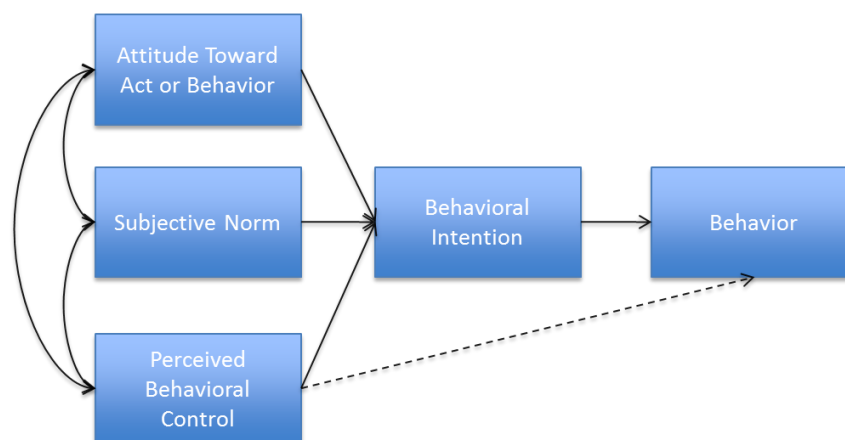
The TRA model constructs a background for the dynamics of attitudes, intentions and behaviors (Fishbein & Ajzen, 1975). The model assumes that rational decisions are being made by humans based on all the information available, and that the best determinant of an individual's behavior is intention, which then again is a cognitive representation of

the person's willingness to perform a certain behavior (Ajzen & Fishbein, 1980). The individual's attitude includes behavioral belief, evaluations of the behavioral outcome, subjective norms, normative beliefs, and the motivation to comply (Ajzen & Fishbein, 1980).



**Figure 1: The Theory of Reasoned Action (Ajzen & Fishbein, 1975 & 1980)**

Similarly the Theory of Planned Behavior, which was proposed by Icek Ajzen (1991) as an extension of the TRA, also explains behavioral intention as a determinant of the actual behavior of an individual. However, in this model the intentions are compiled of the individual's attitude towards the behavior, the subjective norms surrounding the performance of the behavior as well as the individual's behavioral control (Ajzen, 1991). The behavioral control is the ease with which the behavior can be performed and the subjective norm is the individual's perception relating to the opinions of people important to the individual relating to the behavior (Eagly & Chaiken, 1993). This added social aspect is highly valuable for e-commerce consumer behavior analysis, because of the rising trends of the social aspects of digital service usage.



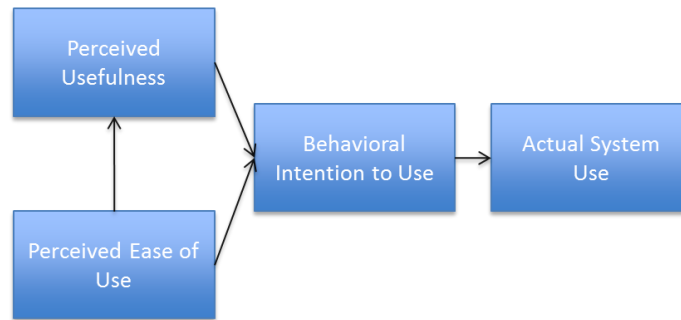
**Figure 2: The Theory of Planned Behavior (Ajzen, 1991)**



There are also extensions that have been proposed to the TPB, of which the most relevant is the one by Pavlou & Fygenson (2006), who extended TPB to explain and predict consumer's e-commerce adoption. They captured the process through two online consumer behaviors, which are: getting information and purchasing a product from a web vendor (Pavlou & Fygenson, 2006). Their proposed model and results of their research show how strongly information retrieval and purchasing related beliefs affect the intentions of getting information and purchasing, which both finally affect the actual behavior of purchasing.

The Pavlou & Fygenson (2006) extension of TPB is a good example of how the model has been used to explain consumer behavior within the e-commerce context, but both TRA and TPB have in general been extremely popular in information systems science as theories explaining the usage and acceptance of information systems (e.g. Celuch et al., 2004; Davis, Bagozzi, & Warshaw, 1989; Liker & Sindi, 1997; Taylor & Todd, 1995; Venkatesh & Brown, 2001) as well as the acceptance and usage of e-commerce and internet shopping by both consumers and businesses (e.g. Gentry & Calantone, 2002; George, 2004; Hansen et al., 2004; Riemenschneider & McKinney, 2001; Yoh et al., 2003).

Another dominant model in the field, explaining the adoption of technology, is the Technology Acceptance Model or TAM (Davis, 1986) which is an adaptation of the TRA. TAM brings the perceived usefulness and ease of use into the equation of the intention and behavior dynamics. Later on TAM has been simplified by removing the attitude constructs of the TRA model (Venkatesh, Morris, Davis, & Davis, 2003). TAM has become one of the most popular models for technology acceptance related papers in the IS field, but it has also been used rather much specifically in the e-commerce context (Gentry & Calantone, 2002; Kamis & Stohr, 2006; McCloskey, 2003; Wang & Benbasat, 2005; Vijayarathy, 2004).

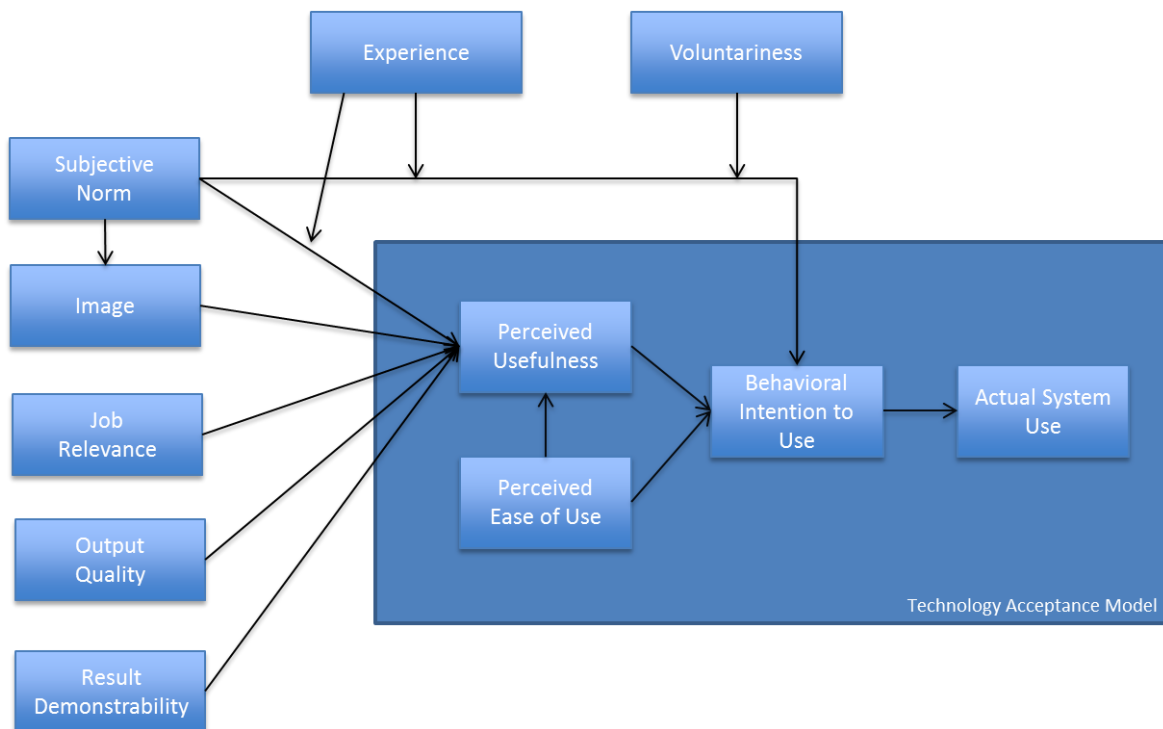


**Figure 3: Technology Acceptance Model (Davis et al., 1989; Venkatesh et al., 2003)**

The TAM model also has some problems, because the social effect for example has not been taken into consideration. Because of this Venkatesh & Davis (2000) introduced an extension to TAM called TAM2. The goal of the revised model was to include additional key determinants to the model, and to understand how the effects of these determinants change with increasing user experience over time with the target system (Venkatesh & Davis, 2000). Figure 4 shows the TAM2 model.

Yet one more such model is the Unified Theory of Acceptance and Use of Technology (UTAUT), which was presented by Venkatesh et al. (2003) in their later study. The UTAUT model is an enhancement of TAM and TAM2 introduced above. UTAUT consists of four core determinants of intention and usage: performance expectancy, effort expectancy, social influence and facilitating conditions as well as four moderators of key relationships: gender, age, experience and voluntariness (Venkatesh et al. 2003).

The TAM and TAM2 based models have also been widely criticized (Bagozzi, 2007; Benbasat & Barki, 2007; Chuttur, 2009). The criticisms include lack of falsifiability, questionable heuristic value, limited explanatory and predictive power, triviality, and lack of any practical value. Additionally it has been claimed that “the independent attempts by several researchers to expand TAM in order to adapt it to the constantly changing IT environments has led to a state of theoretical chaos and confusion” (Benbasat & Barki, 2007).



**Figure 4: TAM2 (Venkatesh & Davis, 2000)**

All of these models and their extensions (TRA, TPB, TAM, TAM2 and UTAUT) are related and despite the criticism can be considered as an explanation of how the usage of web stores is related to consumer behavior. The acceptance of technology and its usage is highly relevant in the context of this thesis because naturally if a consumer does not use the web store the consumer will not be making a purchase and will not be gaining experiences about the store in order to trigger word of mouth and recommendations from him/her. Thus it is very natural that the usage of the web store is one of the most important constructs relating to a successful e-commerce business. In addition to the fact that purchase always necessitates use, there is also research suggesting that the more time a customer spends in a web store the more likely it is that he/she will make a purchase there (Bucklin & Sismeiro, 2004).

In the information systems research context it has also many times been stated in general that one of the most important and long standing research questions is how the user acceptance of information systems could be accurately explained (e.g. DeLone & McLean, 1992). Thus a significant amount of research trying to explain e-commerce success models are at least partly based on the theories of IS acceptance as well as the

utilitarian view of the usefulness and ease of use of the systems (e.g. Cheung & Lee, 2005; DeLone & McLean, 2004; Lim et al., 2006; Yoon & Kim, 2009).

However, regardless of their popularity, such models only consider the consumer as a rational decision maker. The reality conversely is such that in many cases consumers can also act very irrationally. This is one of the reasons why such models can never completely explain the process of consumer behavior. Another issue to consider is that the consumers do not always have purely utilitarian needs for technology either. One recent trend in online shopping that brings additional questions to the formula of IS usage in the e-commerce context is the more experiential and fun angle to shopping - hedonic usage of IS systems.

From the hedonic perspective the enjoyment and flow become important and issues of temporal dissociation, focused immersion, heightened enjoyment, control and curiosity as well as playfulness and personal innovativeness should be considered (Agarwal & Karahanna, 2000). The perceived usefulness of an information system thus loses its dominant predictive value, and ease of use becomes increasingly important together with enjoyment (van der Heijden, 2004). As future predictions about IS usage and both electronic and mobile shopping suggest that the hedonistic value is increasingly important (Meeker, 2010) it is increasingly important to consider the differences that the angle of hedonistic IS use bring into the picture of consumer behavior theory.

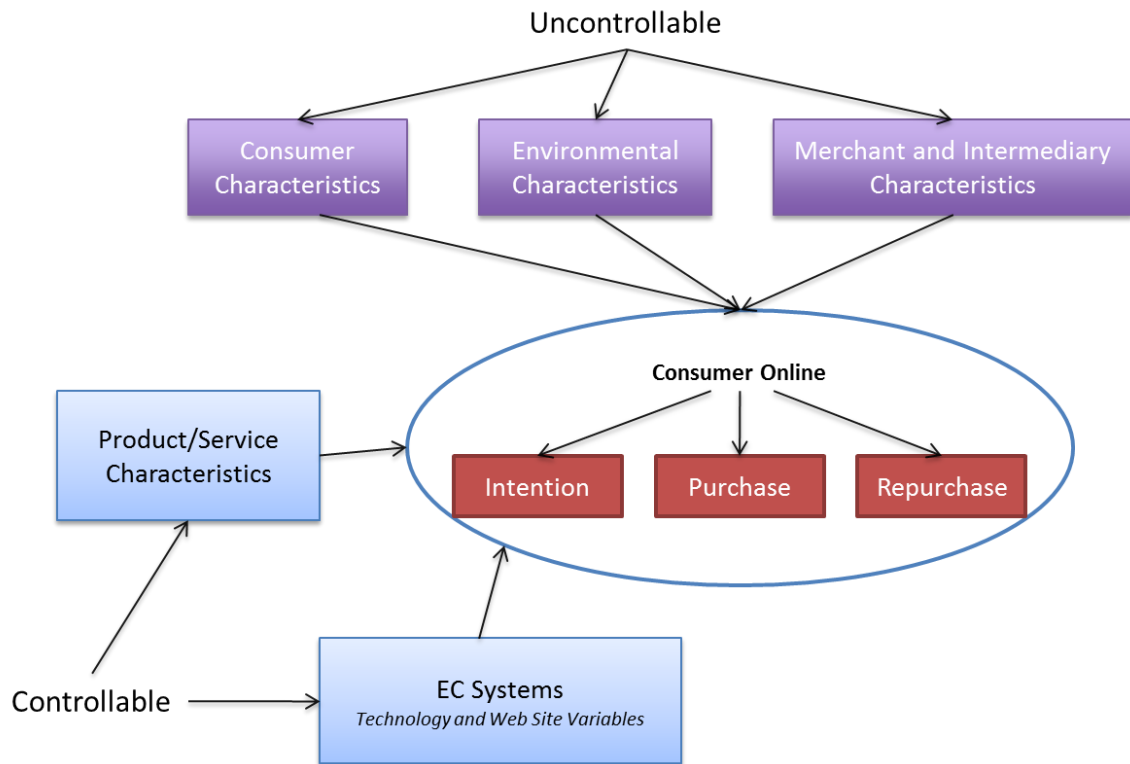
### **2.2.2 Purchase and Repeat Purchase**

Moving back from the more in-detail popular constructs behind behavioral intention and its connection with the actual intention, which in the e-commerce context most importantly would be purchase, in the field of marketing science there is another identified factor that is as important to the success of a web store as the purchase, and this is repeat purchase. Not only is it important that an individual makes a single purchase from a web store, but for the store to be successful, continued purchase is also naturally needed. One relating issue is the costs of customer acquisition, since more repeat purchases make a customer relation more valuable and thus the value of an acquisition can be increased.

A general widely accepted view of the dynamics of consumer purchasing behavior dynamics is thus proposed also in this thesis as the connection between intention, purchase and repeat purchase. Repeat purchase could be affected by the intention and the variables antecedent intention, but the online purchasing experience itself as well as the after purchase needs have a strong connection with repeat purchase (Lee, 2002). Research also shows that past online shopping experiences have the strongest associations with online purchase intention (Ranganathan & Sanjeev, 2007).

Another issue that the purchasing experience influences is the positive word of mouth (WOM) that it generates. One quite recent extensive research project showed that of consumers with a positive e-shopping experience, 80% would shop again within two months, and 90% of them would recommend the web store to a friend – whereas a negative shopping experience would make 87% of the shoppers permanently exit the store without leaving any complaints (Cheung & Lee, 2005). Positive WOM then again leads to repeat purchase and sales (Lim et al., 2006), and it has also been seen as the most important factor affecting customer loyalty (Bowman & Narayandas, 2001; Duan et al., 2008; Gauri et al., 2008). There is overabundance of issues affecting the actual purchasing experience, and thus it is very much possible for a web store to affect the experience it creates to the consumer.

A very complete outline of many of the most important variables affecting consumer behavior in the electronic commerce is found in Turban et al.'s (2010) EC Consumer Behavior model shown in figure 5. Turban has also divided the variables affecting consumer behavior to two main sections: uncontrollable and controllable variables (Turban et al. 2010).



**Figure 5: EC Consumer Behavior (Turban et al., 2010)**

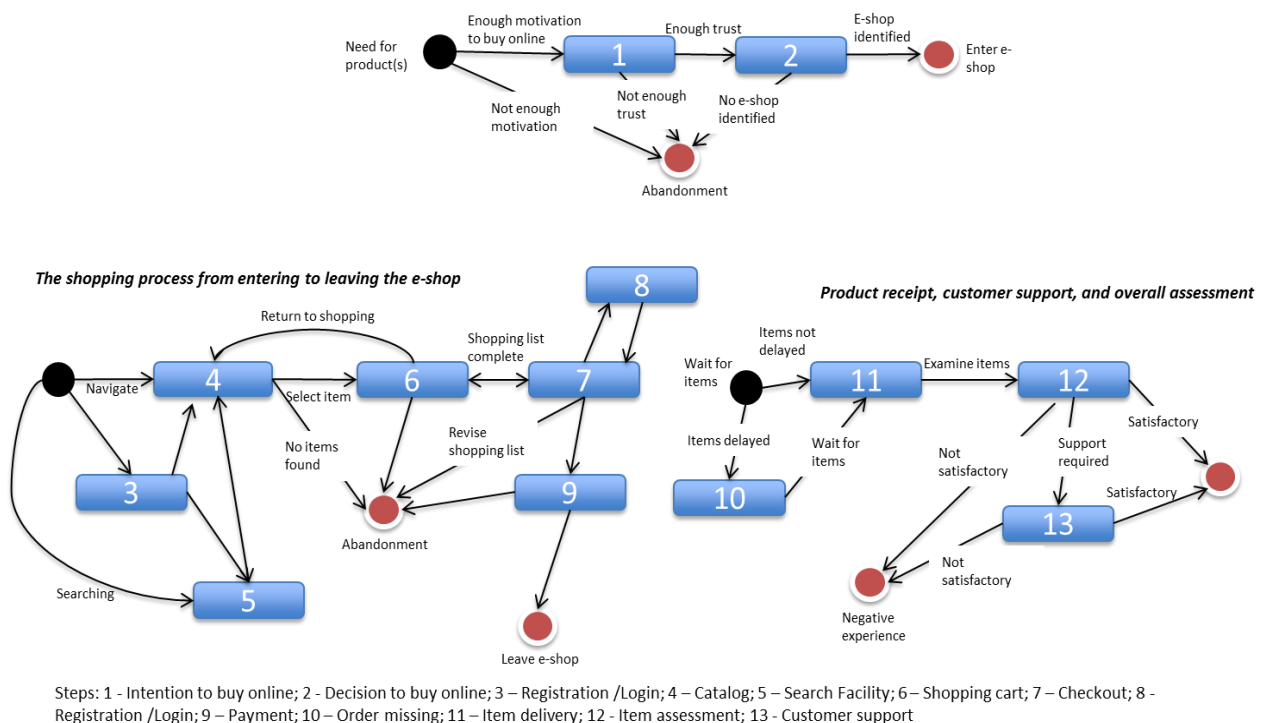
The uncontrollable variables have a very significant influence. Just the gender of the consumer affects the significance of WOM (Awad & Ragowsky, 2008) as well as the most important predictors of product purchasing (Yang et al., 2007). Not to mention the implications legal or regulatory aspects can have on a consumer business. However as these issues are mostly outside of the control of a web store it is logical that in this thesis the main focus will be on the variables that are mostly controllable. In the case of Turban et al.'s (2010) model these variables would include the characteristics or the product(s) and service(s) as well as everything related to the actual web store and its systems.

Nevertheless, some of the uncontrollable variables of Turban et al.'s (2010) model can also be considered at least partly controllable, and the merchant and intermediary characteristics are more so than the others. This is because marketing communications and other such methods can be used to affect the consumers' perception of these characteristics – especially brand reputation and trustworthiness. Also as will be demonstrated later on in this thesis, the trustworthiness and brand of a web store are

connected as are the policies, procedures, compensation and apology, out of which the latter are very well within control of the web store itself.

Additionally, the cultural aspects are also not completely out of control of the web store. Naturally the culture itself cannot really be directly affected by a single web store, but there is a wide range of things in the activities of the merchant that can relate to the cultural aspect. Most of the uncontrollable variables can also be used for marketing purposes. Positioning and segmentation can be done based on these issues. Turban et al.'s (2010) view of the variables nevertheless seems very complete and logical enough for a wide overview of consumer behavior in e-commerce context, even if some of the uncontrollable variables could indeed be perceived as controllable ones.

One final model that will be presented in this subsection is the consumer behavior model proposed by (Markellou et al., 2006). This model is a 13-step process based representation of consumer behavior in a web store, and as such offers an interesting quite different perspective on EC consumer behavior than the models discussed before, even if it includes many of the same constructs.



**Figure 6: 13-Step E-Commerce Consumer Behavior Model (Markellou et al., 2006)**

One issue rising from Markellou et al.'s (2006) process based model is the initial motivation for shopping. It can naturally be seen as a part of the attitude formation e.g. in the TRA or TPB models, but still none of the previously proposed models brought this issue up quite as strongly as the 13-step model, where the necessary motivation is the logical first step for even initiating the process of shopping. Then again motivations for shopping can be quite different for different individuals in different situations and environments.

An issue that is not really present in Markellou et al.'s (2006) model is the fact that consumers tend to search for product information also from outside of the individual web store. Some sources of information search could include e.g. product and merchant review sites, casual browsing, peer reviews, recommendation systems as well as search engines. Thus the model is nowhere near a complete picture of the process, but it gives a quite simple view of how the process might work simply from a single web stores inside point of view.

There are also several other process based consumer purchasing models and motivation for shopping or triggering the need for shopping can be seen as the most important single issue to be affected in consumer behavior. One of the major ways to connect with shopping motivations is marketing communications (Solomon et al., 2009), which is an issue to be discussed in more detail in subsection 2.4.

### **2.3 Satisfaction, Trust and Loyalty**

In this subsection of the literature review some of the possible prerequisites of e-commerce success will be discussed in more detail, namely satisfaction, trust and loyalty. Connections between the three will be presented through previous research and literature, as well as their connections with purchase behavior and repeat purchase. The main finding of this section is that all of the three, satisfaction, trust and loyalty, play a significant part in affecting purchase and repeat purchase and that quality is the single most significant explanatory view point for e-commerce success that has come up in the research literature.



Because of that, this section will connect the concepts of trust, satisfaction and loyalty to strong quality based views. The effects of different dimensions of quality, namely service, information and systems quality are discussed in relation to web stores and creating trust towards the merchants as well as making the customers satisfied and loyal, leading to purchases and repeat purchases.

### **2.3.1 Satisfaction and Quality**

Molla and Licker (2001) state that satisfaction is the reaction or feeling of a customer in relation to his/her experience with all aspects of an e-commerce system. Fornell (1992) argues that customer satisfaction is an overall post purchase evaluation. From this point of view it would already seem that satisfaction is a significant prerequisite of success. However throughout this sub subsection it will be presented how satisfaction strongly validated also through previous literature as one of the main predictors of e-commerce success from a sales perspective.

It will also be shown that satisfaction is strongly connected with trust towards the e-merchant as well as customer loyalty, and that the most significant issues contributing to the satisfaction of customers have to do with the different attributes that make up the quality experienced by the customer as well as the expectations that the customer has about these attributes, which then again are highly affected by other issues such as for example marketing communications.

#### ***Significance of Satisfaction***

There is a plethora of different scientific literature available from the general marketing science, management science as well as IS perspectives that implicate customer satisfaction as one of the most significant drivers of business success. A lot of extensive research has been done about customer satisfaction for already a long time, because it is considered to be a vital part of gaining a competitive advantage for a company (Woodruff & Gardial, 1996). Already in the 1980s for example Lele and Sheth (1987) stated that satisfied customers are the best defense a business can have against competitors, and that customer satisfaction is the key factor in creating long term profitability for a company.

Previous research connects customer satisfaction with enabling increased profits and lowered operational costs (Dutka, 1994). Satisfaction strongly affects market share as well as word of mouth (Keiningham et al., 2003) and it has an effect on the value that is created through the shareholder's ownership of a company (Anderson et al., 2004). Customer satisfaction also positively affects repurchase as well as the reputation of a company (Yu, 2007). Satisfaction gives a reason for customers to repurchase the same product, and recommend it to other people – therefore companies can increase their profitability (Dubelaar & Wahyuningsih, 2004).

The same is true for the digital consumer business context of e-business and e-commerce also. Albers and Clement (2007) for example have studied the strategic success factors of e-business, and their research shows that by far the most important element of the marketing strategy is the achieved customer satisfaction, which has a significant and strong effect on revenue. This was already mentioned in a previous subsection of this thesis, but nevertheless it is powerful proof about the importance of satisfaction that 80% of the consumers with positive experience shopping experiences would shop again within two months and 90% would recommend the store to a friend, whereas 87% of the consumers who had a negative experience would never return to the same store, and leave no complaints (Cheung & Lee, 2005).

There are also several e-commerce success models that connect satisfaction with repeat purchase (e.g. Collier & Bienstock, 2006; Ramanathan, 2010; Tsai & Huang, 2007). As stated before satisfaction also generates positive WOM, and WOM then again leads to increased repurchases which then again possibly leads to more positive WOM (Duan et al., 2008). Based on all of the previously mentioned facts about the key role that customer satisfaction has in gaining e-commerce success, it is important that a theoretical framework for e-commerce success must include satisfaction in a significant role and almost everything is derived from an attempt to generate this satisfaction.

The four usual main determinants in literature that are used for defining measure customer satisfaction are performance, quality, expectation, and disconfirmation (Dubelaar & Wahyuningsih, 2004). The role of performance to satisfaction is self-evident, and then again disconfirmation simply means that expectations - beliefs and

attitudes - are not matching with the reality of the purchasing process. Performance also relates to quality, as performance can be seen as a part of quality. Finally the two remaining determinants, quality and expectations, also relate to each other as expectations of quality together with the actual experience are what affect the level of disconfirmation. Thus expectations and quality, and their relationship, could be seen as the most important main determinants of e-commerce satisfaction. Next these two issues will be discussed in more detail.

### ***Expectations***

Dutka (1994) states that fulfillment of expectations leads to customer satisfaction. In the field of marketing this is a widely accepted view. Satisfaction has also been determined as a combination of expectation and disconfirmation (Oliver, 1980), expectation and performance (Anderson et al., 1995; Fornell, 1992), expectation, performance, and disconfirmation (Churchill & Surprenant, 1982; McQuitty et al., 2000; Wirtz & Bateson, 1999; Woodruff et al., 1983) as well as expectation and quality (Cote & Giese, 2002). There is also a theory called Expectation-confirmation theory (ECT) that is extensively used in marketing and information science literature to look at consumer satisfaction as well as repurchase intention and behavior (Bhattacharjee, 2001; Oliver, 1993). The theory states that expectations together with performance lead to confirmation which then again leads to satisfaction which leads to repurchase intentions.

It is easy therefore to see that expectations play a significant role in creating satisfaction. Expectations are then again formed through for example marketing communications, sales, image and reputation, WOM as well as the needs and values of the customers themselves (Grönroos, 2009). Whether and how consumers search for information also has an effect (Dubelaar & Wahyuningsih, 2004). However, what a customer expects is also highly relative (Hill et al., 2003) and it might be difficult to come up with a perfect view of customers' expectations. Still trying to understand the needs of the customers is very valuable. In fact understanding customer needs is considered one of the most important issues in the strategic planning of a company (Rust et al., 1996) and it has been said that companies should clearly try to understand what it takes to generate satisfaction at a customer relationship (Rosen & Surprenant, 1998).

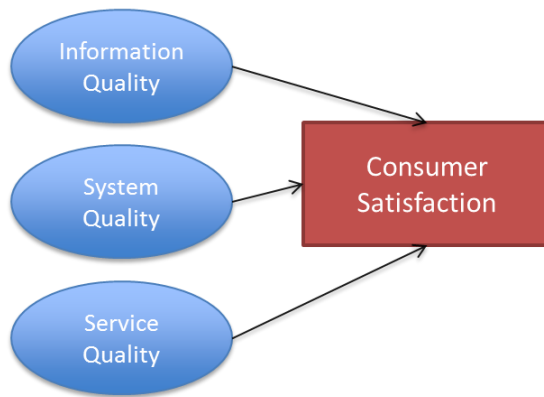
It is also possible to view customer satisfaction from a situational point of view in order to have a more accurate view of the factors affecting satisfaction. This makes the view of how satisfaction is formed more complex but offers a more accurate view on the real satisfaction formation process. It is also important for companies to understand situational satisfaction because then fast changes can be implemented into the service situation when necessary (Zeithaml et al., 2009).

### ***Quality perspective***

Customer satisfaction can also be viewed through the concept of quality (e.g. Anderson & Sullivan, 1993 etc.) which is seen to directly affect the profitability of a company (Anderson et al., 1994). From this point of view the goals of developing and sustaining good quality are customer satisfaction in relation to the profitability of the business activities as well as maintaining overall competitiveness (Silén, 1998).

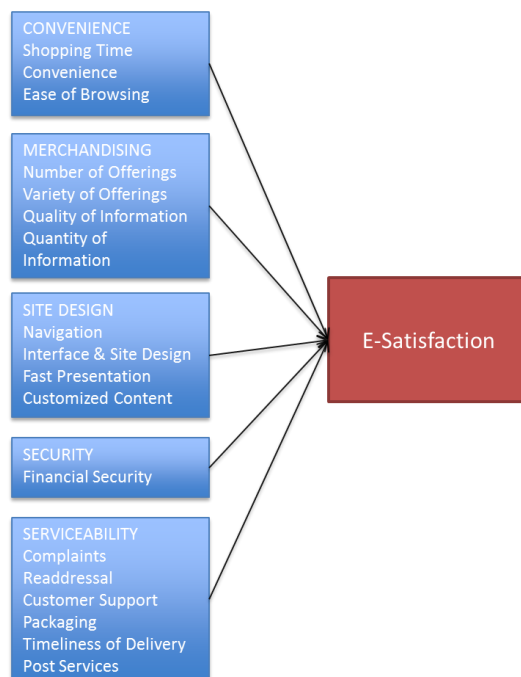
The concept of quality is also strongly connected with the previously discussed issue of customer expectations. Satisfaction is generated through the interdependency of the expectations of quality that the customer has together with the actual experienced quality. However the way that quality is being experienced by an individual consumer changes by time in a continuing customer relationship and the expectations towards the quality also change (Grönroos, 2009). This is why continuous effort should be targeted towards maintaining and developing high quality e-commerce.

There is a great number of literature that connects quality with satisfaction specifically in the e-commerce context (Bressolles et al., 2007; Cheung & Lee, 2005; Collier & Bienstock, 2006; DeLone & McLean, 2004; Kuan et al., 2008; Lin, 2007; Montoya-Weiss et al., 2003; Ranganathan & Jha, 2007; Ribbink et al., 2004; Wolfinbarger & Gilly, 2003). Similarly there is a lot of literature that discusses which attributes, and in some cases what main dimensions, make up the quality of e-commerce (Park & Kim 2003; Cheung & Lee 2005; DeLone & McLean 2003; Lin 2007; Wolfinbarger 2003; Liang & Cheng 2009; Huei-Huang et. al. 2008; Srinivasan et. al. 2002; Yoon & Kim 2009; Harris & Goode 2004; Boshoff 2007; Collier & Bienstock 2006; Barnes & Vidgen 2002 & 2005).



**Figure 7: Quality & Satisfaction (adapted from Cheung & Lee, 2005)**

There are also a lot of other ways to view the formation of satisfaction. Anand (2007) for example has done in-depth research to the determinants of e-satisfaction. His studies showed that statistically significant correlation exists between e-satisfaction and convenience, merchandising, serviceability, site design and security. Merchandising in refers to variety and number of offerings and the quality and quantity of information.



**Figure 8: E-satisfaction Model (Anand, 2007)**

But even in this case all of these antecedent parts of Anand's (2007) model could be found one way or another in other literature explaining satisfaction through the quality perspective. The attributes that can be found in previous quality related literature

concerning e-commerce success provide more than enough detail about issues affecting the satisfaction of e-commerce consumers.

Finally, it should also be stated that no single factor by itself can explain customer satisfaction (Lele & Sheth, 1987) and that the situational factors always affect satisfaction (Zeithaml et al., 2009). Therefore the quality models and their attributes give only one view to looking at satisfaction in e-commerce, because they mostly do not consider situational variables into a deep extent. It is quite clear though that not every possible variable can be considered if one wants to generate at least some kind of a generic view of e-commerce success related factors.

It is also important to consider cumulative satisfaction. Satisfaction is cumulative when the customer has several different experiences and he/she evaluates to sum of these experiences (Zeithaml et al., 2009). This kind of cumulative satisfaction is a better predictor of customer loyalty than situational satisfaction (Olsen & Johnson, 2003). Social acceptance and self-fulfillment also play a role in creating the cumulative satisfaction.

### **2.3.2 Trust and Quality**

The previous sub subsection discussed the issue of customer satisfaction as a critical prerequisite of e-commerce success. Satisfaction however also relates to the issue of trust, which by itself can be seen as one of the most critical prerequisites of e-commerce success (Harris & Goode, 2004; Kim et al., 2005; Lee & Turban, 2001; Liang & Chen, 2009; Ribbink et al., 2004; Srinivasan et al., 2002; Wang & Head, 2007; Vidgen & Barnes, 2002; Yoon & Kim, 2009).

The purpose of this sub subsection is therefore to reflect the effect of trust on the success of a web store. First the concept of trust itself and its many measures are discussed. This is followed by a discussion of how trust affects e-commerce. It will be shown that earlier research proves that trust is an antecedent of purchase in the e-commerce context and that trust can be affected mainly by satisfaction (Harris & Goode, 2004; Liang & Chen, 2009; Wang & Head, 2007), quality (Harris & Goode, 2004; Liang & Chen, 2009; Yoon & Kim, 2009) and naturally also communications. Additionally it is to

be noted that trust can be targeted towards a single web store or towards internet as a shopping channel in general.

### ***Significance of Trust***

In general it has been noted in literature that the study of trust is still in its early stages (Lane & Bachmann, 1998; Nooteboom, 2003; Seppänen, 2008), and even if there has been a lot of research on trust through times, its complex nature still keeps researchers and practitioners engaged in this research topic (Falcone et al., 2001; Gambetta, 1988; Morgan & Hunt, 1994; Svensson, 2001).

Literature identifies several different kinds of trust. Among them are for example societal trust (Luhmann, 1979), identification based trust (Lewicki & Bunker, 1996), interpersonal trust (Humphrey, 1998) value based trust (Lane & Bachmann, 1998), process based trust (Zucker, 1986), calculative trust (Lane & Bachmann, 1998), weak trust (Barney & Hansen, 1994), deterrence based trust (Sheppard & Tuchinsky, 1996), voluntary trust (Thomas, 1989), contractual based trust (Sako, 1992), distrust (Kern, 1998; Luhmann, 1979; Zucker, 1986), blind trust (Bachmann, 1998), spontaneous trust (Lane & Bachmann, 1998), intuition based trust (Luhmann, 1979) as well as competence based trust (Sako, 1998). It is therefore easy to see why the area of trust research is complex enough to incite ongoing research for still a long time.

Nevertheless trustworthiness has been noted as a source of competitive advantage (Barney & Hansen, 1994) and as a precondition for increased performance and competitive success (Lane & Bachmann, 1998; Sako, 1998). Finally from a cultural perspective trust is also highly important as it might establish a unified common value that appeals to people and businesses of all cultures (Brenkert, 1998).

In e-commerce context “trust is a complex social phenomenon reflecting technological, behavioral, social, psychological, and organizational interactions among human and nonhuman technological agents” (Salam et al., 2005). Naturally when looking at B2C e-commerce the trust of the consumer towards shopping should be the main consideration. Also because in the digital world there is no face-to-face physical

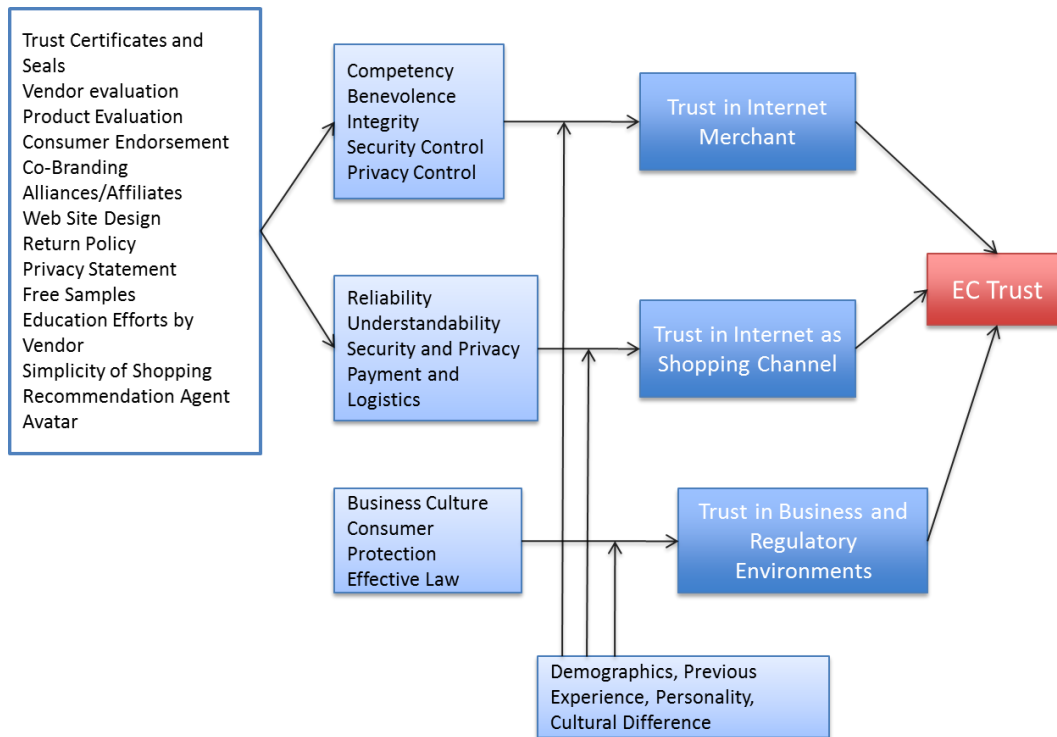
confrontation, trust probably has an even more significant impact on the success of a web store than a brick and mortar store.

There are two different angles for this trust to be noted. The consumer might have trust or lack of trust towards a specific web store itself or the consumer might have trust/distrust towards Internet as a shopping channel in general. A lot of research from the beginning of the millennia concentrated on the lacking trust of Internet as a shopping channel and thus the trust between merchants and consumers in general, and this was seen as one of the main reasons why people didn't yet shop online in great numbers (Ang et al., 2001; Grabner-Kraeuter, 2002; Grewal et al., 2004). The internet was not yet seen as a viable platform for electronic commerce because of the lack of a basic foundation of trust among the merchants and consumers (Ang et al., 2001).

Although the general level of trust towards the internet as a shopping channel has significantly grown since former times, as proven by for example the exponentially grown sales numbers, it is still an issue to consider. Even more important however is the issue of trust towards specific merchants, although naturally the trust that merchants generate towards their stores also accumulates as a sum of trust towards the whole shopping channel.

One of the most complete explanatory models of interconnectivity of different issues with EC-trust is from Lee & Turban (2001) shown in figure 9. In their model, they suggest that trust in e-commerce is not only a function of trust towards the shopping channel and the merchant, but also structural assurance is a logical part of it. However in this model there is no connection between the merchants trust affecting the shopping channel trust, which seems inconsistent. Additionally it would seem more logical that the structural assurance and environmental trust would affect both the merchant and the shopping channel trust, and that both the merchant and shopping channel trust should also logically affect the trust towards the environment, as they are a part of the environment and not something that can be excluded.

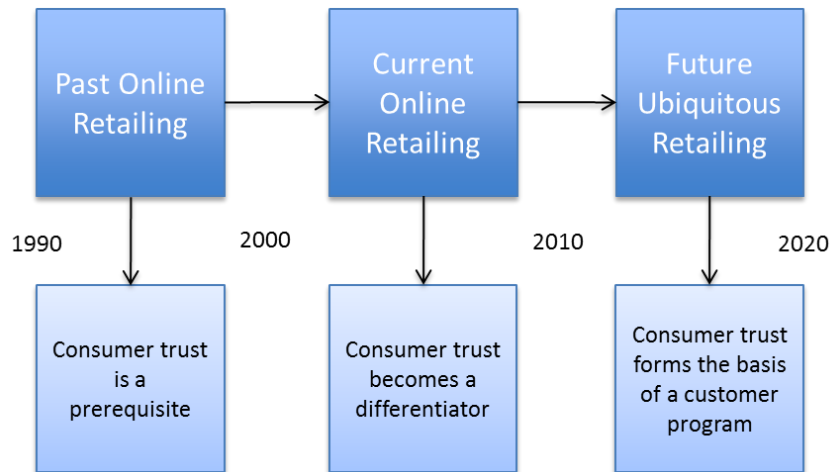




**Figure 9: EC-Trust Model (Lee & Turban, 2001)**

However if the focus is on the merchant perspective, a lot of e-commerce success research identifies trust as one of the key factors of success (e.g. Harris & Goode, 2004; Kim et al., 2005; Liang & Chen, 2009; Ribbink et al., 2004; Wang & Head, 2007; Vidgen & Barnes, 2002; Yoon & Kim, 2009). In addition to directly and indirectly affecting consumer purchase decision making (Kim et al., 2009) and increasing the consumer's willingness to buy (Teo & Liu, 2007) trust can also lead to price premiums (Pavlou & Dimoka, 2006) as the consumers are willing to pay more for something that they trust.

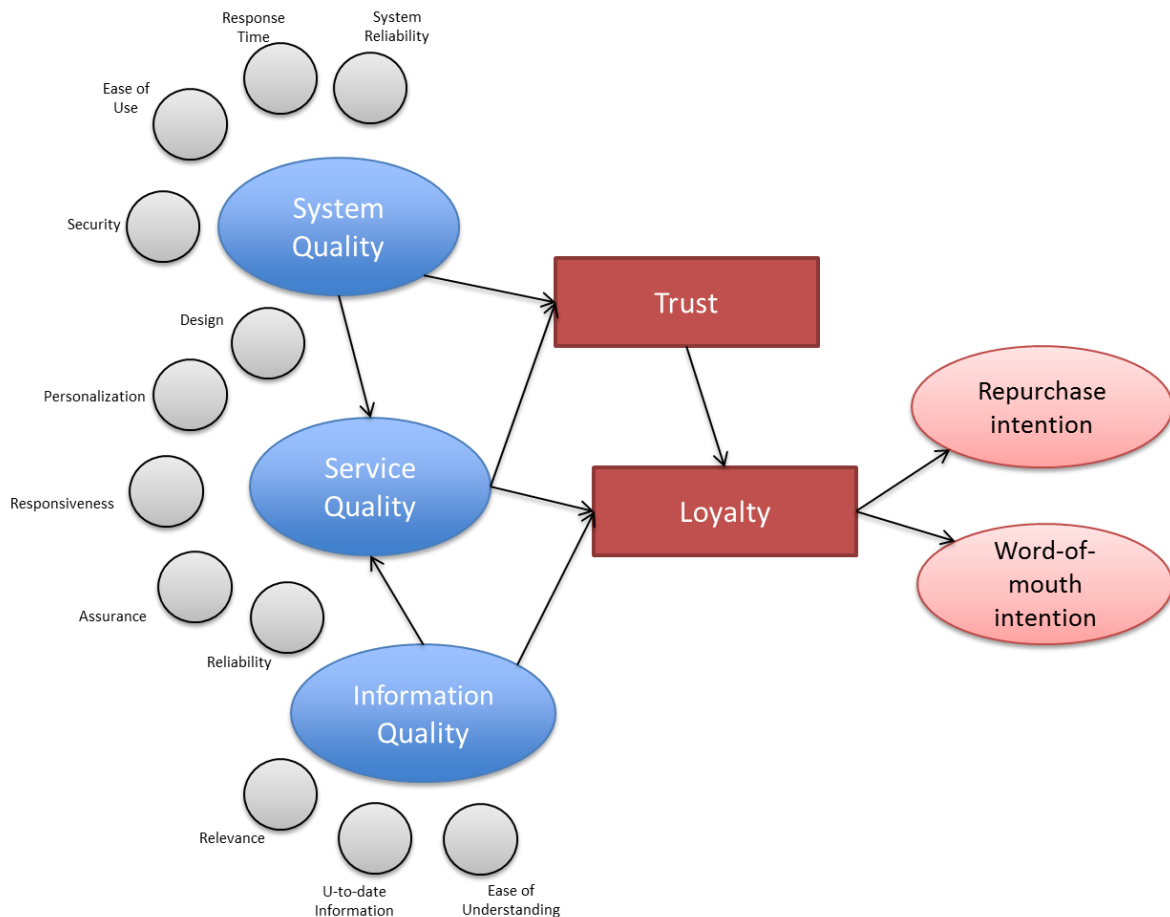
Some research also notes that trust will be an even more important success factor in the future of on-line and mobile shopping. It has been argued that in the infancy of online retailing consumer trust was a prerequisite, currently it is a differentiator and that in the future consumer trust will form the basis of a customer relationship program (Bourlakis et al., 2008), which means that trust has a significant connection with loyalty. From this point of view perhaps the understanding of the dynamics of trust in the e-commerce consumer context is even more important for the future competitiveness of an e-merchant.



**Figure 10: Future of Trust in e-tailing (Bourlakis et al., 2008)**

### ***Quality and models of trust***

Similarly to the issue of customer satisfaction in e-commerce, one of the most significant perspectives on how to affect consumer trust in e-commerce is found to be the quality perspective based on previous literature. For example Gummerus et al. (2004) conclude that the quality of e-service has a direct and positive influence on e-trust. Another study has shown that service quality creates value which creates trust (Harris & Goode, 2004). Then again McKnight and Chervany (2002) directly propose that perceived e-tail quality impacts e-trust. Several other models also directly or indirectly link quality with trust (e.g. Parasuraman, 2005; Ribbink et al., 2004) and several of them have three dimensional view of quality relating to trust (e.g. Liang & Chen, 2009; Yoon & Kim, 2009). An example of such a model is shown in figure 11.



**Figure 11: The Online Store Success Model (adapted from Yoon & Kim, 2009)**

In addition to trust being created directly from quality, there are other ways of looking at the connection of quality and trust. One example is Barnes & Vidgen's (2005) eQual model of e-commerce quality measurement where trust is not the result of quality, but instead one of the five dimensions that make up the total quality. So once again, it is up to the view point taken on the matter that explains whether something is a part of quality or a result of it or not.

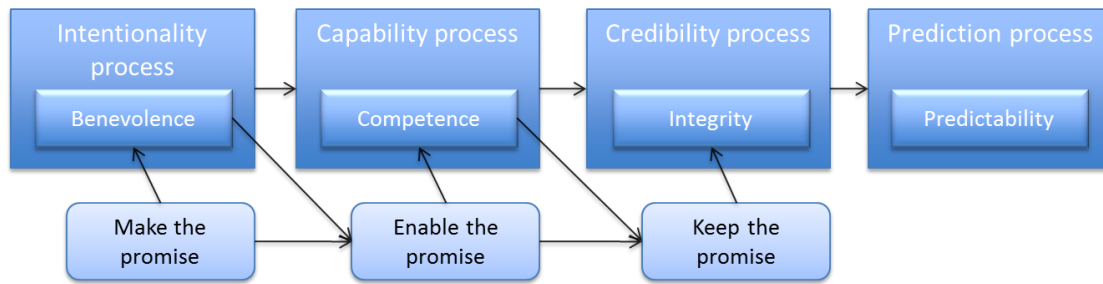
In addition to quality trust also seems to have a close relation with satisfaction. It was discovered in the previous sub subsection that quality leads to satisfaction, but it was also shown that satisfaction leads to trust (Ribbink et al., 2004). Thus trust can be a result from both quality as well as satisfaction, which then again can be a result of quality. However only one piece of research was found that connects trust with satisfaction the other way around, trust as a generator of satisfaction (Harris & Goode,

2004) and even in this case the evidence was not found to be conclusive enough to state this connection as infallible.

The effect of WOM to trust has also been studied and WOM has been found to lead to trust (Awad & Ragowsky, 2008; Lim et al., 2006). Once again as was stated in the previous sub subsection, satisfaction leads to positive WOM, and this even further fortifies the conception of satisfaction and trust having a close relation. So not only does satisfaction directly generate trust, but satisfaction generates positive WOM which generates trust, so satisfaction's effect on trust is both direct and indirect.

There are nevertheless different views in addition to the quality perspective on how trust is formed in e-commerce. Some of the models look at beliefs and attitudes based on the behavioral theories discussed in subsection 2.2. Salam et al. (2005) have for example created a behavioral multidimensional model that explains trust development between the consumer and the merchant with external factors. These factors are divided in two main classes: external factors connected with internet usage and external factors connected with forming beliefs (Salam et al., 2005). In this model, the external factors affect the beliefs of the potential web store customer and thus modify the attitudes of the customers towards the usage of the website and the honesty of the web merchant (Salam et al., 2005).

Then again some models take a process based view of trust formation. Such is the case of the model from Papadopoulou et al. (2001) which suggests that trust is formed through a 4-step process sequence: intentionality process, capability process, credibility process, and prediction process, as seen in figure 12. Other models might look at the different parties involved in the purchase, like Kim et al.'s (2005), whose model connects technological, behavioral and institutional dimensions with information, product and transaction from the seller.



**Figure 12: Trust Formation Sequence (Papadopoulou et al., 2001)**

Srinivasan (2004) on the other hand explains trust to be constructed from trust towards the financial institution, the security of the e-business, trusted seal, trusted third party and an established brick and mortar presence and Pavlou & Dimoka (2006) sum trust formation through benevolence and credibility. Finally one more view point is to see the brand as a main contributor to trust towards a product or a merchant (Lowry et al., 2008), in which case the trust seals present in many models (e.g. Lee & Turban, 2001; Srinivasan, 2004) could also be seen as a brand like attribute.

### **2.3.3 Loyalty and Quality**

Moving on from the issues of trust and satisfaction, this sub subsection discusses the third possible prerequisite of success related to the increase of sales, customer loyalty of web stores. It will be explained why loyalty is significant and how it affects repeat purchase, price premiums and WOM. The connections of loyalty with satisfaction and trust will be also explored. Loyalty has a strong connection with the brand of a store or product, and marketing is a key tool in affecting customer loyalty.

There are a lot of different definitions of customer loyalty in the literature, one of the most popular definitions being the continuity of purchase (e.g. Reichheld & Schefer, 2000). Another definition close to this is the proportion of expenditure devoted by a certain consumer towards a specific brand or store (Dunn & Wrigley, 1984; Jacoby et al., 1978; McGoldrick & Andre, 1997) as well as the definition of loyalty being a consumer's preference to patronize a certain store over time (Knox & Denison, 2000).

A different point of view is to define loyalty through attitudinal measures (e.g. Dick & Basu, 1994). Then again for example Reichheld and Schefer's (2000) "e-loyalty" concept

represents an alternate measure of customer satisfaction in the e-commerce context. One other popular definition of loyalty comes from Dick & Basu (1994): “Customer loyalty is viewed as the strength of the relationship between an individual’s relative attitude and repeat patronage”. This definition combines behavioral and attitudinal perspectives on loyalty, and it is therefore a very logical one.

| Relative Attitude | Repeat Purchase  |                |
|-------------------|------------------|----------------|
|                   | High             | Low            |
| High              | True Loyalty     | Latent Loyalty |
| Low               | Spurious Loyalty | No Loyalty     |

**Table 1: A hybrid model of customer loyalty (Dick & Basu, 1994)**

What is common with most of these definitions is that they seem to relate to purchasing behavior, and more in detail to repeat purchase and sales increase. Thus loyalty should be considered extremely important in the view of the research at hand. It is also “widely recognized that customer retention has a powerful impact on the performance of Internet-based businesses” (Tsai & Huang, 2007).

Additionally loyalty in e-stores has also been found to create positive word of mouth as well as enable customers’ willingness to pay more (Srinivasan et al., 2002). The pricing aspect is strong within the concept of loyalty as loyalty allows for more wide pricing possibilities and can for example protect a web store from price competition (Kocas, 2004).

Another common theme relating to customer loyalty is the theme of switching barriers. It is an interesting addition to the view on loyalty formation, as it is quite logical that a high cost of switching would make a consumer stay with a current provider. Wang & Head (2007) have noted "perceived switching costs" in their research of customer loyalty. They argue that the switching costs perception affects the customer's relationship intention positively - if the cost is high, but at the same time it also has a negative effect on satisfaction, which then again together with trust is a determinant of relationship intention as well as the switching costs (Wang & Head, 2007).

Once again this all seems very logical on a practical level too, as the high switching costs might make the consumer unhappy about the provider/retailer. What this would probably indicate is that if the switching costs are high, it might lead to repurchase and relationship intentions as suggested by Tsai & Huang (2007) and Wang & Head (2007), but on the other hand if the switching costs or barriers are removed by entrance of new competition, market shift or any such issue - then the consumer might be more likely to switch to another provider because of the previous switch barriers that affected the satisfaction.

In addition to quality, trust, satisfaction, value and switching costs/barriers, the aspect of community might be very significant for e-commerce as social networking and other such signs of communal needs of humans are becoming more and more evident in the web. Community is one of the independent main dimensions of Tsai and Huang's (2007) e-commerce success model. It is also a part of Srinivasan et al.'s (2002) model, in which eight factors are identified to potentially impact loyalty: customization, contact interactivity, care, community, convenience, cultivation, choice. Research data shows that all of these factors, except convenience, impact loyalty (Srinivasan et al., 2002).

Positive WOM and reviews also affect loyalty according to some research (Bowman & Narayandas, 2001; Gauri et al., 2008; Wolfinbarger & Gilly, 2003), which seems logical enough. Finally, as previously discussed in the subsection of this thesis about competitive advantage, differentiation also leads to customer loyalty (Serrano-Cinca et al., 2010). So the various differentiation options to the e-store offering are one definitive way of improving customer loyalty.

### ***Quality Perspective***

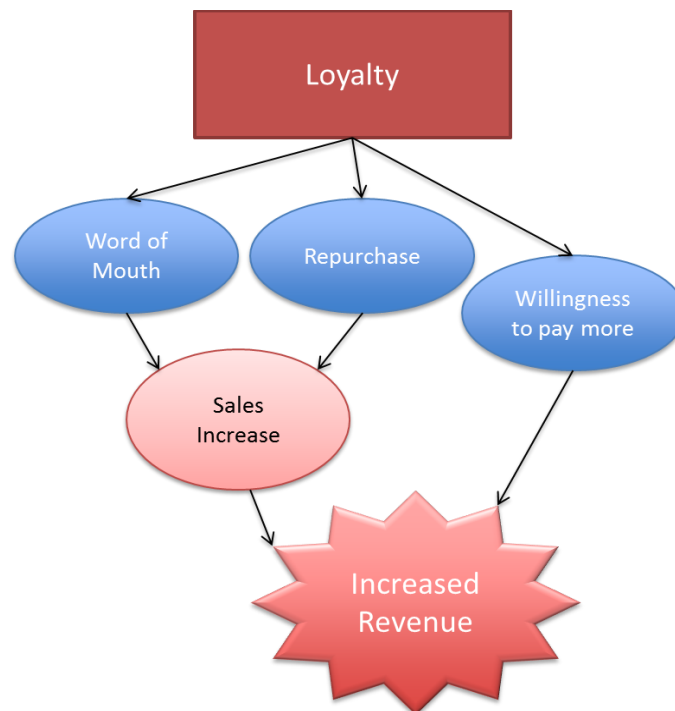
Quality has been found to influence loyalty in many cases. Quality is related to customer satisfaction, retention and loyalty in both product and service settings and it has a strong impact on these, and thus to the success of a consumer driven business, also in the online retail context (Wolfinbarger & Gilly, 2003). Parasuraman (2005) states that service quality influences loyalty, whereas Ribbink et al. (2004) claim that trust is the only issue directly affecting loyalty. Service quality dimension of assurance however





Conversely according to Harris & Goode's (2004) model satisfaction might also have an influence on loyalty, and service quality might influence both trust and satisfaction in addition to the perceived value. Satisfaction is one more of the commonly identified antecedents of loyalty, proposed by for example Ribbink et al. (2004), Liang & Chen (2009), Tsai & Huang (2007), Boshoff (2007) and Wang & Head (2007). In many models satisfaction is also one of the main influencers of trust (e.g. Liang & Chen, 2009; Ribbink et al., 2004; Wang & Head, 2007), and therefore it has an indirect effect on loyalty. Olsen & Johnson (2003) also specifically consider that cumulative customer satisfaction is the best predictor of customer loyalty.

Based on all of the previously mentioned it can be summarized that loyalty should be included in the empirical research framework of this thesis, and it is one of the most important ways to achieve and sustain competitive advantage. It generates positive word of mouth, repeat purchases and enables price premiums and a certain level of protection from competition. A summarization of the effects of trust can be seen in figure 14. There are several ways to affect loyalty, most of which have to do with quality, trust and satisfaction, as well as marketing communications and offering. A specific method for building customer loyalty is through loyalty programs and CRM.



**Figure 14: A summary of the effects of loyalty**

### **2.3.4 Summary of Quality Prerequisites**

Satisfaction, trust and loyalty have all been found to be extremely important prerequisites for e-commerce success and influencers of purchase and repeat purchase decisions. Trust is especially important in the beginning phase of a customer relationship, whereas satisfaction is increasingly important throughout the relationship and loyalty is generated through satisfactory relationship leading to positive WOM and price premiums. All of the three issues are related, and all of them are also affected by web store quality.

As suggested by research and literature, many of the quality related models and research regarding e-commerce have adopted the three-dimensional view of e-commerce quality, dividing quality into service, information and system quality. Also the attributes present in quality based models that are not three dimensional, can be categorized into these three dimensions quite logically in every case. For this thesis, a large amount of different quality based e-commerce models were analyzed, and their attributes evaluated.

Next the different quality attributes that lead to satisfaction, trust and loyalty of the customers are summarized. A more detailed summary of some of the referenced quality models and their individual attributes are included in Appendix B.

The service needs to be both responsive and helpful. The customers need to be able to trust the service. The service needs to be caring on an individual level and give attention to the individual customers. The deliveries need to be done in time and with the right products and the product returns need to be dealt with immediacy and reliability. The customer service needs to be available all the time and especially when there are problems it should be easy to get in contact with them.

The information about the products and the web store in general - including the advertisement and promotions - should be accurate, useful and complete enough. The information also needs to be on-time as well as understandable and relevant. Finally, it is a plus if the information is personalized for individuals and the visual representation of information is also considered as important. Security of the information, and especially private individual information and payment information, is critical.

The systems and the site itself then again need to be easy to use, fast and easy to access and reliable. The design should be simple enough, but attractive, and the actual site easy to navigate. The contents need to be personalizable and customizable, and interactivity of the site is also important - at the same time the design, look, feel and usability should maintain a level of consistency. Finally, the level of privacy and security are once again critical here with the system as well as on the information level.

## **2.4 Marketing and Communications**

Looking at the consumer behavior models explained in the subsection 2.2 or any success or quality based models of web commerce in research, something seems to be missing. There is no connection to creating visibility and awareness for the web stores in the first place to generate traffic to the web site. There is nothing about marketing communication and PR or any other issues regarding the generation of traffic to the web stores and affecting trust, satisfaction, loyalty as well as purchase and repurchase from this point of view.

When considering a web store, the significance of marketing is even more critical than in many other contexts. This is because without marketing there logically would be no customers entering the web store at all, because the consumers do not know of the existence of a web store if it is not marketed. Web stores exist in a digital wasteland; they have no physical presence where a person could randomly stumble upon the store.

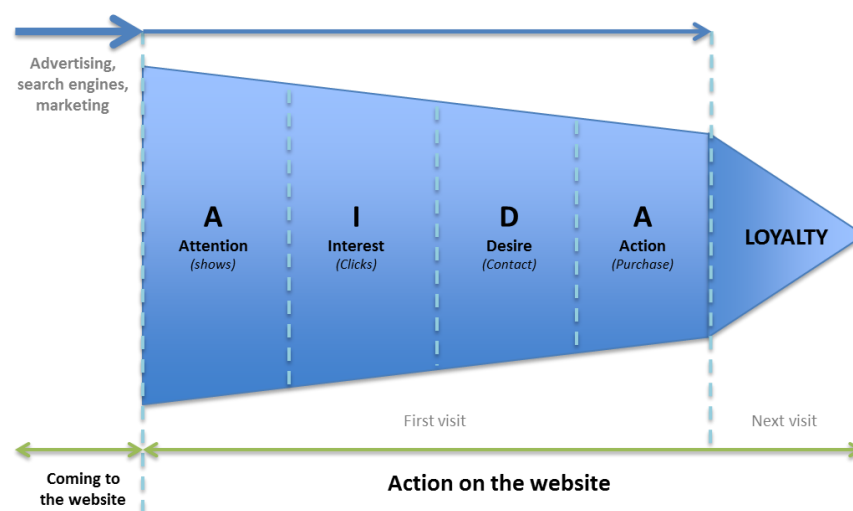
In the next sub subsections some of the different models regarding marketing and marketing communications will therefore be analyzed in order to lay a foundation for the observation of the challenges and methods of marketing in Finnish web commerce for the empirical research part of this thesis.

### **2.4.1 Influence, Brand and Positioning**

As mentioned already in the subsection of this thesis regarding consumer behavior - The American Marketing Research Foundation defines consumer behavior as “the dynamic interaction of affect and cognition, behavior and the environment by which human beings conduct the exchange aspects of their lives” (Bennett, 1995). Many models have

been developed to address the process of consumer behavior transferred into a purchasing cycle that can be affected with different methods of marketing communications. This is a logical starting point for building up a structure of web commerce marketing for the framework of success.

Probably the most traditional out of all the models is the so called AIDA –model. This model that was already developed in 1898 (“Wikipedia: AIDA (marketing),” n.d.) is one of the most well know models of marketing in the history of marketing. It describes the events in a selling process that tries to affect the behavior of a consumer leading up to a purchase. The process consists of four stages: Attention, Interest, Desire and Action, although it has been later on further developed by adding additional stages, such as satisfaction, or by reducing it to the three-wheel mode of cognition, affect and behavior (Barry, 1987). The AIDA-model is very simplistic, but is still used by many. One current example is the modification of the model into the web commerce context (Luukkonen & Railo, 2005) shown in figure 15.



**Figure 15: A web marketing funnel based on AIDA (Luukkonen & Railo, 2005)**

There are however several different ways to look at the process of influence towards the individual’s purchase. Rossiter and Bellman (2005) have developed an influence process model called “Marcoms”, where the effects of marketing communications take place on three different phases: ad processing, brand communications and customer decision process. They have also developed a connected planning process for marketing regarding the Marcoms model which includes the phases of brand positioning, campaign

objectives, creative strategy, promotion strategy, media strategy and campaign management (Rossiter & Bellman, 2005).

Already in the Rossiter and Bellman model the term brand was mentioned, and this is one of the most important issues regarding modern marketing. A brand can be a name, term or a symbol that is used in identifying services or goods (Keller, 2008). An identity is posed upon a brand, by creating specific details that the consumer should associate the brand with and therefore differentiate the brand from other brands (Aaker, 1996). The goal of the identity of the brand is to create meanings around the brand, and communicate benefits for the customers, and to create value to the customers through these benefits, this leading to a customer relationship between the customer and the brand (Aaker, 1996).

The brand is extremely significant to web stores also. There are studies about the meaning of a brand for consumer's web store selections. Consumers with a selection strategy of expected value for example choose an e-tailer with the lowest expected cost or highest utility in terms of price, brand and expected credibility; whereas the more brand seeking individuals choose the best-known e-tailer and the price aversive types choose the lowest price e-tailers (Su, 2007). Clearly, the significance of a brand is the highest to the brand seeking individuals and has an effect on the expected value individuals, but in any case even the lower prices can be reflected through a brand, and therefore it is somewhat significant for the low price seeking individuals also.

Therefore the positioning of the brand is also extremely important. The positioning of a brand makes it easier for the consumer to understand the information regarding the product or service, and the goal of positioning is to strengthen the positive image of a product or service (Laakso, 1999). Laakso (1999) has also stated that the positioning of a brand has been achieved when a consumer, hearing the name of the brand, can recognize the product as different from competing products through certain characteristics.

Positioning can also relate to the way that a web store wants to be seen and found in the internet. Serrano-Cinca et al. (2010) have for example concluded that there are four different angles for a web store being positioned: web visibility, relevance in search

engines, popularity in blogs and news portals, and reputation. The results of their research identify two kinds of main ways of positioning a web store in the internet: people-based and search engine-based (Serrano-Cinca et al., 2010). The positioning and creation of a brand image can therefore be consisting of a huge variety of different factors that are being affected by all kinds of activities of the web store that the consumer has any kind of contact with, strongly including marketing communications.

However according to research, seeing an advertisement does not necessarily directly lead to thoughts about the brand. The thoughts about the brand do not necessarily have a connection with emotions regarding the brand either, whereas the emotions regarding the brand have been found to positively affect the purchasing intentions of consumers. The observation of an ad as well as the brand thoughts do indeed affect the purchasing intentions, but not directly and in a hierarchic way as the traditional AIDA-model would presume. (Cramphorn, 2006)

In other words, none of the models presented before explain the effect of marketing communications to the individual or the exact process of influencing consumer behavior. But they give an overview of certain issues that might have a role in this complicated process, as well as explaining why in fact the importance of brand is so big as it is.

One single issue to consider relating to the effect and influence on consumers is the issue of information search. As was mentioned in the consumer behavior subsection of this thesis, consumers who are presumed rational search information and evaluate based on this information. It is possible to interfere with this process by using different kinds of marketing tools and targeting communications. Consumers might also be passive and not search for information actively (Dubelaar & Wahyuningsih, 2004), or the consumers could act irrationally or emotionally. Therefore recommendations from other and WOM also play an extremely important role in the consumer decision process.

Because of the extreme growth of online communities and interactive environments, or social media, WOM communication is active in the web environment also (Bickart & Schindler, 2001; Hennig-Thurau & Walsh, 2003; Steffes & Burgee, 2009). It is also widely recognized as being called electronic word-of-mouth communications or eWOM. This kind of communication could be seen as a part of the concept of user-generated content

in the web (Kaplan & Haenlein, 2010). Henning-Thuray & Walsh (2003) define eWOM as “any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions via the Internet”.

EWOM research by Smith et al. (2007) shows that most people who are somewhat connected are as willing to share marketing messages with others as the most highly networked individuals. The research concludes that the influence to share these messages comes from basic human needs of helping out others and that people share a common enjoyment seeking valuable information (Smith et al., 2007). What this suggests is that recommendations and WOM based marketing is a very potential way of getting marketing messages on the move by individuals themselves, who are in fact more trusted than brands or advertisement.

#### **2.4.2 Dynamic Marketing**

Relating to the context of sharing and the social dimension of consumers it is relevant to also discuss the significance of individualism and the dynamics of interactive marketing. Traditionally advertising and marketing in general has been based on segmentation, but because of certain changes in society at large the traditional baselines of marketing planning such as age, sex, income and location are less important today. Consumer behavior is harder to predict through income for example because a potential buyer of a luxury brand of champagne can also be a student or someone else with a lesser income – whereas in a more traditional society of the past only the really wealthy people would buy such items. The lifestyles and individual expression of oneself through consumption has become more important for the prediction of consumer behavior than hard facts about the background demographics.

One of the biggest societal changes has been the digitalization of the society. Digitality can also be referred to as the electricity of marketing (Salmenkivi & Nyman, 2008). This description has to do with the idea that the main drivers of change in the marketing of today are digitality and interactivity. Digitality will and has become an everyday commodity similar to electricity. Interactivity then again refers to the much increased dialogue between the marketer and customer compared with traditional one-way

communication of the segmented past. Because of these changes, the issues that have become extremely important are the role of customer dialogue, responsiveness and feedback, public brand management, brand advocates and the significance of rewarding.

In practice what this means is that more and more diverse as well as specifically targeted marketing is needed for effective sales promotion, and this drives the creation of completely new marketing techniques. One thing that has already happened is the direction of marketing taking more and more place towards relationship marketing. Turban et al. (2007) have described the way that the change has taken place from mass marketing to market segmentation and finally to one-to-one marketing of today, as can be seen in the table 2.

| Factor          | Mass Marketing           | Market Segmentation                       | Relationship Marketing (One-to-One)               |
|-----------------|--------------------------|---|---|
| Interactions    | Usually none, or one-way | Usually none, or with a sample            | Active, two-way                                   |
| Focus           | Product                  | Group (segment)                           | Customer-focused (one)                            |
| Recipient       | Anonymous                | Segment profiles                          | Individuals                                       |
| Campaigns       | Few                      | More                                      | Many  |
| Reach           | Wide                     | Smaller                                   | One at a time                                     |
| Market Research | Macro in nature          | Based on segment analysis or demographics | Based on detailed customer behaviors and profiles |

**Table 2: From mass marketing to relationship marketing (Turban et al., 2007)**

Another term to describe what is at least partly the same thing as relationship marketing is direct marketing. The American "Direct Marketing Association" (DMA), which can be considered as one of the world's most distinguished societies of direct marketing, define direct marketing as interactive marketing where one or more channels are used in order to create measurable feedback in any place of activity (e.g. Housden & Thomas, 2002; Hutt & Speh, 2010). This definition emphasizes especially the interactivity and measurability of direct marketing. Then again Bauer and Miglautsch (Bauer & Miglautsch, 1992) define direct marketing as a process of relationship marketing, which constitutes of relationship creation, development and management. They emphasize the significance of receiving and collecting feedback as well.



Some consider customer relationship management (or CRM) as a synonym to direct marketing or relationship marketing. Hutt & Speh (2010) specify CRM as a series of tools and processes that a company uses to identify, temp and uphold customer relationships. CRM is therefore focused mostly on tools, methods and processes of measuring and withholding customer relationships. CRM is not a new idea, but only now its significance is starting to be taken seriously – and it is very important for web stores also. A model from Nelson S. already from 1996 (displayed in Turban et al., 2007) had an in-depth description of the continuous process of customer relationship management.

Direct marketing can be executed for example by collecting contact data from consumers when they visit a web store and register as the users of the site. This way the data can be collected into the company's customer database which enables the business to target marketing activities directly to the potential customers (Middleton & Clarke, 2001). In order to be successful today, web stores need information especially about how well their store works for the customers, and therefore lately the role of data collection analytics has been heavily emphasized (Leskinen, 2011).

Then again in a social network media of today, such as Facebook, the direct marketing could be perpetrated through members of a community or a fan group, and related events and pages. The current database systems make the collection of extremely accurate information possible in the internet, and especially in the field of e-commerce this is relevant because inside the web stores every single action that a user takes can be recorded and used for optimizing the site itself as well as the marketing activities of the store.

### **2.4.3 Media and Channels**

One of the most important angles of marketing communications is the consideration of the right set of channel usage. The selection of media and channels has also become increasingly complex because of the increasing amount of new channels and the companies are more eager at using several different media at the same time (Sasser et al., 2007; Soberman, 2005). This creates challenges to the planning and selection of the channels.

People might disregard advertising quite easily, because they do not find value in it (Wang et al., 2002). Therefore it is extremely important that exactly the right channels are used to contact the people and defining the target groups and thinking about how to communicate the advert the right way to a specific target increases the challenges of the media selection (Coulter & Sarkis, 2005).

There is also a change happening in the field of marketing and marketing is transforming more and more towards super targeted personal marketing, which means that segmentation and target group based thinking is not enough for the planning of the channel selection. In this case, the whole planning process could also be considered more or less a process of contacting and contact planning instead of merely media planning. An example of an agency that has taken the role of contact planning, under the title "engagement agency" is the Toinen Helsinki agency from Finland ("Toinen Helsinki," n.d.).

The plethora of available channels can be very roughly divided into the so-called traditional channels and media, and new digital channels and media. Out of these two main categories it can easily be thought that the most relevant channels for web stores to use would logically be the digital channels, because of the digital nature of the stores. However Fleischner (Fleischner, 2009) has noted that "as much as marketing has and will change, traditional media can be effective".

Adapting from Iltanen (2000) and Shimp (2010) the forms of the so-called traditional advertising and media can be divided into the following:

1. Traditional media advertising: Print advertising, TV-advertising, radio advertising, movie advertising as well as outdoor and traffic advertising.
2. Traditional direct advertising: Advertising mail and telemarketing
3. Other advertising and sales promotion: sales promotion programs, exhibitions, displays and in-store advertising.

TV-advertising as well as radio can still be considered significantly effective means of advertisement, especially from a brand image advertising perspective. Brand placement in TV-advertising has a positive effect on brand memory and brand placement can also affect attitudes and behavior without memory of the placement - which means that

brand placement can have implicit effects (Van Reijmersdal, 2009). More importantly more and more people use the internet or mobile devices at the same time with the traditional media, and this creates new opportunities for the effects of traditional media too. It has been for example shown by research that TV commercials or sponsorships can trigger Internet searches by consumers (Solomon et al., 2010).

In some cases advertisers also still consider the value of direct mailing to be very effective, and for example Itella has carried out studies relating to the effect of direct advertising and they have found the effect to be good, especially with the retail advertising niche (Tervonen & Paakkari, 2010). An example linking the power of traditional methods to e-commerce is the most successful Finnish web store Verkkokauppa.com that uses a lot of traditional direct mail advertising, radio and other traditional channels.

| Medium     | Advantages   | Limitations   |
|------------|--|---|
| TV         | <ul style="list-style-type: none"> <li>Intrusive impact – high attention getter</li> <li>Ability to demonstrate product and to feature “slice of life” situations</li> <li>Very “merchandisable” with media buyers</li> </ul>  | <ul style="list-style-type: none"> <li>Fragmented ratings, rising costs, “clutter”</li> <li>Heavy “downscale” audience skew</li> <li>Time is sold in multiprogram packages: networks often require major up-front commitments; both limit the advertisers’ flexibility</li> </ul>   |
| Radio      | <ul style="list-style-type: none"> <li>Highly selective by station format</li> <li>Allows advertisers to choose the time of the day or the day of the week to exploit timing factors</li> <li>Copy can rely on the listener’s mood or imagination</li> </ul>   | <ul style="list-style-type: none"> <li>Audience surveys are limited in scope, do not provide socioeconomic demographics</li> <li>Difficult to buy with so many stations to consider</li> <li>Testing of copy is difficult because there are few statistical guidelines</li> </ul>   |
| Magazines  | <ul style="list-style-type: none"> <li>Offer unique opportunities to segment markets, both demographically and psychographically</li> <li>Ads can be studied and reviewed at leisure</li> <li>High impact can be attained with good graphics and literate, informative copy</li> </ul>                                     | <ul style="list-style-type: none"> <li>Reader controls ad exposure, can ignore campaign</li> <li>Difficult to exploit “timing” aspects</li> <li>Lack of creative opportunities for “emotional” selling campaigns</li> <li>High cost for large size ads</li> </ul>   |
| Newspapers | <ul style="list-style-type: none"> <li>High single-day reach opportunity</li> <li>Reader often shops for specific information when ready to buy</li> <li>Portable format</li> </ul>  | <ul style="list-style-type: none"> <li>Lack of demographic selectivity; despite increased zoning, many markets have only one paper</li> <li>Low-quality reproduction, lack of color</li> </ul>  |
| Internet   | <ul style="list-style-type: none"> <li>Accessed primarily because of interest in the content, so market segmentation opportunity is large</li> <li>Opportunity to create one-to-one direct marketing relationship with consumer</li> <li>Multimedia will increasingly create more attractive and compelling ads</li> </ul> | <ul style="list-style-type: none"> <li>No clear standard or language of measurement</li> <li>Immature measurement tools and metrics</li> <li>Although the variety of ad content format and style that the internet allows can be considered a positive in some respects, it also makes apples-to-apples comparisons difficult for media buyers</li> <li>Difficult to measure size of market, therefore it is difficult to estimate rating, share or reach and frequency</li> <li>Audience is still small</li> </ul> |

**Table 3: Advantages and limitations of advertising media (Turban et al., 2007)**

Summarizing the traditional media side of things, there are several different channels to be considered in the traditional media that can still be considered very effective, and are also relevant to web stores more or less – especially when coupled with digital usage. When comparing some of the most usual traditional channels with the digital internet channels there are a number of issues that can be considered as the advantages and limitations of each one. One summary of such advantages and limitations is shown in table 3.

The benefits of web based advertising against traditional media usage for web stores includes precise targeting, interactivity, rich media usage, lower cost, efficiency, customer acquisition, personalization, timeliness, location-basis as well as digital branding possibilities (Turban et al., 2007). However traditional media can still be more effective in some cases and internet advertising also has its limitations. Most likely the best effect can be achieved through a combination of both traditional and digital media.

Going more in-depth to the digital marketing realm, the most typical channels and methods include banners, search engine marketing, community marketing, social media, e-mail marketing, the web site itself as well as information available from the internet (Vehmas, 2008). Regarding the information available from the internet, it could be considered that all visibility in the web can be useful in some form. Relevant places of exposure for web stores could be for example aggregated market places or comparison sites of different kinds. In addition partnering with blogs of relevant topic area might prove to be useful for web stores as marketing efforts.

New and upcoming methods to consider include mobile and location based marketing issues, as mobile based digital services are estimated to grow. Estimates by Morgan Stanley's leading technology analysts suggest that the amount of smartphones will overtake the amount of computers in 2012 (Meeker, 2010). The biggest trend expectations in the Finnish consumer e-commerce market at the moment also have to do with the rise of mobile purchases as up to 23% of the people have already bought a product or service via mobile, and the growth expectations are enormous (*Suuri Verkkokauppatutkimus 2011, 2011*).

As was mentioned earlier on, the selection of the right channels to use is increasingly difficult because of the rising amount of channels available for advertising. This is especially true in the digital world where the changes have been happening unusually fast in the recent years. Angel (2006) has made an effort to try to conceptualize the potential advantages of different digital channels in order to help select between them. The breakdown of the benefits can be seen in the table 4. Although the world of digital marketing has already changed greatly since 2006, Angel’s selection table is a good example of a way to chart potential advantages of different channels for e-commerce marketing in the digital domain.

| Channel           | Potential Advantage 1  | Potential Advantage 2  | Potential Advantage 3  |
|-------------------|--|--|--|
| SEO               | Is your site content rich? Content generally gets rewarded by the engines these days. So if your site has lots of preexisting content, it's quite a bit easier to optimize it than to create new content.    | Do you have unique Content? Stuff that no one else has and that is likely to be of interest to searchers makes it a heckuva lot easier to out optimize the competition.                                      | Do you have a built-in relationship with an important site? Link relationships with a powerhouse site are a considerable SEO advantage.  |
| PPC               | Do visitors know they need your product? If visitors don't know they need what you sell, they aren't going to search for it. You can't launch a category on PPC.   | Do you have a readily communicable advantage? PPC ads are short -- obvious advantages, like price, make for an easier sell.  | Will you get higher value from a lead than the competition? The more you can afford to pay per click, the more volume you can drive from PPC. With high margins, you can often dominate a PPC segment.                 |
| Banners           | Are there sites with highly targeted demographics or content for your business and products? If a small number of sites provide just the right audience, advertising on those sites can be highly effective. | Is your marketing approach brand- and creative-based? Direct response organizations often do better with search -- traditional marketing organizations have greater affinity for banner advertising.         |  |
| Social Networking | Does your demographic hang out here? If yes, this is likely to be very important. If no, it won't even be on your radar.   | Is your corporate culture appropriate? Trying to fake it is a good way to embarrass yourself. Can you be sensitive to the appropriate messaging and mores?   | Is your product a commodity? That isn't good. Strongly differentiated products will fare better in this channel where viral messaging is so important. If your product builds champions, this is a channel to explore. |
| RSS               | By far, the most important consideration is whether you actually generate fresh, distinctive content regularly. If you don't, RSS isn't appropriate.   |  |  |
| Blogging          | Like RSS, you must have fresh content on a regular basis to make blogging matter.  | Good writers -- and not just any kind of good writer. The blog is less essay than dialog. Many good bloggers can't write a reasonable article, and many otherwise good essayists can't write a popular blog. | Good connections -- or the moxie to make them. You'll get noticed much faster and do much better if you have, or can make, the right connections.  |

**Table 4: A digital channel advantage matrix (Angel, 2006)**

There is a plethora of ways for doing modern channel and media selection, but one method that seems to be increasingly popular recently is the so called customer journey mapping. Dave Chaffey (2008) defines a customer journey as “a description of modern multi-channel buyer behavior as consumers use different media to select suppliers, make purchases and gain customer support”. Customer journey can be used for channel selection by mapping out the path that the customer takes from getting aware of a need for a purchase towards the evaluation of options, entering the store (be it physical or

electronic) and all the way to the actual purchase and post-purchase activities. From this path touch points, that is points of paid, own or otherwise accessible media and channels can be discovered, and therefore the best channel and media mix can be selected.

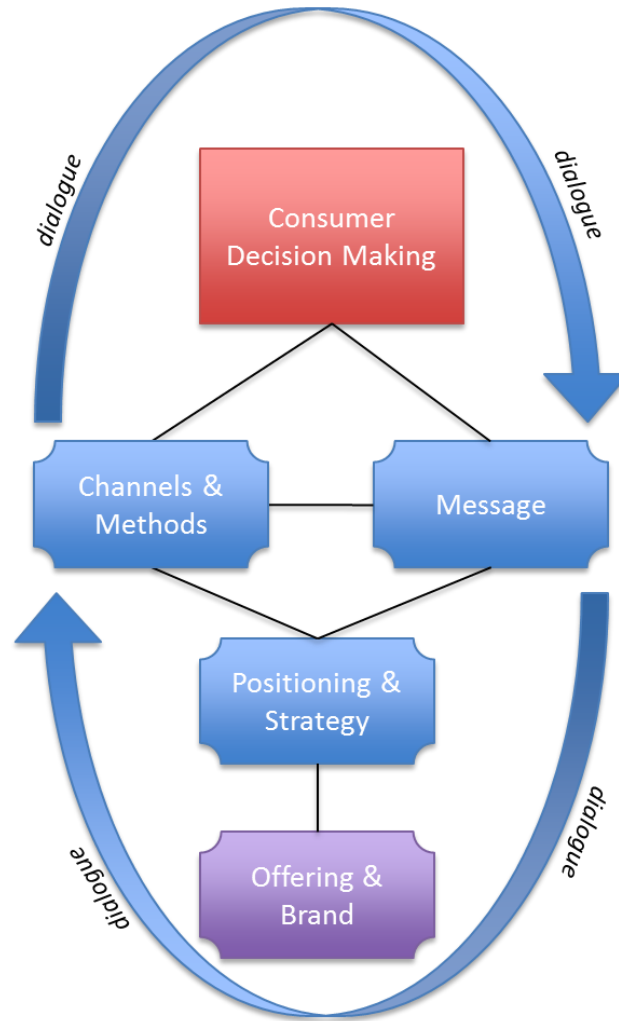
Customer journey is also sometimes defined as a part of a so called customer engagement process which is a wider and more in-depth concept relating to value that can be attained from long-term deep relationships with customers (“Wikipedia: Customer engagement,” n.d.). The first ever conceptual framework for customer engagement has been developed by van Doorn et al. (2010). Yet another relatively recently popularized term describing a similar process is Customer Experience Management, which has been described as “the discipline, methodology and/or process used to comprehensively manage a customer's cross-channel exposure, interaction and transaction with a company, product, brand or service” (Schmitt, 2003). All three, customer journey mapping, customer engagement and customer experience management relate to the digitalization of society and marketing as well as the dynamics discussed earlier on in sub subsection 2.4.2 of this thesis.

#### **2.4.4 Summary of Marketing Communications**

The decision making and behavior of the consumers can effectively be influenced by marketing and in the center of this influencing process are usually the brand and its positioning. Marketing and marketing communications have changed radically during the past few years and continue to change, becoming more personal targeted and interactive – creating an open dialogue with the consumers. The amount of channels, tools and marketing data has grown significantly through the development of digital and social media, and because of that, the planning of marketing has become more and more demanding and complicated from a web store point of view.

To summarize the previously analyzed information, figure 16 describes the most critical issues affecting the marketing communications process in order to influence the consumers’ decision making, including the consumers’ own effect through the 2-way dialogue with the marketer. Positioning and marketing strategy should be determined in relation to the brand and offering. The message as well as the marketing channels and

methods used depend on the strategy, but also influence each other and create the main interface towards the decision making of the consumer. All of this should be strongly influenced by the feedback from the consumers, which in fact should be considered a two-way communications loop between the marketer and the consumer as already mentioned before.



**Figure 16: The Marketing Communications Conceptualization**

### **3. RESEARCH FRAMEWORK, DESIGN AND METHODOLOGY**

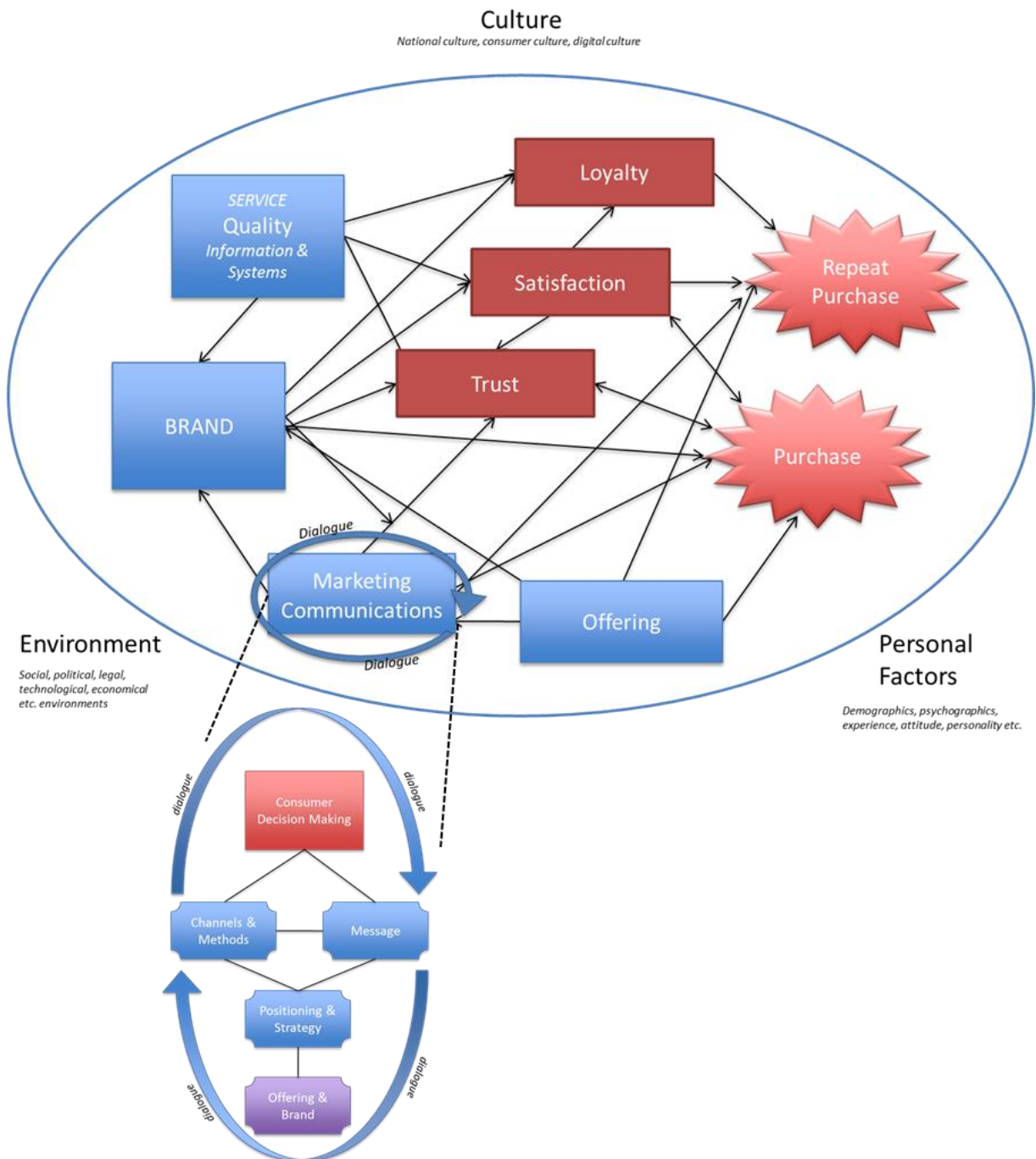
In this third main section of the thesis, the observations and conclusions from the e-commerce success section are drawn together and summarized as a theoretical macro level framework of generic e-commerce success presumptions. The basic themes of the empirical research are to be derived from this framework.

After this the methods and settings of the empirical research will be introduced. The goals of the research are stated and the selection of the research method is justified by stating its strengths and weaknesses. The execution of the research and data collection method is discussed, and finally issues regarding the quality and reliability of the research are also discussed.

#### **3.1 Framework of Success**

Figure 17 summarizes the generic framework that has been generated based on the analysis of information from the literature review and logical presumptions relating to the issues regarding e-commerce. The two main success driving actions or measures of success that should be the goal of every web store are the purchases and repeat purchases made by the consumers. The main prerequisites for these actions are trust, satisfaction and loyalty towards the web store. These prerequisites can be mainly affected by four strategic business dimensions: the quality of service, information and systems, the brand, the marketing communications as well as the selection-price offering of the web store. The marketing communications as well as the offering of the web store might also have direct effects on the purchasing behavior of the consumers.





**Figure 17: The Framework of E-commerce Success**

Outside the framework are the factors affecting e-commerce success that cannot directly be affected by the business and marketing actions of the web stores. Such issues include (but are not limited to) most importantly the environmental factors such as social, political technological, economical and other such environments; the limitless personal factors affecting the consumers' individual decision making cognition and behavior; as well as the surrounding culture that affects the individuals as well as the

role of business in the culture per se, ranging from national to consumer and digital culture and their implications. These external factors are all issues to be taken into consideration when planning e-commerce business and their significance can be critical. Nonetheless in the case of the research at hand, these issues are not to be considered as the main focus, since the possibility of a web store to influence these issues is more unlikely.

| Connection                      | Source  |
|---------------------------------|---|
| Quality -> Loyalty              | e.g. Yoon & Kim, 2009; Kuan et al.,; Parasuraman, 2005 etc.                   |
| Quality -> Satisfaction         | e.g. Anand, 2007; Cheung & Lee, 2005; Ribbin et al., 2004 etc.                |
| Quality -> Trust                | e.g. Gummerus et al., 2004; Harris & Goode, 2004 etc.                         |
| Quality -> Brand                | <i>Presumption</i>  |
| Mark.Comm. -> Brand             | e.g. Solomon et al., 2010; Turban et al., 2010; Rossiter & Bellman, 2005 etc. |
| Mark.Comm. -> Purchase          | e.g. Turban et al., 2010; Rossiter & Bellman, 2005 etc.                       |
| Mark.Comm. -> Repeat purch.     | <i>Presumption</i>  |
| Brand -> Trust                  | e.g. Lowry et al., 2008; Turban & Lee, 2001; Laakso, 1999 etc.                |
| Brand -> Satisfaction           | e.g. Laakso, 1999 etc.  |
| Brand -> Loyalty                | e.g. Aaker, 1996 etc.   |
| Brand -> Purchase               | e.g. Turban et al., 2010, Cramphorn, 2006, Su, 2007 etc.                      |
| Offering -> Mark.Comm.          | <i>Presumption</i>  |
| Offering -> Brand               | <i>Presumption</i>  |
| Offering -> Purchase            | e.g. Anand, 2007; Horsti, 2007 etc.   |
| Offering -> Repeat Purchase     | e.g. Kim et al., 2009; Teo & Liu, 2007; Pavlou et al., 2006 etc.              |
| Trust -> Purchase               | e.g. Liang & Chen, 2009; Wang & Head, 2007; Harris & Goode, 2004 etc.         |
| Satisfaction -> Trust           | e.g. Liang & Chen, 2009; Ribbink et al., 2004 etc.                            |
| Satisfaction -> Repeat Purchase | e.g. Tsai & Huang, 2007; Wolfbaarger & Gilly, 2004 etc.                       |
| Satisfaction -> Loyalty         | e.g. Knox & Denison, 2000; Reichheld, 1996; Dick & Basu, 1994 etc.            |
| Loyalty -> Repeat Purchase      | e.g. Liang & Chen, 2009; Srinivasan et al., 2002 etc.                         |
| Purchase -> Trust               | e.g. Zeithaml et al., 2006; Olsen & Johnson, 2003 etc.                        |
| Purchase -> Satisfaction        | <i>Presumption</i>  |

**Table 5: Success framework connections**

Some of the connections between the prerequisites of success (trust, satisfaction and loyalty) the influencing dimensions (quality, brand, marketing, communications and offering) and the consumer actions (purchase and repeat purchase) have been established through previous research as presented in the literature review of this thesis. Some of the connections are merely logical presumptions to be questioned in the empirical research part of this thesis. Table 5 describes the relationships of these framework elements.

As a summary of the framework, the quality, and especially service quality, of the web store, the brand, marketing communications as well as the selection-price offering of the web store are the most important ways of affecting the purchase decision and trust of the consumers, as well as satisfaction, loyalty and repurchases.

What still needs to be discussed in more detail is the meaning of marketing communications in relation to all of the connections and dynamics presented in the success framework. Marketing communications and its effect on the brand is one of the most fundamental set of methods for managing and trying to affect the consumers' expectations regarding the different attributes of quality as well as brand related images and expectations. In order to influence people to make purchases the position of the web store needs to be communicated to the consumer as well as the quality level and different issues regarding the store, and the brand.

Marketing communications can be used to control the expectation in order to make sure that the level of satisfaction – expectations versus experience – is maintained on a proper level. On the other hand the experience itself can also be affected by marketing methods and marketing communications happening at the website level and on other parts of the purchasing process during the shopping process. Also after the purchase has been done, marketing communications can have an effect on the reflections of the individuals' experience, as well as affecting the post-purchase evaluation overall and creating different set of expectations for future purchases.

In addition the means of getting information out to the consumers about the products and offering of the web store could also be considered one of the most important needs for marketing communications. The different pricing and selection related issues and

possible campaigns, as well as the service offering and different options available for the consumer can be many times only communicated to the consumers via marketing channels – of which the store itself is also one. Number and variety of product offerings together with the quality of information on the offerings has been shown to explain at least over 10% of the overall customer satisfaction of a web store (Anand, 2007).

From a purchasing process point of view marketing communications play a key role in contacting the customers for the first time for the store and attracting the customers in the store to make the first purchase. In addition to this marketing communications play a vital role when trying to build a dialogue with the customers in order to create loyalty as well as repeat purchase motivation.

The same kind of simplified visualization for understanding the content of marketing communications in e-commerce as discussed in the sub subsection 2.4.4, is also presented as a part of the framework in figure 17. The offering and brand related variables affect the positioning and strategy of marketing, on which the channels and methods of marketing communications are selected based on. The actual communications process is a two dialogue loop between the consumer and the marketer. This strategic level of marketing communications process together with the framework of success, build up the basis of which the empirical research is built upon.

### **3.2 Goals of the Empirical Research**

The original main research question of this thesis was: How can marketing be used to improve the competitiveness of Finnish B2C web stores? The sub-questions and areas of interest therefore were:

1. What are the most important generic marketing based success factors for B2C e-commerce?
2. More specifically, what are the most relevant success factors based differentiation methods for Finnish B2C web stores, considering the context of the growing international competition?
3. What kind of challenges and needs are there and what kinds of changes, new tools or methods, especially from the marketing communications perspective, do

the merchants need in order to successfully take advantage of the potential success factors and differentiation methods in the near future?

In the literature review section of this thesis, the most important generic success factors for B2C E-commerce were found to be trust, satisfaction and loyalty and affecting these through marketing communications, quality aspects and the brand. Marketing communications affect all of these issues and all of these issues affect the contents, planning and methods of the marketing communications. In the empirical research, these issues will be tested and validated in the context of the Finnish B2C e-commerce market, thus answering the sub research question 2.

Additionally the needs and challenges of the merchants will be mapped as well as their needs for tools and improvements in the areas of e-commerce marketing, thus successfully discovering information to answer both the sub-questions 2 and 3. All this together generates an answer to the main research question.

### **3.3 Research Method**

The empirical research at hand was conducted within a qualitative research methodical framework. Quality refers to the what, how, why, when and where of a thing (Berg, 1995). Qualitative research is therefore many things to many people. Its essence is twofold: on the other hand it is a commitment to some version of the naturalistic interpretive approach to its subject matter, and on the other hand an ongoing critique of the politics and methods of post positivism (Denzin & Lincoln, 2003).

Why qualitative research is especially fitting for the research at hand is because qualitative research is at its best when trying to understand and interpret phenomena of social reality and practices and meanings relating to these; as well as humans, groups or organizations as producers, as interpreters and consumers of these phenomena (Hirsjärvi & Hurme, 2004). In this research, the interest lies within the perspective of the merchants and their views of the B2C e-commerce field, and thus the qualitative approach of trying to understand social reality and humans is fitting extremely well with the research at hand.

Research per se is about capturing reality. Qualitative and quantitative research offer different ways to do so. The strengths of the qualitative view lie in the acceptance of postmodern sensibilities, capturing the individual's point of view, examining the constraints of everyday life as well as, most importantly, securing rich descriptions. (Denzin & Lincoln, 2003)

All in all quantitative research may not be deep enough in some cases of research. It often simplifies complex reality through compression and atomization resulting in abstract, constrained and distanced perspectives. It is only validly applicable to quantifiable phenomena and the description of actors' perspectives, intentions and meanings is very difficult, if not even impossible. Therefore qualitative research is strongly relevant to the research at hand, and much more fitting than a quantitative methodological framework.

The research at hand was performed through semi-structured interviews. Hirsjärvi and Hurme (2004) state that an interview is a proper method for research where the specific subject has had little or no research and the speech of the interviewee is intended to be connected into a wider context. As there is very little or no research to be found on the subject matter of the success of the Finnish B2C web stores, and specifically from the angle of the research at hand, it is logical to an interview based research method for this thesis. Interviews are also very flexible research methods and enable a deep gathering of information as well as understanding the phenomena in different ways than possibly presumed in the beginning (Hirsjärvi & Hurme, 2004).

According to Hirsjärvi and Hurme (2004) a semi-structured interview is a method where the points of view of the interviewees become central to the research and the point of view of the researcher him or herself does not matter – the human interpretations of things and the meanings given to these interpretations are important. Therefore it could be said that a semi-structured interview is a more objective as well as a deeper method than a form-based interview where the specific form of the questions and answers is limited. However the semi-structured interview method is not as free as the deep interview methods, therefore remaining within a logical structural form and enabling the

collection of information on a pre-specified level of accuracy and depth relating to the specific needs of the research at hand.

The semi-structured interview fits as a research method of this thesis, because although the subject area and goals of the research have been accurately specified, it was necessary to allow the width and breadth of the views of the interviewees and the underlying issues affecting the situational factors of the B2C E-commerce market to be more freely interpretable, and not to be completely limited by the themes considered in the theoretical/literature review part of this thesis. Additionally semi-structured interviews give the interviewer a chance to ask additional, continued questions based on new issues arising from the answers of the interviewees – a completely structured interview or questionnaire method would not allow this. Therefore another method than semi-structured interviews would have either limited the scope of answers and information to be gained from the interviewees, or would have proven to be too wide or free for the current needs, or impossible to complete within the framework of the resources available. Consequently, the semi-structured method is the best fit with the research at hand.

### **3.4 Data Collection and Analysis**

In a qualitative research the interviewees have to be selected with care and logical planning, so that just the right amount of necessary knowledge and experience on the subject of the research can be estimated to be generated from the interviews (Eskola & Suoranta, 1998). There are three different angles that were crucial to be taken into notice in the research at hand:

1. The web stores' angle: The main idea of this research has been to identify challenges and success factors of Finnish web stores, and to best understand this it is vital to get the view of the web stores' and merchants - how do they see the situation, what do they feel is most challenging, or what works the best, and to get a view of what it is that they are doing at the moment?

2. The consumer and market angle: Firstly the research has to do with B2C business and therefore understanding the consumers is critical. Secondly the research has a

marketing-driven angle which also emphasizes the importance of the consumer angle in B2C.

3. The objective situational angle: Even though the representatives of the stores themselves are some of the richest sources of information available for this research, it has to be taken into notice that their view is biased and just a single subjective view of the situation. To get a more accurate picture it is thus best to also include the view of other people who are experts in the market, but work with the web stores and merchants.

In order to fulfill these requirements, the group of interviewees has been carefully selected to include representatives of expertise of all the previously mentioned viewpoints. Additionally it was important that there was more than one interviewee from each view point. In total ten interviews were conducted between April 1<sup>st</sup> and May 19<sup>th</sup> 2011.

Eskola & Suoranta (1998) state that there is enough empirical material gathered from the research when no new relevant information regarding the research question is produced. This is called saturation of the data. After approximately eight or nine of the interviews, the saturation level of the interview data started to be very high, therefore after ten finished interviews the interviewing process was ended. The list of the final interviewees can be found in table 6.



| ID        | POINT OF VIEW                | ORGANIZATION   | POSITION IN ORGANIZATION      |
|-----------|------------------------------|----------------|-------------------------------|
| MERCHANT1 | practitioner                 | Company 4      | Founder/Chairman of the board |
| MERCHANT2 | practitioner                 | Company 6      | Founder/CEO                   |
| MERCHANT3 | practitioner                 | Company 7      | Founder/Owner                 |
| BUSINESS1 | market expert & practitioner | Company 2      | Business Manager, E-commerce  |
| BUSINESS2 | market expert & practitioner | Company 2      | Business Development Manager  |
| BUSINESS3 | market expert & consultant   | Company 1      | Business Development Manager  |
| BUSINESS4 | consultant & market expert   | Company 5      | Business Development Director |
| BUSINESS5 | market expert & practitioner | Company 8      | VP, Product Management        |
| RESEARCH1 | market expert                | Organization 1 | Communications Manager        |
| RESEARCH2 | market & research expert     | Company 3      | Research Director             |

**Table 6: The interviewees of the empirical research**

The ID “MERCHANT” refers to the fact that these interviewees are running their own web store and are also founders of their stores. The ID “BUSINESS” distinguishes other e-commerce business practitioners from founding merchants – the “BUSINESS” interviewees are either working with business development of e-commerce services / stores or are consultants to stores offering either marketing, technological, business or media consultancy. The “RESEARCH” ID interviewees on the other hand are not practitioners of e-commerce themselves (at the current moment at least), but instead they are experts on market and consumer data as well as research of the Finnish markets. An overview of the organizations/companies that the interviewees work for is given in table 7.

In general all of the interviewees are specialists in e-commerce and they have a wide array of knowledge about this specific area of interest. There are however three special qualities to be taken into consideration that make these specific interviewees the best possible fit with the research at hand.

| Organization ID      | Overview  |
|----------------------|---|
| <b>Organization1</b> | Organization 1 is a Finnish pro-trade organization.   |
| <b>Company 1</b>     | Company 1 is the main company of one of the biggest media groups of the Nordics.  |
| <b>Company 2</b>     | Company 2 is the digital section of one of the biggest media groups of the Nordics.   |
| <b>Company 3</b>     | Company 3 is the Finnish unit of one of the leading market research companies in the world.                                   |
| <b>Company 4</b>     | Company 4 is a business group that includes several different successful Finnish B2C web stores.                              |
| <b>Company 5</b>     | Company 5 is one of the leading e-commerce consultancies of Finland.  |
| <b>Company 6</b>     | Company 6 is a small niche based B2C e-commerce business.   |
| <b>Company 7</b>     | Company 7 is a successful niche based Finnish web store and one of the best international successes among Finnish web stores. |
| <b>Company 8</b>     | Company 8 is a Finnish, international, growth start-up business focusing on social commerce.                                  |

**Table 7: The companies/organizations the interviewees represent**

1. Half of the interviewees are currently a part of running a specific web store. However all but two of the interviewees have personal experience being a part of running a web store at some point of their lives. This means that a strong merchant point of view is generated through the interviews.
2. All but two of the interviewees, not the same two as mentioned before, have experience working together with Finnish e-merchants - providing services, consultancy, training or similar. All of the interviewees are well aware of the current situation of the e-commerce markets and actors in Finland. This means that a strong view of "how things are" from outside of the store's own subjective point of view is generated through the interviews.
3. All of the people interviewed have experience with understanding consumers and consumer behavior. Several of the interviewees are also specialized in understanding consumer behavior and have done research of this subject within the e-commerce

context. This means that a very strong view of what actually is effective marketing in the B2C market, and what not, is generated through the interviews.

The general structure of a semi-structured interview should be created based on the research problem. In the case of the research at hand, the interview structure thus relies on the main themes derived from the research problem and the underlying theoretical framework. When generating a theme structure an in-detail catalogue of questions is not made, instead just a list of relevant themes. In the actual interview process the theme areas will be expanded upon with specific questions. The theme areas should, however, be broad enough to allow the real features of the phenomenon being researched to come up in the interview (Hirsjärvi & Hurme, 2004).

These themes are based on theory, so the goal of the interviews is to combine theoretical concepts with reality based empirical experience, as suggested by Eskola & Suoranta (1998). Based on the theme areas the interviews can be deepened if the interests and expertise of the interviewee allow for this (Eskola & Suoranta, 1998). An overview of the themes used in the research at hand is shown in Appendix C.

### ***Analysis***

The analysis of the interview materials began with a transliteration of the material. The transliteration was followed by a free translation of the Finnish interview material into English, performed by the interviewer. After this the written documented material was divided into themes as suggested by Eskola & Suoranta (1998). After this, issues relevant to the research question were detected and picked out from the themed interview materials. Every interview was analyzed separately several times, after which common issues clearly rose up from the different interviews.

According to Eskola & Suoranta (1998) after the thematization the material can be arranged into a collection of quotations. A wide usage of quotations gives an in-depth picture of the material and also makes it possible for the reader to better estimate whether the researcher has made logical conclusions based on the material (Eskola & Suoranta, 1998). The quotations have also been arranged based on resulting conclusive

themes, so that it would be as clear as possible to the reader how certain conclusions have been made by the researcher.

The privacy of the interviewees has also been protected so that their individual comments cannot be connected with the exact company or organization they represent, or their names – therefore the interviewees' names are not disclosed and the companies/organizations they represent have been identified in this thesis under codenames.

### **3.5 Reliability and Validity**

Qualitative research can be estimated according to the traditional estimation criteria of academic research. This means that it can be estimated based on reliability and validity, even if they are conceptually as simple in the case of qualitative research in comparison to a case of a quantitative research.

The validity of a research can be divided into internal and external validity. The internal validity refers to whether the starting point of the research, the theoretical definitions and methodological solutions are in balance with each other. The external validity then again refers to whether the interpretations and conclusions of the researcher match with the empirical data and are generalizable (Eskola & Suoranta, 1998). To summarize, validity estimates whether the research has dealt with exactly the specific issues what the research was supposed to study.

Reliability of the research on the other hand means the extent to which the activities and methods in gathering and analyzing the empirical material/data has been objective enough, and whether the interpretation of the data is trustworthy and without conflicts. Within the realm of qualitative research reliability is about the self-contained repeatability of the research.

Reliability in qualitative research can be divided into credibility, transferability and strength. Credibility can be estimated by evaluating the views of the researcher in comparison to the views of the targets of the research. Transferability as criteria can be translated as the generalizability of the results and strength refers to how much are the

interpretations of the research supported by other research looking at the same phenomena. (Eskola & Suoranta, 1998)

The research has aimed at justifying every choice of method and material, as well as the usage of the central concepts and theories. The research methods, the scope of research, theoretical framework as well as the actual data gathering have been planned and executed with extreme care in order to secure the necessary level of reliability and validity of the research.

The interviewees have been selected with a lot of care so that the information would be as extensive and relevant as possible in relation to the goals of the research. The reliability of the interviews has been secured by planning the interviews well beforehand and recording the interviews. This way the amount of false information and notes has been minimized.

The amount of interviews that were conducted was ten. In order to create an image of the marketing situation in the limited scope of B2C e-commerce field of Finland taken in this research that is as extensive as possible, while at the same time maintaining the objectivity of the research, several important points of view in selection of the interviewees had to be taken into account, as explained in the subsection 3.4.

The interpretations and conclusions made based on the interview data have also been backed up by the theoretical framework of the research as well as other research references.

## 4. RESEARCH FINDINGS

This section of the thesis will illustrate some of the interview data through direct quotations, showcase the main findings and conclude the empirical research part. The results analysis and findings are showcased in three different subsections. The first one considers the significance of trust, satisfaction, loyalty and quality for web stores to support the framework presented in the third section of this thesis. The second subsection takes an in-depth look at the differentiation methods that the Finnish web stores should consider when reaching for success, especially considering the international competition threat. Finally, the third subsection considers the needs and challenges that the Finnish web stores have with marketing related issues, in order to be able to implement the differentiation through marketing activities.

### 4.1 Prerequisites and Critical Issues

In this subsection the issues of trust, satisfaction, loyalty as well as quality as the main influencer of e-commerce success are analyzed based on the framework presented in the 3<sup>rd</sup> section of this thesis. Trust, satisfaction and loyalty were found extremely important by all of the interviewees and especially trust will increase in significance in the future. The quality of service as well as the systems of the web stores and the overall information was found to be significant for e-commerce success, and marketing was found to affect all of these.

#### 4.1.1 Trust, Satisfaction and Loyalty

##### *Trust*

One of the most important underlying prerequisites of success in consumer web commerce is trust. In the same manner as trust was found to be extremely important in the theoretical considerations of subsection 2.3 the interviews also leaned towards the same conclusions.

*"Trustworthiness is the prerequisite of everything. The whole business plan is based on trust and how to increase and sustain trust." MERCHANT2*

*" [The significance of trust] is [outrageously] big. My starting point is that I don't do anything that I wouldn't like myself as a customer." MERCHANT3*

Trust seems to be overall important, but specifically it is important to enable the first purchase. After a consumer enters a web store the significance of the actual shopping experience, as well as related satisfaction increases - in proportion to the relative significance of trust.

*"Trust is without question extremely important and the brand in relation to this too. And when you get the first time user in and to make a purchase, then it becomes about the shopping experience. " BUSINESS2*

*"Several surveys indicate trust as one of the top 5 factors regarding e-commerce from the consumers' point of view." BUSINESS4*

There are several methods of creating, increasing and sustaining trust. As already noted in the previous quote, one of the important tools in trust creation is the brand. Some other tools include the site itself as well as the products and partners, trust certificates, payment methods, overall visibility in digital as well as traditional media and recommendations (Lee & Turban, 2001). The role of the front page was also considered especially important for web store trust images, because in the web world the consumers cannot distinguish size as easily as in brick and mortar stores, so just by investing in the front page can give an image of a trustworthy big store.

*"There are lots of methods. For example high quality, well known partners, trustworthy site – including professionalism, site functionality, payment methods, Facebook fans, news, product selection, registered trademarks etc. – good visibility in the search results in your own field, and the most important: even though just a small amount of visitors come to the site through the front page, a part of them also visit the front." MERCHANT2*

*"It's big and therefore it's trustworthy. If it's small, then for some reason it's usually not." MERCHANT1*

In several of the interviews the role of media and visibility was also especially emphasized in relation to trust creation towards a specific web store.

*“How to create trust in real-life is by being there, being present. So like if you think about CDON.com or something, they’re really making sure that they’re on our TVs all the time, during every commercial break.” MERCHANT1*

Based on interview data the following main findings were made:

- Main Finding 1: Trust is extremely important to web store success and increasing in importance
- Main Finding 2: Trust can be increased via brand, quality dimensions and marketing

### **Satisfaction**

Another one of the main prerequisites of success from the theory part of this research, satisfaction, was found to be extremely important in the empirical research. Every one of the interviewees saw satisfaction as one of the key issues for e-commerce success overall.

*“The meaning of satisfaction is really big. I don’t count profit into the amount of time and money spent for usability general customer satisfaction. The tab is open all the time for everyone who does this job.” MERCHANT3*

Satisfaction was mostly seen connected with user experience, which is built of a plethora of several different issues regarding the whole web store business including for example service, the site, information, product selection, pricing, payment, delivery etc. The interviewees also noted that most of the stores probably understand the significance of the customer experience and satisfaction, but still might not invest enough in taking care of this angle.

*“That’s all it takes I think, a good shopping experience.” BUSINESS2*

*“Customer experience is something that stores are somewhat concerned about, but they really don’t think about it enough.” RESEARCH1*



What was considered extremely important about the satisfaction of the customers was not only the fact that it leads to repeat purchases, but also that the customer experiences create word of mouth marketing and can be used in new digital marketing channels. The views expressed about the future development of e-commerce indicated that most probably the significance of the customer experience will only increase. This fits in with the general views that have been presented about the future of consumer behavior.

*"Every customer is a potential opinion influencer." MERCHANT3*

*"Customer experiences and reviews are very important. But what counts here a lot of times really is the amount of these." BUSINESS2*

*"A good site also markets itself, when the quality is in order." MERCHANT2*

*"More experience based and like ritual buying is what's going to happen. It's a bit like going to Stockmann with your friends, you'll have coffee there, there are smells and scents, there are visuals, there are other people, and it's fun."  
MERCHANT1*

Based on interview data the following main findings were made:

- Main Finding 3: Satisfaction is extremely significant for web store success
- Main Finding 4: Satisfaction can be best achieved through superior service quality

### **Loyalty**

Satisfaction was also linked to the issues of customer loyalty in e-commerce, as was discovered through the literature review in general. The quality dimensions of the web store were also considered some of the most significant issues affecting the satisfaction and repeat purchase loyalty.

*"Customer is what the whole service is based on, and quality is why the customer might maybe visit the site again, simplicity is what the customer notices and at the end bases his/her purchase decision on." MERCHANT2*

The issue of positive WOM that was discussed earlier on in regard to satisfaction is something that also positively affects loyalty. The more obscure issues of attitude and “coolness” of a web store were also found to affect the loyalty towards a web store in addition to the issues of selection offering, quality, experiences, recommendations and WOM.

*“Recommendations by others and word of mouth communications affect loyalty as well as the brand and naturally the selection and need itself.”*

RESEARCH2

*“It’s without question important that the people love your store, you have to have the right attitude, like at Varusteleka they have for example, and you have to have products and stuff that talks to your customers.”* MERCHANT1

It was also noted that in general the loyalty rates of Finnish e-commerce are quite high, especially compared with regular brick and mortar shopping.

*“In general, the customer loyalty is high in Finnish e-commerce. The biggest impact to loyalty is through satisfaction and shopping experiences. The people in general are very happy with their experiences, they are satisfied, exceptionally satisfied if compared to traditional stores.”* RESEARCH2

Based on interview data the following main findings were made:

- Main Finding 5: Consumer loyalty is extremely important
- Main Finding 6: Loyalty is affected best by satisfaction, WOM, brand, selection and quality

#### **4.1.2 Significance of Quality and Marketing**

##### ***Systems Quality***

From the systems point of view quality is extremely important. Good quality systems are seen key to creating successful web business and they support the service quality of the stores.

Depending on the niche, style and other issues affecting the store it was also noted that the system and site related design can be lower if the product and other offerings are good enough. But in general the ease of use and design of the systems were still seen as important issues.

*" [In regards to the design, usability and ease of navigation of the site] if the customer really wants your products then these are things you can give up a bit of. The more unnecessary [garbage] you sell, the more important ease of use is. " MERCHANT3*

*"Design, usability and ease of navigation are important things." MERCHANT2*

*"Good [design, usability and the ease of navigation] do grow sales in any case." MERCHANT3*

The specific role of Finnish payment systems and certificates as a positive issue from the systems point of view came up in detail during the interviews. However the ease of use of payment methods was also questioned in comparison to foreign competitors.

*"I think that the payment solutions are one area where the Finnish are pretty good at. The payment services are really reliable and all the main banks are a part of the system, and I really think that from the consumer's point of view it's really important to have this [but] development has to happen here too. The payment should be made as easy to use and fast as possible. The web has taught us [as consumers] that everything needs to be swift and fast everywhere else, so it feels weird if the payment doesn't work with the same rapid logic." RESEARCH1*

*"Of course all the Finnish bank based paying services are really reliable and safe, but they are not the easiest to use. And you know if someone gets your PayPal info then of course it's a big risk. But it's just so much more easy to use that it doesn't really matter as much." BUSINESS2*

*"Think about amazon for example, you just click through an e-mail and you're already in the pay-zone, and your credit card information is*

*automatically there, and it's done. That's easy, and that's way ahead of what the Finnish stores can offer."* BUSINESS1

Based on interview data the following can be concluded:

- Main Finding 7: Systems quality is important but not among the most critical issues for e-commerce success
- Main Finding 8: Improvements need to be done to the ease of use and payment systems of Finnish web stores

### **Information Quality**

In addition to the systems quality perspective, information quality was also considered to play a heavy role in creating a positive shopping experience. In general the state of product information was also seen to be quite low in Finnish e-commerce.

*"[The accuracy, amount and understandability of information] is really relevant and other web stores don't seem to get it. The customer doesn't see the products so you can't [cheat them], and you can't leave things untold. If you do that, the customer will sense it for sure. We put more effort into this than anything else."* MERCHANT3

*"In addition I guess the sales [information] of products get invested into very rarely [by Finnish web stores in general], a picture, name and price is the default, and if you do two lines of text then I guess you can already consider yourself a prodigy."* MERCHANT3

The locality of information was seen as a significant advantage to Finnish web stores. The fact that the Finnish language is so rare and complicated makes up for a protective barrier for the Finnish players providing Finnish product information in the markets.

*"Fortunately we're protected by the Finnish language, very few know it and even fewer bother to learn it just for a market sector of 5 million people. Let's stick with Finnish language web, marketing and web sites and we'll still stand a chance."* MERCHANT3

There seemed to be many areas of development for the information quality of Finnish web stores, but one of the interviewees brought up a very important single issue that could bring competitive advantage to any web store. This is the issue of price transparency.

*“One very important thing would be getting the delivery costs in the visible price of the products - to make everything easy and transparent from the pricing point of view. It’s a small thing, but I think it would make a world of difference.” BUSINESS2*

Additionally the service quality of a store was found to be critical, and more important than either system or information quality. One of the main reasons for this is that it affects all of the previously discussed prerequisites of success: trust, satisfaction and loyalty. Service will be discussed more in detail in sub subsection 5.2.1

Based on interview data the following main findings were made:

- Main Finding 9: Information quality is very important in creating a positive shopping experience, which leads to satisfaction
- Main Finding 10: Information quality is not high enough in Finnish stores
- Main Finding 11: Information quality also affects the level of achieved trust
- Main Finding 12: Service quality is critical

### **Marketing**

The importance of marketing was seen as extremely high for web stores by all of the interviewees.

*“...I see [marketing] as really important – our first years went without marketing just based on the fact that the products were in demand and information went from mouth to mouth. To get to the current scales has already demanded more effort. I use a lot of time and money in marketing – real lot. I even have three-four graphic designers in-house.” MERCHANT3*

*“Marketing can definitely create extra sales - it affects purchase as well as repeat purchase.” BUSINESS1*

*“The significance of marketing is big. Without marketing it is very difficult for a new merchant to enter the markets, because no one will even know about your web store before maybe about half a year from now, if you don't start marketing immediately when the store opens.” MERCHANT2*

Based on interview data the following main findings were made:

- Main Finding 13: Marketing is vital for e-commerce success
- Main Finding 14: Marketing directly and indirectly affects purchase as well as repurchase

#### **4.1.3 Summary**

To summarize, the main findings made based on interview data regarding the matters of the significance of trust, satisfaction, loyalty, quality and marketing for Finnish web stores are as follows:

Main Finding 1: Trust is extremely important to web store success and increasing in importance

Main Finding 2: Trust can be increased via brand, quality dimensions and marketing

Main Finding 3: Satisfaction is extremely significant for web store success

Main Finding 4: Satisfaction can be best achieved through superior service quality

Main Finding 5: Consumer loyalty is extremely important

Main Finding 6: Loyalty is affected best by satisfaction, WOM, brand, selection and quality

Main Finding 7: Systems quality is important but not among the most critical issues for e-commerce success

Main Finding 8: Improvements need to be done to the ease of use and payment systems of Finnish web stores

Main Finding 9: Information quality is very important in creating a positive shopping experience, which leads to satisfaction

Main Finding 10: Information quality is not high enough in Finnish stores

Main Finding 11: Information quality also affects the level of achieved trust

Main Finding 12: Service quality is critical

Main Finding 13: Marketing is vital for e-commerce success

Main Finding 14: Marketing directly and indirectly affects purchase as well as repurchase

Based on these findings a new look at the success framework summarized in section 3 can be had. Most of the elements and their interconnections in the framework have been repeatedly confirmed by the empirical data. The main emphasis was based on the elements of the framework now highlighted in figure 18.

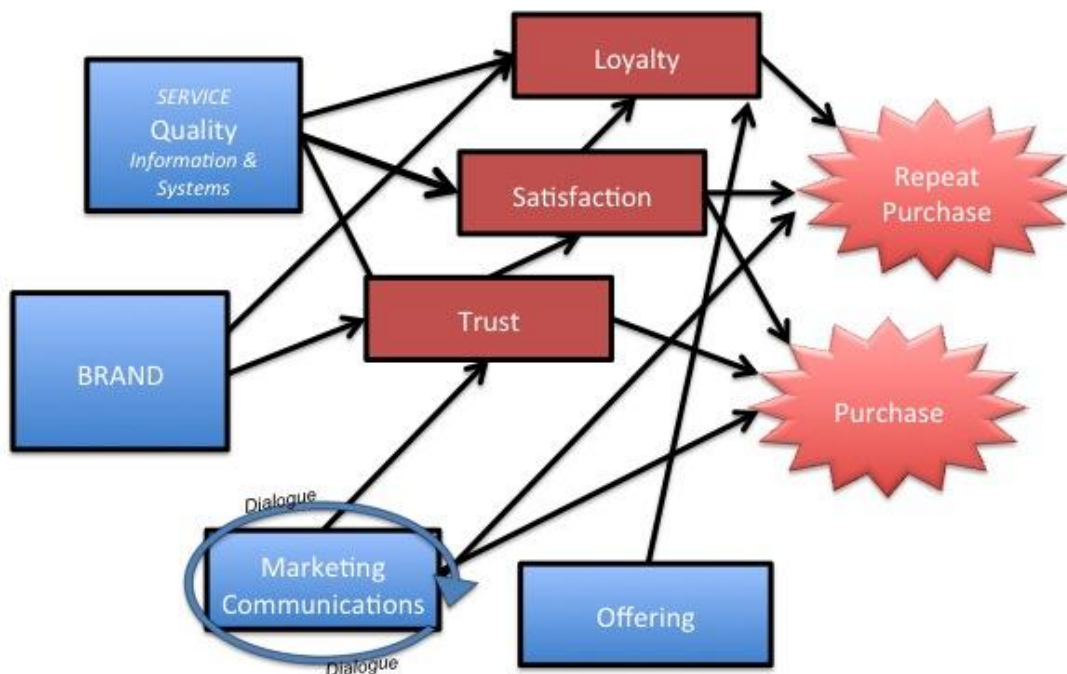


Figure 18: Success framework highlights based on research results

The logic behind the general necessities behind a successful web store therefore start to be quite clear based on the theoretical framework and confirmation through empirical information from the Finnish web store context.

## 4.2 Differentiation Methods

In this subsection the most effective differentiation methods for Finnish web stores will be discussed through interview data and main findings are presented. Differentiation is

a critical issue for the Finnish web stores in order to improve on the base situation of having a successful understanding of what it takes to make a satisfactory web store, and how to make it strategically stand out from the other stores and therefore drive popularity and generate more revenue.

Based on the analysis of the interview data the findings suggest that the following differentiation methods are the best fit for Finnish B2C web stores, especially considering international competition. The foreign stores will most of the time be more competitive with pricing and have a wider selection of products available. The logistics and systems are also in many cases better. There are however several other differentiation focuses also that can be used to create competitive advantage.

#### **4.2.1 Brand and Service**

One of the most important methods of differentiation is the brand. With a strong enough brand it is possible to generate trust, satisfaction and loyalty, and to achieve a price premium and protection against competition. This is one of the most important marketing methods available to any web store.

Creating a strong brand is a challenging diverse process that has to do with all of the elements of an e-commerce business. The brand involves the shopping experiences of the customers which then again necessitates superior service, information and systems as well as a proper product offering. Presence in both digital and especially in traditional big scale media can be very important to the brand image development and keeping the brand in the top-of-mind of the consumers.

*“Brands matter, a lot. Let’s take for example Gigantti. They’re not even trying to be the cheapest option, but they rely on their brand, it’s in the minds of the customers and it has enough pull for them so that they don’t need to be the cheapest option around.” BUSINESS2*

*“I’ve heard through the grapevine that a time ago when Google measured the income from advertising they concluded that the long tail phenomenon was hugely important. It was something like that top 2% of the advertisers*



*brought about 80% of the revenue. So the top level brands, even in the case of Google brought a huge amount of the revenue.” BUSINESS5*

*“The role of brand advertising is extremely important. There’s so many ways you can really compete out there, in the web, like everywhere else also. You can have the best brand, or you can have a certain niche approach or the cheapest prices. But really I can’t and I don’t dare to imagine where our store would be if we didn’t keep traditional [brand] advertising in the loop also all the time.” MERCHANT1*

However according to the interviewees the Finnish web stores do very little, if any, brand advertising on average. Additionally it was noted that even just advertising might not be enough for the Finnish stores to create strong brand value in the minds of the consumers.

*“[In Finland] web stores do very little brand advertising. Verkkokauppa.com has done a lot, but then they for example don’t even have an electronic newsletter I think. But they’ve definitely done something right because their turnover is something like 150 million I think.” MERCHANT1*

*“Really for the brand side of thing, for the Finnish web stores’ advertising and marketing really is not enough. One of the things to do is service development, so what kind of services a Finnish store can develop that the foreign stores can’t or don’t want to do and that are important to the customers.” BUSINESS4*

In relation to media visibility and awareness it was clearly the dominant opinion throughout the interviews that brand is one of the most significant key issues in creating trust, and differentiating from the trust point of view in marketing. One of the issues that came up was that product brands are not enough to create trust for the stores. Another angle was that most benefits of the significance of trust are gained by the bigger players and brands on the market, and that for the smaller stores trust might pose more challenges.

*“The brand plays an extremely significant role in creating trust. Smaller stores have to take advantage of other brands in creating trust. For example the OP safe web payment or some other such brand can be a good reference of trust. Depending solely on products brands, such as for example Nike, however is not enough anymore. The stores need more than just that.”*

RESEARCH2

*“For the big players the importance of trust is a good thing. But for the smaller players you need other means of creating the trust – for example the Verkkoteollisuus trust certificate is one of these, and then another one is these payment methods. For the small companies trust definitely also has significance.”* BUSINESS4

However all of the interviewees also agreed that price definitely is not the only thing that matters, and that there are numerous ways to overcome the challenges posed by price competition. Many of the issues were already discussed previously in this analysis but they include among other things brand, trust, shopping experience and satisfaction, local presence and service quality related issues.

*“Pricing per se is not enough to beat the Finnish players. Especially through the newly initiated customer groups [of +50 year olds] the significance of brand, but also service and the shopping experience in general is emphasized. Not just price and selection!”* RESEARCH2

*“What people always say is that price is so important, and it really is, but it’s not everything. There are so many explainable and unexplainable things out there that make a difference to whether a person buys from a certain shop or not. The brand absolutely is one of the things that can make a difference there.”* MERCHANT1

*“Especially in the beginning the price was especially meaningful because the users were mostly young people, but that is not so valid anymore. I mean, the older females, they definitely won’t do a third round of price comparisons in the web just to find a bit cheaper product.”* RESEARCH2

Another extremely important way of differentiation is through superior service. The service also supports the brand development effectively. The extent to which service can be defined in e-commerce is multifold, but there are several specific areas of development that would be beneficial for differentiation in the market.

The concept of service quality has come up during the interviews many times, and with the case of pricing there is no exception. High quality services and new service innovations are thought to be main issues that can be used to compete without entering a price fight with the international competitors.

*“Probably it’s always so that in for example a German big web store, the prices and selection will be better than in a Finnish web store, but there’s still the issue of service and for example delivery times – or what if something bad happens, do I get consultation, help or maintenance for my products? It’s really necessary for the Finnish stores to build on having better serviceability and quality, or that you get the product immediately.” RESEARCH1*

*“Basically the selection, price and availability of a foreign competitor will always be better than in Finnish web stores. Because a Finnish store competes with a higher price, probably narrower selection and maybe even worse availability, service innovations are really the number one priority.” BUSINESS4*

The dimension of web store quality that was overall found to be most important in the interviews is the dimension of service. More importantly service, in addition to the trust and brand elements identified already earlier, was seen by many if not all of the interviewees to be one of the key factors that Finnish stores could use to differentiate with and compete better against the increasing international competition.

*“...key things to beat price and selection competition are brand, and especially service. This is something what the Finnish special trade really has to work with more.” RESEARCH1*

It is slightly obscure what is considered a part of merely service quality and what then again is a part of the systems and what is the role of information quality, since they

could all be considered service marketing related issues. Therefore even though in this analysis there is contextual separation between service, systems and information, they all should be considered a part of the same package creating the overall quality and overall customer experience in a web store. In any case the customer service element of e-commerce was one of the issues that rose up several times in all of the interviews.

*"[Customer service is] very important. We react to all customer feedback and take it into consideration." MERCHANT2*

*" [Customer service] is real important. I've always put effort into this and we've got thanks for that. We answer in detail and instantly, and the starting point is that the company takes [the blame] not the customer." MERCHANT3*

*"Customer queries which necessitate a functioning customer service are received by the company on a daily basis. I have actually never really understood the companies where customer service doesn't work. Quality is being measured every day by the customers, just one thing that isn't being taken care of and the quality is not right." MERCHANT2*

There were several views on what counts as good customer service, but one of the key issues was considered the interactivity and responsiveness of communications.

*"The worst mistake that you can do is of course not to answer to customer feedback, or actually even worse is that you attack the feedback negatively, or in any way make a negative answer even if it's in anyway the customers fault in reality. It's important to be positive and to be active in the feedback." BUSINESS2*

*"Interactivity is important. Communication is important; it has to be possible around the clock, regardless of the time of the year." MERCHANT2*

A slightly more logistics related angles to the quality of service are the deliveries, product returns and warranty related issues of e-commerce. This was also seen as highly important for Finnish web stores and their potential differentiation methods.

Additionally this was also considered one of the areas that need a lot of development in the Finnish B2C e-commerce niche.

*“This [issue of deliveries and returns] seems to be really important to the customers. Since 2006 we’ve mostly sent all packages the following day. This has created a lot of positive feedback. Product tracking is also really important to people.”* MERCHANT3

*“What is left if there are all the same products, and then the price is better with your [international] competitors, so what can you do: reliability, service, speed. And the big players might be able to do even these better.”* BUSINESS2

*“Think about warranty problems and returns for example. This is an area where the Finnish web stores really can have leverage against international competition. But we need to really develop this and become the best in this area for it to happen.”* BUSINESS1

Systems and platforms were not seen as a very important source for competitive advantage or differentiation from the serviceability point of view. Other methods of differentiation were considered much more vital for business success than systems. One of the main reasons was the fact that technological issues are easy to copy and that good enough basic platforms are already easily available for anyone for a low cost.

*“In the technology and browsing side of things it’s really difficult to build any kind of lasting advantage, because they can be copied quite easily. I mean if you’re a passionate merchant, yes definitely if you experience something cool in another web store, you’ll copy it. So it’s important to make sure that the technology is right, but it’s not the source of enduring competitive advantage.”* BUSINESS4

*“At the end it’s about how you brand your store, and how you differentiate. The platform is not the thing, there are a lot of good platforms out there already and they’re really cheap, and they’re just getting better all the time, and so it’s not about this really anymore.”* BUSINESS2

Based on interview data the following main findings were made:

- Main Finding 15: Brand is a critical differentiation factor for Finnish web stores
- Main Finding 16: Service is a critical differentiation factor for Finnish web stores
- Main Finding 17: Differentiation through service should be based on unique service innovations
- Main Finding 18: Finnish web stores need to improve on both the quality and uniqueness of service

#### **4.2.2 Product Offering and Price**

The third important angle of differentiation can be located within the product offering possibilities of the web store. One of the most effective methods of differentiation is to offer specific unique products that no one else does, and that the potential customers find valuable. Finding a specific consumer niche and serving these consumers with specific products is also a very effective angle. Additionally for Finnish web stores one way of differentiating from the international competition is through a localized product offering.

One current gap is also the pricing related offering differentiation. Price competition is mostly seen as dangerous or not beneficial to web stores, but one issue that is lacking from the markets mostly is the transparency of pricing. Creating different pricing and productization combinations and making the prices transparent is one way to differentiate from competition, even if this might not create a lasting competitive advantage as the pricing models can be copied.

On a general level, all of the interviewees agreed on the importance of product selection.

*“The product selection has a very significant role for many reasons; 1. Trust towards the web store, 2. There are no two things that are the same, 3. In e-commerce the quantity cannot replace the image of a wide selection to the customers, 4. The site has to work and without product selection in the stock it’s quite difficult. These are just a couple of reasons.”* MERCHANT2

*"If you don't have goods that the customer wants, then you probably don't have sales either. Then again even a small product selection can take you far if the products are exactly what they should be. I guess I started with 10 products and the company has grown into its current size [one of the biggest independent web stores in Finland] purely financed by revenue."*

MERCHANT3

Regarding the product selection of Finnish web stores there are also several big problems currently that came up in the interviews. One of the problems is that too many of the Finnish web stores seem to think that adding more different kinds of products in the inventory is more important than actual marketing.

*"A lot of web stores in Finland think that the most important tool is to add more products. They kind of grow their balance sheet, they take more stuff in the inventory, and they think that they don't lose because, hey, now I've got this stuff in the warehouse - it's valuable. But when they buy this stuff, it costs money and then they don't have money for marketing, they can't sell the stuff, it just stays there, then they have to either try to sell it out too cheap, and they're making loss." MERCHANT1*

Another related Finnish problem that was noted by many of the interviewees was that then again most of the stores don't seem to keep goods that they are selling on their website available in inventory.

*"As a starting point Finnish web stores take care of their stuff bad. The biggest problem is that not all products are available in the web, but at the same time there are no real-time inventory levels in the web, so they sell products that they can't really deliver." MERCHANT3*

*"All the products in our web store are available in the warehouse. According to our knowledge this is not a very usual practice. That is why we also invested immediately in a wide selection in stock, rather than having a lot of a specific product. Many of the web stores make their selection look big just by having a delivery time of 7 working days, which equals with "the product*

*is not available in stock, and we don't know if even the importer has it". This you couldn't do in a brick and mortar store of course." MERCHANT2*

Pricing is also one of the issues that all of the interviewees unanimously considered one of the ways that some foreign web stores have competitive advantage against their Finnish counterparts. Because of several reasons, such as different scale benefits and tax issues, the foreign web stores can many times offer more competitive prices than the Finnish stores.

In general the interviewees do not necessarily consider taking part in price competition as a beneficial thing to do either. Price is seen as a good and multipurpose marketing tool, but taking prices too low is seen as a bad thing. Also it is noted that if the prices are used as a tool for luring people in the store, then after that other methods need to be taken to keep the customer.

*"There has to be price competition, but 'slashing' the prices in web stores doesn't make sense. We've set a certain price level for our products and that's it. We're not going to take part in a possible price competition; because no one achieves results with that and the excess lowering of product prices would only hurt our field." MERCHANT2*

*"Every store can't be the cheapest with all products - they're usually cheapest in a certain segment or product group. And with these special offers it's that you can get a customer in, but then you really need to know how to keep the customer there, and so that the consumer doesn't exit then." BUSINESS2*

The importance of pricing also always depends on the specific target group that a store is trying to reach. With certain target and product groups price is not an issue, and in some other more low-involvement product and target groups it is very important. This is also evident in some of the comments of the interviewees:

*"The most important thing is to know one's target group – who they are, and what they want. Marketing communications are solely dependent on this. If the target group consists of price aware individuals, then surely the tactics have to do with the price." RESEARCH2*



*“You could order our products in English from Germany about 20-30% cheaper, but we’re still selling quite well.” MERCHANT3*

Finally relating to the product selection point of view, the selection can also be seen as a method of differentiation from the international competition in a more strategic way. One generic product differentiation method could be through localized products for Finland.

*“Localized products could be one way of differentiating from international competition. The way that verkkokauppa.com has done it for example – creating localized versions of products for Finland. This could be a successful way of competing.” BUSINESS1*

Based on interview data the following main findings were made:

- Main Finding 19: Product selection is both critical for business and a strong differentiation factor
- Main Finding 20: Low price is not considered critical for the product offering

#### **4.2.3 Localization and Multichannel Integration**

In the case of all of the previously mentioned differentiation angles the local perspective is significant when considering international competition towards Finnish markets. Local knowledge, service and information in Finnish, a Finnish atmosphere and feel as well as localized products and offering, physical presence and presence in the local mass media are all ways of differentiating from the international businesses.

However between the Finnish players, differentiation methods of this kind of course are not valuable since the other local companies can execute the same strategies easily. The other attributes of the brand, service and offering combination however provide enough opportunities for any store to distinguish itself competitively from the other local players.

Additionally physical presence is thought to be extremely supportive for creating a strong brand. For the Finnish web stores the local angle brings additional competitive advantage to brand marketing. Because of the new big consumer groups of over 50 year

old Finnish people and females (Roiponen, 2011a), the locality of a brand or store brings even more value. From the threat of international competition point of view trust was considered as at least somewhat an important area of differentiation by all of the interviewees. This was especially due to the angle of locality and being Finnish. It was especially noted that at the current moment when the new older consumer groups are entering the web store world, the significance of trust and safety that the Finnish stores can create is important. However, it was still questioned whether this kind of an advantage can last, and for how long.

*“Safety and the feeling of trust is one of the only things that I can think of where Finnish are in general better in the Finnish markets than the international competition. But of course this also will change. In the future this safety issue will not be as significant anymore.” BUSINESS2*

*“Being Finnish is surely a very important thing, exactly because of these [new consumer] groups. Strong local brands and trust are important.” RESEARCH2*

*“Surely it’s possible that the [grand moms from the cottages] start buying more, and they probably already have, and this might affect the situation in a way where the Finnish stores become more trustworthy and have competitive advantage against international competition just by being Finnish. But how long will this really last then?” BUSINESS1*

One other issue that came up during the interviews relating to the trust created solely being Finnish was that international stores are also localizing their offerings already. When the foreign competitors do thorough work with localizing, the look and feel of the web store – as well as even the customer service in some cases – might persuade the consumer think that the company behind it is actually Finnish.

*“There are a lot of these web stores from abroad already that give you the impression as if they were Finnish. Think about CDON.com for example or something like this. If you wouldn’t know, then it really seems like it’s a Finnish web store.” RESEARCH1*

*“Pixmania and CDON.com for example, they’re great examples of how international players have been able to make stores in Finland that feel like they’re Finnish. There’s more and more of these sites coming all the time.”*

*BUSINESS2*

However one of the main advantages that the Finnish stores have against the international competition was considered local knowledge and Finnish positioning overall.

*“In the Finnish markets the way to be successful is based mostly on local knowledge. The Finnish should sell Finnish products, local brands - they’re something that the international competitors are not so well aware of.”*

*MERCHANT1*

*“As a Finnish player you have to have good Finnish language service, fast deliveries, and some special extra on top of that – something that brings out the Finnish side of the package and pulls there.”* MERCHANT1

Physical presence was also considered one of the factors that can increase the quality of service significantly. Physical space can also support the delivery and warranty services of the web stores.

*“Physical presence is important if it’s possible to have. Especially a pick-up point is very important, I mean so that you can really get your product immediately if you want to. Another thing is, with some products such as clothing and so on, it’s really important to be able to physically be in contact and see and try out the products pre-purchase. And finally if the physical location is good, well then that’s marketing already by itself. And then finally for all the product returns and changes, it’s just easier.”* BUSINESS2

*“If Verkkokauppa.com goes ahead with their plans of the 24/7 service in their new location, well it really is a nice service promise. You know the most lustful shoppers can go in the middle of the night and get their product right away. You get your order immediately. Who else can provide that?”*

*BUSINESS4*

*“For example in the case of Verkkokauppa.com the brick and mortar has played a very significant role. If we just talk about the pickup service, it has been extremely significant for them. In fact Verkkokauppa.com is a brilliant example of an extremely well done multichannel integration. They have also expanded their brick and mortar selection through web and warehousing.”*

RESEARCH2

Physical presence was therefore also seen as a good method of differentiation against international competition by most of the interviewees.

*“Finnish stores should put resources into physical multi-channel solutions, because the foreign stores probably won’t do the same.”* BUSINESS4

There has been a lot of discussion during the recent years about the effect of e-commerce in the brick and mortar based business, but the interviewees didn’t see this as problematic. Instead they considered e-commerce to support brick and mortar.

*“E-commerce won’t kill the brick and mortar – our pick up point’s part of the sales is around 35% and it has expanded into a 600m2 shop. People always check out from the web something that they want, and then they rush into the shop.”* MERCHANT3

*“Unquestionably the web store also supports brick and mortar. Some of the last laggard groups have also finally noticed that one can’t afford not being in the web even if they have a strong brick and mortar presence. And even the traditional web site is not enough by itself.”* RESEARCH2

Overall a balanced multichannel approach was considered by the interviewees as the best way of conducting business, if it is possible to have a physical presence. Its significance is also thought to considerably increase in the future.

*“I see that this kind of multi-channel approach and the co-operation of web and brick and mortar store, it’ll really become more and more important all the time. For both sides”* MERCHANT1

*“Outlet concentrations or showroom concepts will become more popular, for example let’s say five [smaller] web stores start up their own showroom or similar physical entity [together].” BUSINESS4*

*“The brick and mortar is a very important part of e-commerce also. A balanced multichannel integration is what works the best.” RESEARCH2*

*“The multichannel approach will be more and more significant in the future for any web store that really is serious about the business.” BUSINESS4*

In addition to suggesting that the Finnish stores should invest more into multichannel approaches, some of the interviewees also emphasized the importance of using the web site as a tool for creating traffic to a physical store.

*“One thing that web stores with a physical presence definitely need to think about in their marketing is how to use the web in moving people also to the brick and mortar. This can also work really well – depending on how it’s being built. Do I build a campaign that gets people to the brick and mortar, or just work with the web store?” RESEARCH1*

*“If direct sales are not being made [in the web], then at least it should be made sure that the web brings traffic to the brick and mortar.” RESEARCH2*

Finally, one of the most important aspects of a multichannel approach is that the brick and mortar presence is also considered supporting the building of a strong brand significantly. In relation to customer service, being Finnish was also once again considered an advantage.

*“Brick and mortar also surely plays a strong part in creating a brand.”  
RESEARCH2*

*“If you get Finnish personal service, in Finnish, This is one of the things that can make a difference.” BUSINESS2*

Based on interview data the following main findings were made:

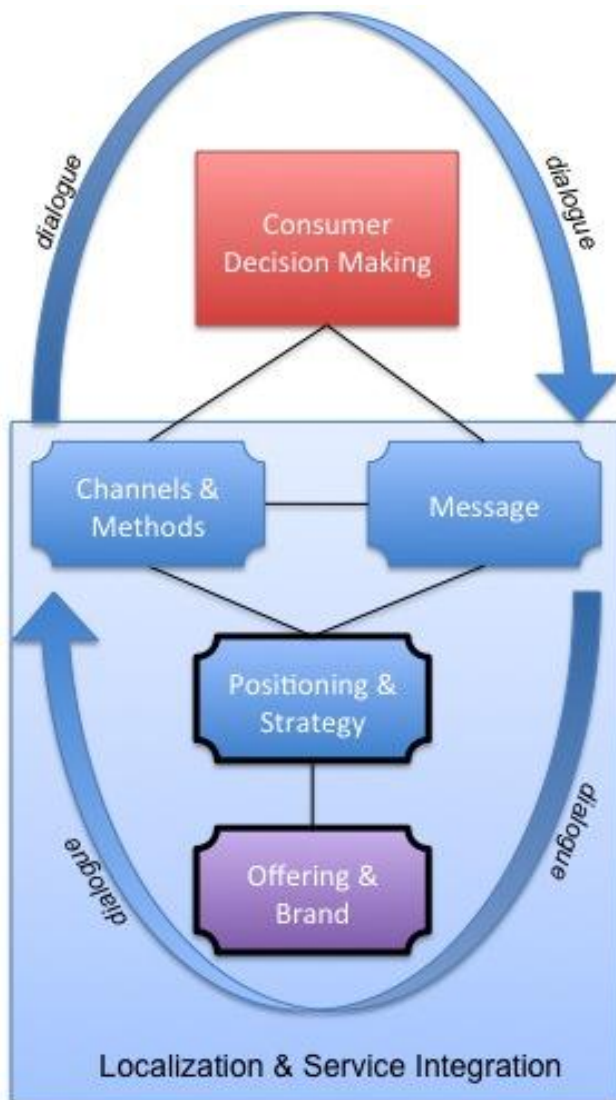
- Main Finding 21: Locality is a strong differentiation angle

- Main Finding 22: Localization can be achieved through services, selection, branding, the digital and physical storefronts as well as communications

#### **4.2.4 Summary**

The most important overall methods of differentiation for Finnish web stores are the brand, service and product offering – all made more effective by localization and channel integration. Based on these conclusions an updated version of the marketing communications success conceptualization was created.

The new conceptualization visible in figure 19 includes not only the product and brand offering as key drivers for positioning strategy, but also the service aspect – and all three brand, product offering and service are emphasized by a localized aspect. The summary of the main findings of this subsection can be found listed on the right side of figure 19.



**Figure 19: Updated marketing communications**

Main Finding 15: Brand is a critical differentiation factor for Finnish web stores

Main Finding 16: Service is a critical differentiation factor for Finnish web stores

Main Finding 17: Differentiation through service should be based on unique service innovations

Main Finding 18: Finnish web stores need to improve on both the quality and uniqueness of service

Main Finding 19: Product selection is both critical for business and a strong differentiation factor

Main Finding 20: Low price is not considered critical for the product offering

Main Finding 21: Locality is a strong differentiation angle

Main Finding 22: Localization can be achieved through services, selection, branding, the digital and physical storefronts as well as communications

### 4.3 Marketing Challenges

This subsection discusses marketing, marketing communications challenges and related issues of Finnish B2C web stores through the analysis of the interview data. The main themes are the planning of marketing, available and used resources, methods and channels for marketing communications as well as analytics and data marketing.

#### 4.3.1 Planning and Resources

The state of marketing and marketing knowledge of Finnish web stores was overall considered quite poor by the interviewees. The average level of marketing knowledge was considered low and Finnish stores do not know enough about marketing and do not put enough effort into implementation. However all of the interviewees were aware of some Finnish web stores that are also doing very successful marketing.

*“Marketing as a whole is not known well enough in Finnish web stores. It’s sometimes viewed as just putting a banner here or there, and even with this they’re not always really good at. The foreign stores really know their marketing better a lot of times.” BUSINESS2*

*“The biggest draw-back in Finland, from a marketing perspective, at the moment for sure is the lack of know-how.” BUSINESS4*

Regarding another side of the same issue several interviewees also considered the investment of time, money and effort from the founders of web stores to be insufficient.

*“I think that people start a web business with too little preparation and equity in the first place. Because everyone knows that if you start up a brick and mortar store the first thing you need to do is get a bank loan. And you have to justify your business idea for quite a few people, the bank, the landlord, your family and friends. And people in e-commerce don’t have to justify it so much, they might think it’s just a little bit of work they’ll do on the side of other things.” MERCHANT1*



*"Among other things the Finnish web store culture sucks, only few really bother to invest in their web stores. There would be a lot of space for growth." MERCHANT3*

The amount of know-how and different kinds of skills that it takes to successfully run a web store was also an issue that most of the interviewees brought up during discussions about the challenges of running a web store and the challenging state of e-commerce culture in Finland.

*"One of the biggest challenges is also in the diverse nature of the knowledge that goes into creating successful e-commerce. Especially in the case of this type of businesses where the CEO runs everything and it's almost a one man operation." RESEARCH1*

*"In a way you should know how to buy, you should know IT to understand how to make this stuff, then you should understand marketing both planning and the media end, there's so many different things that only very few people have what it really takes." MERCHANT1*

The lack of marketing resources and know-how is also considered one of the main reasons why marketing of web stores in general is on a much less successful level in Finland than in some other countries.

*"A lot of times in Finland the web stores get like 1% conversion rates or something like this. And it would be easy to optimize and gain more conversion, like with 2% you already double your business. In some of the international stores out there the conversion rates are around 10% which is incredible when you compare it to some of the Finnish stores." BUSINESS2*

Many of the interviewees noted that they think marketing should be a more integral part of the whole business planning process right from the beginning.

*"Marketing should be a part of the whole planning a lot earlier than it is now, a part of the initial planning process of web stores already." RESEARCH2*

*“Google might take up to 2-4 weeks indexing a new site. In order for the Googlebot to start appreciating the site it takes a lot. That’s why it’s important to start marketing as soon as possible, and the focus of the company needs to be on that in the beginning phase of the business.”*

*MERCHANT2*

One of the key issues affecting the lack of resources to marketing and advertising is seen as the collective lack of marketing and business know-how in the Finnish e-commerce scene. Additionally, the overall monetary resources that the stores have are considered too poor in many cases.

*“The owner of the web store should at least know to ask for key marketing issues, if he/she doesn’t know themselves - the basic concepts of digital advertising and conversion and everything. It’s so much up to the lack of knowledge that the business practitioners have here at the moment I think.”*

*BUSINESS2*

*“Two reasons for poor marketing, and small amounts of marketing investments in Finland are that first of all the equities that the stores start with are too small and then secondly they have a lack of marketing know-how, and they don’t really know how to use the money.”* MERCHANT1

Although all of the interviewees agree on the importance of marketing, it also seems to be clear that in general in Finland web stores put very little resources in marketing.

*“According to a survey about 900€ a year is what Finnish web stores on average use for marketing. And it’s very tragic; it’s a very tragic equation.”*

*MERCHANT1*

Finally, the lack of ability to select a prosperous niche for a new web store in Finland was criticized. What came up several times is that in general the people who start up new stores in the web do not bother to do proper market analysis to see what kind of gaps there are currently on the market. Identifying these gaps was also considered one of the key factors behind a successful web store - strategic marketing planning from the ground up.

*“When starting up a new web store, it should also be understood that a proper product category should be selected – where is the market space, where is there money? There are a lot of categories where there still is a significant amount of available market space and a possibility to make a lot of new money.” RESEARCH2*

*“I think that at the moment the easiest way to differentiate is to search a field where there aren’t yet a lot of proper web stores, and then start one up.” MERCHANT3*

Based on interview data the following main findings were made:

- Main Finding 23: The level of general marketing knowledge and know-how among Finnish web stores is insufficient (with a few exceptions)
- Main Finding 24: The marketing investments and overall resources are insufficient

#### **4.3.2 Methods and Channels**

Continuing on the topic of marketing, one highly important issue is the selection and usage of the right tools and channels. This was also considered one of the main challenges in the marketing of web stores in Finland.

*“The most challenging thing [in marketing] is that there are so many marketing methods, and you need to choose the best out of them. It’s not challenging to make your company and products well known [per se], but instead finding the right tools.” MERCHANT2*

#### **Digital vs. Traditional**

It was widely considered a good idea by the interviewees for new and smaller companies to mostly use the new digital channels for their marketing and advertisement instead of traditional channels. This is because of the overall cheaper price and cost effectiveness compared with the traditional methods. However, this does not mean that traditional advertising should be excluded from the marketing planning of new

companies – in case there is more money in the marketing budget, then it is also worth to spend on traditional channels.

*“For the smaller web stores digital marketing most certainly is the best option, when you want the most out of your small dollars’ worth.”*

*RESEARCH2*

*“A new company should not start advertising their products, brand or services in the so-called traditional media. The ones with a completely different amount of usage capital to be put in the marketing right in the beginning, sure for them using traditional media is probably easier and also more effective.”* MERCHANT2

*“I think it’s very well possible to survive without traditional media too. Think of like eat.fi or some service like that – I have never seen traditional advertising from them.”* RESEARCH1

Regarding the cost-effectiveness of digital channels, one the issues affecting this view seems to be the fact that the results of the digital advertising can be measured in much more accurate detail. Also some examples were being brought up about the difference of cost-effectiveness between digital and traditional advertising.

*“My favorite examples are magazines and newspapers. At some point [with a previous product] we paid a couple of thousand for a local paper with hundreds of thousands readers... ..And we got, I’m not lying here, about 15 landings to our URL, and out of these there was just one conversion. Which was completely laughable, it means that you pay a thousand euros for one lead. On affiliate networks you can buy the same lead at any time with a euro or 50 cents, and also measure it better.”* BUSINESS5

However in general many of the interviewees thought of the traditional media as being more effective on a larger scale for mainstream leads than digital media. It is not considered to be as cost effective as digital media, but unbeatable to connect to the wider Finnish audience. Additionally coupling traditional and digital together was considered by most of the interviewees as the most effective way of doing marketing.

*“If you really need to get in touch with all Finnish people with a big scale – then of course like a big TV-spot is very effective.” RESEARCH1*

*“A direct mail catalogue is a [really] awesome marketing tool, which I find a bit bothersome, because in my opinion advertising garbage that comes to my post box sucks. But then again a million flies like it so much.” MERCHANT3*

*“Surely it is so that a big traditional campaign with big money coupled with digital brings a stronger result than just budget class digital marketing.”*

*RESEARCH2*

In addition to the wide reach it makes possible, traditional media was also considered the best method of building the image of trust and the top-of-mind effect. To summarize, the traditional media was mostly seen as a better method for brand marketing and digital for tactical marketing. Exceptions from this being for example direct mail advertising which is considered an effective tactical method.

*In the traditional media we try to achieve this reliability and trust image, so that we’re in the TV and we’re on the top of the mind of people. And then these catalogues, direct mailings and search engine marketing, they’re like the more activating methods where people come for the specific products.”*

*MERCHANT1*

Another interesting angle is to look at the ratio of digital and traditional channel usage by the Finnish stores. Based on the interviews, in general it seems that most of the smaller web stores only use digital channels, and mainly search engine marketing, whereas some of the more well-known web store brands have also used traditional media and combined the usage of both digital and traditional – in many cases the digital still being more emphasized.

When comparing the situation with the marketing situation of Finnish B2C commerce in general, it is also very interesting that according to the interviews the spending on digital marketing is on a lower level with the biggest players than on average.

*“So for example these really big retail players, for example K-citymarket had a 23 million euro advertising budget last year, then 9000€ was used of it to digital channels. So we’re talking about 0,1% or 0,2% class investments to digital from their budget, when web advertising otherwise in general is about 15% of the entire advertising cake.” RESEARCH1*

As was already mentioned before, it seems that the Finnish web stores do not put enough resources into their marketing. In the case of advertising it also seems that in general the spending is much too low and better results would be achieved with a larger amount of spending.

Because of the wide array of different channels and combinations available, some of the future needs of web stores could be solved through new kinds of marketing tools. As was discussed before one of the main challenges at the moment is selecting the best channels and tools.

*“It is necessary to create marketing tools for the web stores where they can directly get their products showcased in several relevant platforms. The tools need to be straight forward and easy to use, and transparent with pricing.”*

*BUSINESS1*

### **Brand Marketing**

The advertising methods for brand marketing of web stores were seen as being strongly connected to the traditional media and traditional methods of brand advertising. However, the digital channels were not completely excluded from the idea of effective brand advertising. Especially social media and managing the fame that a store has in the web in general is one of the ways that brand marketing is being done digitally.

*“In brand marketing, the traditional methods are very strong. The same rules [as with traditional commerce] apply for the brand marketing of e-commerce anyway. ” RESEARCH2*

*“I guess I feel that in Finland at least web advertising is not yet in a position where you could create this kind of brand awareness and trust through it. It’s*

*really like when you put the ad in a major newspaper or the TV or something like this - that makes a big difference and takes your brand out there, in the minds of the consumers. So it would be important to do this also if possible."*

*BUSINESS2*

*"At the end of the day, the brand of a company is based on whether people in Facebook talk good or bad things about you." BUSINESS4*

In addition to more advertising based brand marketing, one of the most effective ways of managing brand marketing is through services, as already noted in the previous subsection 5.2. The importance of services and service brands was also estimated only to increase by the interviewees.

*"I believe that the role of service brands will definitely grow. Especially Finnish companies need to be able to brand themselves so that they can differentiate themselves from the German cousins who sell exactly the same goods. The Finnish stores need to create a service promise and redeem it."*

*BUSINESS4*

*"...so what is relevant [in brand marketing] is to understand what kind of service elements bring added value to the customers, and then just take care of them so [extremely] well that the service experience for the customers is superior and they're willing to pay the small premium that buying from a Finnish store necessitates." BUSINESS4*

The brand awareness and recognition of a specific store however are not enough alone to create sales. These are considered some of the big things that might affect sales, but in some cases recognition does not convert to sales very effectively.

*"Awareness/fame of a web store is not directly connected with the amount of purchases, even though most of the well-known stores are such that a lot of purchases are made in them. Still there are quite a few big well-known players who cannot convert their reputation into pure sales." RESEARCH2*

Considering the effects of brand on other marketing, it was also brought up that a strong brand also makes for a better basis for tactical advertisement and marketing.

*"It's fifty-fifty. A good offer is based on a good brand and it also goes the other way around, so it's easy to build a package for a good brand."*

*MERCHANT2*

Regarding tactical advertising the consensus seems to be that the digital channels are more suitable for this type of communications than brand advertising. Additionally the digital channels enable very specific analysis and measurement, so from this point of view the tactical advertisement is also a better match with digital channels than brand advertisement that cannot be directly measured in numbers.

*"Another issue that has to do with tactical [digital] advertising, is the ability to measure everything... ..It will not be anymore the marketing director who's deciding that let's buy this and this much time from these and these channels, but instead it's the merchant who buys and he buys from where there's the best conversion rate available. And it's a raw game – if MTV's banner works better than Iltasanomat's, then next week it'll be just MTV."*

*BUSINESS4*

An issue that also got more attention in just a few of the interviews was the importance of post-marketing. Post-marketing could be considered as a part of either brand or tactical marketing or both, and it can also be seen as a way of improving the complete experience regarding the store.

*"Post-marketing is also extremely important, and way underused in Finland. If you think about some of these international stores, with the package you may receive a gift or an offer, or like a 5€ voucher for your next purchase. And they're able to make you hooked and keep you in the loop. And all of these small details or even kinds of tricks, they're what matters."* BUSINESS2



## ***Search Engine Marketing***

According to the interviews, probably the most popular single digital marketing tool for Finnish web stores is search engine marketing. Some of the interviewees also considered it as the most important tool. The reasons behind this include pricing as well as the possibility to target precisely and measure the results. Even though search marketing, and using Google especially, is highly popular it was also mentioned that there is lack of knowledge and know-how in this area among Finnish web stores.

*"As the saying goes, if you're not in Google, there's no web commerce."*

*MERCHANT2*

*"Google (and Facebook) give the chance to target really precisely. If someone else lets us do that too, then we'll use that also."* MERCHANT3

*"Also with the advertising in the web, it's such incredibly small things that make a difference, for example in search engine advertising. Tiny changes in the text can make a world of difference into conversion, but it takes a lot of time and effort of course. And probably many stores in Finland don't really have time for this if there's a few people working there only and they have to spend their time packing and really running things."* BUSINESS2

It is estimated by the interviewees that in some cases buying from the Finnish media might be up to 2-5 times more expensive than from the big internationals. However, it was also acknowledged that visibility in some of the Finnish media might be more relevant to the Finnish web stores when trying to reach specific Finnish audience.

*"With banner advertisement from media a lot of times the price for a click will be up to a euro. And clicks you can buy for 20-50 cents from Facebook or Google or wherever. So it's very interesting."* BUSINESS5

There were however also opposite views to the matter. It was mentioned that to target a mainly Finnish audience, there are not enough searches being done for it to be able to gather enough traffic to the web store just using search engine marketing.

*“People trust too much in the search engine advertising stuff too. Because in the Finnish markets, you can’t really reach enough big traffics with the search amounts that we have here in Finland really.”* MERCHANT1

Google was considered the most well-known digital advertising provider among Finnish web stores and some of the interviewees also expressed concerns about the fact that Google might be the only company in the business – in addition to Facebook recently – that some of the merchants know of.

*“From the point of view of media companies and advertising providers, they also should get information about their offerings to the beginning phase [of new web stores]. From my deep personal experience at a plethora of e-commerce training events, local coaching etc., I can say that everyone usually knows Google Adwords, but that’s it.”* RESEARCH2

Negative views were also expressed towards external service providers of search marketing by a couple of the interviewees.

*“Unfortunately there are several search engine optimizers and other such companies on the market - the same results you could achieve yourself with just a bit of learning. I’d think that an unfortunate amount of companies trust the services of these providers too much.”* MERCHANT2

### **Social Media**

One channel that seems to be taken well care of in comparison by the smaller Finnish web stores is social media. The role of social media in web store marketing was also considered extremely important by the interviewees. The amount of web stores present in social media, and especially Facebook has also grown significantly in Finland recently. There also seem to be some very successful examples of social media activity from some of the Finnish stores.

*“Today no company can be outside of social media. The ones who also have good operational principles will also do well in social media. Then the flow of*

*information is communication that is very open and close to the customer, which in my opinion is very important.” MERCHANT2*

*“More and more web stores have started to advertise in Facebook. Fortunately we were there before the big wave.” MERCHANT3*

*“There are quite a few who are very good with social media and have an extremely successful presence there. For example Varusteleka, they’ve got a huge amount of fans and they’re doing really super there.” MERCHANT1*

However the social media usage was not left without criticism either. One of the things that were criticized in Finnish social media usage was the fact that most of the merchants only think of social media as just Facebook. According to one definition, social media is “a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content” (Kaplan & Haenlein 2010). There are therefore literally hundreds of different social media in the web, and even building two-way interaction into a web store itself, or running a blog with commenting possibilities could be considered social media.

*“And then there’s the social media, I don’t really know if anyone has a good picture of how to use all of this. People just think that it’s Facebook, but it’s a lot more than just FB and you can do a lot of different things.” BUSINESS2*

One other relating issue was that Facebook is also seen as a bad environment for advertising per se, and more as a platform for a different kind of audience engagement and enabler of two-way discussion. From this point of view, Google is seen as a more relevant advertising tool.

*“The context in Facebook is very bad for advertising messages. People have gone into Facebook to meet and chat with their friends and to share experiences. In fact Google is a lot more relevant context for advertisement, because people are searching for information about something. If I’m searching for a car and I get advertisement based on that, I’d almost count that as valuable information.” BUSINESS5*

Although the participation of web stores in social media has grown recently, there are still many stores that do not have a social media presence, or are not active enough in the social media domain. One of the reasons for low levels of participation in social media is seen to be the large amount of work that establishing and keeping up a successful social media presence takes.

*“[Social media] is a very interesting area where you’d really like to do and try out a lot of stuff, but it’s just that it’s so super detailed tiny doodling. I mean it’s like that if you go there [to social media] then you really need to be there and be proactive or you shouldn’t be there at all.”* MERCHANT1

A recent new trend in e-commerce marketing is the harnessing of the benefits of social media into shopping – the so called social shopping phenomenon. It is questionable whether social shopping can be discussed separately from the whole scope of changing consumer behavior landscape, but in any case social shopping is seen as an extremely important future phenomenon.

*“Social commerce definitely is one of the most interesting areas of e-commerce. In February this year, Mark Zuckerberg stated that this is the area of commerce that will next really blow up big, it’s gonna grow insanely.”*

*BUSINESS5*

*“Buying will definitely become more social in the future some way or another”* MERCHANT1

*“The idea [of social shopping] is very fascinating and in a way this could be a good marketing method.”* MERCHANT2

Social shopping was considered to be mostly based on trust, but despite the mostly positive attitude towards the opportunities for social recommendations, the recommendations from other people were not always thought of being effective.

*“If you think about whom do people trust when making a shopping decision: advertisement, experts or friends? If you personally ask people, then usually no one trusts advertisement, a part of people trust experts, but even more*

*trust is towards friends. And exactly like that research from Nielsen from 2010 states that 90% of your friends' opinions about products are reliable from your point of view and only from 14-33% of people trust ads."*

#### *BUSINESS5*

*"[Commenting and interactivity] is totally overrated. Probably it's really important if the product placement is soulless marketing text, so that the filter goes on with anyone and by default anything that the store says is a lie, and then the only trustworthy thing is another customer. But if the store itself is honest and really tells about things, this is not a big deal at all."*

#### *MERCHANT3*

Based on interview data the following main findings were made:

- Main Finding 25: The web stores lack know-how for selecting the right tools and channels
- Main Finding 26: Digital channels are used more and thought to be more effective for Finnish web stores than traditional channels
- Main Finding 27: Traditional channels should be used more for successful brand marketing and trust creation
- Main Finding 28: There is a lack of knowledge and understanding regarding brand and tactical marketing
- Main Finding 29: Post marketing is not used enough in Finnish web stores
- Main Finding 30: Search Engine Marketing is extremely popular among Finnish web stores
- Main Finding 31: It is questionable whether SEM is the best marketing method and whether it is used to its maximum potential
- Main Finding 32: Google is by far the most well-known marketing tool, and sometimes the only one
- Main Finding 33: Social media is seen as highly important for web store marketing
- Main Finding 34: There is a lack of deeper understanding of social media marketing among Finnish web stores

- Main Finding 35: Social shopping is seen as an important future area of e-commerce marketing, but is not taken advantage of enough

### 4.3.3 Marketing Analytics and Data

As came up many times during the interviews, one of the main reasons for the popularity of digital advertising is the ability measure its effects in high detail. Nevertheless there is still lack of knowledge also in this area.

*“The most challenging thing in marketing is to think about the effects of marketing outside of digital marketing”* MERCHANT3

*“And measuring is another thing – just even the basics, like the concepts, what is conversion etc. I guess many stores don’t even know these.”*

BUSINESS2

When considering measurement and analytics, according to the interviews the most popular measure used for marketing at the moment is conversion. There however was discussion whether it is the best or most relevant measure in all the cases.

*“Most definitely the most typical measure of marketing at the moment is conversion. If it is a logical measure, I don’t really know. Is conversion important? It has to do so much with the advertising itself and its goals. I don’t think that it’s rational to measure conversion in the case of brand advertising, and it is also not maybe really relevant to compare the conversion of traditional advertising to digital advertising, even if the digital advertising people would always like to emphasize this of course.”*

RESEARCH2

Most of the interviewees considered doing all the analytics in-house as a good idea, as it should be integrated as a part of the business planning and development processes. Outsourcing analytics was considered mostly as a bad idea.

*“[For measuring marketing] we use any kind of tools that we come up with and can. We don’t usually really need a third party for anything in addition to ourselves and the customer – our marketing comes from in-house and the*

*same people that produces it also analyses the results and the analyses are also produced in-house.” MERCHANT3*

*“I really don’t think that you can outsource the understanding of analytics to outside of the company. And when inside of the companies they start to understand the analytics - then they start to distinguish between the effects of different advertising channels, and continuous control and guidance. And next they will start to understand how to use tools for taking advantage of customer data.” BUSINESS4*

*“We don’t need third parties for measuring because we feel that things can be done by ourselves also, and the automation can be taken very far. This takes just a little bit of know-how about things, and most importantly you have to be able to understand and take advantage of the results”*

*MERCHANT2*

One of the methods of optimizing and improving both marketing communications and the marketing inside of a web store is through customer data usage. As discussed in the theory of the research there are various different kinds of information that can be collected from the usage and purchasing behavior of the customers, and multiple methods of collecting and analyzing that customer data.

Some of the international web stores do a lot of targeted advertisement and site customization, as well as other kinds of Customer Relationship Management based on this kind of customer data, but according to the interviews it seems that in Finland the usage level of customer data and CRM is very low, and this is considered a bad thing.

*“With the usage of customer data we’re hardly off the ground yet [in Finland], we’re really just beginning. And there are probably two reasons. Firstly the Finnish field of commerce probably the analytics expertise is not as good as it could be yet – they don’t necessarily know how to use the tools, and it’s not being understood how well in fact you can measure everything in the web. And secondly the tools for using customer data have been either too*

*expensive or too difficult to take use of. But both of these are now improving”*  
*BUSINESS4*

*“I guess in general the Finnish stores don’t really use customer data now, no  
no, they really don’t. There’s so many easy and great ways of doing  
development based on that.” BUSINESS2*

The usage of customer data can effectively create enormous benefits for a web store, and one of the issues that came up in the interviews is that the difference between the success of marketing in US based and Finnish stores can at least partly be accounted to the data usage alone.

*“If we make comparisons about the conversion rates for example between  
Finnish and US based web stores. Then I’d say that a significant amount of  
this can be accounted to just the weak usage of customer data here in  
Finland.” BUSINESS4*

Also the collection of relevant information for successful data usage was questioned. In the case of the bigger retail groups in Finland it seems that they have collected vast amounts of customer information from the brick and mortar side through their bonus card programs and other such tools, but they have not connected it with the web presence of the customers.

*“It’s very interesting to know for example, if any of the big players who  
collect all this client data, if they even have my e-mail address. I don’t know,  
probably they even don’t, I think it’s like this – they have all this huge  
amounts of data relating to my loyalty card, but they have no information  
that connects this card with my e-mail xxxx.xxxx@xxxx.xx.” RESEARCH1*

One of the simplest ways to conduct database marketing is through e-mail. This was considered by most of the interviewees as a very useful and easy to do marketing form. However in Finland this kind of marketing also is still rare, even if there are some successful examples.



*“Surely one of the most relevant examples of working CRM marketing in Finnish e-commerce at the moment is Mulletoi.com style e-mail marketing.”*

*RESEARCH2*

*“It’s really weird I think for example, that e-mail marketing is growing this fast, and if we think from a technological angle it’s very old technology – and think about this City Deal and other coupon based new business – it’s just e-mail advertising basically. And it’s very interesting to see when technology comes and when it grows into maturity. And from for example the Finnish web stores, really almost no one has noticed how effective e-mail based advertising can be.”* RESEARCH1

In relation to targeted e-mail marketing it was also pointed out how vital it is to give something of value to the customer through the process, to make the marketing more meaningful and possibly interactive.

*“You just have to hook the user. If you get the customers to give out their e-mail, then you already have a direct contact to the customer. And if you’re a good merchant then you’ll give something of value to the customers for free –that’s where it starts from. If you don’t give anything, then it’s just one-sided marketing.”* BUSINESS2

*“Of course it would also be vital that actual communication and especially transaction happens in the e-mail chain. I mean, many of these stores don’t really even have systems so that you could directly buy items through the e-mail offer, or get some extra services or such.”* RESEARCH1

One area of application for data driven marketing could also be loyalty programs and related loyalty marketing. The Finnish web stores do not run many loyalty programs according to the interviewees. This is seen as an area of opportunities by many, albeit not the most important one.

*“There aren’t a lot of loyalty or customer programs in the web stores. This surely could be one thing that the web stores should put more emphasis in the future, developing their customer relationship management and building*

*on that. I don't say that it is the most important thing to develop, but it is one of the important issues."* RESEARCH2

*"Customer loyalty programs definitely are one of the most interesting topics regarding future e-commerce marketing development. There is so much data out there being collected and that could be collected, which enables very intensive targeting and multifold loyalty program ideas, but the data is not really being used."* BUSINESS3

One way to try to increase loyalty is through customer rewards. However, it can also be seen that rewards contribute to the satisfaction of the customer and thus are not directly linked to loyalty – additionally there is an ongoing discussion about whether repurchase behavior based on physical incentives can be considered loyalty, or if only more in-depth emotional connection should be discussed as customer loyalty.

*"The interest of the customer has to always be retained and one of the affecting factors is rewarding the customers."* MERCHANT2

*"For example these kinds of things that some of the German stores do. Let's say there's a new candy product coming to the market, then the web store does a deal with them and they package some of this newly launched candy to go with all of their delivery packages. This gives the consumer a really nice feeling and atmosphere about the shop and of course the candy brand gets free advertisement at the same time. It's these kinds of small things that count."* BUSINESS2

Last of all, regarding CRM and loyalty marketing, it was also noted that loyalty marketing is not fitting, or not as easy to execute with all product and customer niches. In some product genres that are being constantly consumed and bought it might be easier to build a continuous loyalty program than for example with products that the average consumer would buy once in ten years.

*"If you sell like gym pills or face cream, then it's easy to build loyalty program type stuff. Like buy something now and next week you get something more*

*for free, and so on. It depends a lot on the type of products you're selling if it's relevant or not." MERCHANT1*

One way of using customer data and analysis is to build recommendations for the customers. Some of the internationally successful e-stores, such as Amazon, are extremely successful with their recommendation engine based marketing. Also most of the interviewees considered engine based recommendation highly effective. The recommendation can happen both, inside of the store or in specific recommendation sites or services.

*"It's been proven that recommendation algorithms increase sales, and they work for sure. I believe that completely." BUSINESS5*

In Finland it seems that at the current situation very few web stores however have their own recommendation engines. Interviewees could not really come up with a good example of a recommendations system of a Finnish web store. The reasons behind this were thought to be in the overall poor understanding of the importance of data based marketing, as well as in the fact that Finnish web stores believe that the consumers believe the usage of purchase data to be somewhat morally or legally questionable. This is interesting since international services such as Amazon seem to receive mostly positive feedback for their recommendations.

Continuing to the topic of aggregate services, they were seen by most of the interviewees as good ways for the smaller web stores to create scale benefits regarding brand, trust and visibility.

*Yes, it could be said that aggregate-like service most certainly are one thing that for example smaller web stores should take advantage of." RESEARCH2*

*"One way of helping would be aggregation. This should be quite effective in creating scale benefits for the smaller web stores." BUSINESS1*

One type of aggregate service that currently is on the market is the market place type sites. The interviewees estimated that the amount and size of the market places will grow, and that this will be one of the main ways that the media will try to take part in e-

commerce. The increased size and visibility will increase the benefits of being a part of these market places. Several of the interviewees however didn't consider the market places and other aggregate services to be of much value.

*"I believe that the amount of market places will increase. The media is trying to create places where people would make shopping decisions, and they try to move them to the web."* BUSINESS4

*"Market places are really growing stronger and stronger with their user count also. So this makes it a good place for the web stores and their products to be displayed. Not everyone gets this yet unfortunately."*  
BUSINESS2

*"These market places and so called shopping centers; I really think they're honestly weak ideas. In these cases you like kind of throw yourself on a co-operation that's not in your own hands... ...They really have the same problems in creating traffic like everyone else, and when you divide the traffic between all the stores that participate, it just doesn't make that much sense, they're such small traffic streams."* MERCHANT1

*"Aggregate sites and stores are not really that important. There are also tools to follow if your potential marketing euros should be put into services like this or not. The benefits, not including a couple of exceptions, are weak."*  
MERCHANT2

*"I hate these. They are the cancer of internet."* MERCHANT3

It thus seems that some of the interviewees thought that the effect of market places is getting more significant and that they are relevant and cost-effective places for web stores to be seen whereas some of the other interviewees thought of the market places as not that useful because of low traffic and other such reasons. This might partly also be explained by some discrepancy in the knowledge about the current state of the market places.

Nevertheless regarding market places there is also lack of understanding in the Finnish markets about how and where it is really relevant to be seen, and how this is integrating to the overall marketing plan and the shopping process of the consumers. One of the other mentioned recent trends was that the stores themselves also are trying to create media instead of joining aggregate services.

*“How to be seen in different market places and how to understand the different parts of the shopping process in the web, and the overall planning of web marketing, these are some things that should be done better in Finland” BUSINESS4*

*“In the best case scenario, if you think about it like this, when you open up a web store provided by a service provider, then the products that you enter in the store would not just go to the store, but they would immediately be displayed in relevant web market places, that would be great.” BUSINESS2*

*“...the web stores want to become media themselves. They try to build communities and media rather than building aggregate services. But I believe that media will take this role.” BUSINESS4*

Other merchant initiated co-operation between smaller web stores was also found to be potentially useful. The co-operation could do with buying goods together, buying media space together, logistics co-operation, customer service co-operation or having shared physical spaces and showrooms.

*“Buying together, buying co-operations, I think these would make sense. Like you would go together and buy from the post and you’d get cheaper postage, logistics related co-operation, or maybe customer service related co-op. And yeah of course the same goes for media buying really for example.”MERCHANT1*

Based on interview data the following main findings were made:

- Main Finding 36: Finnish web stores lack marketing analytics knowledge both with inbound and outbound digital and traditional channels

- Main Finding 37: Outsourcing analytics is risky
- Main Finding 38: The usage of customer data for optimization and CRM is too low in Finland
- Main Finding 39: Finnish web stores don not generate enough recommendation marketing
- Main Finding 40: Aggregate services and sites are potentially useful for web stores in theory, but lack business credibility in the eyes of the merchants

#### **4.3.4 Summary**

To summarize, the biggest problems in the marketing of Finnish web stores are the lack of planning, too small size of investments in marketing, lack of channel knowledge, lack of understanding of tactical and brand marketing as well as taking too little advantage of analytics and data marketing. The following is a list of main findings on the topic of this subsection:

Main Finding 23: The level of general marketing knowledge and know-how among Finnish web stores is insufficient (with a few exceptions)

Main Finding 24: The marketing investments and overall resources are insufficient

Main Finding 25: The web stores lack know-how for selecting the right tools and channels

Main Finding 26: Digital channels are used more and thought to be more effective for Finnish web stores than traditional channels

Main Finding 27: Traditional channels should be used more for successful brand marketing and trust creation

Main Finding 28: There is a lack of knowledge and understanding regarding brand and tactical marketing

Main Finding 29: Post marketing is not used enough in Finnish web stores

Main Finding 30: Search Engine Marketing is extremely popular among Finnish web stores

Main Finding 31: It is questionable whether SEM is the best marketing method and whether it is used to its maximum potential

Main Finding 32: Google is by far the most well-known marketing tool, and

sometimes the only one

Main Finding 33: Social media is seen as highly important for web store marketing

Main Finding 34: There is a lack of deeper understanding of social media marketing among Finnish web stores

Main Finding 35: Social shopping is seen as an important future area of e-commerce marketing, but is not taken advantage of enough

Main Finding 36: Finnish web stores lack marketing analytics knowledge both with inbound and outbound digital and traditional channels

Main Finding 37: Outsourcing analytics is risky

Main Finding 38: The usage of customer data for optimization and CRM is too low in Finland

Main Finding 39: Finnish web stores don not generate enough recommendation marketing

Main Finding 40: Aggregate services and sites are potentially useful for web stores in theory, but lack business credibility in the eyes of the merchants

Therefore the main issues to consider are how to increase the capabilities, resources, know-how and understanding of marketing in Finnish web stores - especially in the field of analytics and optimization, but also in the whole marketing planning regarding the selection of the messages, channels and methods. Data driven marketing should also be significantly boosted both for the targeted marketing, site customization, recommendations as well as overall CRM-development point of view.

## 5. CONCLUSIONS AND RECOMMENDATIONS

In this section, the main conclusions based on the research findings will be presented. Based on the information given by the literature review section and the empirical research and its conclusions several recommendations for improving the success of Finnish web stores are made. These recommendations can be divided into two main categories: recommendations for the web stores and merchants themselves and recommendations for other parties.

### 5.1 Findings Summary

To summarize the empirical data based findings of the analysis, the following table 8 displays all of the main findings.

| ID              | Finding   |
|-----------------|---|
| Main Finding 1  | Trust is extremely important to web store success and increasing in importance                                |
| Main Finding 2  | Trust can be increased via brand, quality dimensions and marketing  |
| Main Finding 3  | Satisfaction is extremely significant for web store success   |
| Main Finding 4  | Satisfaction can be best achieved through superior service quality  |
| Main Finding 5  | Consumer loyalty is extremely important   |
| Main Finding 6  | Loyalty is affected best by satisfaction, WOM, brand, selection and quality                                   |
| Main Finding 7  | Systems quality is important but not among the most critical issues for e-commerce success                    |
| Main Finding 8  | Improvements need to be done to the ease of use and payment systems of Finnish web stores                     |
| Main Finding 9  | Information quality is very important in creating a positive shopping experience, which leads to satisfaction |
| Main Finding 10 | Information quality is not high enough in Finnish stores  |
| Main Finding 11 | Information quality also affects the level of achieved trust  |
| Main Finding 12 | Service Quality is critical   |
| Main Finding 13 | Marketing is vital for e-commerce success   |



|                 |  |
|-----------------|--|
| Main Finding 14 | Marketing directly and indirectly affects purchase as well as repurchase   |
| Main Finding 15 | Brand is a critical differentiation factor for Finnish web stores  |
| Main Finding 16 | Service is a critical differentiation factor for Finnish web stores  |
| Main Finding 17 | Differentiation through service should be based on unique service innovations  |
| Main Finding 18 | Finnish web stores need to improve on both the quality and uniqueness of service   |
| Main Finding 19 | Product selection is both critical for business and a strong differentiation factor  |
| Main Finding 20 | Low price is not considered critical for the product offering  |
| Main Finding 21 | Locality is a strong differentiation angle   |
| Main Finding 22 | Localization can be achieved through services, selection, branding, the digital and physical storefronts as well as communications |
| Main Finding 23 | The level of general marketing knowledge and know-how among Finnish web stores is insufficient (with a few exceptions)             |
| Main Finding 24 | The marketing investments and overall resources are insufficient   |
| Main Finding 25 | The web stores lack know-how for selecting the right tools and channels  |
| Main Finding 26 | Digital channels are used more and thought to be more effective for Finnish web stores than traditional channels                   |
| Main Finding 27 | Traditional channels should be used more for successful brand marketing and trust creation   |
| Main Finding 28 | There is a lack of knowledge and understanding regarding brand and tactical marketing  |
| Main Finding 29 | Post marketing is not used enough in Finnish web stores  |
| Main Finding 30 | Search Engine Marketing is extremely popular among Finnish web stores  |
| Main Finding 31 | It is questionable whether SEM is the best marketing method and whether it is used to its maximum potential                        |
| Main Finding 32 | Google is by far the most well-known marketing tool, and sometimes the only one  |
| Main Finding 33 | Social media is seen as highly important for web store marketing   |
| Main Finding 34 | There is a lack of deeper understanding of social media marketing among Finnish web stores   |
| Main Finding 35 | Social shopping is seen as an important future area of e-commerce  |

|                 |  |
|-----------------|--|
|                 | marketing, but is not taken advantage of enough  |
| Main Finding 36 | Finnish web stores lack marketing analytics knowledge both with inbound and outbound digital and traditional channels                    |
| Main Finding 37 | Outsourcing analytics is potentially dangerous   |
| Main Finding 38 | The usage of customer data for optimization and CRM is too low in Finland  |
| Main Finding 39 | Finnish web stores don not generate enough recommendation marketing  |
| Main Finding 40 | Aggregate services and sites are potentially useful for web stores in theory, but lack business credibility in the eyes of the merchants |

**Table 8: Research main findings**

Critical issues and findings 1 – 13 highlight that trust, satisfaction and loyalty were found extremely important by all of the interviewees and especially the significance of trust will increase in the near future. The quality of service as well as the systems of the web stores and the overall information is significant for e-commerce success, and marketing affects all of these.

Differentiation issues and findings 14 – 21 reveal that the most important methods of differentiation for Finnish web stores are the brand, service and product offering – all made more effective by localization.

The marketing challenges and findings 22 – 39 show that the biggest problems in the marketing of Finnish web stores are the lack of planning, too small size of investments in marketing, lack of channel knowledge, lack of understanding of tactical and brand marketing as well as the deeper levels of social media and recommendations, and taking too little advantage of analytics and data marketing.

As a final single insight it can be concluded that based on the findings, the biggest overall problem of Finnish B2C web stores seems to be the overall lack-of know-how which is also reflected upon individual challenges and issues. The marketing related planning and development as well as resources and other such issues all have to do with the level of knowledge, know-how and awareness that the merchants have. This is the single most important area to be improved upon in order to increase the competitiveness of the Finnish web stores in the future.

## **5.2 Recommendations for Web Stores**

As mentioned already previously in the findings section and the previous findings summary subsection, the general level of marketing know-how of the Finnish web stores is not on a high enough level. This is one of the main issues that should be considered when thinking about how to improve the business success of the web stores in the near future.

On a general level, what would be recommendable actions for the web stores to do would be first of all to invest more resources in the marketing efforts of the stores, and to try and develop their level of knowledge and professionalism on marketing issues as well as planning the marketing in more detail. A second issue that is at least as critical would be to plan the strategic differentiation of the stores better.

### ***Differentiation strategies***

The merchants need to analyze what are the core competences that they could outperform their competitors with and especially they should consider the differentiation angles discussed in the conclusions of this thesis: brand, service and product offering, and all of these improved with a strong local perspective. Based on the interview data and conclusions some potential differentiation angles for Finnish web stores are listed in the table 9.

The stores also need to plan their marketing communications better to execute the differentiation strategies by contacting the consumers and holding up a two-way dialogue. Marketing overall should be an integral part of the complete business process of any web store. Additionally marketing communications is one of the most effective tools in executing the differentiation strategies and positioning a store on the market in the minds of the customers.

| #  | Differentiation Angle   |
|----|---|
| 1  | Brand image based differentiation   |
| 2  | Superior on-time tracking   |
| 3  | Superior customer service <ul style="list-style-type: none"> <li>• in time, responsive, emphatic, interactive and in Finnish</li> </ul>   |
| 4  | Physical and multichannel presence if possible <ul style="list-style-type: none"> <li>• strengthens overall service and experience but makes also for easier and faster pick-ups and returns</li> </ul> |
| 5  | Easier pick-up  |
| 6  | Faster and cheaper delivery   |
| 7  | Better warranty options and service   |
| 8  | Easier returns  |
| 9  | Personalization of service offering for individuals   |
| 10 | Unique and/or localized products  |
| 11 | Completely new and unique service innovations and extra services that bring value to the customers.   |

**Table 9: Potential differentiation angles for Finnish web stores**

### ***Planning & Resources***

Marketing should be planned more, and it should hold a more strategic position in the whole business process of Finnish web stores. It should also become a part of the development right from the start, already in the planning process starting a new store. More resources should be used for marketing and advertising. Marketing should be made the top priority of any web store and its strategic importance and critical position in making a web store successful should be understood better.

## ***Channels***

The selection of the right channels is vital for effective marketing communications. Some of the Finnish web stores seem to lean too much on only search engines, so there would be room for diversification there. Additionally if the resources allow for such activity, traditional advertising should also be considered, especially for brand related marketing. The most effective way of doing marketing is through a targeted cross- or transmedia strategy.

One of the new channels that have been sorely overlooked at the moment is the mobile channel. Mobile advertising and marketing as well as mobile shopping will become increasingly important in the future so this is one of the channels that more investments should be made towards in the near future. The mobile channels also enable location based offers and marketing services as well as future augmented reality marketing and shopping applications.

One more channel that could be harnessed better is the physical storefront, if one exists. Making the store and the products themselves a media is one way of effectively supporting the whole marketing mix.

In general more planning and thought should be put into the channel selection in order to create a proper balanced mix between digital and traditional and other media through understanding of the goals of the marketing as well as the complete shopping process of the target customers.

## ***Type of advertisement***

Regarding the type of advertising, the Finnish web stores should do even more targeted advertising. Additionally on top of the tactical advertising very few of the stores do any brand advertising. Therefore for more efficient brand development this is definitely one area where more investments could be targeted towards. Finally there is little or none post-marketing done in the Finnish web stores, this is an area where the customer experience can be significantly improved.

In the case of tactical advertisement unique time- and location based offers are some new ways to create pull without lowering prices. Especially in the case of future mobile services, this type of offers will probably be in a significant role. Additionally the more hedonistic and entertainment based modes of consumption are also going to increase in the future, and one angle to consider is making both the advertisement and the shopping process as enjoyable and entertaining as possible.

### ***Customer data and CRM***

The usage of customer data is on an extremely low level in Finnish web stores. The data should be used in-store to optimize the site and offerings as well as outside of the store to support marketing and targeted advertising.

At the very least easy e-mail based recommendations could be done and other personalized marketing should be implemented. However the wide array of customer data that can be collected allows for an extremely wide amount of different opportunities for development of the site and its services as well as personalized marketing.

The process of customer relationship management (CRM) is not understood much either in the Finnish web store culture. Thinking about the long term customer relationship and its stages is one area where a lot of new understanding is needed. Customer data can support the development of the relationships and in creating proper offers and communications on different stages of the relationship.

There are also very few if any loyalty based programs used in the Finnish B2C e-commerce marketing. This is one opportunity for marketing differentiation and creating allowing price premiums. Rewards and small things that enhance the customer experience could be made a part of the customer relationship management loop. In relation to loyalty marketing, harnessing the communal and social aspects are also extremely valuable.

### ***Reviews, recommendations and social shopping***

Recommendations and reviews are an extremely integral part of consumer e-commerce success. Partly recommendations and positive word of mouth are created automatically on the basis of good shopping experiences, but there are also marketing methods in order to increase the amount of feedback, recommendations and effects of WOM.

One way to harness recommendations is to facilitate feedback and recommendations both in the web store itself as well as being present in all relevant social media. A part of the development can be community building in the social media, as well as content marketing.

However the social elements of shopping should also be taken into high consideration when developing the shopping site per se. There are also new and upcoming services that web stores can use to integrate social elements into their web store.

If at all possible, web stores should also consider implementing recommendation algorithms and engines that would be integrated to their stores. These are proven to be highly effective. The recommendation engines are also connected with the previously discussed issues of customer data and targeted advertising.

### ***Systems and information***

Furthermore, other important areas of development for Finnish web stores were also recognized – the systems and information angles. The systems angle is not a good method for differentiation in order to create lasting competitive advantage, and it has been said that only a maximum of 10% of the web stores success is technology (Leskinen, 2011), however these are things that should be very beneficial for the web stores and that should be implemented in order to aim for better success.

Firstly, the site design needs more development. In many Finnish web stores the sites are not designed well enough – they are not logical enough from the structure for good conversions, they might not be easy enough to use, the information might not be good quality enough and they might not be responsive enough.

Secondly, the Finnish web stores need to develop their payment systems. At the current moment, the Finnish bank based payment systems offer superior security and an image of trust, but in the foreign stores the payment is significantly easier and faster. The Finnish web stores also need to catch up and make the payments easier and more straightforward to use.

Thirdly, the logistics systems need improvement. At the current moment many of the web stores don't even show in-time inventory levels and the stores also have trouble adjusting to demand peaks. The logistics systems development thoroughly supports the development of a superior service experience to the customers.

### ***International possibilities***

The Finnish web stores should also try to achieve a better understanding of the international business possibilities and have a more positive attitude towards internationalization. Organic growth space in the e-commerce market is starting to run out in Finland, and the next logical move for any web store would be to try to expand sales to other countries, especially since the internet provides such a cost-efficient method of internationalizing and global logistics are also not an issue that could not be overcome.

The old phrase about fighting "fire with fire" might be true in the context of the Finnish e-commerce field, and several of the interviewees also considered international expansion of the Finnish web stores as the best method of competing against the increasing international competition of the Finnish markets in the near future. Many of the more successful web stores actually view internationalism as an opportunity instead of a threat, but this is unfortunately not the majority.

This mainly seems to be an attitudinal issue in the Finnish web commerce field based on the comments of the interviewees, and therefore solely in the hands of the merchants themselves. Although it also became clear through the interviews that the merchants would very much hope for the government to support small electronic growth business more and help Finnish small businesses internationalize better.



### ***Alliances and co-operation***

The web stores, especially the smaller ones, should also consider co-operating with each other more. Marketing could be bought collectively, marketing tools or customer relationship management processes could be developed together as well as partner loyalty programs. Other kinds of co-operation in marketing are called for also – for example co-branding, logistics or products development, customer service co-operation and co-owned physical showrooms and store spaces are things that Finnish web stores could do better together.

Finally, the web stores should reconsider their positions regarding aggregate services and other such electronic market places. Co-operating with the service providers and helping them build the services as efficient as possible might serve to be a thing that would benefit all parties.

### **5.3 Recommendations for Others**

In addition to the web stores and merchants themselves several other parties have power to affect the future competitiveness of the Finnish web stores. Some of these include service and consultancies for e-commerce businesses, media houses, marketing agencies as well as trade organizations or even government level institutions. A discussion of recommendation follows.

#### ***Knowledge and know-how***

A very logical area of new action for supporting e-commerce parties would be the transfer of know-how and information. The Finnish web stores have critical lack in this area, and therefore providing more consultation service, coaching, training and education for web stores and merchants would be very useful.

The marketing of the services and products targeted at web stores should also be more powerful and extended already to the e-commerce training and coaching. One of the interviewees who had years of experience in taking part in e-commerce training programs mentioned that everyone in the sessions always knows Google, but the Finnish marketing service and advertising providers are very poorly known. Therefore it

would be only logical for the media and marketing agencies to start supporting the coaching of web stores and at the same time promote their own service offerings and build a positive image of their brand in the minds of the e-merchants.

Examples of methods to in order to implement the previously mentioned could include for example starting up an e-commerce start-up competition or coaching program, arranging branded e-commerce marketing boot-camps or other such events, as well as sponsoring and taking part in existing training and coaching programs.

### ***New marketing tools and products***

The pricing of digital marketing services of the Finnish providers needs to also be more competitive in comparison to the big international providers, such as Google or Facebook. At the moment, web stores can advertise up to 5 times cheaper in Google than for example with Finnish media providers. For that reason it is logical that if they want Finnish web stores to buy visibility from them the pricing needs to either be slashed or they need to provide something extra on top to justify the price premium. Therefore one solution would be to create new tools and products around the marketing services, that are maybe specifically targeted to web stores – and why not also other growth businesses on the web.

One option could be building up packaged visibility deals and therefore including knowledge transfer in the deal and making marketing for web stores easier. If it would be possible to offer for example packages such as “start-up package for web stores” or “brand package 1-2-3”, it would both justify a slightly higher pricing than the international competitors and make the process easier for the web stores.

Providing services to gain instant relevant visibility for the products of web stores and the web stores themselves could also potentially be a big business for the provider of such a service and definitely a useful service for the Finnish web stores. The web stores need visibility in the right place at the right time, but as was concluded in this research the merchants do not know the channels well enough or otherwise find the selection process challenging. Offering easy to use services for this would solve this problem.

The pricing of such a service should also be transparent and simple, and the service should include tools for analytics as well as in the best case scenario possibilities for location based advertising targeting, as well as time based product offer possibilities.

Also creating simple to use CRM and loyalty program services and tools would be a niche that has yet been untouched in the e-commerce marketing field. As was discovered through the research at hand, not many Finnish web stores run any kind of eCRM or loyalty program, and therefore there would be a big possibility for successful new service implementation in this sector. Services of this kind could also be connected with existing marketing services or market place visibility offerings.

Finally better analytics tools might also prove to be a good business for marketing service providers and extremely useful for the web stores themselves. Providing more accurate targeting and easy to use and understand analytics for this targeted advertising, as well as social media follow-up would be extremely useful. The stores also sometimes have lack of understanding the consumer decision making process and the shopping process in-store itself, so integrating information about relevant process knowledge to the analytics tools would be very useful for the web stores.

### ***Better market places***

Media houses and other such businesses should consider creating market places that are better than the current ones, or develop the current ones further. They should think about how to fix the “shared eyeballs problem” and how to create more value for the participating stores. Another development angle would be to consider how they could make their services easier to participate with from the stores’ point of view.

The social angle of shopping as well as the trending mobile and location based issues of marketing should also be considered in the market place development. If it would be possible to harness these angles in an electronic market place service, it would potentially create advantage to the aggregate site that the stores might be able to create by themselves.

The problem with the market places at the moment is that they are hard to market to the web stores. However if and when the traffic on the best market places will increase

enough it will start attracting the web stores to join in. There is potentially a very big business possibility here for both the web stores as well as the service providers. Potentially, the consumer also has only to gain from these sorts of services.

### ***Institutional level***

Some higher level issues affect the situation of Finnish B2C e-commerce business negatively at the moment. The smaller stores and their internationalization efforts should receive stronger support, and the taxation and logistics issues also make the Finnish players weak in competition in comparison to stores from other countries.

Many of the interviewees thought that something should happen on a higher level of Finnish politics so that there would be better support for the Finnish web business. The logistics player Itella for example is found to be rather uncompetitive in pricing. One of the biggest barriers of high quality delivery services is actually the postal service of Finland. This came up in the interviews several times in several different contexts. The problems have partly to do with pricing issues, but also the service tools available have been frustrating some of the web stores.

Also the Finnish Value Added Tax (VAT) weakens the position of the Finnish players in comparison to internationals. The actual product pricing that the international players are advantageous with is the shipping and logistics costs. From a consumer point of view it might be that the delivery costs are lower for ordering a product from abroad rather than from Finland, and the deliveries might even still be faster.

## **6. SUMMARY**

### **6.1 Thesis Summary**

The main goal for this thesis was to find out how marketing could potentially be used to improve the competitiveness of Finnish B2C web stores. This is an important question because of the radically increased significance of e-commerce in Finland and the fact that both marketing and international competition are seen as great challenges by the Finnish web stores. As stated in the description of research motivations in subsection 1.2 there is also a quite clear research gap that the research at hand aimed to fill.

In order to answer the research question a very thorough investigation of existing literature was conducted on the topics of competitive advantage and success factors, consumer behavior and technology adaptation, e-commerce and e-service quality, the meaning of satisfaction, trust and loyalty in e-commerce context as well as influence, dynamics, methods and channels of marketing communications. In section two of this thesis an in-depth view of the issues affecting the generic success of a B2C e-commerce business was discovered through these source materials.

After this, a framework was constructed for this possible e-commerce success, in order to have a basis upon which to create a more defined view on e-commerce success from the Finnish point of view. This framework, presented in Section 3, consists of the elements of service, information and systems quality, brand, marketing communications, offering, loyalty, trust and satisfaction and the connections that all of these have with each other as well as generating purchases and repeat purchases as an end goal.

Next an empirical study was conducted using qualitative methods. Semi-structured interviews were used to collect data from web store merchants, as well as experts dealing with web stores and experts on consumers and markets. The goal was to create a balanced view of the actual situation and needs through using all of these three different perspectives of interviewees. The empirical study extended the research question by dealing with the issues of possible differentiation methods as well as the

more concrete challenges and needs in the market, especially from the marketing communications perspective.

40 main findings were made based on the analysis of the research data and based on these findings several conclusions were made. It was stated that trust, satisfaction and loyalty are important and especially trust will increase in significance in the future. The quality of service as well as the systems of the web stores and the overall information was found to be significant for e-commerce success, and marketing was found to affect all of these. In relation to success the most important methods of differentiation for Finnish web stores that were discovered are the brand, service and product offering together with effective localization and integration.

The main problems in the marketing of Finnish web stores are in the lack of planning, small size of investments in marketing, lack of channel knowledge, lack of understanding of tactical and brand marketing as well as taking too little advantage of analytics and data marketing. Finally, it was also concluded that the biggest overall problem of Finnish B2C web stores seems to be the overall lack-of marketing know-how, which is the single most important area to be improved upon in order to increase the competitiveness of the Finnish web stores in the future.

Furthermore several recommendations were made to both web stores and other parties regarding the Finnish e-commerce business. For the web stores several differentiation approaches were suggested as well as increasing resources and planning efforts. Advertisement types were discussed as well as marketing data and CRM approaches, reviews, recommendations and social shopping, systems and information, international possibilities and finally alliances and co-operation recommendations.

For the other parties dealing with Finnish e-commerce transfer of knowledge and know-how in the direction of the web stores was suggested as the most effective means of having a positive impact on the future of Finnish e-commerce. Additionally ideas for new marketing tools and products were suggested and trying to affect the institutional level of the e-commerce business environment was encouraged.

## 6.2 Limitations and Contributions

The study had several limitations. First of all the marketing and consumer behavior driven perspective of the research limited the issues that the research considered. It would have been possible to have a more in-depth look at a strategic management point of view for growth business opportunities in e-commerce or a resource based view could have also been discussed. Other options could have included for example a human resources and knowledge management based angle, a technical angle or a purely communicational analysis of the situation in Finnish e-commerce.

Relating to the same issue the research at hand did not in any means have quantifiable or measurable results or a connection with the actual so-called bottom line of an e-commerce business, but instead all of the research was rather contextual. The main measure of success was also defined to be the amount of purchases and repeat purchases, but there is a plethora of other variables that account for the actual, absolute, success of a business that were not considered in this research. It would have however been impossible to include all of this, and from a marketing point of view the sales-based angle is very logical.

Yet another limitation is that the research only targeted B2C e-commerce, only Finnish businesses, mostly SMEs and there was no service or content sales perspective. Having a look at the B2B side of things would bring in a complete different kind of angle to the Finnish e-commerce field, and additionally the important service sales market could have also been an extremely interesting and useful area of research. On the other hand, the research could have taken a sales category based view and targeted a certain niche of B2C e-commerce. In that kind of an approach a much more in-detail and generalizable list of recommendations could have been made. However the whole idea of the research was to provide a slightly wider view of the situation.

Continuing from the previous critique, the research in general was very top-level and not going very much into specific details. From this point of view it would be very interesting to try and generate a more quantifiable view of the market situation based on the research at hand by extending it in the future for example with questionnaire based data from a big population. Another way to get more in-detail would be taking a case-based

angle and look at specific e-commerce businesses and their connection to success with marketing based methods.

Then again the whole concept of success can be viewed from several other perspectives and the one taken on in this research was just one possible way to map out the challenges of Finnish B2C e-commerce.

The research did however provide a very good overview on the topic area in a very zeitgeist manner. The background work provided an in-depth aggregation of existing research views on competitive advantage and success factors, consumer behavior and technology adaptation, e-commerce and e-service quality, the meaning of satisfaction, trust and loyalty, marketing communications influence, dynamics, methods and channels, and brought them together into an e-commerce context.

The research successfully answered the planned research questions and as such responded extremely well to the need for such a research to be conducted. The research has already concretely contributed to the field of Finnish B2C e-commerce business and hopefully also provides some new interesting information about the Finnish B2C e-commerce field to the research side as well. The recommendations made for the web stores and other parties create valuable business information and hopefully can be used when planning for extra sales and more successful offering of service, brand and products. To conclude, the research has reached all of its goals.

### **6.3 Suggestions for Future Research**

As already mentioned in the previous subsection there are several different ways of looking at the subject matter as well as determining what is success. Therefore the research at hand is barely a scratch on the surface of the wide and endless area of research that has been, and could be conducted on B2C e-commerce. Although e-commerce has been already researched a lot the growing global and local significance of it together with changing consumer behavior, channel integration, new interfaces to big data and applications of mobile and augmented reality provide a general area of research where there will be no lack of opportunities for important further research.



However to go more in-detail to the continuity of the research at hand, some interesting possibilities for further research could be for example:

- Defining the marketing success factors in more detail and measuring their effect through quantifiable means.
- In general a more in-detail approach to the topic of Finnish B2C e-commerce, either by targeting a specific product category or by looking at certain case companies in detail.
- Extending the research at hand through questionnaires or other means of testing and validating the conclusions through a larger population.
- Taking a completely different approach to the same subject of Finnish B2C e-commerce competitiveness and success, for example management strategy, knowledge management, technological, personnel based, financial, resource based or purely communicational angle.
- Performing similar research to the service sector of B2C e-commerce
- Extending the research to the big players of e-tail in Finland
- Comparison study between Finnish e-commerce businesses and European counterparts in order to more in-detail discover what makes some of the international players more competitive.
- Investigating the significance and methods of multichannel integration in relation to the marketing driven approach to Finnish B2C e-commerce competitiveness.

These are just a few examples of how the research at hand could be extended or connected to a continued view on the subject matter. There is a plethora of other views and angles that could be taken towards this increasingly important subject matter.

#### **6.4 Concluding Remarks**

It needs to be noted that there are both so-called good and bad web stores in Finland. What this means is that there actually are several stores that are extremely successful with their marketing, offering, service and the whole e-commerce business they are dealing with. Therefore even if there are more web stores that are not that successful and lack know-how, the situation does not look all that bad on an overall level. In fact

one could feel very optimistic about Finnish e-commerce in the hands of the few who do their business well. Only the future will show what actually will happen, but the know-how and expertise of the Finnish web stores and especially the marketing knowledge will definitely play a key part.

Just a while ago it looked almost certain that the European integration will continue to deepen and therefore at some point it could have been questionable whether it is even in the interest of the common consumer for Finnish companies to provide “traditional” web store services. Because from the point of view of logistics and other issues, the bigger European businesses could deliver the services for the Finnish consumer more cost efficiently. Certain functions of physical products based business just quite simply are better positioned geographically in other areas of the EU market than Finland in order to optimize the scales benefits and thus provide a better selection, pricing and service level to the customers.

However, just as this thesis is being written, the future of the economic union of EU looks more uncertain than in a long time. This makes estimating the future path of Finnish e-commerce even more interesting. It is definitely exciting to see what the role of the Finnish e-commerce B2C business will be in the future in relation to the foreign counterparts. In general from the point of view of the increasingly convergent and integrated market reality that consumers face in the ever globalizing world - that is at the same time being filled with new technological and social ways of defining just what, where and who we are - it is also extremely interesting to see if any kind of geographical separation even has a future in consumer business.

As a final remark, here are some thoughts – possible scenarios if one will – of future survival of Finnish B2C e-commerce, based on subjective views and opinions of the author of this thesis as well as the people who were interviewed for the research:

1. The Finnish e-commerce lives “from hand to mouth” through producers. Only specialized producers who make unique niche products can be successful based in Finland. Even for these products the producers might use foreign web stores as partners.

2. Finnish web merchants live purely based on the mix of local services and physical brick and mortar presence.
3. Finnish web stores lean on guarantee and other extensive services.
4. An increasing number of older people start buying from the web stores and therefore the significance of Finnishness and trustworthiness of e-commerce increase and local e-commerce brands gain advantage. This development is however only temporary, because the old age groups diminish completely during a certain time frame.
5. The Finnish web stores are finally able to harness flexible and simple payment methods with Finnish or other banks and/or payment providers and fast, efficient impulsive purchases can be made via the web and mobile, making offer and recommendation based marketing more effective for the Finnish web stores.
6. New mobile devices and their applications of augmented reality layers enable people to make purchases better and faster via web in Finnish physical locations – although in this case it might also be that the consumers' shopping transaction finally goes always through the cheapest alternative, in which case it is probably most often still a foreign web store.

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## APPENDICES

### Appendix A: B2C E-commerce Sales in Finland 2010

|    | Category                         | 2010 Total |           | 1. - 6. 2010 |           |
|----|----------------------------------|------------|-----------|--------------|-----------|
|    |                                  | Sales M€   | Foreign % | Sales M€     | Foreign % |
| 1  | Travel & Tourism                 | 3574,4     | 16 %      | 2057,7       | 17 %      |
| 2  | Home electronics, IT-products    | 1017,9     | 10 %      | 465,9        | 9 %       |
| 3  | Motor vehicles and accessories   | 753,5      | 25 %      | 285,9        | 26 %      |
| 4  | Gambling, online games           | 677,8      | 32 %      | 190,8        | 18 %      |
| 5  | Building and energy products     | 564,5      | 2 %       | 209,4        | 4 %       |
| 6  | Clothing including sports attire | 558,6      | 21 %      | 311,5        | 21 %      |
| 7  | Tickets                          | 270,2      | 7 %       | 162,5        | 8 %       |
| 8  | Music and DVDs                   | 201,3      | 20 %      | 123,6        | 19 %      |
| 9  | Books                            | 170,8      | 31 %      | 78,7         | 35 %      |
| 10 | Home and decoration              | 162,9      | 5 %       | 104,0        | 6 %       |
| 11 | Financial products (small loans) | 159,2      | 3 %       | 48,7         | 3 %       |
| 12 | Hobby speciality products        | 154,5      | 42 %      | 79,7         | 37 %      |
| 13 | Kitchen and cleaning products    | 147,9      | 7 %       | 71,4         | 4 %       |
| 14 | Beauty products                  | 101,0      | 24 %      | 52,8         | 22 %      |
| 15 | PC and Console games             | 86,3       | 28 %      | 38,1         | 30 %      |
| 16 | Health products                  | 81,4       | 15 %      | 38,6         | 15 %      |
| 17 | Shoes (including sport shoes)    | 78,4       | 25 %      | 37,7         | 25 %      |
| 18 | Insurance products               | 77,0       | 1 %       | 48,2         | 1 %       |
| 19 | Computer software                | 73,3       | 27 %      | 47,7         | 39 %      |
| 20 | Well being services              | 56,4       | 4 %       | 24,9         | 3 %       |
| 21 | Childrens apparel and toys       | 55,2       | 19 %      | 27,3         | 23 %      |
| 22 | Sports apparel                   | 54,3       | 49 %      | 49,5         | 46 %      |
| 23 | Mobile phone and cable services  | 49,5       | 3 %       | 30,5         | 2 %       |
| 24 | Magazines                        | 48,1       | 14 %      | 27,2         | 15 %      |
| 25 | Photo products                   | 44,1       | 6 %       | 21,8         | 5 %       |
| 26 | Pet accessories                  | 35,3       | 36 %      | 26,3         | 25 %      |
| 27 | Gift cards                       | 20,1       | 2 %       | 10,9         | 1 %       |
| 28 | Food                             | 12,4       | 11 %      | 5,0          | 7 %       |
| 29 | Adult entertainment              | 12,3       | 17 %      | 8,0          | 22 %      |

The figures include services (source: Verkkokauppatilasto 2010 - TNS Gallup)

## Appendix B: E-commerce Quality Attributes

| 3-dimensional success or quality models |   |   |   |
|---|---|---|---|
|   | SERVICE QUALITY   | INFORMATION QUALITY   | SYSTEM QUALITY  |
| Yoon & Kim (2009)                       | Design<br>Personalization<br>Responsiveness<br>Assurance<br>Reliability   | Relevance<br>Up-to-date information<br>Ease of understanding  | Response time<br>Ease of use<br>System reliability<br>Security  |
| Liang & Chen (2009)                     | Assurance<br>Empathy<br>Responsiveness  | Accuracy<br>Ease of Understanding<br>Usefulness<br>Completeness<br>Relevance<br>Up to date  | Ease of use<br>Functionality<br>Availability<br>Flexibility<br>Reliability<br>Response Time   |
| Huei-Huang et al. (2008)                | Effectiveness of product search and comparison<br>Interactivity<br>Responsiveness<br>Clarity on security and privacy polices<br>Assurance<br>Empathy<br>Product tracking  | Relevance<br>Accuracy<br>Timeliness<br>Content<br>Format<br>Completeness,<br>Understandability  | Ease of use<br>Ease of navigation<br>Consistency of layout<br>Visual appeal<br>Fast check out<br>Download delay   |
| Lin (2007)                              | Responsiveness<br>• <i>Service is Responsive</i><br>• <i>Service is Helpful</i><br>Trust<br>Empathy<br>• <i>Care</i><br>• <i>Individualized Attention</i>   | Informativeness<br>• <i>Information timeliness</i><br>• <i>Accuracy</i><br>• <i>Usefulness</i><br>• <i>Completeness</i><br>Security<br>• <i>Paying online is secure</i>                       | Website Design<br>• <i>Usability</i><br>• <i>Reliability</i><br>• <i>Access Convenience</i><br>• <i>Ease of Use</i><br>Interactivity<br>• <i>Feedback mechanisms</i><br>• <i>Multiple choice purchasing</i>   |
| Cheung & Lee (2005)                     | Flexibility (billing & delivery)<br>Timeliness of Order Delivery<br>Accuracy of Order Delivery<br>Condition of Products Received<br>Responsiveness<br>Fairness of Policies and Procedures<br>Empathy (compensation and apology)   | Accuracy of Content<br>Up-to-date Content<br>Information Presentation<br>( <i>Visual presentation of products</i> )<br>Completeness of Content<br>( <i>Detailed description of Products</i> ) | Privacy and Security<br>Simple Design<br>Ease of Navigation<br>Ease of Use<br>Consistency of Web Site   |
| DeLone & McLean (2004)                  | Accuracy<br>Relevance<br>• <i>Customer preference information</i><br>Completeness<br>• <i>Customer information integration across multiple channels</i><br>Currency<br>Competitive intelligence<br>Dynamic content<br>Content personalization<br>Variety of information | Personalization<br>Completeness<br>Relevance<br>Understandability<br>Security   | Usability, ease of use<br>• <i>Help features</i><br>• <i>Intuitiveness</i><br>Attractiveness<br>System responsiveness, response time<br>Dependability, reliability, availability<br>Adaptability, flexibility<br>Usefulness, functionality<br>• <i>Versionability</i><br>• <i>Transaction capabilities</i><br>• <i>Environmental scanning</i><br>• <i>Customer feedback capability</i><br>Security, secure transactions<br>Scalability<br>Interactivity<br>Customization<br>Ease of navigation<br>Privacy<br>Security |



| Service quality based models (freely adapted to the three quality dimensions) |   |   |  |
|---|---|---|--|
|   | SERVICE QUALITY   | INFORMATION QUALITY   | SYSTEM QUALITY   |
| <b>Boshoff (2007)</b>   | Efficiency<br>Delivery<br>Privacy   | Privacy   | Speed<br>System Availability<br>Reliability  |
| <b>Tsai &amp; Huang (2007)</b>  | Reliable promises of delivery<br>Prompt response to Inquiries<br>Convenient product return options<br>Someone to speak to about problems  |   | Always available for business<br>Easy to find what is needed   |
| <b>Coller &amp; Bienstock (2006)</b>  | • Ease<br>Outcome Quality<br>• Order Accuracy<br>• Order Condition<br>• Time  | • Information Accuracy<br>• Privacy<br>• Ease   | • Design<br>• Ease<br>• Functionality  |
| <b>Parasuraman et al. (2005)</b>  | Fulfillment<br>• Orders delivered when promised<br>• Delivery available within suitable time frame<br>• Orders delivered quickly<br>• Items ordered sent out<br>• The claimed stock exists<br>• Truthful about offerings<br>• Accurate product delivery promises<br>Responsiveness<br>• Convenient options for returning items<br>• Product returns handled well<br>• Meaningful guarantee offered<br>Compensation<br>• Compensation for problems created by site<br>• Compensation for orders not arriving on time<br>• Return items pick up from home or business<br>Contact<br>• A telephone number to reach the company provided<br>• Customer service representatives available online<br>• Ability to speak to a live person in case of a problem offered | Efficiency<br>• Easy to find what is needed<br>• Information is well organized<br>• The site enables to "get on to it" quickly<br>• The site is well organized<br>Privacy<br>• Information about shopping behavior protected<br>• Personal information not shared with other sites<br>• Credit card information protected<br>Responsiveness<br>• Site tells what to do if transaction not processed | Efficiency<br>• Easy to get anywhere on site<br>• Quick completion of transaction<br>• Pages load fast<br>• The site is simple to use<br>• The site enables to "get on to it" quickly<br>• The site is well organized<br>System Availability<br>• Always available for business<br>• Launches and runs right away<br>• Does not crash<br>• Pages don't freeze when order information entered |
| <b>Harris &amp; Goode (2004)</b>  | Providing services as promised<br>Dependability in handling customers' service problems<br>Performing services right the first time<br>Providing services at the promised time<br>Keeping customers informed about when services will be performed<br>Prompt service to customers<br>Willingness to help customers<br>Readiness to respond to customers' requests<br>Individual attention is given<br>The web site is designed to provide a caring service<br>Having the customer's best interest at heart<br>The web page understands the needs of their customers   | Web site provides useful information to answer customer questions<br>Web site instills confidence in its customers<br>The web site is polite and courteous  | The web site is easily accessible<br>The site is visually appealing<br>The web site is well designed and has a professional appearance<br>Visually appealing pages are used<br>Modern design and graphics are used<br>Making customers feel safe when buying online  |
| <b>Long &amp; McMellon (2004)</b>   | Reliability<br>• Services provided at promised time<br>• Time related promises kept<br>• Records kept accurately<br>Purchasing process<br>• Acceptable return policy<br>• Order cancellation easy<br>• Variety of shipping options<br>Responsiveness<br>• Tech support online<br>• Answering to all questions asked about service<br>• Willingness to help customer   | Tangibility<br>• Product presented with necessary information<br>• Clear instructions available<br>Assurance<br>• Assurances about privacy  | Tangibility<br>• Ease of navigation<br>• Products easy to find<br>• Not too confusing<br>• Works well<br>• No traffic problems<br>Assurance<br>• Secure transactions<br>• Safe transactions  |
| <b>Ribbink et al. (2004)</b>  | Responsiveness<br>• Easy to get in contact with on-line company<br>• The company is interested in feedback<br>• The online company quickly responds to requests<br>Customization<br>• Personal needs are being met<br>Assurance<br>• Online company is trustworthy  | E-scape<br>• The info of the site is attractively displayed<br>Customization<br>• Information and products offered based on preferences<br>• The online store portrays the same values as the customer<br>Assurance<br>• Providing private information to company is secure   | Ease of use<br>• Company's website easy to access<br>• Site is user friendly<br>• Navigation on the site is easy<br>• It is easy to find one's way on the site<br>E-scape<br>• The site layout and colors are appealing<br>Assurance<br>• Site design is satisfying<br>Assurance<br>• Electronic payment system is secure  |

| Other success and quality models (adapted freely to the three quality dimensions) |  |   |   |
|---|--|---|---|
|   | SERVICE QUALITY  | INFORMATION QUALITY   | SYSTEM QUALITY  |
| <b>Anand (2007)</b><br>"E-satisfaction framework"                                 | Merchandising <ul style="list-style-type: none"> <li>• Number of Offerings</li> <li>• Variety of Offerings</li> <li>• Quality of Information</li> <li>• Quantity of Information</li> </ul> Serviceability <ul style="list-style-type: none"> <li>• Complaints readdressal</li> <li>• Customer Support</li> <li>• Packaging</li> <li>• Timeliness of Delivery</li> <li>• Post Services</li> </ul>   | Security <ul style="list-style-type: none"> <li>• Financial Security</li> </ul>   | Convenience <ul style="list-style-type: none"> <li>• Shopping time</li> <li>• Convenience</li> <li>• Ease of Browsing</li> </ul> Site Design <ul style="list-style-type: none"> <li>• Navigation</li> <li>• Interface &amp; Site Design</li> <li>• Fast Presentation</li> <li>• Customized Content</li> </ul> Security <ul style="list-style-type: none"> <li>• Financial Security</li> </ul>   |
| <b>Barnes and Vidgen (2004)</b><br>"eQual"  | Good reputation<br>Safe transactions<br>Secure personal information<br>Sense of personalization<br>Sense of community<br>Easy communication with organization<br>Delivery as promised  | Accurate information<br>Believeable information<br>Timely information<br>Relevand information<br>Easy to understand information<br>Right level of information detail<br>Appropriate format of information   | Website easy to learn to operate<br>Interaction is clear and understandable<br>Ease of navigation<br>Ease of use<br>Attractive appearance<br>Appropriate design<br>Site conveys a sense of competency<br>Site creates a positive experience   |
| <b>Wolfenbarger (2003)</b><br>"eTailQ"  | Fullfilment / Reliability <ul style="list-style-type: none"> <li>• Get what you ordered</li> <li>• Delivery on Time</li> <li>• Product matches site representation</li> </ul> Customer Service <ul style="list-style-type: none"> <li>• Willing and ready to respond to customer needs</li> <li>• Sincere interest in solving customer problems</li> <li>• Prompt answering to inquiries</li> </ul>  | Privacy / Security <ul style="list-style-type: none"> <li>• Privacy is protected</li> <li>• Safe Transactions</li> <li>• Adequate security features</li> </ul>  | Website Design <ul style="list-style-type: none"> <li>• In-depth information</li> <li>• No waste of time</li> <li>• Right amount of personalization</li> <li>• Good selection</li> <li>• Quick and easy transaction completion</li> </ul>   |
| <b>Srinivasan et al. (2002)</b>   | Customization <ul style="list-style-type: none"> <li>• Making the customer feel unique</li> <li>• Tailor made products</li> </ul> Cultivation <ul style="list-style-type: none"> <li>• Sending purchasing reminders</li> <li>• Sending information relevant to purchases</li> <li>• Appreciation</li> <li>• Showing Effort</li> <li>• Proactive Relationship Cultivation</li> </ul> Care <ul style="list-style-type: none"> <li>• No billing problems</li> <li>• On-time delivery</li> <li>• Responsiveness to problems</li> <li>• Customer friendly return policies</li> <li>• Care for customers</li> </ul> Choice <ul style="list-style-type: none"> <li>• "one-stop shop" for shopping</li> <li>• Satisfies to majority of shopping needs</li> <li>• Choice is not limited</li> <li>• A wide selection to choose from</li> </ul> | Customization <ul style="list-style-type: none"> <li>• Relevant Purchase Recommendationats</li> <li>• Tailored advertisement and promotion</li> </ul> Contact Interactivity <ul style="list-style-type: none"> <li>• Multiple product view angles</li> <li>• Search tool for products</li> <li>• Easy product comparisons</li> </ul> Community <ul style="list-style-type: none"> <li>• Product experience sharing facilitated</li> <li>• Supported community useful for product info gathering</li> <li>• Community benefits customers</li> <li>• Community creates common bonding</li> <li>• Customers strongly affiliated with each other</li> </ul> | Customization <ul style="list-style-type: none"> <li>• Website customization</li> </ul> Contact Interactivity <ul style="list-style-type: none"> <li>• Multiple product view angles</li> <li>• Search tool for products</li> <li>• Website is engaging</li> <li>• Dynamic Website</li> </ul> Convenience <ul style="list-style-type: none"> <li>• Intuitive navigation</li> <li>• Easy first-time purchase without help</li> <li>• Quick shopping</li> <li>• User friendly website</li> <li>• Convenient to use website</li> </ul> Character <ul style="list-style-type: none"> <li>• Attractive website</li> <li>• Fun to shop at website</li> <li>• Inviting website</li> <li>• Comfortable to shop website</li> <li>• Appealing looks</li> </ul> |
| <b>Lee &amp; Turban (2001)</b><br>"EC-Trust"                                      | Return policy<br>Free samples<br>Competence<br>Benevolence<br>Integrity<br>Payment and Logistics   | Trust certificate & seals<br>Product evaluation<br>Privacy statement<br>Consumer endorsements<br>Privacy Control<br>Understandability   | Simplicity of Shopping<br>Website design<br>Avatar<br>Reliability<br>Security Control   |

## **Appendix C: Interview Themes**

The interviews were conducted in a semi-structured manner and each interview was different from each other. The main themes of discussion however were the same. Listed below are the three main parts of the generic interview structure as well as underlying themes that were discussed in the interviews.

### **PART 1 – GENERAL THEMES**

- Most important changes in e-commerce lately
- Threat of international competition and its implications
- Price competition in Finnish e-commerce
- The meaning of product selection
- The meaning of consumer trust
- The importance of satisfaction
- Design and usability issues
- Interactivity of e-commerce
- Service – customer service, deliveries and returns, customization, individuality etc.
- Payment methods
- Meaning of product and other information (for satisfaction etc.)
- Implications and significance of customer loyalty
- Significance of marketing in general
- The most effective methods of differentiation

### **PART 2 – MARKETING**

- Locating potential customers in the web
- Knowledge and measurement of customer base
- Possible segmentation and its implications
- Shopping behavior process knowledge
- Methods, tools and services used of web marketing
- Usage of digital vs. traditional media and channels for advertising
- Designing marketing communications message content – tactical vs. brand
- Targeting of marketing communications
- Usage of customer databases
- Measurement of marketing and its components
- Meanings and opinions of recommendations and reviews, customer rewards, customer feedback, price comparison sites, recommendations engines, search engines, social media, aggregate sites systems and stores, mobile devices and systems, social shopping and entertainability of e-commerce

### **PART 3 –NEEDS AND CHALLENGES FOR NEAR FUTURE**

- Biggest current challenges of e-commerce marketing
- Needs for extra know-how, information, training, coaching, education etc.
- Pricing of different marketing channels and services
- Needs for possible new tools or services
- The strong points of Finnish e-commerce marketing at the moment
- The most important new future changes of e-commerce
- Plus other possible topics