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CHANGES IN BUSINESS- CONSUMER INTERACTION IN THE E-BUSINESS WORLD

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Abstract

The past decade has seen the exponential growth of the Internet and the ongoing infiltration of information technology into our everyday lives. One of the greatest areas in which this technology can change the world is in the form of e-business. The nascent form of business has shown much promise yet still has many flaws, most importantly in the handling of interactions with customer. The question that remains to be answered is how can e-business be best used to secure the patronage of a customer and how can this 'virtual' relationship be sustained. In general, e-business refers to any form of business that takes place electronically, usually via the Internet. In real terms, this usually involves transactions between a business and its customers, however e-business more and more encompasses interactions between businesses. Studies have shown that the volume of sales that take place over the Internet has been growing exponentially. However, the impressive growth figures hide part of the story. That is, the numbers do not tell us about the frequent mismanagement of the relationship with the customer. The first point of the failure is often with the initial purchase attempt: often times, a consumer attempting to make a purchase online quickly reaches a barrier, such as receiving an error or getting misdirected. This initial letdown can easily result in a lost sale, or at the very least an irritated customer. This dissatisfaction can grow throughout the sales cycle, and often includes problems with product delivery, handling of complaints, and most importantly the handling of returns and exchanges. The technology has proven it can usually generate the initial sale, but can it be used to manage the ongoing relationship with the customer? Furthermore, what is the impact of e-business on the way consumers perceive shopping and business in general. These are some of the questions, which are addressed in this paper.

INTRODUCTION

The current disarray of the online retail world may not be overtly evident. The size of the gap between customer expectations and the products that companies produce is substantial but often invisible to most analyses. However these gaps are real, and if the changes that e-business is to make on society at large are to be positive, the gaps have to disappear. Evidence of this gap is especially evident in a report recently released by the Boston Consulting Group. The first online purchase attempt is to 'make or break' event. If it is successful, the customer is likely to become excited about online shopping and embrace the concept wholeheartedly. However, if failure results, the outcome is the opposite and a potential customer is lost. Not only is this customer lost at the online site, this bad experience can also lead to the customer abandoning the company's brick and mortar store - a doubly damaging impact. The report goes on to quantify the extent of this damage: "...purchase failures,

security fears and service frustration are rampant". In fact 28% of all attempts to purchase products online result in failure. This rate of failure is finally being noticed and new groups and alliances are being formed to address the problem.

* To further enforce the impact of poor customer interaction, BCG's report provides the following statistics:

- Of 12,000 online shoppers surveyed, 48% gave up because the web page took too long to load.
- * 45% gave up because the site was too confusing to navigate.
- * 26% gave up because of system crashes.

These lost sales represent massive losses to the online industry. Forester Research helps quantify this loss by estimating that Internet commerce will reach \$3.2 trillion in spending by the year 2003. That means that if the current trend continues, almost a trillion dollars could be lost to poor customer interaction and poor design on the part of online retailers. This is a very real problem that must be addressed.

UNDERSTANDING THE CUSTOMER

The first step in establishing a long-term business relationship with a customer is to understand the target market.

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That is, one can not adequately meet the needs of a customer if one does not understand the customer's background and intentions. In fact, the medium itself to some degree dictates the type of customer that will be frequenting a business's site. On line shopping requires that the end-user have several things before they can begin shopping: a computer, an Internet connection, and free time to shop. All of these factors eliminate a large portion of the lower-class market. Furthermore, only those who are technically oriented and those who are willing to embrace new technologies are likely to shop online. This translates to a disproportionate number of wealthy people and males that access the Internet. Although the online market is slowly changing to reflect the real market, the difference between these two markets is significant enough to warrant close inspection. In fact, only 22% of the current online market can really be considered part of the mass market.

North America is one of the fastest growing regions when it comes to online purchases, with the U.S. leading Canada by a fair sized margin. More specifically, 57% of American Internet users have shopped online, while only 43% of Canadians can say the same thing. This is in part a reflection of the relative strength and GDP figures of the respective economies, and also reflection of the limited availability of Canadian products online. Regardless, it reflects a cultural difference between the two countries, and must be a factor when designing an effective retailing website.

The result of a customer analysis is a consumer who is increasingly willing to spend money online, but still may have some doubts about the process. Furthermore, with the plethora of online offerings out there, this customer has no reason to remain loyal to any given company. The hassles of having to drive further away from home for a better product no longer exist- the customer can now freely move between competitors and easily shop for the best value on the market.

ACCESS TO THE CONSUMER

Now that we have a fair idea of who the customer might be and what their shopping habits are, how can a business go about acquiring that customer? The marketing strategies required for electronic retailers are different than those of traditional marketing, as the tools the customer has and the customer themselves are very different. One of the key differences between traditional retailing and electronic retailing is that there is no such thing as 'walk-in' traffic in the electronic world². This free form of advertising simply does not exist in e-businesses, unless a customer was to simply guess at a company's URL while looking for a product. This means

that electronic business must take a much more active role in seeking out customers.

One recommended technique for successfully obtaining online customers is to provide a free service². Online users are accustomed to receiving services and information for free and this sort of draw can be very effective in exposing a customer to products a company has for sale. Furthermore, this free service, such as news updates, free e-mail, or stock quotes, can keep the customer coming back and purchasing an online product simply out of convenience. The key however is exposure and ensuring customers are aware of a company's product line.

Another difficulty faced by online businesses is the lack of social interaction either between salespeople and the customer, or even between customers. Shopping can be a very social exercise, and often times the intent is not to purchase anything, but to simply interact with people and the products. A traditional brick-and-mortar store can keep customers coming back by friendly and helpful staff. The question is, can this interaction be simulated or replaced in the online environment? One of the main reasons that online shopping malls in particular have failed is that they offer a single location for a wide variety of products and give the customer an ability to meet all their needs in one place and comparison shop. In addition to this practical aspect, they also offer a centralized location for human interaction in a climate-controlled environment. Online malls may offer the convenience of traditional malls, but this convenience is inherent in the medium and can be obtained anywhere in the online world. What incentive does a customer have to frequent an online mall when they can go to all their favorite online retailers with the click of a button? For this reason, online malls are an ineffective way for stores traditionally situated in malls to participate in.

Without the benefit of walk-in traffic, the social aspect to shopping, and the convenience of shopping malls, attracting online customers becomes a very difficult task. A mix of web based ads and traditional advertising seems to be the best solution to this problem, while offering a free service as incentive for customers to initially visit a site. Companies such as Chapters.ca and Amazon.com give out free gift certificates to make this initial contact, while also providing book reviews and recommendations. HMV.com and other online music stores provide music clips so that you can hear what an album sounds like before you purchase it. These are all examples of providing added value to the customer

as incentive to purchase a given product, and this is critical in obtaining new customers.

Initially, one of the major problems with online retailing was that it was very technically oriented people operated one of the major problems with online retailing. This meant that very technical language was often used, making it difficult for casual users to understand the implications of their actions. For example, secure servers were often described using terms such as SSL, DES etc. These terms have little meaning to the common person and only serve to confuse them. The key is to communicate at the consumer's level of understanding, and to leave out unnecessary technical details. In many ways, this means using similar language to that used in traditional stores. Although there may be a disproportionate number of technical people accessing an electronic retailer's website, the vast majority of the target market is probably very new to the Internet and has little or no understanding of the technical details behind the operation of a website.

MEETING THE CONSUMER'S NEED

The online world is very different than the 'real' world and must be treated independently. Ideas and models that work well in brick and mortar stores do not necessarily transfer well to an e-business, and must be modified accordingly. A particularly good example of this phenomenon is the case of online supermarkets. Some grocers have tried to attract the online market by offering free or very cheap grocery delivery services. Employees take a shopping list provided by the customer and collect the goods from the aisles of the supermarket. They then package these goods and deliver them to the customer in return for payment. On the surface this may seem like an excellent venture, as customers would surely be willing to pay for the convenience of having groceries delivered to their door. However this process is grossly inefficient.

Supermarkets spend a fair amount of money on displaying their products in an appealing and organized manner in the grocery store. This expense is unnecessary through for online shoppers, as they never see the product until it arrives at their door- so why pay this additional cost? Companies that are dedicated online grocers do not have to display costs of traditional grocers and can therefore pass the savings on to the consumer. The lesson is that brick-and-mortar models do not transfer perfectly to the online world and success in the real world does not translate to success in the virtual world.

The key to a successful online venture is adequately meeting the needs of the customer, and not introducing unnecessary expenses. The online world is clearly positioned

to offer benefits in terms of convenience, savings, innovative products and services, information and variety. All of these aspects can be capitalized upon to better appeal to the customer and retain their attention

Another benefit that online customers are beginning to expect is increased customization. This is not only includes product customization (such as features, additional modules, related parts etc.) but also control over other aspects such as level of service and shipping. The electronic format of interaction and the increased levels of automation make it very easy to better meet the specific needs of a given customer. Again, this feature of the medium should be captured and used to its fullest extent.

All this points to a new expectation of the consumer for increased value. The electronic format offers many cost savings for retailers, and some of these savings must be reinvested in the form of added value- if this value isn't added by a retailer, its competitors will provide it, and will therefore be more successful. In addition to customization, other common forms of adding value include providing related information, instructional information, and product reviews (as mentioned above).

In addition to meeting the content and service needs of customers, one must also meet a customer's usability needs. As mentioned in the introduction, 28% of transactional attempts by potential customers end in failure. This is both a function of technical problems and poor design. However small the flaw, the result is very likely a customer lost, as in the online world there is limited loyalty, especially in the timid first steps. Customers need to be guided through a straightforward process when attempting to make a purchase. Amazon.com has been commended for its single-click function for purchasing which is the ultimate in simplification of the transactional process.

The process does not have to be this extreme though; complexity can be reduced by a simple analysis of what steps are necessary in the purchasing process. Furthermore, the use of competent professionals and extensive testing can reduce bugs to a minimum throughout development. For this reason it is recommended that a combination of usability engineers and information architects be used throughout the design process. This will ensure an easy-to-use, easily expandable product that will serve the new electronic business in the long term.

COST OF ACQUISITION

The e-business world offers a blank slate to new retailers since, for the most part, the market has yet to commit to any given electronic retailer. This presents an incredible

opportunity to new online ventures as customer loyalty can easily be developed rather than being stolen from other companies. The cost savings and potential profits are enormous and should be quickly capitalized upon. A customer that is new to the online world is heavily influenced by their first experiences, and if their first foray into the online world goes well they are likely to continue with the same website. The cost of obtaining this newly loyal customer is relatively low, and simply requires having a quality website that provides a product that fulfills a need. The use of promotions such as gift certificates and discounts can ease the process of acquiring these new customers.

Once this customer has had a successful experience online, it becomes much more difficult for a competitor to attract this customer. In this case, the cost of acquisition becomes very large, as the competing company now has to provide significant incentive to convince the customer to make the switch. This could include deep discounts, giveaways, extensive advertising, marketing of a new image, or even a change in product offerings. All of these options have significant costs attached to them and emphasize the importance of acquiring customers while they are still new to the medium.

Several methods of appealing to online customers were already mentioned, however the fundamental problem is in the ease of use of the site and the effectiveness of the communication with the customer. According to Bizrate.com, 75% of all potential online customers abandon their shopping carts before buying. This includes 27% of which are abandoned at the payment screen as reported by Forrester Research. Both these numbers indicate that customers are not entirely sure of what they are getting themselves into when they attempt to purchase something online. It would be impossible to envision 27% of all people at a checkout line at Toys R Us deciding they didn't actually want to buy the toys they had just picked out.

In addition to offering incentives, having a bug-free process, and communicating effectively, online companies that wish to attract this new breed of customer need to be concerned about timeliness. The time to act is now. In fact now is probably even too late. The greatest gains in customer base will occur while Internet growth continues to remain high. Entering the market once it has grown to its full potential will be difficult as customers have already established shopping trends and preferred businesses. Developing a customer base in this sort of environment would be very costly and require tremendous amounts of initial capital.

SECURITY : TRANSACTIONAL, DATA COLLECTION, DATA FUSION

One of the concerns the concepts that comes up again and again with Internet users thinking about making online purchases is the risk involved. The fear involves both the security during transmission of information, as well as the information that could be collected about an individual. Both these concerns deal with privacy, and the consumer's right to know who has access to their personal information. Most of the time these fears are unwarranted. In fact, transactions made in a traditional store are often much less secure and should be generating greater concern. The key difference between the online world and the real world is the physical contact involved. Dealing with the human being eases a customer's fears as they can evaluate the trustworthiness of the sales person they are dealing with. In the online environment this form of personal accountability does not exist making it very difficult to create a relationship of trust.

One of the added privacy problems in the online world is that of the mass collection of individual's information to form personal profiles. Double Click.com has recently come under significant scrutiny as it has allegedly been collecting and storing information from individuals who visit sites with their ads on them. This data can then be combined through a process called data fusion (that is taking information about an individual from a wide variety of sources and then combining the data by comparing names, e-mail addresses, etc. and used to create a detailed profile of an individual's shopping habits. Although benefits exist to the end user in the form of customized services, most people are not comfortable with their personal details being freely available in the Internet. The use of cookies further simplifies the collection process and amplifies these fears.

Perhaps the simplest way of alleviating customer's concerns is displaying statements reassuring the privacy of any personal information. This statement is more likely to be believed on the website of a reputable, well-established company. However, simply having this statement indicates that the company is aware of the issue, and hopefully will stick to its word.

CUSTOMER RETENTION AND LOYALTY

In the previous section we discussed the factors that initially attract a potential customer to a particular company's website. This section deals with how that individual can be encouraged to keep coming back to an online business once they have made an initial purchase.

The concept of adding value has already been discussed, but these principles apply on an ongoing basis. Value comes in many forms, including the quality of service, which is the main focus, in this section various aspects of embedding quality interaction in the online world are discussed.

TECHNICAL QUALITY

As mentioned before, having a technical sound website is of the utmost importance. Unexplained and illogical errors will turn both new and old buyers away. Furthermore, users will be less likely to trust the security systems and overall quality of the business. In addition to providing an error-free environment, a commercial website should also guide the customer who is often treading very unfamiliar territory.

Error handling is a part of good programming and a part of good customer service. The website should be tested extensively before opening it for public, this should be true through out the sales process, from the catalogue to the point where the customer clicks the 'Purchase' button. If an error does occur, a plain-English explanation should be given with appropriate suggested actions. Once Again, new users to the online environment are not necessarily very technically oriented.

Contextual help is very useful in making a new user's experience a success. Details such as shipping prices and shipping times presented during the purchasing process help clear up confusion. It is important to make sure that any information that a user might need be easily accessible in the appropriate stage of the purchasing process.

RESPONSE TIME

The online environment has furthered the already accelerated pace of our everyday lives. Internet users are used to seeing immediate results everything they do, from the results of a search engine to the downloading of a new movie trailer. Online business have to embrace this change in thinking and be as responsible as possible. This includes speed in loading web pages, responding to questions, fixing problems, and delivering the product.

Without keeping up this response time, online companies remove one of the key advantages for people to deal with business electronically. If Chapters Online took one week to deliver their books, then the customer would either look for an electronic version of that book or go to a brick and mortar book store. Even the smallest delay in service significantly increases the odds of potential customer spending their money elsewhere.

CUSTOMIZATION

As with acquiring customers, customization is very important in retaining customers. Again, Internet shoppers are used to having a high degree of control in both the way information is presented to them and the types of products they can purchase. It even applies to the way a product is purchased, such as the delivery method and payment methods. Web portals are particularly good at achieving high levels of customization, and e-business can draw on this experience.

CUSTOMER INTIMACY

In many ways the concept of customer intimacy relates very closely to customization. It is almost never feasible to have personal contact with an Internet shopper due to huge numbers involved and the nature of the medium. However, this is no excuse for not getting to 'know' a customer.

One method of fostering an intimate relationship with the customer is to keep track of their activities and past purchases. If a customer often purchases a certain type of product, then when a new similar product becomes available this can be played when they next visit the web page, amazon.com performs this task very well and can generate numerous additional sales by recommending similar products. Customer's get the benefit of seeing what is relevant to them while the company increases its perceived value to the customer while also increasing sales. This can be accomplished through the use of cookies with or without the user's knowledge (raising security issues) or through a log in process like Chapters.com.

Another method that can be effective but is often implemented is the use of customer service on-demand. This has been used in some electronic part distributors sites where the user's phone number is entered into the web page and a customer service representative contacts the users shortly thereafter. This is an expensive system, however it re-establishes the 'human touch' that is usually lost on the Internet.

HANDLING OF RETURNS AND COMPLAINTS

The greatest advantage that online stores with related brick-and-mortar stores (such as Chapters.ca) have over pure online stores (such as Amazon.com) is their ability to handle returns and complaints. Personal contact is critical in handling the wide variety of possible return and complaint situations so companies that back their online service with a physical store have a big advantage.

Returns are difficult to process with online stores as

the issue of delivery methods and costs becomes ambiguous- who should pay? Furthermore, it is difficult to discuss a defect in a product when both parties can't be looking at it simultaneously. Complaints may also be very difficult to handle, as the problems can be very technical, where the customer service representative probably has a limited technical ability. Furthermore, problems that customers are experiencing may not even be related to the company's website itself, but their internet connection - you wouldn't expect a customer to walk into Canadian Tire and complain about their car breaking down on the way to the store. In short, the online world presents a hugely wide variety of potential problems, with the medium not equipped to be overly flexible and adaptive. This puts a large strain on the customer- business relationship and distresses the importance of providing a quality product and website.

The weakness of e-business became especially clear this past winter after the big Christmas rush. Customers wanting to return unwanted or damaged presents found that they had significant problems in returning their present to the seller. This clearly demonstrates the importance of having robust systems in place for handling complaints and returns.

OTHER ISSUES

APPLYING EXISTING LAWS TO THE INTERNET

The majority of this paper has been focused on the changes in customer-business interactions in the Internet environment. The next question is can this new forum be regulated in the same way as the traditional market. In class a discussion was held on the validity of applying library policies to Internet content. The same problems apply such as the international nature of the Internet and the lack of access control.

Already problems are being seen. Currently this issue is active in Europe where protesters are contesting Nazi related items that are being sold on ebay.com as these are said to be promoting racism, which is against the law. The issues are not limited to the types of products being offered. Problems can arise in areas where transactions occur including dishonesty on the part of the retailer or the customer and differences in expectations. The issues are boundless and are worthy of a paper of their own - they are only raised here to stimulate thought.

IMAGE MANAGEMENT

Another issue of concern for Internet based business is the images that they portray to the customer. Simply by

being online, customers view them as forward-looking, high-tech, and innovative. This might also mean that they are impersonal and difficult to communicate with. Because of these preconceptions that online users might have about a company, image management becomes very important.

CONCLUSIONS

The online world is vastly different than the 'real' world and many of the traditional principles of customer relations do not transfer well to the online world. The Internet has changed the way people interact with business while simultaneously increasing the expectations of the customer. Business must respond. Care must be taken to ensure that the efficiency of electronic sales does not cloud the need for personal attention and detailed planning. Making money on the Internet is not simple as putting up a website- significant planning and thought is required. The majority of the business on the Internet today are expected to fail. Only those that effectively deal with customers will succeed. Our society has to adapt to this new way of doing business on all levels because, for better or worse, the medium is changing the way of doing business.

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