

# The interaction between digital marketing communication and customer loyalty



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HELSINKI SCHOOL OF ECONOMICS

ACTA UNIVERSITATIS OECONOMICAE HELSINGIENSIS

A-333

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Helsinki School of Economics

ISSN 1237-556X  
ISBN 978-952-488-277-4

E-version:  
ISBN 978-952-488-278-1

Helsinki School of Economics -  
HSE Print 2008

## **Abstract**

Digital channels and information technology are changing the way that companies communicate and maintain relationships with their customers. The Internet, email, mobile phones, digital TV, and other evolving channels offer opportunities for frequent, cost-effective, personalized, and interactive communication between the company and their customers. In addition to traditional offers and persuasion, customers can be provided with relational communication like newsletters, usage tips, maintenance reminders, and interactive games. Being regularly in touch with customers via digital marketing communication (DMC) offers marketers new ways to cultivate customer relationships, which can lead to increased customer loyalty. This is important, because the effects of customer loyalty on company profitability are known to be significant.

Despite the growing use of digital channels in marketing and the research evolving around them, there are few models that explain how DMC works, especially for cultivating customer loyalty. Dispersed ideas of how marketers could use digital channels to develop and sustain customer relationships are suggested in various areas of marketing literature. In this dissertation we draw together previous research into an integrative model that explains how DMC interacts with customer loyalty. In addition to a literature review, the model is based on empirical studies from companies practicing DMC.

The model proposes that brand communication builds customer loyalty mainly through frequency and relational content. Information processing triggered by brand communication generates customer value and commitment. Increases in these can improve customer loyalty, both attitudinal and behavioral. It is suggested that personalization and interactivity moderate the effects of brand communication on customer loyalty.

While it is apparent that digital channels in marketing are still mainly to be used for campaigns and short-term results, the findings of this dissertation show that marketers can benefit from harnessing DMC in building long-term customer loyalty. The model offers a framework for building customer loyalty in the modern interactive marketing environment.

**Key words:** digital marketing communication; personalization; interactivity; customer loyalty; customer relationship management

## **Acknowledgements**

My first thought after becoming a PhD student right after finishing the Master's degree was that "I must be crazy." Well, they say the line between a genius and a lunatic is a thin one. But looking back, I don't regret my decision. I was very lucky to be able to do most of my dissertation while working in a magnificent project (DiViA – Digital Marketing and Customer Relationships) with leading companies. All the knowledge and expertise acquired during those years was a real investment in the future.

There are many people I would like to thank. First, my mentor and supervisor Mika Raulas, thank you for dragging me into this project. Thanks for your everlasting inspiration, ideas, motivation, and expertise. Without you I would not have reached this goal. My colleagues when working at LTT-Research: especially Jari, Thomas, and Ville, thank you for your excellent team work, friendship and support. Sami and Kristian at HSE Marketing Department, thank you for your co-operation, help with the methodology, and great company on conference trips. Thanks to my great colleagues at SATAMA; you have always made coming to work a pleasure. Thanks also to everybody else who has helped me during these years.

My special love goes to my mother, who has always supported and believed in me and made my success possible. Also my sisters Marika and Linda, and niece Minea - I love you. All my friends, thank you for your existence. Times change but good friends stay; you are absolutely the cornerstone of my life. Credits also go to AAH ry for keeping up the good spirit.

Finally, my love and kisses go to those staying by my side all these years. Thank you for your love and support. I could not have made it this far without you!

This work has been financially supported by the Foundation of Helsinki School of Economics and the Foundation for Economic Education. I highly appreciate this support.

Espoo, August 29, 2008

*Marko Merisavo*

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Publication I – Marko Merisavo. 2008. “The Interaction between Digital Marketing Communication and Customer Loyalty: An Integrative Model and Research Propositions.” HSE Working Papers, W-452, Helsinki School of Economics, June 2008. (Revised from February 2006, HSE Working Papers, W-400).

Publication II – Merisavo, Marko and Mika Raulas. 2004. “The Impact of Email Marketing on Brand Loyalty.” *Journal of Product and Brand Management* 13 (6): 498-505.<sup>a</sup>

Publication III - Martin, Brett A.S., Joël Van Durme, Mika Raulas, and Marko Merisavo. 2003. “Email Advertising: Exploratory Insights from Finland.” *Journal of Advertising Research* 43 (3): 293-300.<sup>b</sup>

Publication IV – Merisavo, Marko, Jari Vesänen, Antti Arponen, Sami Kajalo, and Mika Raulas. 2006. “The Effectiveness of Targeted Mobile Advertising in Selling Mobile Services: An Empirical Study.” *International Journal of Mobile Communications* 4 (2): 119-127.<sup>c</sup>

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# 1 Introduction

## 1.1 Background

The question of how companies could improve their marketing performance by using new technology and digital channels is interesting for a number of reasons. First, the issue of how companies should interact with their customers is gaining in importance, especially as companies consider the cost differences between traditional communications media, such as television and sales forces, and electronic media, such as the Internet and email (Reinartz et al. 2005). However, the potential cost effectiveness of digital channels is only one of their advantages. Hence, even if companies have begun to use digital channels for marketing and brand building, they may not be using them to the fullest potential. For example, it has been argued that “companies may be especially lacking in exploiting the potential of brand sites in building a positive experience through interactivity, cultivating loyal customers, and supporting cross-channel promotions.” (Dou and Krishnamurthy 2007). A couple of years ago it was suggested that customer-focused digital communication like permission-based email newsletters can be regarded as a service offering vehicles for establishing ongoing dialogue with customers and communicating a highly personalized blend of information, entertainment, and promotions (Brondmo 2000). Similarly, Rust and Lemon (2001) suggested that the focus of digital marketing is shifting from creating transactions to creating service. Today, the customer relationship and loyalty building aspect of digital marketing is even more relevant as the Internet and mobile have become essential tools of communication for many consumers.

Our main claim is that being frequently in touch with customers via the Internet, email, mobile phones, digital TV, and other evolving channels should help achieve positive effects on customer relationships, especially on customer loyalty. This should motivate marketers to engage in digital marketing communication, as the positive effects of increased customer loyalty on company profitability are known to be significant (Reichheld 1990, 1993). The positive effects of digital marketing on company profitability have gained increasing attention in recent studies (Reinartz et al. 2005; Venkatesan and Kumar 2004). Previous research has found that the number of mailing efforts of a company is positively related to profitable customer lifetime duration (Reinartz and Kumar 2003). From the profitability perspective marketers should concentrate attention on retaining rather than attracting customers on the Internet (Reichheld and Schefter 2000). Despite the concerns of customers’ decreased loyalty



on the Internet caused by reduced transaction costs and easier search for different alternatives (see e.g. Bakos 1997), research suggests that customer loyalty on the Internet can even be greater than in a traditional retail environment (Brynjolfsson and Smith 2000). Therefore, better understanding of the mechanism of how the Internet and other digital channels build customer loyalty is needed.

Increased frequency of communication and the interactive nature of digital channels allow marketers to expand message content from selling to telling. This is important, as it has been argued that communication rather than persuasion is the foundation of customer-focused marketing efforts (Duncan and Moriarty 1998). While promotional communication like price promotions are intended to quickly generate sales and other responses, relational communication focuses on enhancing customer's attitudes and loyalty in the long term. For instance, customers can be offered additional brand communication when buying products or when using them. This can include newsletters, maintenance and repurchase reminders, help for keeping their products up-to-date, and tools for interacting with friends and peers. This brings customers value, for example in the form of saved time, useful information, or positive emotions for being remembered.

Such brand-related interaction can strengthen customer-brand relationships with positive changes in customer loyalty (see e.g. Aaker 1996; Kapferer 1998). In line with Fournier's (1998) ideas, marketers increasingly bring brands closer to consumers' everyday life. The changing role of customers as co-producers of value is becoming increasingly important (Prahalad and Ramaswamy 2004). Interactivity in digital media provides customers value by offering them better options to search for information, work as initiators, and get help. Interactivity also offers customers new ways to spend time with a brand, like playing games, participating in an activity on a website, or learning about the product or service they are using.

This kind of reasoning represents new thinking in marketing theory. It has been suggested that the dominant logic of marketing is shifting from the exchange of goods toward service, interactivity, connectivity and ongoing relationships (Vargo and Lusch 2004). Technological innovations, CRM applications, new channels, and changing media environments facilitate this shift (Bhattacharya and Bolton 2000; Deighton and Barwise 2000; Peppers and Rogers

2004). Thus, it can be argued that digital channels and communication via them offer marketers a promising way of conducting this relationship-oriented marketing thinking.

With such prospects in mind, it is not surprising that the use of digital channels in marketing is increasing in many companies. General Motors's internet-based owner center My GMLink ([www.mygmlink.com](http://www.mygmlink.com)) offers customers a single location to manage all post-purchase needs, and get value from services like email service reminders, maintenance tips, seasonal safety tips, and special privileges and offers. Customers' increased brand contacts by using My GMLink service possibly strengthen GM's customer relationships with more sales, and enhanced loyalty. Nike targets the youth segment by launching a digital spring fashion show, which allows consumers to use the brand's latest fashion catalogue online to create their own looks and photos and a virtual identity (Hargrave-Silk 2005). L'Oréal's brand Lancôme uses email newsletters to keep in touch with customers and hence strengthen their brand loyalty (Merisavo and Raulas 2004). Magazine publishers can activate and drive their customers to the Internet with email and SMS messages to improve resubscription rate (Merisavo et al. 2004). Interactive and virtual brand communities, like those built by Harley Davidson and Ducati, bring consumers with specific interests together from different geographic areas to strengthen customers' brand loyalty (McAlexander et al. 2002; Wind et al. 2002, 97). McDonald's uses online channel to reinforce brand messages and relationships, focusing their online community building on communities for children, such as the Happy Meal website with educative and entertaining games (Rowley 2004). Canon's iMage Gateway service helps consumers share their digital photos with friends online with the aim to better serve their customers and tie them to be in touch with the brand on their site.

Digital channels also contain opportunities and tools for personalization. By using digital channels, customers can actively create or shape the form of brand communication, for example by stating their channel and content preferences. Likewise, marketers can create more personal brand communication based on customers' behavior and preferences, which can increase the effectiveness of brand communication by making customers perceive it as more relevant and interesting, and wanting to maintain a relationship with the marketer (Simonson 2005). For example, L'Oréal's CRM initiative aims to enhance personal communications with customers by analytical profiling, segmentation, database build and design, and bolstered data gathering (Brown 2003). This way L'Oréal seeks to increase the return on investment and capitalize on their customer insight for the long term.

## 1.2 Research question and objectives

Despite the growing use of digital channels in marketing and the research evolving around it, this domain is still often approached as a “technical” perspective (e.g. tactical plans and an addition to promotion mix) and strategy-based work is less common (Kimiloğlu 2004). Moreover, there are a few models for explaining the mechanism of how digital marketing communication (DMC) works from a relationship marketing perspective, especially for enhancing customer loyalty. Ideas of this kind have been suggested in several areas of marketing literature, ranging from consumer behavior and basic advertising theories to modern e-marketing books and customer relationship and brand management literature, which are discussed in more detail in the next chapter.

In this dissertation we draw together previous research and empirical studies into an integrative model. The main objective of this dissertation is to examine: **What is the interaction between digital marketing communication and customer loyalty?**

This main research question can be divided into three sub questions:

1. What are the key elements of DMC that interact with customer loyalty?
  2. What is the mechanism with which DMC interacts with customer loyalty?
  3. What are the outcomes of DMC for customer loyalty?
- 
1. Research on digital marketing has in many cases focused on particular channel (e.g. Internet or email) and tactical or technical issues like banner size or copy text while the strategic perspective and more comprehensive view of the elements that interact with customer loyalty has remained vague. This dissertation aims to close this gap by identifying and explaining the key elements of DMC on a conceptual level to facilitate theory building. These key elements (brand communication, personalization, and interactivity) have also been illustrated with examples of real cases from leading marketers and brands.
  2. There is clearly a lack of integrated models explaining how DMC works from a relationship marketing perspective, especially for enhancing customer loyalty. This dissertation focuses on building an integrated model that explains the mechanism. This model is based on a literature review that integrates findings from several areas of

marketing literature. Relevant theories and empirical evidence are applied into the conceptual foundation of the model. This comprehensive approach prepares a theoretical ground for better understanding DMC and its effects on customer loyalty, as well as provides a base model that can be utilized and further developed in future empirical research.

3. The outcomes of DMC are clearly conceptually distinguished in the model. While the main outcome (customer loyalty) is mainly examined from a marketer's point of view, the model also proposes prerequisites (perceived value and commitment) that are examined from a customer's point of view. In current research of this field the empirical evidence of the interaction between DMC and customer loyalty is still scarce and scattered in many conceptual ideas. The empirical research of this dissertation focuses on the findings of real cases where companies have conducted DMC for their customers. This empirical evidence has been used both to develop and verify the proposed model. However, the main objective of this dissertation is not to provide a causal model that has been thoroughly tested. Instead, the approach is more explorative than conclusive and it is acknowledged that the model needs more testing.

The structure of the dissertation is the following. We first position the study within the marketing discipline and define digital marketing communication. Research strategy and methodology are described next. The next section presents a summary of the publications of this dissertation along with a model of the interaction between digital marketing communication and customer loyalty. The original publications follow. Last, we discuss the contributions and limitations of the dissertation, and suggest areas for future research.

## **2 Positioning and defining digital marketing communication (DMC)**

### **2.1 Positioning the study**

Recently it has been argued that marketing is moving away from focusing on the exchange of goods toward intangibles such as, skills, information, knowledge, interactivity, connectivity and ongoing relationships (Vargo and Lusch 2004). We have seen similar discussion about the dominant school of thoughts and paradigms in marketing and shifts from one to another. For example, it has been suggested that relationship marketing would be replacing marketing mix (the four P's) as the leading marketing paradigm (see e.g. Grönroos 1994; Sheth and

Parvatiyar 1995). Currently, there is increasing discussion about the role of digital marketing in contemporary marketing practice and how it can be used to cultivate customer relationships (see e.g. Coviello et al. 2003; Reichheld and Schefter 2000; Reinartz et al. 2005).

The ideas of how digital marketing communication (DMC) might work from a relationship marketing perspective are discussed in a variety of marketing literature. Some of those are more traditional and established, while others are more novel and evolving. As there is no single theory on DMC, it needs to be compiled from several sources of marketing literature. Many of them offer useful ideas and theories of how to build customer relationships and communicate with customers to strengthen their loyalty. We have divided the relevant literature into three broader perspectives: relationship marketing, direct marketing, and advertising and branding. Next we will briefly describe the central ideas of each of these marketing areas that contribute to our ideas about DMC.

### **2.1.1 Relationship marketing perspective**

#### *Relationship Marketing (RM)*

The ideas of relationship marketing have evolved from b2b and network theories to b2c marketing, and even c2c marketing like brand communities. According to this diffuse approach the term relationship has also extended to cover non-personal, technology-driven contacts associated with direct marketing and CRM (Egan 2003). Today organizations are increasingly applying concepts of relationships marketing in mass markets, and many of these practices are enabled by advances in information and communication technology and the availability of new exchange forums such as the Internet (Bhattacharya and Bolton 2000). Although the ideas of RM are not new and its appropriate application in consumer markets has been formerly questioned (O'Malley and Tynan 2000), it could be argued that advances in IT and communication technology have now enabled the effective use of RM in consumer and mass markets. For example, the opportunities for personalization and interactivity offered by digital channels have enabled better reciprocity, which is one of the central ideas of RM (Bagozzi 1995). More personalized content of communication also often means that customers consider it to be more valuable. That is, digital channels can enhance interaction,

communication and value processes, which are suggested to be vital in successful execution of a relationship marketing strategy (Grönroos 2004).

When consumers engage in relationships and process communication, they begin to perceive value. Perceived value can be divided into functional, economical, emotional, social/self-expressive, epistemic, and conditional (Aaker 1996, 95-101; Bhat and Reddy 1998; de Chernatony 1993; Holbrook 1994; Long and Schiffman 2000; Sheth et al. 1991; Zeithaml 1988). Perceived value is regarded as a key element for customers in sustaining a relationship with a marketer (Berry and Parasuraman 1991; Long and Schiffman 2000). Thus, perceived value can be viewed as an antecedent of customer loyalty. In addition to traditional products, brands, and services, researchers have also successfully used these dimensions of perceived value to assess consumers' perceptions of technology-based self-services, like mobile services (Heinonen and Strandvik 2003; Heinonen 2004; Pura 2005). Hence, we believe that these value categories should also be effective in capturing the effects of DMC on customer loyalty.

Commitment is also a central concept in RM. Commitment is defined as a desire to maintain a relationship (Moorman et al. 1992; Morgan and Hunt 1994). Commitment can be divided into affective and continuance commitment (Gundlach et al. 1995; Fullerton 2003). Affective commitment is based on emotional attachments: identification, shared values, belongingness, dedication, friendship, and similarity (Price and Arnould 1999; Pritchard et al. 1999). Continuance commitment is based on switching costs, investments, dependence, and lack of choices (Gundlach et al. 1995; Meyer et al. 1990). Also a concept of (cognitive) lock-in is also related to continuance commitment, defined as "consumers' decreased propensity to search and switch after an initial investment." (Johnson et al. 2003; Zaubermaier 2003). This term seems to be sometimes used as a synonym for continuance commitment, and describes consumer behavior on the Internet. Interactive media changes the way in which commitment is formed. It has been found that on the Internet consumer lock-in is greater than in a traditional retail environment (Brynjolfsson and Smith 2000). The Internet can also be effective in creating affective commitment, one example being virtual communities.

Commitment can be viewed as a key precursor to customer loyalty (Pritchard et al. 1999). Fullerton (2005) also emphasizes the role of commitment as a central mediating construct between brand evaluations and loyalty. He has found that both continuance and affective commitment can have a positive influence on behavioral loyalty (e.g. repurchase intentions),

but affective commitment contributes positively to attitudinal loyalty (e.g. advocacy intentions). In our conceptual model (see Publication I) we also treat commitment as an antecedent of customer loyalty.

### *Customer Relationship Management (CRM)*

Although very close to RM, the term CRM is often considered rather vague and there is a wide range of views about what it means (Payne and Frow 2005). Furthermore, in the marketing literature the terms CRM and RM are often used interchangeably (see Parvatiyar and Sheth 2001). One definition of CRM is offered by Parvatiyar and Sheth (2001, 5) who suggest that “Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value.” A panel of CRM experts on a leading Customer Relationship Management Portal ([www.crmguru.com](http://www.crmguru.com)) suggests the following definition: “Customer Relationship Management (CRM) is a business strategy to select and manage customers to optimize long-term value. CRM requires a customer-centric business philosophy and culture to support effective marketing, sales, and service processes. CRM applications can enable effective Customer Relationship Management, provided that an enterprise has the right leadership, strategy, and culture.” In a more concise definition CRM can be viewed as “information-enabled relationship marketing” (Ryals and Payne 2001, 3). In our view, the CRM philosophy should guide the conducting of DMC, the emphasis being on retention and optimizing the long-term value of existing customers. In this sense we focus more on the narrower view of CRM that considers CRM only as seeking customer retention by using a variety of after marketing tactics that lead to customer bonding or staying in touch with the customer after a sale is made (Vavra 1992).

CRM literature suggests that marketers can benefit from being in regular and active contacts with their customers to build and maintain loyalty (see e.g. Barnes 2001; Brondmo 2000; Cram 2001; Hansotia 2002; O’Brien and Jones 1995). Recent studies of CRM have concentrated on customer lifetime value, profitability, marketing productivity, and customer loyalty (Gustaffson et al. 2005; Kumar and Shah 2004; Reinartz and Kumar 2003; Reinartz et al. 2005; Ryals 2005; Tan and Mookerjee 2005; Venkatesan and Kumar 2004). Particularly

important results supporting our ideas of DMC are those suggesting that the number of mailing efforts of a company is positively related to profitable customer lifetime duration (Reinartz and Kumar 2003), and that the relational information processes of CRM (regular communication, information collection, etc.) play a vital role in enhancing an organization's customer relationship performance (Jayachandran et al. 2005). The use of CRM is also positively associated with improved customer knowledge and improved customer satisfaction (Mithas et al. 2005).

From the marketer's viewpoint, interactivity and the use of CRM provide more information about customer needs, preferences and interests, which can lead to better segmentation and targeting. This, in turn, can help to accomplish better responses, satisfaction, and perceived value. It has been shown that the effectiveness of various types of CRM and communication varies between different customer groups. Rust and Verhoef (2005) found that the level of loyalty affects how marketing interventions in intermediate-term CRM work. Their results show that relationship-marketing activities (relationship magazines) are more effective with loyal customers, while action-oriented activities (direct mailings) are more effective with nonloyal customers. Similarly, Merisavo and Raulas (2004) found that consumers with higher brand loyalty appreciated regular communication from the brand more and find many different contents useful in addition to sales offers (e.g. product information, contests, news and trends about the product category), while less loyal consumers mainly prefer sales offers (see Publication II).

### **2.1.2 Direct marketing perspective**

#### *Direct and Database Marketing (DM)*

Targeting marketing activities based on customer long-term customer value rather than optimizing segmentation and targeting on a campaign profitability level is gaining growing interest among direct marketing literature, too (see Bitran and Mondschein 1996; Elsner et al. 2003). Direct marketers have long relied on being actively in touch with those customers that have a high potential response rate and high estimated future value in the company's database. Academic publications on direct marketing, for example by Bult and Wansbeek (1995) or Colombo and Jiang (1999), also recommend this traditional approach. Approaches



like RFM models, scoring models, neural networks, and customer lifetime value have been used to estimate the future value of customers. However, Elsner et al (2004) note that all of these approaches concentrate on the question of which customer should be contacted in the next campaign, but fail to address the issues of when and how often customers should receive communication over a given period. Elsner et al (2004) show how direct marketers can improve their performance by considering also long-term customer value in the mailings as opposed to following the standard marketing approach to managing customer contacts and selecting profitable customers for each mailing.

This kind of rethinking and use of targeted customer communication for also other than not just direct response and sales purposes of direct marketing is becoming more lucrative with new digital communication channels which drastically changes the economies of scale and scope of producing and sending messages to target groups. In effect, it makes sense for marketers to increase the frequency of their mailings to also non-active customers if they can do this with marginal cost, for example with email or mobile or what ever low production and leverage cost digital medium. This means that marketers should not just obtain short-term response which is usually measured by a buy or no-buy decision but also keep in touch with those existing customers who are not expected to respond directly based on a mailing. This also changes the content of mailings whereby an offer should not be main message type, but instead messages that keep the customer informed, involved and interested (Merisavo and Raulas 2004).

### *E-marketing and e-services*

Often following the ideas of DM, this evolving area of marketing literature includes several topics and related terms like Internet/online marketing, 1-to-1 marketing, and interactive marketing. Coviello, Milley and Marcolin (2001, 26) have defined e-marketing as “using the Internet and other interactive technologies to create and mediate dialogue between the firm and identified customers.” They also consider e-marketing a subset of e-commerce, which refers to a wide variety of Internet-based business models which typically incorporate various elements of the marketing mix to drive users to a website for the purpose of purchasing a product or service (American Marketing Association 2008). More than creating discrete transactions, e-marketing is focused on managing continuous IT-enabled relationships with customers by creating dialogue and interactivity (Coviello et al. 2001). In practice, companies

often use database marketing techniques with e-marketing to target segments or personalize communication to individuals, and also mix these marketing practices with more traditional aspects of marketing (Coviello et al. 2003). This suggests that e-marketing may still not drive marketing practices in many firms and is mainly used to facilitate or support more traditional transactional and relational marketing (Coviello et al. 2003). However, cases like Amazon, e-Bay, and Skype illustrate that e-marketing can be a driving marketing strategy. Also, web retailing is gradually evolving and has received increasing research attention (see e.g. Bodkin and Perry 2004; O’Cass and Fenech 2003).

E-marketing literature that most importantly contributes to our ideas about DMC concerns the concepts of personalization and interactivity. For example Peppers and Rogers (1993; 1997) have described the benefits of using 1-to-1 marketing and personalization to cultivate customer relationships. More recently, Simonson (2005) has explored personalization and its effects to customer relationships. Interactivity has also been a central topic of e-marketing, for example the nature of marketing in interactive media and customer experience on the Web (Chen and Wells 1999; Chen et al. 2002; Hoffman and Novak 1996; Novak et al. 2000; Novak et al. 2003). Especially interesting in our view are studies indicating the positive effects of interactivity on purchases and loyalty (Ballantine 2005; Johnson et al. 2003; Kwak et al. 2002; Venkatesan and Kumar 2004). In our conceptual model (see Publication I) we suggest that personalization and interactivity moderate the effects of brand communication on customer loyalty.

From the service marketing viewpoint, the development of the Internet and other new channels has made it possible for firms to create new services and develop interactive and relationship-building contacts with their customers (Grönroos 2000). These services include websites, newsletters, search engines, e-magazines, alert services, online chat, and usage demonstrations. The most experienced and successful companies using the Internet are beginning to realize that the key to success is not based only on presence or low prices, but instead on delivering electronic service quality (Zeithaml 2002). For example, extensive survey data from more than 2000 e-tail sites shows that price-sensitive customers may be the least loyal, whereas customer service support is the main factor that attracts repeat buying (Reibstein 2002).

The service marketing literature concerning digital channels most commonly tackles electronic service quality related to online shopping (Lee and Lin 2005; Santos 2003; Swinder et al. 2002; Zeithaml 2002; Zeithaml et al. 2002) and customer attitudes toward self-service technologies (Dabholkar and Bagozzi 2002; Meuter et al. 2000). An important point of view concerns the effects of customers' usage of electronic services on their loyalty. However, research on this issue is scarce. Srinivasan et al. (2002) show that the availability and effectiveness of customer support tools (information, search processes, etc.) and the degree to which two-way communication (contact forms, chat, etc.) was facilitated have a positive effect on loyalty toward an e-retailer. However, the loyalty effects of additional digital services that customers can be offered when buying products or when using them should also be explored. For example, the Canon iMage Gateway helps consumers share their digital photos with friends online.

### **2.1.3 Advertising and branding perspective**

#### *Consumer behavior and advertising research*

The rationale behind frequently communicating with customers has been addressed in numerous consumer behavior and advertising studies. A central finding is that repeating messages or objects to consumers will translate into awareness and learning, possibly more positive attitudes toward the object, and eventually result in action (Broussard 2000; Crowder 1976; Howard-Brown 1998; Sawyer 1973; Zajonc and Markus 1982; Zielske 1959). Repeated exposure to brand communication also enhances brand attitudes by allowing the customer to process more information (Berger and Mitchell, 1989). Moreover, messages that become familiar through repetition have a tendency to be perceived as more valid (Bacon 1979; Hasher et al. 1977). It has been found that learning and increased positive experiences with a certain brand decrease the search for information about alternative brands (Dick and Basu 1994; Newman and Staelin 1972), thus enhancing customer loyalty.

The frequency of marketing communication and its effects on customer relationships has also gained interest in recent studies. Reinartz and Kumar (2003) found that the number of mailing efforts of a company is positively related to profitable customer lifetime duration. Being regularly in touch with customers has positive effects on their loyalty. For example, regular e-

mailings have positive effects on brand attitudes, purchases and loyalty (DuFrene 2005; Merisavo and Raulas 2004). Similarly, the usage of mobile services and receiving of mobile advertising messages are found to have positive effects on consumers' brand relationships and long-term purchase behavior (Merisavo et al. 2006; Nysveen et al. 2005).

New media can also change the way in which advertising works and how its effects should be measured. For example, Stewart and Pavlou (2002, 381) stress the different nature of measurement in interactive media: "Research that treats marketing communication as an independent variable, useful for predicting consumer response, ignores the reciprocal influence that consumer response has on subsequent communication." That is, the interactive nature of new media has to be taken account when assessing the effectiveness of advertising and other forms of marketing communications. The body of web advertising research offers good ideas on understanding the nature and effects of interactivity (see e.g. Chen and Wells 1999; Chen et al. 2002; McMillan and Hwang 2002; Sundar et al. 2003; Sundar and Kim 2005; Wu 2005).

### *Brand Management*

Brand management literature offers many useful ideas to DMC, the central thought of which is that keeping in touch with customers with regular brand communication can be used to cultivate customer relationships. Brand literature shows how frequent communication has positive effects on customers' brand loyalty, and customer-brand relationships are deepened (Aaker 1996; Kapferer 1998). When consumers engage in brand relationships and process brand communication, they begin to perceive value related to the brand (Aaker 1996), and when the relationship develops, a consumer may begin to perceive a brand as a person, a trusted friend who is part of his or her everyday life (Fournier 1998; Aaker 1997). From a company point of view, digital channels offer cost efficient opportunities for a brand to keep in frequent touch with customers. For instance, email is in effect substantially cheaper to send than conventional paper mail (see e.g. Brondmo 2000). In addition to immediate behavioral effects (i.e. clicks) online advertising can build the attitudinal equity of a brand just like traditional media (Hollis 2005). This brand building effect does not require people exposed to advertising to have an immediate need for the category but if such a need exists, the online medium creates the potential for click-through, which indicates a more direct interest in the advertised brand. Recent studies also indicate that regular brand communication via digital

channels can enhance customer relationships and loyalty (DuFrene 2005; Merisavo and Raulas 2004; Merisavo et al. 2004; Merisavo et al. 2006).

Digital environment offers consumers new ways to spend time with a brand. They no longer need to go to stores to see the products and to talk with sales people. Over the Internet, consumers can access a vast amount of product information, view 3D-images and test different product variations, play games and interact with other brand users. Marketers are also encouraged to create brand communities, because customers belonging to them are more loyal than others; they are less apt to switch brands and more motivated to provide feedback (McAlexander et al. 2002). Prahalad and Ramaswamy (2004, 3) even suggest that “thematic consumer communities, in which consumers share ideas and feelings without geographic and social barriers, are revolutionizing emerging markets and transforming established ones.” An example of a popular consumer community is Facebook, which is a social utility that connects people with friends and others who work, study and live around them. People use Facebook to keep up with friends, upload photos, share links and videos, and learn more about the people they meet (see [www.facebook.com](http://www.facebook.com)).

## **2.2 Digital Marketing Communication (DMC)**

### **2.2.1 Definition**

It is rather difficult to find definitions of digital marketing communication from the literature and the term is not very commonly used. Deighton and Barwise (2000) use the term digital marketing communication and explore its nature in their working paper. However, they do not explicitly define the term. Urban (2004, 2) suggests the following definition: “Digital marketing uses the Internet and information technology to extend and improve traditional marketing functions.” This is a broad definition, focusing on developing the traditional 4 P’s of marketing. We acknowledge that terms like “interactive marketing,” “one-to-one marketing,” and “e-marketing”, discussed in previous section, are close to digital marketing, but neither are they defined very precisely. Even if the term digital marketing is not used very often in the academic literature, it is quite common in business literature and practitioners’ vocabulary. In Wikipedia (2008), digital marketing is defined as “the practice of promoting products and services using digital distribution channels to reach consumers in a timely, relevant, personal and cost-effective manner”. This definition differs from the more general ones by incorporating a normative view; digital marketing should be timely, relevant,

personal, and cost-effective – features often recognized as the possible benefits of using digital media. This definition also emphasizes that even if digital marketing includes numerous techniques and practices used in Internet marketing, it extends beyond this by including other channels with which to reach people that do not necessarily require the use of the Internet. That is, the field of digital marketing also encompasses other channels or elements such as email, mobile phones, sms/mms messages, digital TV, banner ads, RSS feeds, blogging, podcasting, video streams, instant messaging, and digital outdoor. In this way digital marketing as a term is much more extensive than for example Internet marketing or mobile marketing, which are limited to a single channel. As new digital channels and elements are constantly evolving and mixing with each other, the term should be flexible enough to cover them all. This is also the main reason why we use the term digital marketing in this dissertation.

As the objectives and effects of digital marketing vary case by case, we do not want to include normative thinking in the definition used in this dissertation. Hence, we suggest a definition and in this dissertation we refer to digital marketing communication (DMC) as *communication and interaction between a company or brand and its customers using digital channels (e.g. the Internet, email, mobile phones, and digital TV) and information technology*. This definition appreciates that communication can be two-way, initiated by either the marketer or the customer.

In this dissertation we focus mainly on the communication function of digital marketing, and how it helps to enhance the loyalty of existing customers. We think that brand communication is the key element when cultivating customer loyalty via DMC, and elements of personalization and interactivity can be mixed into communication to reinforce its effects. Next, we briefly discuss these key elements. (More detailed discussion and a comprehensive conceptual model are presented in Publication I)

### **2.2.2 Brand communication**

Our main claim is that being frequently in touch with customers via DMC should help achieve positive effects on customer loyalty. In this dissertation we use the term “brand communication” to refer to communication between a company or brand and its customers. This can include advertising, direct marketing, newsletters, or consumer’s activity in a brand community. Hence, we accept the broad view that a brand is not just a product or service, but

also an organization, a person and a symbol (Aaker 1996). The brand-as-organization perspective focuses on the various associations of the company to which all customer communication is also connected. Thus the process of building brands and customer relationships is much more than traditional media advertising (see e.g. Aaker and Joachimsthaler 2000, 42; Duncan and Moriarty 1998). Communication can be general messages to a larger audience or personalized messages. A customer relationship aspect acknowledges that communication can also include relational and service elements (e.g. news, reminders, tips), not just advertising and offers aiming for immediate purchasing transactions. This complies with the argument that communication rather than persuasion is the foundation of customer-focused marketing efforts (Duncan and Moriarty 1998). That is, in our view in addition to increasing sales DMC can especially be used to enhance customer loyalty in the long term.

### **2.2.3 Personalization**

One of the advantages of digital channels is the ability to identify individual customers, and gather information from and about them. Personalization is expected to be an element that can work to boost customer loyalty by creating more personal, interesting and relevant brand communication, and better service. At the conceptual level, personalization means different things to different people in different fields. Even in marketing literature personalization has various definitions (see Fan and Poole 2006; Vesanen 2006).

Related terms, sometimes used as synonyms, include segmentation, (mass) customization, profiling, and one-to-one marketing (see e.g. Kotler 2001; Peppers and Rogers 1993; Peppers and Rogers 1997; Pine II 1999). One useful distinction is to divide personalization into customized products and services and customized marketing, the latter being called “customerization” by Wind and Rangaswamy (2001). In this thesis we focus on personalized brand communication, which can be accomplished by both marketer and customer. Marketers can use behavioral or demographic information to create better segmentation (up to individual level), and target them with more personal brand communication. Likewise, customers can provide marketers information about themselves, such as their interest areas or channel and content preferences. The output of this personalization process has value for both customer and marketer (Vesanen 2006). In this thesis we concentrate on the interaction between personalized brand communication and customer loyalty.

## **2.2.4 Interactivity**

The digital environment offers cost effective and convenient opportunities to move from one-way to interactive communication. From a general communication perspective interactivity can be defined as “the ability to address an individual and the ability to gather and remember the response of that individual, and to address the individual once more in a way that takes into account his or her unique response.” (Deighton 1996). However, interactivity can also be studied from various other perspectives, the most important being functional, process, and perception view. An extensive categorization of definitions is provided by McMillan and Hwang (2002). We suggest that interactivity also includes customers’ search for information, inquiries, feedback and engagement in various other activities with marketers or other customers, for example by playing games on brand’s website, and chatting with other brand users. Both marketer and customer can initiate interaction and typical communication processes (i.e. marketing message → response) are not always followed. Greater interactivity can advance greater brand learning through improved information assimilation (Erdem et al. 1999).

Research shows that interactivity can have positive effects on customer loyalty (see e.g. Johnson et al. 2003; McAlexander et al. 2002; McMillan et al. 2003; Venkatesan and Kumar 2004). For example, a study of a magazine publisher found that the resubscription rate of those who respond to email or mobile marketing by visiting the magazine’s website is higher than that of those who do not visit the website (Merisavo et al. 2004). Visits to a high-involvement-product website can also increase consumer’s brand attitudes (Dahlén et al. 2003). In this thesis we concentrate on the interaction between interactive brand communication and customer loyalty.

## **2.2.5 Outcomes of DMC for customer loyalty**

We use the concept of customer loyalty to assess the outcomes of DMC. Customer loyalty, a term close to brand loyalty, was chosen as the main concept in this dissertation as it tends to be the more general of these two, and is applicable to both b2c and b2b markets. The discussion of how to define and measure both customer and brand loyalty has a long history (Dick and Basu 1994; Odin et al. 2001; Oliver 1999). Oliver (1999, 34) has defined loyalty as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, *despite*



situational influences and marketing efforts having the potential to cause switching behavior.” The most frequently used definition of brand loyalty is that it is a form of repeat purchasing behavior reflecting a conscious decision to continue buying the same brand (Jakoby and Chestnut 1978). That is, for brand loyalty to exist, a pattern of repeat purchase must be accompanied by a positive attitude towards the brand. Accordingly, most researchers believe that the best way to operationalize loyalty is to measure both attitudes and behavior (Rundle-Thiele and Bennett 2001). When behavior alone is considered, the loyalty measured is spurious; it is a low relative attitude accompanied by high repeat patronage due to situational effects (see Dick and Basu 1994). Therefore, the metrics that we suggest for measuring the interaction between DMC and customer loyalty are both behavioral and attitudinal. A more specific division of loyalty into separate phases - described by Oliver (1999) as a cognitive, affective, conative, and action loyalty – was not seen necessary in this dissertation. The ideas of these loyalty classifications are built into our conceptual model, for example cognitive loyalty is related to information processing (see Publication I). However, in this dissertation we do not focus on the specific order of how different types of loyalty formulate.

In the conceptual model of this dissertation (presented in Publication I) behavioral customer loyalty metrics consist of purchases, product or service usage, store/website visits, and recommendation (WOM). Attitudinal metrics in the model include brand attitudes, brand image, brand knowledge, satisfaction, and service perceptions. Both traditional advertising and brand literature (e.g. Aaker 1997; Batra and Ray 1986; Rossiter and Percy 1998), and more recent literature related to digital channels (e.g. Chen et al. 2002; McMillan et al. 2002; Ribbink et al. 2006; Srinivasan et al. 2002; Zeithaml et al. 2002) were used to formulate these metrics and offer good operational metrics and scales for assessing the outcomes of DMC on customer loyalty.

### **3 Research strategy and methodology**

#### **3.1 Background**

The empirical cases of this dissertation are based on a research project on digital marketing (DiViA - Digital Marketing and Customer Relationships) that has been carried out by Helsinki School of Economics and the Swedish School of Economics and Business Administration since 2002. In addition to the original articles listed, the ideas and results of our work are also published in many research and conference papers, along with chapters in

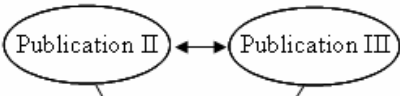
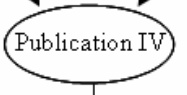
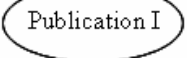
edited books. In the beginning of the project we conducted qualitative research that explored how marketers use digital channels (Merisavo et al. 2002). In the DiViA project we have facilitated discussion and organized seminars to obtain a picture of how companies utilize DMC and how it can be used to cultivate customer relationships. Working together with companies attending the project we managed to get data on DMC and explore its effects on customer loyalty.

The research strategy in this thesis is more explorative than confirmative because DMC is still a developing phenomenon. There is relatively little empirical evidence exists regarding to it, especially its interaction with customer loyalty. We thought it would be valuable to conduct empirical research with real cases, real customers, and real data.

### 3.2 Research phases

The research process of this thesis has been iterative, and theory building has happened throughout the process. Figure 1 illustrates the three research phases.

Figure 1: Research phases

Phase	Publications	Tasks
Phase I		<ul style="list-style-type: none"> <li>•Defining problem domain</li> <li>•Literature review</li> <li>•Collecting empirical evidence</li> <li>•Building an initial model</li> </ul>
Phase II		<ul style="list-style-type: none"> <li>•Refining research questions</li> <li>•Collecting more empirical evidence from another channel and business field</li> </ul>
Phase III		<ul style="list-style-type: none"> <li>•New synthesis of literature</li> <li>•Integrating existing theories and empirical evidence</li> <li>•Developing a conceptual model</li> </ul>

In **Phase I**, our idea was to first explore how DMC could be used to cultivate customer relationships. We chose to study permission-based email marketing. Although commercially

important, and a remarkable tool for relationship marketing, email marketing had been relatively neglected by academic research. Empirical evidence of email marketing was collected from a real-world case to support our hypotheses and build an initial model. We preferred a real-world case to e.g. a student sample, because email marketing is a new area and questionnaires concerning hypothetical situations and perceptions could be non-reliable. In contrast, a survey of existing customers who have been exposed to email marketing could yield more realistic and valid results. Publications II and III from the cosmetics field examine the effects of email marketing on brand loyalty, and how it drives consumers to visit the company website and sales outlets. These results gave preliminary evidence that DMC can have positive effects on customer loyalty.

**Phase II** extends the generalization of the implications made in Phase I. We considered it important to have more evidence from a different channel and business field to test the main hypothesis that DMC can be used to cultivate customer loyalty. In Publication IV we analyzed behavioral and sales data of customers of mobile service provider to find out the impact of mobile advertising by short messages (SMS) on customer loyalty, and possible differences in it between various customer segments. Although we did not have attitudinal measures of customer loyalty as in Publication II, we believed it would also be beneficial to have results on behavioral customer loyalty, based on real sales data. Results reveal that mobile advertising is effective in increasing behavioral customer loyalty (purchases) toward a mobile service provider.

In **Phase III**, empirical evidence gathered from previous phases was integrated into theories from different fields of marketing literature to build a comprehensive conceptual model of the interaction between DMC and customer loyalty. This is one of the main contributions of the dissertation. In Publication I, research propositions are presented along with the model. Even if our empirical cases cover mainly email and mobile marketing, this comprehensive model covers all digital channels and suggests the mechanism of the interaction between DMC and customer loyalty.

### **3.3 Data collection and analysis**

In our research, we mainly used quantitative data collection techniques, a customer survey and a database analysis. We chose to use quantitative methods for getting larger samples and to be better able to generalize the results regarding interaction between DMC and customer

loyalty. While qualitative research would also be valuable in exploring a new research area like digital marketing, we judged that the use of established methods (see Wind et al. 1991) would be a safer way to produce empirical results. While Publications II and III are based on self-report measures, Publication IV is based on database analysis. The individual research methods are listed in Table 1.

**Table 1: Data gathering and analysis methods**

<b>Publication</b>	<b>Data Gathering</b>	<b>Data Analysis</b>
Publication I (Merisavo 2006, revised 2008)	Literature review	Conceptual modelling Hypotheses development
Publication II (Merisavo and Raulas 2004)	Survey of 890 female Finnish consumers	Brand loyalty classification (based on Rossiter and Percy 1998), means, descriptives
Publication III (Martin, Van Durme, Raulas and Merisavo 2003)	Survey of 838 female Finnish consumers (Article I data, excluding cases with missing values >10% of the variables)	Binary logistic regression
Publication IV (Merisavo, Vesanen, Arponen, Kajalo and Raulas 2006)	Behavioral and sales data from 5500 Finnish customers	ANOVA, means

Publication I is a conceptual work, which derives from an extensive literature review and provides a synthesis of literature, research propositions and a model as the main outcome of this dissertation.

Publications II and III are based on the same cross-sectional survey, which results are analysed from a different perspective and methods. Publication II utilizes brand loyalty classification based on Rossiter and Percy's (1998) classification scheme. Descriptive analysis and means are used to reveal differences in the effectiveness of email marketing between different loyalty groups. Although the survey is cross-sectional, its questions were formulated to find out consumers' perceptions and actions influenced by email marketing over a longer time period (18 months) during which the case company had conducted regular email marketing.

In Publication III, binary logistic regression is used to reveal more specific effects of email marketing: the factors that influence consumers to visit the company website and sales outlets.

Publication IV is based on a longitudinal (18 months) analysis of behavioral and sales data of a mobile service provider's random sample of customers. Analysis of variance (ANOVA) was used to reveal the effects of mobile marketing on customer loyalty and significant interactions between different customer segments.

### **3.4 Reliability and validity of the study**

#### **3.4.1 Reliability**

Reliability refers to the extent to which a scale, experiment, test, or any measuring procedure yields the same result on repeated trials (Malhotra and Birks 2000; Merriam-Webster Dictionary 2007). In other words, reliability can be defined as the extent to which measures are free of random error. To obtain larger samples and to allow more reliable generalization of results, the research methods used in this study were quantitative. Sample sizes ranging from 838 to 5500 respondents were large enough for obtaining statistically significant results.

To enhance reliability in Publications II and III, Rossiter and Percy's (1998) established scale was used for brand loyalty measures. In Publication III the original data (890 respondents) were analyzed for missing values. Cases with missing values for more than 10% of the variables were excluded from the analysis. Missing values for the remaining cases were estimated using the expectation-maximization method (Dempster et al. 1977). A posterior test on means and variances did not reveal differences between the variables before and after the imputation, meaning that the original data distribution was not distorted. The final sample size in this publication was 838.

In Publication IV a random sample of 5500 Finnish customers were selected from data comprising 1.8 million Western European customers. Analysis of variance (ANOVA) was used to reveal significant interactions in the data. The sample covered individual sales and response data for those customers from a period of 18 months. The usage of database analysis in Publication IV helps to overcome the common problems of post-purchase surveys, such as consumers' inadequate recall or tendency to rationalize one's behavior (see e.g. Newman 1977). A limitation in this publication is that we had to use behavioral and sales data. Richer data on customers, including demographics and attitudinal data, could help better track the impact of mobile advertising.

### 3.4.2 Validity

Validity refers to the degree to which instruments measure the constructs that they are intended to measure (Peter 1979). Internal validity refers to the rigor with which the study was conducted and the extent to which the designers of a study have taken into account alternative explanations for any causal relationships they explore (Huitt and Kaeck 1999). In order to increase internal validity this study has been conducted with the help of extensive literature review. The literature review finalized in Publication I has been the most important contributor guiding the research process. The usage of established theories has improved the content validity, i.e. the extent to which measurement reflects the specific intended domain of content (see Carmines and Zeller 1991, 20). The usage of literature and empirical evidence has been an iterative process; concepts and ideas derived from literature have been used to design empirical settings and the model. However, it is equally important that the empirical evidence acquired has been used to refine the model and develop new synthesis of literature. The main purpose of this study is not to prove causal relationships. Even if the publications give some evidence of causal relationships between the researched concepts, they are by no means conclusive. Although the model proposes mechanisms of interaction between DMC and customer loyalty, the actual causal relationships have to be tested and verified in future research.

External validity refers to the level to which the results of a study can be generalized (Calder et al. 1982). Real-world empirical cases were used to improve external validity. Hence, we agree with the view that because of the frequently poor external validity, student samples and surveys using hypothetical descriptions and situations are not accurate ways of generalizing about consumer behavior or testing a theory (Liefeld 2003). This was especially true for DMC at the time the first empirical studies were conducted, when the common knowledge and experience of digital marketing among consumers was very limited. Because real-world cases were used the results of this study can be generalized more effectively (and in the future studies compared) to today's marketing environment. Still, the fact that digital marketing methods have evolved and volumes are much higher today somewhat limits generalization of the results. Another significant limitation in Publications II and III is that due to the nature of the brand examined, we only had female respondents in our data. This also limits the generalization.

## 4 Summary of publications

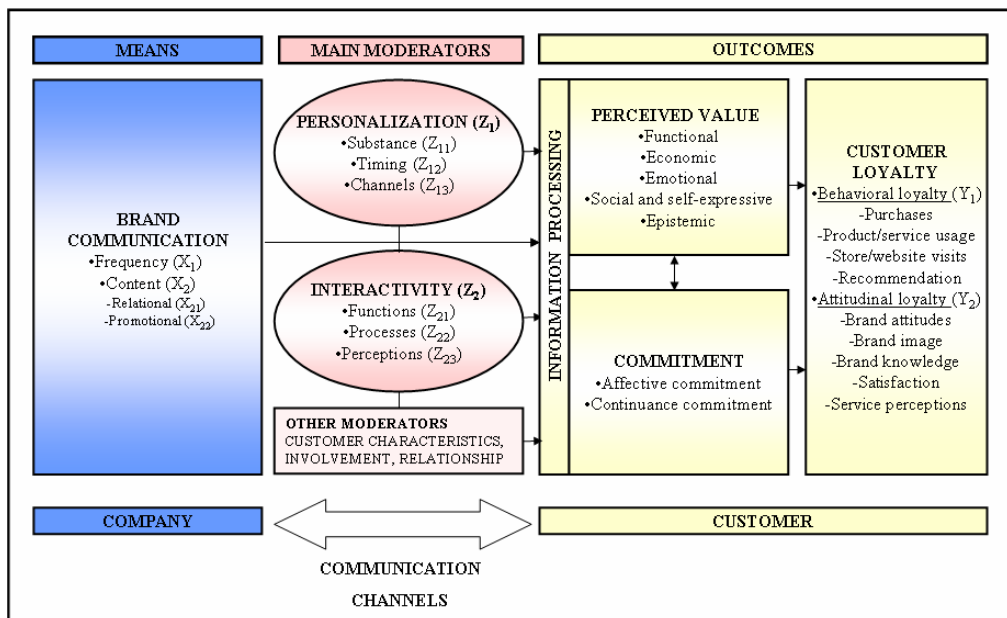
The dissertation comprises four publications. We will next briefly present the central ideas and findings of each publication.

### 4.1 Publication I: The Interaction between Digital Marketing Communication and Customer Loyalty: An Integrative Model and Research Propositions

In Publication I, a comprehensive conceptual model of DMC is described and discussed. The model explains how the key elements of DMC – the frequency and content of brand communication, personalization, and interactivity - can lead to improved customer value, commitment, and customer loyalty. The model is based on theories from different fields of marketing literature, as well as empirical evidence. Compilation of such a model is the key contribution of this dissertation. It offers a solid conceptual foundation for understanding how DMC works from a customer loyalty perspective. It can be used to guide future research in this field.

Figure 2 proposes an integrative model of the interaction between digital marketing communication and customer loyalty.

**Figure 2: An integrative model of the interaction between digital marketing communication and customer loyalty**



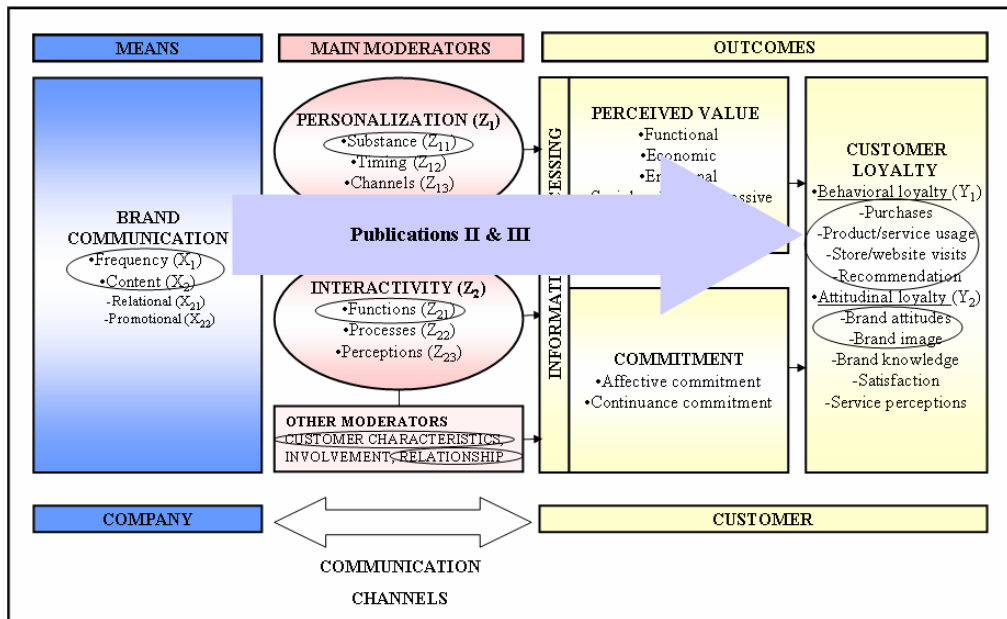
The model consists of means (brand communication), main moderators (personalization and interactivity), other moderators (customer characteristics, involvement, and relationship), and outcomes (perceived value, commitment, and customer loyalty). Publication I examines in more detail the components of the model and theories behind them, and constructs research propositions. As there is no single theory on DMC, the model was compiled from several sources of marketing literature. This included relationship marketing, consumer behavior, advertising, brand management, direct marketing, CRM, and e-marketing literature. The importance and rational of conducting DMC and its proposed positive effects on customer loyalty were illustrated with the supporting ideas found in recent studies published in major academic journals (e.g. Jayachandran et al. 2005; Reinartz and Kumar 2003; Reinartz et al. 2005; Simonson 2005; Venkatesan and Kumar 2004).

#### **4.2 Publication II: The Impact of Email Marketing on Brand Loyalty**

Publication II mainly examines the basic idea of the comprehensive model, which proposes that regular brand communication can have positive effects on customer loyalty. This is tested with empirical data gathered from 890 consumers who were users of a multinational cosmetics brand and had received regular permission-based email messages from the marketer. To measure the effects of email marketing on brand loyalty, we analyzed respondents' recommendation of the brand, number of store visits, the recentness of the last purchase, and brand attitudes. Figure 3 positions the Publications II and III (based on the same data) within the conceptual model and highlights the researched components.



**Figure 3: Positioning and researched components of Publications II and III**



Although not a complete test of the conceptual model, its key elements (brand communication, personalization, interactivity, and their effect on customer loyalty) were included in Publication II. However, such elements as perceived value and commitment were not thoroughly operationalized, and were only measured on a general level (e.g. the usefulness of email messages).

The results suggest that regular email contacts have a positive effect on customer loyalty. Consumers who had regularly received email messages had strong brand attitudes. Email activated consumers to visit retail stores, buy the brand’s products, and visit the brand’s site on the Internet via email links. Those who had made more use of the email links also visited retail stores more often, giving support to the positive moderating role of interactivity that is suggested in the conceptual model. Consumers exposed to email marketing also recommended the brand to their friends. The data also show that consumers with higher brand loyalty appreciated regular communication from the brand more and their evaluations of received emails were more positive than those who were less loyal (see Rust and Verhoef 2005 for similar results). Moreover, loyal consumers find many different contents useful in addition to sales offers (product information, contests, news and trends about the product

category, information about events, and links to Internet pages), while the respondents who do not appreciate regular communication mainly prefer sales offers. This provides a rationale for personalizing the content of brand communication based on brand loyalty classifications to maximize its effects on customer loyalty, supporting the moderating role of personalization in the conceptual model. It also indicates support for some of the other moderators of the model (customer characteristics and relationship).

Overall, these findings support our main claim that being frequently in touch with customers via DMC helps achieve positive effects on customer loyalty, both behavioral and attitudinal. The results imply that the strategic focus of email marketing should be in creating brand encounters and deepening consumer-brand relationships with loyal customers, and not just in seeking additional sales in the short term.

#### **4.3 Publication III: Email Advertising: Exploratory Insights from Finland**

Publication III investigates some of the aspects of Publication II in more detail, especially what email marketing factors influence consumer visits to the company website and sales outlets. The data are the same as those used in Publication II, excluding cases with missing values for more than 10 percent of the variables, resulting in a sample size of 838. Different methodology, binary logistic regression was used to analyze factors that affect whether consumer had visited company website (via a hyperlink provided in the email or otherwise) or company sales outlet. The independent variables were email usefulness, amount of emails received, interest generated by the emails, usefulness of the Internet, and the importance of the company staying in touch.

The results indicate that the more useful an email message, and the greater the number of such emails received, the less likely consumers are to visit the company's website. In contrast, results show that consumers are more likely to visit a store if they perceive emails as useful and interesting, and if they have received many emails from the company. The most important reasons to visit a retail store were to buy a product and to see the product. This gives support to the main elements of the conceptual model (frequency and content of brand communication) and their effects on behavioral customer loyalty. What is interesting to note is that messages without offers or rewards drove store traffic. Results on interactivity suggest that since consumers were unable to purchase the products directly via the company website

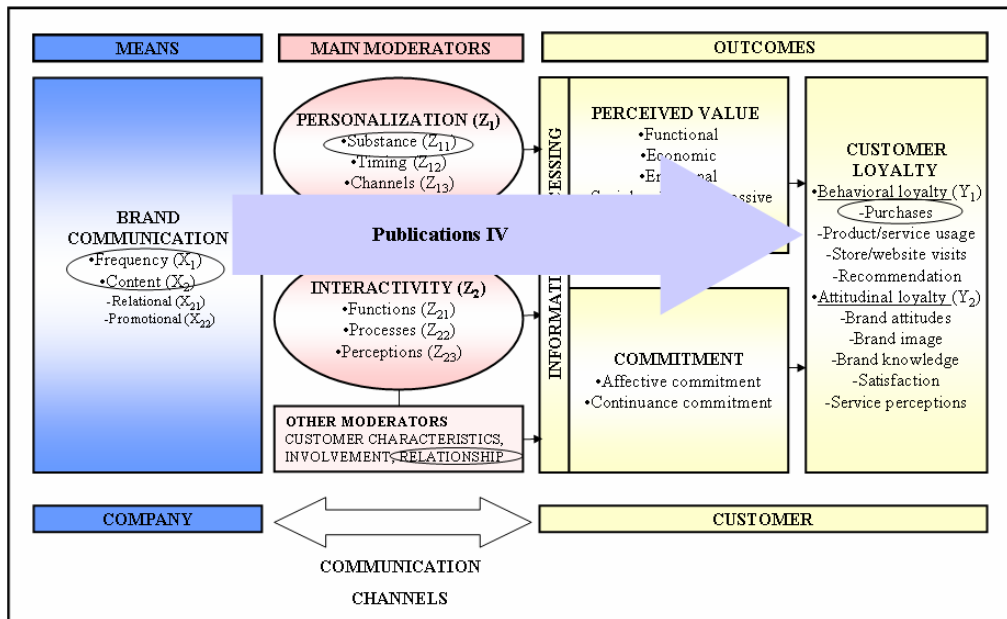
(no on-line store) but need to visit a physical store, useful emails may represent a reason and contain sufficient information for why people go directly to the store and purchase. Useful email content included special sales offerings, new products, competitions, and information about beauty and treatments.

In the case of cosmetics it is understandable that consumers visit the store to see if the product advertised by email suits them. Because consumers who find emails useful want the company to stay in regular contact with them, email offers marketers the opportunity to become an important avenue for consumers to obtain information. This helps to achieve positive effects on customer loyalty.

#### **4.4 Publication IV: The Effectiveness of Targeted Mobile Advertising in Selling Mobile Services: An Empirical Study**

Publication IV extends the empirical evidence of the interaction between DMC and customer loyalty with a different channel and data. We considered it important to have more evidence from a different channel and business field. In Publication IV we analyzed behavioral and sales data of 5500 customers of a mobile service provider to find out the impact of mobile advertising (SMS) on customer loyalty, and possible differences in it between various customer segments. Although we did not have attitudinal measures of customer loyalty as in Publication II, we believed it would also be beneficial to have results on behavioral customer loyalty, based on real sales data (in contrast to self-report measures in Publication II). Figure 4 positions the Publication IV within the conceptual model and highlights the researched components.

**Figure 4: Positioning and researched components of Publication IV**



The results of the study show that permission-based mobile marketing (using promotional SMS messages) is effective in increasing customers' behavioral loyalty in the long term (i.e. purchases of mobile services), as we found a significant difference (+35%) in average daily expenditure among customers who were exposed to mobile marketing versus those non-exposed. Exploration of the time period before mobile advertising had started reveals that the average daily expenditure of mobile services by those who had given permission for mobile advertising did not statistically differ, indicating that customers who had given permission were not inherently different in their purchase behavior. This supports the main elements of the conceptual model (frequency and content of brand communication) and their effects on behavioral customer loyalty.

Mobile marketing works differently for different customer segments. The effectiveness of mobile marketing varies between customers with different content preferences (entertainment, information, or both) and service usage levels (heavy, medium, or light users). This gives support to the moderating role of personalization in the conceptual model. The highest gains in sales, when measured in money, were for the heavy users of the company's mobile services, while the highest proportional gains were for the medium and light users. These results imply that customers' content preferences and usage levels (relationship moderator in

the model) can be used as differentiating variables to target the right customers and achieve better results with mobile marketing.

### **Original publications**

Publication I – Marko Merisavo. 2008. “The Interaction between Digital Marketing Communication and Customer Loyalty: An Integrative Model and Research Propositions.” HSE Working Papers, W-452, Helsinki School of Economics, June 2008. (Revised from February 2006, HSE Working Papers, W-400).

Publication II – Merisavo, Marko and Mika Raulas. 2004. “The Impact of Email Marketing on Brand Loyalty.” *Journal of Product and Brand Management* 13 (6): 498-505.

Publication III - Martin, Brett A.S., Joël Van Durme, Mika Raulas, and Marko Merisavo. 2003. “Email Advertising: Exploratory Insights from Finland.” *Journal of Advertising Research* 43 (3): 293-300.

Publication IV – Merisavo, Marko, Jari Vesänen, Antti Arponen, Sami Kajalo, and Mika Raulas. 2006. “The Effectiveness of Targeted Mobile Advertising in Selling Mobile Services: An Empirical Study.” *International Journal of Mobile Communications* 4 (2): 119-127.

# The Interaction between Digital Marketing Communication and Customer Loyalty

## An Integrative Model and Research Propositions



Marko Merisavo

# The Interaction between Digital Marketing Communication and Customer Loyalty

An Integrative Model and Research Propositions

Marketing

June  
2008

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WORKING PAPERS  
W-452

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ISSN 1235-5674  
(Electronic working paper)  
ISBN 978-952-488-266-8

Helsinki School of Economics -  
HSE Print 2008



# **The Interaction between Digital Marketing Communication and Customer Loyalty: An Integrative Model and Research Propositions**

## **ABSTRACT**

*The cost efficiency and diversity of digital channels facilitate marketers' frequent and interactive communication with their customers. Digital channels like the Internet, email, mobile phones and digital television offer new prospects to cultivate customer relationships. However, there are a few models explaining how digital marketing communication (DMC) works from a relationship marketing perspective, especially for cultivating customer loyalty. In this paper, we draw together previous research into an integrative conceptual model that explains how the key elements of DMC - frequency and content of brand communication, personalization, and interactivity - can lead to improved customer value, commitment, and loyalty.*

**Keywords:** *digital marketing communication; personalization; interactivity; customer loyalty; customer relationship management*

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## 1 INTRODUCTION

Marketers are learning how regular contacting affects the building and sustaining of customer relationships. The dominant logic of marketing is shifting from the exchange of goods toward service, interactivity, connectivity and ongoing relationships (Vargo and Lusch 2004). Technological innovations, new channels, and changing media environments facilitate this shift (Bhattacharya and Bolton 2000), and the question of how firms should interact with their customers is gaining in importance, especially as firms consider the cost differences between traditional communications media, such as television and sales forces, and electronic media, such as the Web and email (Reinartz et al. 2005). The cost efficiency and interactivity of digital channels facilitate ongoing dialogue between the enterprise and the customer (see e.g. Deighton and Barwise 2000; Peppers and Rogers 2004). Marketers can now be in touch with their customers on a more frequent basis and increase the level of personalization and interactivity with low or non-excessive cost. Our main claim is that being frequently in touch with customers should help achieve positive effects on customer loyalty.

For instance, customers can be offered additional information and brand communication when buying products or when using them. This can include newsletters, maintenance and repurchase reminders, help for keeping their products up-to-date, and tools for interacting with friends and peers. For example, Lensmart sends their customers email reminders when they expect customers to start running out of their supply of contact lenses. Lensmart uses database and purchase information to predict the repurchase moment and produce the personalized email. This way Lensmart can sell cost-effectively to their existing customers, and automate the re-selling process. While Lensmart gains in decreased sales costs, this kind of reminder also adds value to the customer. It may strengthen customer loyalty as customers feel that Lensmart takes care of their stock and assists them to repurchase at the right time with low effort. Customers might perceive emotional value for being personally remembered and cared, and appreciate the extra service (see e.g. Cram 2001).

For being regularly in touch with customers is also one of the central ideas of CRM. Recent studies have found that the relational information processes of CRM (regular communication, information collection, etc.) play a vital role in enhancing an organization's customer relationship performance (Jayachandran et al. 2005). Furthermore, the use of CRM applications is positively associated with improved customer knowledge and improved customer

satisfaction (Mithas et al. 2005). Reinartz and Kumar (2003) show how profitable customer lifetime duration is positively related to the number of mailing efforts of the company. Simulations show that to maximize customer profitability by optimising spending the dominant form of communication should be email (Reinartz et al. 2005). While email is substantially cheaper to send than conventional direct mail, research also suggests that in some cases it can deliver significantly better response rates (Brondmo 2000; Di Ianni 2000; Rosenspan 2000). That is, from a company point of view, digital channels offer cost efficient opportunities for a brand to keep frequently in touch with customers which not only improves marketing performance, but particularly customer loyalty.

With such prospects in mind, it is not surprising that the use of digital channels in marketing is becoming an essential part of strategy in many companies. Car manufacturers use the Internet and email to launch new models, as well as engaging their customers into interaction on their websites and with email. BMW uses a mobile portal to distinguish itself from its competitors, providing customers pictures of new models, games, and service. Nike targets the youth segment by launching a digital spring fashion show, which allows consumers to use the brand's latest fashion catalogue online to create their own looks and photos, and a virtual identity (Hargrave-Silk 2005). Canon iMage Gateway helps consumers share their digital photos with friends online. L'Oréal's brand Lancôme uses email newsletters to keep in touch with customers and hence strengthen their brand loyalty (Merisavo and Raulas 2004). Magazine publishers can activate and drive their customers into the Internet with email and SMS messages to improve resubscription rate (Merisavo et al. 2004). Such interaction and low cost communication with customers increases the effectiveness compared with traditional direct marketing efforts that publishers have used to win orders.

In line with Fournier's (1998) ideas, marketers increasingly bring brands closer to consumers' everyday life. The changing role of customers as co-producers of value is becoming increasingly important (Prahalad and Ramaswamy 2004). Interactivity in digital media offers customers better options to search for information, work as initiators, and get help. Interactivity also offers customers new ways to spend time with a brand, like playing games, participating in an activity on a website, or learning about the product or service they are using. This is what Canon pursues with iMage Gateway service, which can lead to improved customer involvement and satisfaction. Interactivity also provides marketers with more information about customer needs, preferences and interests. Interactive and virtual brand communities,

like those built by Harley Davidson and Ducati, bring consumers with specific interests together from different geographic areas to strengthen their brand loyalty (McAlexander et al. 2002; Wind et al. 2002, 97). McDonald's uses online channel to reinforce brand messages and relationships. They have focused their online community building on communities for children, such as the Happy Meal website with educative and entertaining games (Rowley 2004).

Digital channels also contain opportunities and tools for personalization. By using digital channels, customers can actively create or shape the form of communication, for example by stating their channel and content preferences. Likewise, marketers can create more personal communication based on customers' behavior and preferences, which can increase the effectiveness of communication by making customers perceive it as more relevant and interesting, and wanting to maintain a relationship with the marketer (Simonson 2005). As Simonson notes about customized offers; "If successful, marketers will be rewarded for the superior value they provide with higher customer loyalty." (see also Peppers and Rogers 1997, 177). For example, L'Oréal's CRM initiative aims to enhance personal communications with customers by analytical profiling, segmentation, database build and design, and bolstered data gathering (Brown 2003). This way L'Oréal seeks to increase the return on investment and capitalise on their customer insight for the long term.

Despite the growing use of digital channels in marketing and the evolving research around it, there are few models for explaining the mechanism of how digital marketing communication works from a relationship marketing perspective, especially for enhancing customer loyalty. Ideas have been suggested in many areas of marketing literature. Relationship marketing (RM), customer relationship management (CRM), as well as brand management and service literature emphasize the importance of building and managing customer relationships, and offer useful models. Also consumer behavior, advertising, direct marketing, and e-marketing literature give insight into how digital channels can be used to enhance customer loyalty.

The objective of this paper is to *draw together previous research into an integrative conceptual model for understanding the interaction between digital marketing communication and customer loyalty*. In the following, we first define digital marketing communication. We then present and describe the model. Next we examine in more detail the components of the model and the theories behind it, and construct research propositions. The paper concludes with a discussion and suggestions for future research.

## 2 DEFINITION OF DIGITAL MARKETING COMMUNICATION

The use of digital channels to strengthen customer loyalty has received surprisingly little attention, despite the obvious opportunities for using these channels to keep in touch and serve customers cost-effectively. It seems like the concept of “digital marketing” has been used more operationally, while the theoretical understanding and comprehensive models of how and why to use different digital channels are still developing. Despite the growing use of ICT in marketing, there are few definitions of digital marketing. Urban (2004, 2) suggests that “Digital marketing uses the Internet and information technology to extend and improve traditional marketing functions.” This is a broad definition, concerning all of the traditional 4 P’s, and both customer acquisition and retention. We also acknowledge that terms like “interactive marketing,” “one-to-one marketing,” and “e-marketing” are close to digital marketing, but neither are they defined very precisely. Coviello, Milley and Marcolin (2001, 26) have defined e-marketing as “using the Internet and other interactive technologies to create and mediate dialogue between the firm and identified customers.” They also consider e-marketing as a subset of e-commerce. In their view, more than creating discrete transactions, e-marketing is focused on managing continuous IT-enabled relationships with customers by creating dialogue and interactivity.

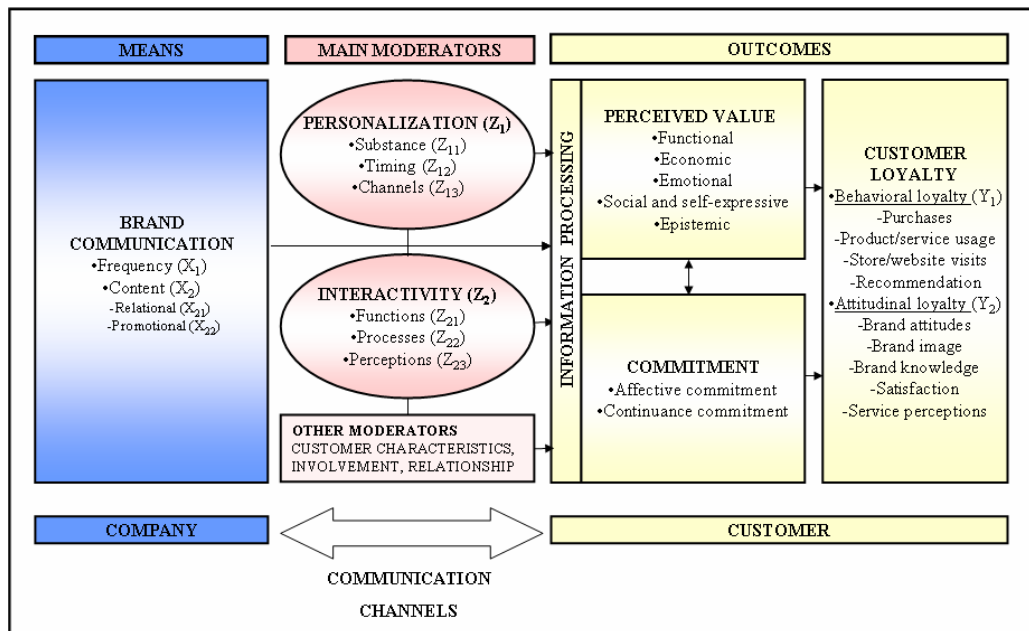
In this paper we focus mainly on the communication function of digital marketing, and how it helps to enhance the loyalty of existing customers. Hence, in this paper we refer to digital marketing communication (DMC) as *communication and interaction between a company or brand and its customers using digital channels (e.g. the Internet, email, mobile phones, and digital TV) and information technology*. This definition appreciates that communication can be two-way, initiated by either the marketer or the customer. Communication can be general messages to a larger audience or personalized messages. A customer relationship aspect acknowledges that communication can also include relational and service elements (e.g. news, reminders, tips), not just advertising and offers aiming for immediate purchasing transactions. That is, in addition to increasing sales DMC can be used to enhance customer loyalty in the long term.

### 3 AN INTEGRATIVE MODEL OF THE INTERACTION BETWEEN DIGITAL MARKETING COMMUNICATION AND CUSTOMER LOYALTY

In this section we draw together previous research into an integrative conceptual model. Figure 1 proposes an integrative model of the interaction between digital marketing communication and customer loyalty.

FIGURE 1

#### An Integrative Model of the Interaction between Digital Marketing Communication and Customer Loyalty



The model consists of means (brand communication), main moderators (personalization and interactivity), other moderators (customer characteristics, involvement, and relationship), and outcomes (perceived value, commitment, and customer loyalty). By “brand communication” we refer to communication between the company/brand and customers via different channels. This can include advertising, direct marketing, newsletters, or consumer’s activity in a brand community. This complies with the view that the process of building brands and customer relationships is much more than traditional media advertising of (see e.g. Aaker and

Joachimsthaler 2000, 42; Duncan and Moriarty 1998). The main focus in our model is on how brand communication interacts with customer loyalty. Two main factors in brand communication that are expected to affect customer loyalty are frequency (e.g. how many messages in a given time period) and content (e.g. promotional or relational). The main outcome, customer loyalty is divided into behavioral (e.g. purchases) and attitudinal loyalty (e.g. brand attitudes). For true customer loyalty to exist, a pattern of repeat purchase must be accompanied by a positive attitude (see Jakoby and Chestnut 1978). This distinguishes it from spurious loyalty, where only behavioral loyalty is detected with low relative attitudes (Dick and Basu 1994). We acknowledge that different elements of DMC can influence both types of loyalty.

We also suggest that building customer loyalty is a process. The effects of brand communication are constructed in customers' minds through information processing, leading to perceived value and commitment. Finally, the effects of brand communication on customer loyalty can be detected from behavior and attitudes: e.g. purchases, website visits, brand attitudes, and satisfaction.

Brand communication can also be personalized. For example, customer profiles or preferences can be used to create customized message content for different segments or individual customers, sent via their preferred channels. This should increase the value of communication to the customer. We have identified substance, timing, and channels to be the personalized elements. Furthermore, brand contacts can be interactive; customers can search for information, make inquiries, give feedback and engage in various other activities with marketers or other customers. This can likewise have positive effect on customer loyalty. We have divided interactivity into functions (e.g. a web contact form, a game on brand's website), processes (e.g. that messages are contingent upon previous messages), and perceptions (how customers perceive interactivity). There are also other moderating factors that affect how the loyalty effects of DMC are created. In this model we have identified customer characteristics, involvement, and relationship.

One example to demonstrate the model is General Motors's internet-based owner center My GMLink ([www.mygmlink.com](http://www.mygmlink.com)), which offers customers a single location to manage all post-purchase needs. With the use of this information and service portal, customer-brand communication and interactivity are increased because customers are able to visit the website



anytime, anywhere - more often than stores. This way, the frequency of brand communication is increased, with the positive moderating role of interactivity. Customers also get different types of value from services like email service reminders, maintenance tips, seasonal safety tips, and special privileges and offers. GM also provides personalized information to customers. For example, they can check the current resale value estimate of their own car and determine the optimal time for selling it, which brings economic value. This can also lead to a shorter buying or trading cycle for cars. When customers get used to visiting the website regularly they may become emotionally attached to it, which builds commitment. Overall, customers' increased brand contacts by using My GMLink service possibly strengthen GM's customer relationships with more sales, and enhanced attitudinal and behavioral loyalty.

Next we examine in more detail the components of the model and theories behind it, and construct research propositions. We first discuss the effects of regular brand communication on customer loyalty, and then examine the additional effects of personalization and interactivity, and finally examine how to measure the outcomes of DMC on customer loyalty.

### **3.1 Regular Brand Communication – Benefits of Being in Touch with Customers**

#### **3.1.1 Frequency**

The frequency of marketing communication and its effects on customer relationships has gained interest in recent studies. Reinartz and Kumar (2003) found that the number of mailing efforts of a company is positively related to profitable customer lifetime duration. Indeed, being regularly in touch with customers can have positive effects on their loyalty. For example, regular e-mailings have positive effects on brand attitudes, purchases and loyalty (DuFrene 2005; Merisavo and Raulas 2004). Similarly, the usage of mobile services and receiving of mobile advertising messages are found to have positive effects on consumers' brand relationships and long-term purchase behavior (Merisavo et al. 2006; Nysveen et al. 2005). These results imply that the strategic focus of ongoing brand communication via digital channels should be in creating meaningful brand encounters and deepening consumer-brand relationships, not just in seeking additional sales. This proposition is, for sure, not a new one in marketing as the frequency of marketing communication has been a central research topic.

However, combining frequency with other variables more unique to DMC, such as personalization and interactivity, provides an established base for building a theory and model for understanding how DMC interacts with customer loyalty.

The rationale behind frequently communicating with customers has been addressed in numerous advertising studies. Regular communication is important, as it has been found that 90% of the cumulative effects of advertising on sales occur within 3 to 9 months of the advertisement (Clarke 1976; Leone 1995). A central finding is that repeating messages or objects to consumers will translate into awareness and learning, possibly more positive attitudes toward the object, and eventually result in action (Broussard 2000; Crowder 1976; Howard-Brown 1998; Sawyer 1973; Zajonc and Markus 1982; Zielske 1959).

Moreover, the repetition of messages is effective only to an extent; the positive effects of repetition increase up to a certain level until the advertisement starts to wear-out. After this point it no longer has an effect or the effect is negative. That is, the relationship between repetition and advertising effects typically takes the shape of an inverted 'U' (Batra and Ray 1986; Cacioppo and Petty 1980; Ray and Swayer 1971; Venkatesan and Kumar 2004;). Similarly, DuFrene et al. (2005) have found the positive effects of email campaigns on customers' brand attitudes diminish over time after the first three messages. However, the focus of advertising and campaigns is often on the short-term and immediate results. More research is needed concerning the long-term effects of ongoing brand communication.

Brand literature shows how frequent communication has positive effects on customers' brand loyalty, and customer-brand relationships are deepened (Aaker 1996; Kapferer 1998). The development of customer-brand relationships can be described as a process of communication. For instance, Barnes (2001, 259-261) suggests that a brand can be conceptualized as moving through four stages on its journey from being merely a name to being a genuine relationship partner: The following development path has been suggested: brand awareness (using advertising to make customers in the target segment aware of the brand) → brand characteristics (associating the brand with certain characteristics and positioning it against competitors) → brand personality (attaching personality traits to the brand that are appreciated by the consumer) → brand relationships (the brand becomes important in the life of the consumer). That is, a marketer who is frequently in contact with its customers should recognize the different requirements of communication to customers in different stages of the

relationship. Our thinking aligns with modern brand theory's ideas of how brand relationships are developed. When consumers are regularly in contact with a brand, they may begin to perceive it as a person, a trusted friend who is part of their everyday life (Aaker 1997; Fournier 1998).

The following propositions conclude the previous discussion. The effect of brand communication on customer loyalty can be stated as:

*Proposition 1a:* Increasing the frequency of brand communication ( $X_1$ ) has positive effects on behavioral customer loyalty ( $Y_1$ ).

*Proposition 1b:* Increasing the frequency of brand communication ( $X_1$ ) has positive effects on attitudinal customer loyalty ( $Y_2$ ).

*Proposition 1c:* Positive effects of increasing the frequency of brand communication ( $X_1$ ) on both behavioral ( $Y_1$ ) and attitudinal customer loyalty ( $Y_2$ ) increase up to a certain level until the communication starts to wear out. After this point it either has no effect, or has a negative effect due to irritation.

### **3.1.2 Content**

While so far we have discussed how frequency affects customer loyalty, also the content of communication has an effect on how customers perceive and value the information they receive, or retrieve, and how this affects their relationship with the brand and the marketer.

It has been argued that communication rather than persuasion is the foundation of customer-focused marketing efforts (Duncan and Moriarty 1998). A basic way to classify the content of brand communication would be to divide it into promotional and relational communication. While promotional communication like price promotions and persuasive letters are intended to quickly generate sales and other responses, relational communication focuses on enhancing customer's attitudes and loyalty in the long term by providing content such as information about new products, usage tips, or invitations to events. Relational brand communication can be perceived by the recipient as a service rather than as advertisement or offer, which might allow increased frequency before the messages start to wear out. This is also suggested by Tellis (1997), who states that complex messages, including soft-sell or emotional appeals and novel messages, may be able to sustain and benefit from higher ad frequency.

In their research on consumer packaged goods, Mela et al. (1997) found that in the long run price promotions (temporary price reduction, feature, or coupon) make consumers more price sensitive in both loyal and nonloyal segments. In contrast, non-price-oriented advertising (e.g. brand building) makes consumers less price sensitive in both segments, the impact being stronger on the nonloyal consumers. Hence, brand advertising increases the relative strength of brand preference, making consumers more loyal. Similarly, Jedidi et al. (1999) found that in the long term, advertising has a positive effect on brand equity while promotions have a negative effect. Furthermore, their results suggest that in some cases frequent promotions of brands may also make it unnecessary for consumers to switch brands because it becomes increasingly likely that a deal on the favored brand will be forthcoming. However, frequent promotions are often unprofitable for a company and may not enhance attitudinal customer loyalty, making customers more likely to switch brands if they get better price deals elsewhere.

Parallel implications on the relation of the content of brand communication and customer loyalty can be drawn from more recent studies concerning digital channels. Extensive survey data from more than 2,000 e-tail sites shows that price-sensitive customers may be the least loyal, whereas customer service support is the main factor that attracts repeat buying (Reibstein 2002). Moreover, studies of email marketing have found that nonloyal customers mainly want promotional offers, but loyal customers also appreciate other content, like news, invitations to events, and usage tips (Martin et al. 2003; Merisavo and Raulas 2004).

Based on the discussion of the content of brand communication we expect that:

*Proposition 2a:* Brand communication with relational content ( $X_{21}$ ) has positive effects on behavioral customer loyalty ( $Y_1$ ).

*Proposition 2b:* Brand communication with relational content ( $X_{21}$ ) has positive effects on attitudinal customer loyalty ( $Y_2$ ).

*Proposition 2c:* Brand communication with promotional content ( $X_{22}$ ) has positive effects on behavioral customer loyalty ( $Y_1$ ).

*Proposition 2d:* Brand communication with promotional content ( $X_{22}$ ) has negative effects on attitudinal customer loyalty ( $Y_2$ ).

### **3.1.3 Information Processing**

In sections 3.1.3-3.1.5 we take a more detailed view of the processes how brand communication finally leads to customer loyalty. We describe how the effects of brand communication are constructed in customers' minds through information processing, leading to perceived value and commitment.

Consumers engage in brand relationships to simplify buying and consuming tasks, to process information, and to maintain cognitive consistency and a state of psychological comfort and gratification (Sheth and Parvatiyar 1995). It has been found that previously presented stimuli are easier to encode and process than are novel or unfamiliar stimuli, which is interpreted by the individual as liking (Bornstein and D'Agostino 1994). That is, increased frequency helps consumers to process brand communication. Repeated exposure to brand communication also enhances brand attitudes by allowing the customer to process more information (Berger and Mitchell, 1989). Also, messages that become familiar through repetition have a tendency to be perceived as more valid (Bacon 1979; Hasher et al. 1977). Repetition also has effects on customer loyalty. It has been found that learning and increased positive experiences with a certain brand decrease the search for information about alternative brands (Dick and Basu 1994; Newman and Staelin 1972). A similar finding is that the more attributes associated with a brand the more loyal the customer (Romaniuk and Sharp 2003). Furthermore, when a consumer spends time with a brand and processes information, positive affective responses (emotions, feelings, moods, primary affect, satisfaction) about the brand are evoked in the consumer's mind (Dick and Basu 1994). In the literature, this information processing is also described as cognitive loyalty, a phase where information on the brand at attribute performance level is the dominant driver of loyalty (Oliver 1999). Later, if the consumer is satisfied, affective effects start to build.

### **3.1.4 Perceived Value**

When consumers engage in brand relationships and process brand communication, they begin to perceive the value (also often referred as benefits) related to the brand. Customers who have greater expected benefits and utility from an ongoing relationship are more likely to commit to it (Anderson and Narus 1990). Perceived value can be divided into functional, economical, emotional, social/self-expressive, and epistemic (Aaker 1996, 95-101; Bhat and Reddy 1998;

de Chernatony 1993; Long and Schiffman 2000; Sheth et al. 1991; Zeithaml 1988). Functional value describes overall satisfaction with the functional quality of a product or service (e.g. a car is reliable). Economic value may be constant (e.g. regular customer's low price), immediate (e.g. sales offers) or possible (collecting points, competitions). Emotional value includes feelings like enjoyment and entertainment. Social and self-expressive value relates to our relationships with others (e.g. brand as a status symbol, belonging to a community). Epistemic value relates to experienced curiosity, novelty or knowledge gained and learning. Customers may also perceive conditional value that exists only within a specific situation (Holbrook 1994). Due to the unspecific nature of conditional value it is not explicitly listed in our model.

In a more holistic view, customer-perceived value can be regarded as a ratio between perceived benefits and perceived sacrifice (Monroe 1991), or in another words "the consumer's overall assessment of the utility of a product based on a perception of what is received and what is given." (Zeithaml 1988). Thus, from the communication perspective marketer's active contacting decreases perceived sacrifice by lowering customer's effort to search for information.

In addition to traditional products, brands, and services, researchers have also successfully used the previously discussed dimensions of perceived value to assess consumers' perceptions of technology-based self-services, like mobile services (Heinonen and Strandvik 2003; Heinonen 2004; Pura 2005). Hence, we believe that these value categories should also be effective in capturing the effects of DMC on customer loyalty.

### **3.1.5 Commitment**

In our model, the perceived value of brand communication relates to commitment, and they both relate to customer loyalty. This is consistent with research indicating that commitment mediates the relationship between brand satisfaction and loyalty (Fullerton 2005). Commitment is defined as a desire to maintain a relationship (Moorman et al. 1992; Morgan and Hunt 1994). Generally, commitment limits the impact of negative brand-related information and enhances the impact of brand-related positive information, which leads customers to resist switching inducements (Ahluwalia et al. 2001).

Commitment can be divided into affective and continuance commitment (Gundlach et al. 1995; Fullerton 2003). Affective commitment is based on emotional attachments: identification, shared values, belongingness, dedication, friendship, and similarity (Price and Arnould 1999; Pritchard et al. 1999). Trust is also suggested to be closely related to affective commitment (Morgan and Hunt 1994). Therefore, in our model we include trust as an antecedent of loyalty (see e.g. Reichheld and Schefter 2000) under the affective commitment component. It has been found that affective commitment is positively related to both repurchase intentions and advocacy intentions for a brand (Fullerton 2005).

Continuance commitment is based on switching costs, investments, dependence, and lack of choices (Gundlach et al. 1995; Meyer et al. 1990). For example, service agreements can be perceived as continuance commitment. Continuance commitment has been found to be positively but weakly related to repurchase intentions and negatively related to advocacy intentions for a brand (Fullerton 2005). It is worth noting that also a concept of (cognitive) lock-in is also related to continuance commitment, defined as “Consumers’ decreased propensity to search and switch after an initial investment.” (Johnson et al. 2003; Zaubermaier 2003). This term seems to be sometimes used as a synonym for continuance commitment, and describes consumer behavior on the Internet.

The number of contacts can also prevent the customer from having interest or time to look for competitive offerings, be the contacts initiated by marketer’s active contacting or customer’s active browsing. Customer-initiated contacts are a way to signal commitment, and there is evidence that frequency of communication is positively associated with a partner’s commitment (Anderson and Narus 1990).

Interactive media changes the way in which commitment is formed. It has been found that on the Internet consumer lock-in is greater than in a traditional retail environment (Brynjolfsson and Smith 2000). For example, when customers learn how to use a web store and personalize their own menus, continuance commitment is created. Also, the Internet can be very effective in creating affective commitment, one example being virtual communities like Habbo Hotel ([www.habbohotel.com](http://www.habbohotel.com)). Habbo Hotel is a virtual hotel where you can hang out with your friends or meet new people: walk, dance, eat, drink and chat in the cafes, restaurants, swimming pools and game rooms. You can even decorate and furnish your own room.

### **3.2 Personalized Brand Communication**

Personalization is expected to be an element that can work to boost customer loyalty by creating more personal, interesting and relevant brand communication, and better service. In the literature different terms are used when talking about personalization (e.g. customization, targeting, segmentation, profiling, and one-to-one marketing). Kotler's (1997) idea of personalization is that the ultimate level of segmentation leads to segment of one, customized marketing, or one-to-one marketing. Peppers and Rogers (1993) define one-to-one marketing quite simply: treating different customers differently. The goal is to differentiate customers individually and customize marketing messages to each customer's needs. This is also the basic idea of personalized brand communication. For example, the timing of brand communication could be different for different customers, based on their purchase frequency, need for assistance, etc. Or if a marketer would know at what time and where a customer would like to have her coffee, a local café could send a personalized offer to the customer's mobile phone. This would comply with the recency theory, which suggests that advertising is most effective when it occurs close to the time when consumers are ready to buy (Broussard 2000). In addition, mobile location services could be used to detect the customer being near his favorite café and he would automatically receive an invitation to visit. Thus, the marketing communication would have the potential for a stronger effect on boosting sales and customer loyalty because of using personalization. Marketers are increasingly using personalization. For example, Tesco, the UK's largest grocer, has over 8 million different message configurations, and offers tailored mailings to specific audiences (Humby et al. 2003).

The rationale for personalization is already recognized in earlier studies on advertising and consumers' information processing, which show that when the personal relevance of a message is high, people spend more time processing it, generate more product-relevant thoughts, and spontaneously draw more conclusions about the product (Celsi and Olson 1988; Kardes 1988; Leippe and Elkin 1987; Petty and Cacioppo 1979). Thus, when customers perceive brand communication relevant and the substance is meaningful the messages are likely to be more effective. Personalization can also be initiated by the customer, for example by selecting interesting topics for a newsletter. This way personalization also builds continuance commitment by creating customer exit barriers. For example, the time devoted by the customer to give information or personalize his own service may feel like an investment, a great effort



that is not easy to do all over again with another service provider (see e.g. Burnham et al. 2003; Pine II et al. 1995)

There is support that personalization in digital channels is important to customers. A study sponsored by the CRM vendor Kana found that almost 75% of respondents cited personalization as a major contributor to their most satisfying purchasing experience, online or offline (CyberAtlas 2002). Personalization capabilities in this study included self-service, personalized voice or email interactions, the ability to track purchases and requests, and knowledgeable customer service representatives who are educated in the customer's history.

Personalization can also improve response rates for brand communication; Ansari and Mela (2003) have found that response rates could be increased by 62% if the email's design and content are personalized. Another example, eBag, was able to increase average revenue per recipient by 187% by finding the optimal timing for email messages, i.e. sending them to consumers on the same day of the week and time of day as they had originally opted-in (Nussey 2004). They could therefore get their messages through the clutter, and were able to reach people when they had more time to shop.

With optimal timing customers may perceive conditional value, which is defined by Sheth et al. (1991) as "the perceived utility acquired by an alternative as the result of the specific situation or set of circumstances facing the choice maker." Conditional value depends on the context in which the value judgement occurs and exists only within a specific situation (Holbrook (1994). Such situations may be seasonal, once in a lifetime events or emergency situations (Sheth et al. 1991). Situational factors can also be regarded as triggers, factors or events that change the basis of a relationship (Roos et al. 2004). Situational triggers alter customers' evaluations of an offering based on changes in their lives or in something affecting their lives (e.g. demographic changes in the family, changes in job situations, and changes in the economic situations) (see Gardial et al. 1996; Gustafsson et al. 2005). Personalized brand communication can be used to make messages more relevant to specific situations, and thus create extra value for customers (e.g. children's health insurance offer when a child is born).

Furthermore, Simonson (2005) suggests that consumers' responses to customized offers are determined by how stable and well-developed their preferences are and by the consumers' self-insight into those preferences. Marketers can create more personal brand communication based

on customers' behavior and preferences, which can increase the effectiveness of brand communication by making customers perceive it as more relevant and interesting, and hence want to maintain their relationship with the marketer. This way the substance of messages is meaningful to customers and they are likely to perceive additional value from communication.

In addition to personalizing the substance and timing of messages, channels of brand communication are also important. Customers' channel preferences and perceived channel benefits vary individually, and change according to information search and purchasing stages (Louvieris and Oppewal 2004). Customer's channel behavior can be dynamic as they are made aware of channel options and gradually learn which channel best suits their needs (Knox 2005). Therefore it is critical to identify the customers' current and future channel preferences and benefits and provide an optimal channel combination in order to make brand communication more effective and more valuable to customers. However, customers' preferences may sometimes conflict with company's business view. For example, a bank customer may favour personal service at the counter whereas self-service technologies such as teller machines, interactive voice response or e-banking facilities are much more cost-efficient for the bank (Bitner et al. 2002).

To conclude, there are three main elements that can be personalized in brand communication: substance, timing, and channels. We expect that:

*Proposition 3a:* Personalizing the substance of brand communication ( $Z_{11}$ ) positively moderates its effects on both behavioral ( $Y_1$ ) and attitudinal customer loyalty ( $Y_2$ ).

*Proposition 3b:* Personalizing the timing of brand communication ( $Z_{12}$ ) positively moderates its effects on both behavioral ( $Y_1$ ) and attitudinal customer loyalty ( $Y_2$ ).

*Proposition 3c:* Personalizing the channels of brand communication ( $Z_{13}$ ) positively moderates its effects on both behavioral ( $Y_1$ ) and attitudinal customer loyalty ( $Y_2$ ).

### **3.3 Interactive Brand Communication**

The digital environment offers cost effective and convenient opportunities to convert communication from one-way into interactive and give customers access to information and communication. When customers can easily search and find desired services or support, and

filter out the information they need, they see this as a convenience and as better service. In effect, companies increasingly offer customers interactive tools to make better decisions about financial issues, purchases, health care, and other complex issues (Wind et al. 2002, 180). The same is true in the b2b sector, for example, eRoom provides collaboration tools in the form of a digital workplace to help companies bring together cross-functional, cross-enterprise teams to build and manage relationships with customers, partners and suppliers, and to innovate in the design, development and delivery of products and services.

Interactivity can be studied from different perspectives. An extensive categorization of definitions is provided by McMillan and Hwang (2002). *Functional view* (see Sundar et al. 2003; Sundar and Kim 2005) concerns the functions of an interface (e.g. feedback forms, chat, downloads), features (e.g. audio, video, games), attributes (e.g. presence and choice of control), processes (e.g. reciprocal communication), and outcomes (e.g. user satisfaction). These functional elements may be different, depending on the channel and media being used.

Interactive functions enable a search process that can quickly locate a desired product or service, thereby replacing dependence on detailed customer memory (Alba et al. 1997). Interactivity also increases the amount of information that can be presented to a customer (Deighton 1996; Watson et al. 1998). This can increase brand knowledge and thereby customer loyalty. Srinivasan et al. (2002) show how that interactivity has a positive effect on loyalty toward an e-retailer in a study conducted among 1211 online customers, where the availability and effectiveness of customer support tools (information, search processes, etc.) and the degree to which two-way communication (contact forms, chat, etc.) was facilitated were independent variables.

Interactive functions also offer consumers new ways to spend time with a brand. They no longer need to go to stores to see the products and to talk with sales people. Over the Internet, consumers can access a vast amount of product information, view 3D-images and test different product variations, as well as play games and interact with other brand users. For example, Nokia has invented an annual game event. Nokia Game is an interactive multimedia adventure provided by Nokia since 1999. In Nokia Game, players are called upon to collect and act on a series of clues, delivered via a host of channels – including the Internet, newspapers, magazines, radio, email, mobile phone and TV. All media are closely linked to one another. The player that interprets all information best and excels in the online games wins. Gaming

keeps consumers interacting with the Nokia brand for 10 to 25 days. In 2003, the game was running in 35 countries at the same time, and there were over 6 million visitors to its home page ([www.nokiagame.com](http://www.nokiagame.com)). In 2005 Nokia's new online and multi-channel game 20Lives entertained almost 750,000 registered users from 21 countries ([www.nokia.com/20lives](http://www.nokia.com/20lives)).

Prahalad and Ramaswamy (2004, 3) suggest that “thematic consumer communities, in which consumers share ideas and feelings without geographic and social barriers, are revolutionizing emerging markets and transforming established ones.” Marketers are encouraged to create brand communities, because customers belonging to them are more loyal than others; they are less apt to switch brands and more motivated to provide feedback (McAlexander et al. 2002). Active community members can also be considered as opinion leaders who can be used to test new ideas and concepts, and hopefully to spread positive information by word of mouth. Recommendations are very effective, as in some cases they can double sales or response rate (Howard and Kerin 2004; Senecal and Nantel 2004).

*Process (i.e. contingency) view*, originated by Rafaeli (1988), emphasizes the behavioral nature and processes of interaction between user and system. Under this view interactivity is realized when messages are contingent upon previous messages. Key elements include responsiveness, two-way communication, reciprocity, exchange, and participation. These are also very common terms in relationship marketing literature. For example, Grönroos (2004, 103) argues that “the management of an interaction process is the core of relationship marketing.” In this process, planned communication and dialogue potentially lead to value-enhancing interactions. The firm is not always the party that starts the interaction or dialogue; instead customers often act as initiators. Customers' activity may have positive effects on their purchases and loyalty. In support of this, Kwak et al. (2002) found that product information requests over the Web are positively related to online purchases. Interactive communication enables marketers and customers to connect in ongoing learning relationships, where individual customers teach the company more and more about their preferences and needs. The more customers teach the company the better it becomes at providing what they want (Pine II et al. 1995). Relationship performance can be improved through relationship learning (Selnes and Sallis 2003). For instance, visitors to a website learn to be more efficient at using that website the more often they use it, which increases the probability of purchase (Johnson et al. 2003). It has also been found that the higher the bidirectional communication between the customer and supplier, the higher the purchase frequency (Venkatesan and Kumar 2004).

Interactivity is no longer entirely based on personal communication from the marketer's side. Digital channels like email make it easier and less expensive to carry out life cycle automation than in the offline world (see Nussey 2004). Life cycle automation times each message so that each recipient gets a message at time most appropriate for them. Timing can be executed by external events (e.g. customer opt-in), threshold (e.g. a certain number of miles for a frequent flyer), or time and date (e.g. birthday). Also, the state of customer relationship and changes in it could be used as interaction triggers (e.g. a frequent flyer approaching next membership level). Lifecycle automation has the potential to increase interaction between customers and companies, as sending the messages is not dependent on the employees' memory and response times. This can create more value for customers.

The proper understanding of the process view also creates challenges for research. Stewart and Pavlou (2002, 381) stress the different nature of measurement in interactive media: "Research that treats marketing communication as an independent variable, useful for predicting consumer response, ignores the reciprocal influence that consumer response has on subsequent communication." That is, any response to marketing communication, including that of simply taking part, may be contingent on other factors. Perhaps due to this complexity, the psychology behind the development of customer loyalty achieved with interactive marketing methods is not well understood.

The *Perception view* underlines that even if interactive media have a high potential for interaction, whether and to what extent such interaction can be realized to benefit both interaction participants is largely determined by how interactions are perceived (Wu 2005). Indeed, in addition to actual interactivity (i.e. potential features for interaction in a medium), some researchers highlight consumers' perceived interactivity (Bucy 2004; McMillan and Hwang 2002). Many studies related to this view have concentrated on measuring attitudes toward websites (see Chen and Wells 1999; Chen et al. 2002; Chung and Chao 2004; Wu 2005) or service quality delivery through websites (see Zeithaml 2000; Zeithaml et al. 2002; Parasuraman et al. 2005).

It has been found that perceived interactivity is positively correlated with attitude toward the website, memory of its content, as well as with trust and product evaluations (McMillan et al. 2003; Chen et al. 2005). Furthermore, McMillan et al. (2003) found that perceptual variables seem to be stronger predictors of attitude toward the site than structural variables (i.e. website

features). However, there is positive correlation between these variables, and both should be considered when researching interactivity (Wu 2005). Also, research on service quality delivery through websites highlights both actual and perceived interactivity, for example, efficiency concerning the ease and speed of accessing and using the site, and responsiveness concerning the effective handling of problems and returns through the site (Parasuraman et al. 2005). However, some products benefit from different kind of interactivity than others. A study by Martin et al. (2003) of email advertising in cosmetics showed a negative relation between the perceived usefulness of messages and website visits, but positive relations regarding store visits. This suggests that cosmetics are products which may require more real-world sensory contacts.

The perceptions of interactivity also depend on the customers' goals in online behavior. The nature of marketing in interactive media and customer experience on the Web has been an essential research topic (see Hoffman and Novak 1996; Novak et al. 2000; Novak et al. 2003). This research finds that goal directed and experiential are the main attributes of online consumption behavior. Consumer choice in goal directed behavior is based on a clearly definable goal hierarchy, which involves choices among products and services, information sources, and navigational alternatives (e.g. ordering a book). Consumer choice in experiential behavior is dominated by choices among navigational alternatives based on a relatively unstructured and continually changing goal hierarchy (e.g. net surfing). Consumers' perceptions of interactivity and its effects on perceived value and customer loyalty depend on their mode of online behavior. Liu (2002) states that higher active control of interactivity and information will produce higher satisfaction when a user browses a website for information (i.e. goal directed behavior), and two-way communication is valued more when browsing for pleasure (i.e. experiential behavior).

To conclude, interactivity is likely to positively moderate the effects of brand communication on customer loyalty by increasing the number of brand contacts and time spent with the brand. Similarly, interactivity can enhance customers' service perceptions and bring more value because customers have better tools and options to control service situations, get help in problematic situations, and to modify their service profiles. Based on this discussion, we propose the following:

*Proposition 4a:* Customers' usage of interactive brand communication functions ( $Z_{21}$ ) positively moderates the effects of brand communication on both behavioral ( $Y_1$ ) and attitudinal customer loyalty ( $Y_2$ ).

*Proposition 4b:* Company's learning in interactive brand communication processes (i.e. messages that are contingent upon previous messages) ( $Z_{22}$ ) positively moderates the effects of brand communication on both behavioral ( $Y_1$ ) and attitudinal customer loyalty ( $Y_2$ ).

*Proposition 4c:* Customers' perceived value of interactivity in brand communication ( $Z_{23}$ ) positively moderates the effects of brand communication on both behavioral ( $Y_1$ ) and attitudinal customer loyalty ( $Y_2$ ).

Table 1 summarizes the integrative model and its propositions discussed in previous sections.

**TABLE 1**  
**Propositions of an Integrative Model of the Interaction between Digital Marketing Communication and Customer Loyalty**

Model Component	Proposition	Effects on Customer Loyalty	
		Behavioral ( $Y_1$ )	Attitudinal ( $Y_2$ )
Brand Communication			
- Frequency: increase ( $X_1$ )	P1a, P1b	+	+
- Frequency: increase ( $X_1$ )	P1c	+/-	+/-
- Content: relational ( $X_{21}$ )	P2a, P2b	+	+
- Content: promotional ( $X_{22}$ )	P2c, P2d	+	-
Personalization: substance, timing, channels ( $Z_{11}$ - $Z_{13}$ )	P3a, P3b, P3c	+	+
Interactivity: functions, processes, perceptions ( $Z_{21}$ - $Z_{23}$ )	P4a, P4b, P4c	+	+

### 3.4 Other Moderating Variables

Although in our model the variables that mainly moderate brand communication are personalization and interactivity, there are other moderating variables which affect how customer loyalty effects of DMC are created.

#### 3.4.1 Customer Characteristics

All customers are not equally responsive to DMC or willing to engage in it. It is useful for a company to know which customers have the most future potential, and which are more likely worth the investments in extensive communication and relationship building.

For example, Cram (2001, 80-84), suggests that customers have four primary needs and motivations, which drive their behavior and relationship orientation. *Best-deal customers* seek for lowest price, and there is no value in a relationship for them. *Novelty seekers* are innovators, whose driving force is curiosity. They seek variety and take risks. *Involvement customers* want to belong, to be recognized and to be regularly in touch with the marketer. *Certainty customers* avoid risks and do not want any surprises. They want continuity but do not actively seek a relationship with the supplier. Although this classification is a broad generalization, it would be useful in a similar way to examine what motivates different customers to engage in a relationship with a marketer in the digital environment. Some studies related to this have already been conducted.

Kwak et al. (2002) surveyed Internet users and explored consumer attitudes, Internet experiences, demographics, and personality traits that may potentially influence consumers' online purchasing, and the type of purchases they are willing to make. In the study it was found that gender (male), high income, and opinion leadership increase the odds for online purchases. Furthermore, it was found that consumers' web purchasing may not be considerably enhanced by their mere exposure to Internet advertising. Instead, online consumers' buying behavior may be rooted in their self-generated interests with the subjects of the web before they surf the online marketplace.

It is important to examine what drives consumer attitudes towards using online and other technology-based services. Dabholkar and Bagozzi (2002) tested the moderating effects of consumer traits and situational factors on attitudes and intentions toward using technology-based self-services. They identified ease of use, performance, and fun to have direct effects on attitudes toward using the services, and self-efficacy (level of confidence to use technology-based self-service), inherent novelty seeking, need for interaction (with a service employee), self-consciousness, perceived waiting time, and social anxiety (discomfort through perceived crowding) to be moderating variables. Similarly, consumers' tendency to engage in web communities and other relational activities varies a lot, depending on their communal, exchange, and relationship orientation traits (Mathwick 2002).

These findings suggest that in order to enhance customer loyalty marketers should develop and promote different factors of DMC depending on customer characteristics.



### 3.4.2 Involvement

Different products and services can be differently suitable for digital marketing, and the opportunities for relationship building can also be diverse. Involvement concerns an ongoing commitment on the part of the consumer with regard to thoughts, feelings, and behavioral responses to a product (Gordon et al. 1998). Product involvement affects consumer's relationship proneness (Christy et al. 1996; Dick and Basu 1994; Gordon et al. 1998; Pine II et al. 1995; Warrington and Shim 2000). For example, cosmetics, cars and clothes are high involvement products to many consumers (Fisher 1985; Kapferer 1998, 31). In the case of low-involvement products, brand choice is less connected with the consumer's lifestyle and variety seeking is increased; it is therefore easier to attract consumers to switch brands with promotions (de Chernatony 1998, 75).

Involvement affects the way in which customers process marketing communication. When involvement is high, consumers devote more attention to advertisements, exert greater cognitive effort to understand them, and focus more attention on product-related information (Celsi and Olson 1988; Petty et al. 1983). The Elaboration Likelihood Model states that high involvement increases the likelihood of elaboration (i.e. the central/cognitive route of attitude formation), which results in more enduring attitude change (Chaiken 1980; Petty et al. 1983; Wright 1973).

A consumer's involvement also affects how different media evoke responses. Retrieval media (print and Internet) are more effective under high product involvement, whereas delivery media (television) are better suited for influencing uninvolved consumers (Dijkstra et al. 2005). On the web, those with high product involvement are more interactive with product-related content than those with low involvement (Chung and Zhao 2004). Gordon et al. (1998) also argue that when involvement is high, buyers are more likely to value customization of the marketing mix, interaction with the company representatives, and an ongoing relationship with the firm.

We expect that when involvement is high, the effects of DMC on customer loyalty are stronger.

### 3.4.3 Relationship

Customer relationships tend to be very heterogeneous; they differ in duration, strength, interactivity, and in many other aspects. Customer relationships also change dynamically over time, and are shaped by different stages and incidents. There are a number of factors embedded in the relationship between a marketer or a brand and the customer that have an impact on how DMC affects loyalty. Next, we discuss these factors.

#### *Brand Familiarity and Loyalty*

Brand familiarity reflects the extent of a consumer's direct and indirect experience with a brand, familiar and unfamiliar brands differing in terms of the knowledge regarding the brand that a consumer has stored in memory (Alba et al. 1987; Campbell and Keller 2003; Kent and Allen 1994). It has been found that communication effectiveness depends on the prior familiarity of the brand: repetition wear out is postponed when the brand is familiar to the consumer (Campbell and Keller 2003; Snyder and Stukas 1999). Communication from a trusted source is also expected to influence attitudes more strongly and feel more personal than from unfamiliar sources which may be disputed and thus not have as less impact on attitudes (Dick and Basu 1994; Howard-Brown 1998; Smith and Swinyard 1988).

Repetition of a brand's advertising has stronger effects (responses, satisfaction, etc.) on those consumers who already use the brand and are familiar and/or loyal with/to it (Cacioppo and Petty 1985; Ehrenberg 1974; Sawyer 1981; Simon and Arndt 1980; Tellis 1988; Zauberaman 2003). Accordingly, Merisavo and Raulas (2004) found that regular email newsletters had better impact on the brand loyalty of the loyal customers than on the nonloyal.

In effect, we predict that DMC works better with customers that are already familiar and/or loyal with the brand.

#### *Switching Costs*

Over a series of transactions, customers build switching costs through the development of personal relationship and the accumulation of firm-specific knowledge and sunk costs (Bell et al. 2005). Customers will be more likely to engage in relational behaviors when they perceive

that the monetary and nonmonetary switching costs are high (Bhattacharya and Bolton 2000; Burnham et al. 2003; Fornell 1992; Sheth and Parvatiyar 1995).

Product categories where switching costs are high include insurance, child care, and financial services (Bhattacharaya and Bolton 2000). As a term, switching cost is related to perceived risk. Consumers are more brand loyal and willing to engage in long-term relationships with products that they perceive as high-risk. Risks can be functional, physical, financial, social, psychological or time-based (Keller 1998, 8-9). High-risk product categories include airlines, clothing, medicines, and financial services (Bhattacharaya and Bolton 2000). Consequently, products and services with high risks are also in many cases those where the switching costs are high.

Switching costs are likely to moderate the effects of digital marketing communication on customer loyalty. For example, if financial and relational switching costs are low, regular marketing communication could have little or no effect on customer loyalty. An example of this is the fierce price competition between mobile phone operators, which has made differentiation among them difficult and lowered the switching costs perceived by consumers. A study in the Turkish mobile phone market found that perceived switching costs had a direct and positive effect on customer loyalty (Aydin et al. 2005).

Hence, we predict that the higher the switching costs, the stronger the effects of DMC on customer loyalty are, and vice versa.

There are also a number of other factors in the relationship that have an impact on how DMC affects customer loyalty, such as previous purchases, frequency of transactions, cross-buying behavior, and share of wallet (see Reinartz et al. 2005), to name a few. These other relationship-related factors are in this paper modeled in as factors that explain in their part how relationships develop.

### **3.5 Outcomes of Digital Marketing Communication for Customer Loyalty**

The outcomes of digital marketing communication in our model include perceived value, commitment, and customer loyalty. Perceived value and commitment were discussed in earlier sections. We use the term “customer loyalty” as the ultimate dependent variable, a term close

to brand loyalty, because it is more general of these two and is applicable to both b2c and b2b markets. The discussion of how to define and measure both customer and brand loyalty has a long history (Dick and Basu 1994; Odin et al. 2001; Oliver 1999). The most frequently used definition of brand loyalty is that it is a form of repeat purchasing behavior reflecting a conscious decision to continue buying the same brand (Jakoby and Chestnut 1978). That is, for brand loyalty to exist, a pattern of repeat purchase must be accompanied by a positive attitude towards the brand. Accordingly, Oliver (1999, 34) has defined customer loyalty as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, *despite* situational influences and marketing efforts having the potential to cause switching behavior.” Most researchers believe that the best way to operationalize loyalty is to measure both attitudes and behavior (Rundle-Thiele and Bennett 2001). If only behavior were measured, it could be only spurious loyalty, a low relative attitude accompanied by high repeat patronage due to situational effects (Dick and Basu 1994). Therefore, the metrics that we suggest for measuring the effects of digital marketing communication on customer loyalty are both behavioral and attitudinal. More specific division of loyalty to separate phases - described by Oliver (1999) as cognitive, affective, conative, and action loyalty – was not seen necessary in this paper. These loyalty phases are included in the main categories of behavioral and attitudinal.

In our model, behavioral customer loyalty metrics consist of purchases (including measures of RFM, LTV, etc.), product or service usage, store/website visits, and recommendation (WOM). Attitudinal metrics in our model include brand attitudes, brand image, brand knowledge, satisfaction, and service perceptions. Both traditional advertising and brand literature (e.g. Aaker 1997; Batra and Ray 1986; Rossiter and Percy 1998), and more recent literature related to digital channels (e.g. Chen et al. 2002; McMillan et al. 2002; Ribbink et al. 2006; Srinivasan et al. 2002; Zeithaml et al. 2002) offer good operational metrics and scales for assessing the outcomes for digital marketing. Operationalization details, however, are not discussed in this paper.

## 4 DISCUSSION

When the dominant logic of marketing is shifting from exchange of goods toward service (Vargo and Lusch 2004), digital marketing communication (DMC) can help marketers improve their return on marketing and profitability (Reinartz and Kumar 2003; Reinartz et al. 2005). Digital channels offer cost efficient opportunities for marketers to keep frequently in touch with customers and improve customer loyalty. With such prospects in mind, it is not surprising that the use of digital channels in marketing is becoming an essential part of strategy in many companies. Despite these opportunities, there is a lack of models explaining the interaction between DMC and customer loyalty. While parts of DMC, such as web advertising, attitude toward a site, perceptions of interactivity, and electronic service quality have been studied, integrated theories of DMC are scarce. Our conceptual model integrates ideas and findings suggested in many areas of marketing literature to show how brand communication, personalization, and interactivity interact with customer loyalty. We present research propositions for testing in future research.

We suggest that brand communication builds customer loyalty mainly through increased frequency and relational content. Information processing triggered by regular brand communication generates customer value and commitment. Increases in these improve customer loyalty, both attitudinal and behavioral. Personalization and interactivity moderate the effects of brand communication on customer loyalty. Finally, we propose that customer characteristics, involvement, and relationship can also act as moderators.

The proposed model needs more empirical support. Because of the number of constructs and the complex relationship among them, it could be best to test it in two or more parts before testing the entire model. There are also a number of operationalization issues; while some measurement scales already exist, some have to be designed. It should also be considered carefully which parts of the model need real world behavioral data (e.g. purchases, perceptions of received brand communication) and which can be asked hypothetically in a survey (e.g. “What value would you perceive if you would get personalized communication?”). Qualitative research could also be valuable for clarifying certain concepts and outcomes of DMC, such as information processing, perceived value, commitment, and their link to customer loyalty.

Although there are some cases where DMC has been effective, it is still unclear in which product or service categories and to what type of customers DMC works best to build and enhance customer loyalty, and where marketing via conventional channels works better. In practice, companies often mix digital marketing with more traditional aspects of marketing (Coviello et al. 2003). Systems and process issues have to support this kind of multi-channel marketing (see Vesanen and Raulas 2006). Both transactional and relational customer data from various channels and customer touch points should be brought together (Zahay et al. 2004). Thus, the process of DMC and its integration to other marketing would also be a valuable research topic.

DMC also requires permission and willingness from customers. Although customers can perceive marketer's personalized and interactive communication valuable, it can also raise social concerns such as privacy invasion arising from the collection and use of personal details (Evans 2003). Therefore, marketers should be cautious and follow the rules of permission marketing (see Godin 1999). Future research could focus on understanding how customers would like their personal information to be collected and used in DMC.

Moreover, as our model suggests how to strengthen the loyalty of existing customers, it could also be applied to new customer acquisition. For example, if a potential customer has visited the marketer's website and inquired something or expressed interest for receiving information about products or services, we expect it would make sense for the marketer to stay in touch with these prospects not only with promotional or selling activities but with informative and brand-related digital communication to keep the brand in the consideration set. It would be interesting to further examine the effects of this kind of interactivity and optimization of acquisition and retention efforts (see Reinartz et al. 2005).

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# The impact of e-mail marketing on brand loyalty

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## Keywords

Electronic mail, Brand loyalty, Marketing strategy, Consumer behaviour

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## Abstract

The study examines the effects of e-mail marketing on brand loyalty and also reveals the kinds of e-mail content valued by consumers. Data were gathered from 890 consumers, who were users of a multinational cosmetics brand and had received regular permission-based e-mail messages from the marketer. Results reveal that regular e-mail marketing has positive effects on brand loyalty. E-mail-activated consumers visited retail stores. Consumers exposed to e-mail marketing recommended the brand to their friends. Loyal customers appreciated regular communication and various other information content from the brand more than mere offers. These results encourage marketers to keep in frequent contact with customers via e-mail with the aim of enhancing brand loyalty.

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An executive summary for managers and executive readers can be found at the end of this article.

## Introduction

E-mail offers a promising tool to enhance brand loyalty as it helps marketers keep in touch with their customers on a regular basis at low cost. The benefits of an active marketer are described in considerable detail in the customer relationship management (CRM) literature, which suggests that marketers could enhance customer loyalty by being active and in regular contact with their customers (see, e.g. O'Brien and Jones, 1995; Brondmo, 2000; Peppers and Rogers Group, 2001; Hansotia, 2002). Brand literature likewise shows how active brand communication helps build and strengthen brand loyalty. Despite the potential of frequent e-mail marketing for building and maintaining customer loyalty, it has only recently started to gain importance in corporate marketing and CRM strategies[1]. This is also noted by Reichheld and Scheffer (2000), who discuss how marketers should concentrate attention on retaining rather than attracting customers on the internet. There is, however, little empirical evidence on how e-mail really works to retain customers.

This paper presents results from a real life case in which a leading cosmetics brand company had sent permission-based e-mails to their customers on a regular basis for over a year. We explore how regular non-personalized e-mailings (newsletters) affect brand loyalty, how consumers appreciate this form of e-mail marketing, and what kinds of e-mail content are to be appreciated.

We first discuss the use of e-mail marketing and how marketers could use e-mail to enhance brand loyalty. We then discuss how brand loyalty can be defined and measured and describe what kinds of measures were used in this research. The research methodology and the results obtained constitute the next two sections. The paper concludes with a discussion of the results, its academic and managerial implications, and suggestions for future research.

## Background: the use of e-mail

For financial reasons it is not hard to see why e-mail communication is expanding rapidly. The cost of sending a large number of e-mail messages is marginal compared with print mail. E-mail also offers potential for targeted and personalized





communication. In effect, e-mail has become a widely adopted marketing medium. For example, already in 1999 the number of e-mails sent in the USA was twice that of letters[2]. By the end of 2000, there were 891.1 million e-mail boxes worldwide; this was a 67 percent increase from the previous year[3]. Consumers have also adopted e-mail. Several research reports show how e-mail has become the most popular online activity among internet users (see, e.g. Godin, 1999).

E-mail can be used for various marketing purposes, for example to share information about products and services, to promote them, to build brands, to guide customers to web sites, to alert customers, and to tell the status of orders. Marketers today use various e-mail techniques, such as newsletters, reward programs and community building (see, e.g. Brondmo, 2000; Roberts *et al.*, 2001). Newsletters, as Brondmo (2000, p. 51) suggests, “are perhaps the most common vehicles for establishing ongoing dialogue with customers, probably because they provide a terrific mechanism for communicating a highly personalized blend of information, entertainment, and promotions.”

### Enhancing brand loyalty with e-mail communication

The customer relationship management (CRM) and direct marketing literatures suggest that regular contacts with customers help marketers enhance customer loyalty. Direct mail is used to cross- and up-sell, to increase customers' purchasing frequency, and to induce customers to respond and to become involved in a dialogue. The idea is that the more frequently a customer buys or responds to messages, and the more recent the purchase or response has been, the more loyal the customer is. Direct marketers frequently use offers to build loyalty.

Another aspect of understanding how regular communication can enhance customer loyalty is how communication from a brand and interaction with the brand affect brand attitudes.

Communication and consumer behaviour theories suggest that when consumers have a preference for a brand, they are more keen and willing to receive information from it and also to search for information about it. Repeated exposure potentially enhances brand attitudes by allowing the customer to process more information (Berger and Mitchell, 1989). When a consumer spends time with the brand and processes information, positive affective responses (emotions, feelings, moods, primary affect, satisfaction) about the brand are evoked in the consumer's mind (Dick

and Basu, 1994). Brand loyalty is reinforced as learning and increased positive experiences with a certain brand decrease the search for information about alternative brands (Newman and Staelin, 1972).

Advertising research offers similar insight into how loyalty mediates communication effectiveness. Raj (1982) and Sawyer (1973) provide empirical evidence showing how advertising has a disproportionate effect on those loyal to a brand. Raj found that loyal users increased their volume purchases of the subject brand in response to increased advertising, whereas consumers with low loyalty did not show volume increases. In effect, regular e-mail communication could be expected to have similar positive effects on brand loyalty, especially among brand loyal consumers.

Brand literature shows how marketers could raise brand loyalty by deepening consumer-brand relationships (Aaker, 1996; Fournier, 1998; Kapferer, 1998; Keller, 1998). One way to do this is to communicate actively with customers. Regular communication brings value to the users of the brand by providing them with relevant information and by reducing their efforts to search for information. As customers appreciate regular communication from the brand, it can further enhance their brand loyalty. Ongoing communication may also help reassure consumers that they are using the right brand, thereby helping to remove cognitive dissonance. Hence, consumers engage in brand relationships to simplify buying and consuming tasks and information processing, and to maintain cognitive consistency and a state of psychological comfort and gratification (see, e.g. Sheth and Parvatiyar, 1995). Also, friendship with the brand is important for some consumers (Fournier, 1998). While the increasing number of unsolicited (“junk”) mail threatens consumers' acceptance of e-mail marketing, consumers may appreciate receiving brand information from a marketer from whom they want to hear and to whom they have given permission to send e-mails.

Furthermore, regular e-mail communication with varying information contents that are accepted and desired by consumers may help marketers keep their customers interested in their brand. Sheth and Parvatiyar (1995) suggest that when consumers are satiated due to the lack of novelty or variety in the relationship, they may disengage from relational market behaviour. In other words, boredom and routinization may drive consumers to seek additional alternatives, thereby decreasing or eroding brand loyalty.

In conclusion, we suggest that the effects of e-mail communication on brand loyalty need to be

measured via brand attitudes, not solely through purchasing loyalty and direct responses by the consumer. What we wanted to explore was how types of messages other than offers affect brand loyalty. Hence, in our research, sent e-mails did not involve a direct response element every time. In fact, most messages offered no inducement to buy or respond. Instead, they merely informed the recipients about new products and how to use them, provided news about the product category in general, encouraged and guided respondents to web pages for further information, and inspired them to participate in events.

### Defining and measuring brand loyalty

Discussion of how to define and measure brand loyalty has a long history (see Dick and Basu, 1994; Odin *et al.*, 2001). The most commonly-used definition of brand loyalty is that it is a form of repeat purchasing behaviour reflecting a conscious decision to continue buying the same brand (Jakoby and Chestnut, 1978). In other words, for brand loyalty to exist, a pattern of repeat purchase must be accompanied by a positive attitude towards the brand. Today, most researchers believe that the best way to operationalize brand loyalty is to measure both attitudes and behaviour (Rundle-Thiele and Bennett, 2001). However, it is not always possible to measure both these dimensions in practice. Some authors suggest that if only attitudes could be measured, they would also predict brand loyalty as well as actual purchasing behaviour alone (Baldinger and Rubinson, 1996), and that a high relative attitude compared with competitive brands contributes significantly toward long-term maintenance of loyalty (Dick and Basu, 1994).

In our research setting, we mainly used attitudinal measures to understand the impact of ongoing e-mail marketing on brand loyalty. However, we also investigated behavioural effects, in particular how e-mail drives store traffic and generates recommendations. We expected similar effects to those found by Howard-Brown (1998) with conventional direct marketing; positive effects on achieving purchase, store traffic, and attitudes.

### Research setting and methods

To investigate how e-mail marketing affects brand loyalty and how consumers perceive ongoing e-mailings, we gathered survey data from customers of a large multinational company manufacturing and marketing cosmetics, which is

a field with high-involvement products and intense competition.

The company had been practising regular e-mail marketing for 18 months and had built an in-house permission-based (opt-in) list of its customers. The brand (referred to later as brand X) is one of the worldwide leaders in cosmetics and has products in four categories: skin care, makeup, fragrance, and body care. The products of brand X are sold in department stores, where customers may choose from over 20 different cosmetics brands. E-mails sent by the company were aimed at building relationships, and mainly contained information about new products, invitations to events, and links to the brand's web site.

Consumers on the e-mail list ( $N = 2,200$ ) were sent an e-mail message containing a brief description of the survey and a link to a questionnaire form on the internet. In total, 890 respondents filled in the questionnaire, resulting in a 40.5 percent response rate.

### Brand loyalty and attitude measurements

To measure the effects of e-mail marketing on brand loyalty, we analyzed respondents' recommendation of the brand, number of store visits, the recency of last purchase, and brand attitudes. Brand attitudes were measured with brand attributes on a scale of 1 to 5, where 1 = does not describe at all, . . . 5 = describes very well. Ten attributes (such as "trusted brand", "takes care of its customers" and "modern and trendy brand") were used to describe the brand.

## Results

### Brand attitudes and loyalty

The results suggest that regular e-mail contacts have a positive effect on loyalty. Consumers who had regularly received e-mail messages had strong brand attitudes; 75 percent of the consumers on the e-mail list reported purchases of brand X products less than six months ago; and 74 percent had recommended the products to their friends. E-mail messages also had a powerful effect on stimulating consumers to visit retail stores – 62 percent of the respondents had visited a retail store at least once because of an e-mail message. The most important reasons to visit a retail store were to buy a product and to see the product. What is interesting to note is that messages without offers or rewards drove store traffic. Store visits were explained by a respondent's appreciation of regular communication, how many e-mails she remembered having received, how useful the messages were perceived to be, how interesting the message content were, and whether the

respondent had used e-mail links to visit the internet pages of the brand (for more detailed analysis of this, see Martin *et al.*, 2003). Of those who had visited the internet pages via an e-mail link, 32 percent had also visited a retail store several times. However, only 17 percent of those who had not used the links had visited a retail store several times ( $X^2 = 24.820$ ,  $p < 0.001$ ).

### Appreciation of regular communication and e-mail content

The results show that consumers who had received e-mail found the company's messages useful and interesting and appreciated regular communication (see Table I).

The respondents find the following message content especially useful (percentage of all respondents):

- Special sales offers (90 percent).
- Information about new products (89 percent).
- Contests (68 percent).
- News about beauty in general (68 percent).
- Information about events (43 percent).
- Links to interesting internet pages (43 percent).
- Information about international makeup trends (41 percent).

Those who appreciate regular contacting want to hear about all of the above items from the marketer. On the other hand, respondents who appreciate regular communication less find special sales offers and competitions especially useful but do not appreciate other content as much. What is interesting to note is that although the respondents said they would like offers, they were pleased with mailings that did not contain any. This suggests that e-mailings without an offer can work towards building customer loyalty, whereas direct marketing textbooks still advise marketers to include an offer in a mailing.

The importance of message content is also seen in how consumers recommend that their friends join the mail list. The respondents said they would recommend the e-mail list if they found the

messages useful and interesting and if they appreciated regular communication from the brand. The level of brand loyalty itself does not explain recommendation of the e-mail list to friends. Those who appreciate the content of received e-mails had already recommended the e-mail list or would recommend it without any monetary incentives, whereas those not happy with the content would recommend the list only if they were rewarded for doing so.

### The effect of brand loyalty on appreciation of e-mail

To see how consumers appreciate e-mail depending on their level of brand loyalty, we here report results on one product category, skin care products. The results were similar in the three other product categories of the brand. Appreciation of regular communication was examined by product category because there were differences in loyalty between product categories. That is, consumers do not use and prefer the brand in a similar way in all the above categories. The skin care category was chosen, as there is a more even distribution of loyalty than in other categories.

The respondents were classified into single brand loyals, multibrand loyals, routinized brand switchers, and experimental brand switchers, following Rossiter and Percy's (1998, pp. 525-7) classification of brand loyalty. Loyalty groups were constructed from usage of brands, brand preference, and variety seeking, using the following questions statements:

- "Do you use brand X?"
- "If you use also other cosmetics brands, what are they?" (competing cosmetics brands, 19 listed plus an open choice to be filled in by the respondent).
- "I think the brands that I use are much better than others and I only use them" (brand preference, scale between 1 = does not describe at all, ... 5 = describes very well).
- "I buy a variety of brands and don't feel strongly about any of them" (variety seeking, scale between 1 = does not describe at all, ... 5 = describes very well).

To test the reliability of measurements, Cronbach's Alpha was counted for these four questions. Cronbach's Alpha was 0.6915, which we conclude confirms that these questions can be used to form brand loyalty groups reliably. Respondents were classified into a respective group based on how they responded to each of these questions, as indicated in Table II.

Single brand loyals (SBL) are consumers who use brand X and do not use any other competing brands in the product category. They strongly prefer the brands they use and do not seek variety.

Table I E-mail content evaluations and appreciation of regular communication

Evaluation of e-mail content and regular communication	Percentage of values	
	Mean	4 or 5
How useful do you find the e-mails received from brand X? <sup>a</sup>	3.7	56
What do you think about the content of the messages? <sup>b</sup>	3.8	66
How important is it to you that brand X is regularly in touch with you? <sup>c</sup>	3.9	70

Notes: <sup>a</sup>1 = not at all useful, 5 = highly useful; <sup>b</sup>1 = not at all interesting, 5 = highly interesting; <sup>c</sup>1 = not at all important, 5 = highly important

Table II Classification of consumers into brand loyalty groups

Brand loyalty group	Brand usage	Brand preference (scale 1-5)	Variety seeking (scale 1-5)
Single brand loyals	Uses brand X, not any others	Value 4 or 5	Value <= 3
Multibrand loyals	Uses brand X and one to three competing brands	Value 4 or 5	Value <= 3
Routinized brand switchers	Uses brand X and over three competing brands	Value 4 or 5	Value <= 3
Experimental brand switchers	Uses brand X and over three competing brands	Value <= 3	Value 4 or 5

Multibrand loyals (MBL) use one to three competing brands in the product category in addition to brand X, prefer the brands they use and do not actively seek variety. Routinized brand switchers (RBS) use at least four competing brands, as well as brand X, prefer the brands they use but are less loyal than MBLs as price affects their brand loyalty. Experimental brand switchers (EBS) use at least four competing brands, do not prefer the brands they use, and seek variety. In our analysis, we have combined the two groups of RBSs and EBSs into one group called brand switchers (BS).

The results show that the more brand loyal consumers are, the more they appreciate regular communication and value the messages they have received (see Table III).

There is a statistically significant difference (at the 0.05 level) between the groups of SBL and BS, and MBL and BS in "How useful do you find the e-mails received from brand X?", between the groups SBL and BS, and SBL and MBL in "What do you think about the content of the messages?" and between all groups in "How important is it to you that brand X is regularly in touch with you?".

## Discussion of the results and conclusions

We studied a large multinational cosmetics brand that has an inhouse list of opt-in e-mail subscribers. Our data show that regular contact with consumers by e-mail has positive effects on brand loyalty. The consumers exposed to e-mail marketing recommended the brand to their friends. E-mail also activated consumers to visit retail stores, buy the brand's products, and visit the

brand's site on the internet via links. Brand attitudes were also positive among consumers who had received e-mail. The data show that consumers with higher brand loyalty appreciate regular communication from the brand more than the less loyal. From this we conclude that e-mail offers marketers an opportunity to further strengthen the brand loyalty of already loyal customers by keeping in frequent contact with them.

The consumers who appreciate regular communication from the brand find many different contents useful in addition to sales offers (product information, contests, news and trends about the product category, information about events, and links to internet pages), while the respondents who do not appreciate regular communication mainly prefer sales offers. While the respondents say that they appreciate sales offers in e-mails, the data show that the e-mail marketing practiced by the company, using no price related offers, did have positive effects on brand loyalty. This finding is in line with recent e-mail marketing literature suggesting that e-mail should not be used as much for sales as for service (see Brondmo, 2000) and for building brand loyalty. Yet the direct marketing literature still in general suggests that mailings should always contain an offer or some other element of direct response. Our results imply that the strategic focus of ongoing e-mail marketing should be in creating brand encounters and deepening consumer-brand relationships with loyal customers, and not just in seeking additional sales. As Howard-Brown (1998, p. 247) stated, "consumers expect companies they buy from to keep in touch, but not all of them do

Table III Effect of brand loyalty on e-mail content evaluations and appreciation of regular communication

Evaluation of e-mail content and regular communication	Single brand loyals (n = 58)	Multibrand loyals (n = 221)	Brand switchers (n = 121)
How useful do you find the e-mails received from brand X? <sup>a</sup>	3.93	3.65	3.41
What do you think about the content of the messages? <sup>b</sup>	4.05	3.77	3.69
How important is it to you that brand X is regularly in touch with you? <sup>c</sup>	4.36	4.04	3.77

Notes: <sup>a</sup>1 = not at all useful, 5 = highly useful; <sup>b</sup>1 = not at all interesting, 5 = highly interesting; <sup>c</sup>1 = not at all important, 5 = highly important; values in columns are means of each cell

so.” E-mail now offers this opportunity for marketers.

We encourage marketers to build an opt-in e-mail subscriber list, to which consumers can easily join. Consumers who join are active, and show their involvement and interest toward the brand.

The message content that seems to work for customers who are already loyal is rather more informative and entertaining in nature, as opposed to being sales and discount-oriented. To target different customers more precisely, a brand loyalty classification is useful. Also, it could be a good idea to use interesting links in the e-mails to drive web site and store traffic. Advertising research suggests that visits to a high-involvement-product web site increase consumer's brand attitude (Dahlén *et al.*, 2003).

Although we see evidence of positive effects of regular e-mail marketing on brand loyalty, there are some limitations in this study that make us cautious in generalizing the results. First, it may be that e-mail does not work as well with products where consumers' involvement is low. Second, due to the nature of the brand, we only had female respondents in our data. Third, as we examined consumers who had given permission for the company to send e-mail and who were all users of the brand, the power of e-mail marketing on non-users of a brand remains unknown.

Since there still is little empirical evidence on the impacts of e-mail marketing on brand loyalty, future research is needed to verify the results of this study. In particular, message content stands out as a central research question. It would also be useful to combine actual sales data with attitudinal measures of brand loyalty in order to get an even more precise picture of the effects of e-mail marketing on brand loyalty.

## Notes

- 1 "E-mail marketing: who is using e-mail for marketing, what they're sending, and why they're sending it", BoldFish Inc. Adapted from [www.1to1.com/](http://www.1to1.com/) (accessed 28 February, 2002)
- 2 The e-Mail Marketing Report 2001. Executive Summary, adapted from [www.emarketer.com/](http://www.emarketer.com/) (accessed 30 March, 2001).
- 3 Year-End 2000 Mailbox Report, adapted from [www.unitedmessaging.com/](http://www.unitedmessaging.com/) (accessed 4 April, 2001).

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## Executive summary

*This executive summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present.*

### Speak gently to your customer, it works

The essence of good direct marketing lies in timely information, directed to somebody who is interested and calling for the recipient to do something. Over the years direct marketers have spent much time developing strategies that bring us closer to this essence – something that, as all who receive "junk" communications know, is easier said than done.

For consumer direct marketing there are essentially two different approaches – targeting through the use of secondary data and focusing direct communications on existing customers and prospects (people we know). In the latter case we may use general advertising to generate requests for information but the direct communication goes to somebody who has asked us to talk to them. We can see distinct differences in these strategies as one seeks to refine the general down to the specific whereas the other identifies the specific.

The internet opens up a new collection of communications opportunities previously unavailable to marketers. But it also presents a new set of threats to direct marketing that follows from concerns about intrusion, privacy and security of data. E-mail may be cheap (the marginal cost of another e-mail is, to all intents, zero) but this encourages the business to throw out more communications. Direct mail presented a problem but it was constrained by the fact that the firm had to print the material and pay the postage. No such costs exist on line and where the firm produces the communication in-house any design costs are also reduced to nearly nothing.

The result of this low cost has been the explosion in unwanted communications (spam)

that threaten to overwhelm the value of e-mail communication. And, for firms acting responsibly in respect of e-mail communications (such as the cosmetics company described here) the concern will be that controls over spamming will impact on effective on-line marketing. However, given that e-mail is becoming one of the principal means for people to communicate, firms must begin to grasp how to speak with consumers without engaging their wrath.

### *The online newsletter – a soft sell approach*

Newsletters have long been used in direct marketing since they allow for a low-key sale, the transmission of information and the opportunity to create a strong image. However, consumer direct marketers – unlike their business-to-business colleagues – have tended to avoid using newsletters because of their cost and the suppression of response rates that comes with a softer approach. On-line many of these limitations disappear and the newsletter becomes a powerful communications tool.

Since the cost of distributing the newsletter approaches zero (there remain residual costs in producing the newsletter and maintaining the e-mail database) and the size of the newsletter is not constrained by print format, e-mail newsletters have become one of the favoured means for firms to reach out to customers on-line. Rather than worrying about careful targeting so as to reduce costs, the firm can concentrate on making sure that the content of the newsletter appeals to the recipient.

There are several possible reasons for using e-mail direct marketing – securing repeat purchase, reinforcing a purchase already made, increasing loyalty, encouraging recommendation and providing general corporate or product information. With a newsletter these differing elements of direct marketing tactics can be combined – the newsletter can provide supporting information on product usage (helping reduce cognitive dissonance), give information about the market and, in a way really made possible by the internet, create a community of customers. All this and sending sales offers to good customers.

### *Newsletter and customer loyalty*

One of the primary aims of newsletter communications is the promotion of brand loyalty – something that has exercised direct marketers for many years. The brand loyal customer represents the best possible prospect for sales of new and existing products but has always proven rather elusive. Indeed, our main definition of loyalty has

always been repeat purchase despite the fact that there is not straightforward link between repeat purchase and brand loyalty.

It is important to note here that regular communication – especially where it forms something of a dialogue – is essential to the creation and maintenance of loyalty. And the use of e-mail represents a low-cost means of achieving this regularity of contact. However, for the communication to work, there has to be something in it for the recipient. The findings here confirm this by revealing that the most popular content for an on-line newsletter is “special sales offers” followed by information about new products. Direct marketing remains the same – responsiveness comes from the customer seeing some gain from a relationship with the firm.

However, the sales communication needs to be placed in context. We are seeking to achieve more than just a repeat purchase from our communication – we want the customer to regard us better. This requirement supports the idea of general interest content for the communication since this shows we are interested in the customer for more reasons than the prospect of her buying from us!

#### *Talk, don't shout*

One of the failings that direct marketers often reveal is a tendency to act a bit like the old fashioned street trader – we repeatedly shout offers at our customers. While this can work for some types of product, our customers want something a little more considered. The chap who cleans our carpets sends a regular newsletter containing chatty stories, information about cleaning and the services he offers. The tone is friendly, helpful and engaging. It sets the business in context (I've still got the issue with the information about removing stains) and means that we use him again and again despite the cost being greater than we could get from a less engaging carpet cleaner.

E-mail communications need to be treated carefully so as to maintain the goodwill and interest of our customers. Given the low cost of this type of communication, we have the opportunity to give a more rounded picture than would be so for traditional “snail mail”.

*(A précis of the article “The impact of e-mail marketing on brand loyalty”. Supplied by Marketing Consultants for Emerald.)*

# Email Advertising: Exploratory Insights from Finland

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Since the advent of the internet, much speculation has ensued regarding its tangible benefits to business. This article looks at the effectiveness of email advertising to promote information to consumers. Within this email promotion context, and using data from a survey of 838 female Finnish consumers of a major international cosmetics brand, we investigate consumer perceptions of email advertising. Specifically, within an exploratory research context we address two research questions: (1) What email advertising factors may influence visits to the company website? and (2) What email advertising factors may influence visits to a physical (i.e., bricks-and-mortar) company sales outlet? Results suggest that email advertisers should strive to generate emails that are perceived as useful. Useful emails appear to influence consumers to visit the store primarily to either buy the product or view the product firsthand, rather than visit the company website. However, as consumers could not buy the advertised products from the website, these findings should be regarded as preliminary. Factors influencing perceptions of email advertising usefulness are explored along with limitations and future research directions.

EMAIL ADVERTISING, where email is used as a vehicle for the distribution of promotional messages, is fast becoming an important advertising tool. Email advertising revenue totaled \$948 million in 2001 and has been forecasted to increase by 32.91 percent to \$1.26 billion in 2002 (Gartner, 2002) and to \$7.3 billion by 2005 (Beardi, 2001). Indeed by 2004, marketers are predicted to send almost 210 billion email messages to consumers (Schwartz, 2000). Well-known organizations currently using email to contact consumers include Barnes and Noble, Borders, Hershey Foods, and J.C. Penney (Landau, 2001; Schwartz, 2000; Weidlich, 2001).

Reasons suggested for the popularity of email advertising include, first, that email is cheaper than traditional direct mail with costs ranging from \$5 to \$7 per thousand consumer addresses, as opposed to \$500 to \$700 per thousand for direct

mail (Gartner, 2002). Second, email advertising has been heralded as producing faster response times from consumers (Brown, 2002; Rickman, 2001). Gartner (2002) reports that consumers respond within 10 business days to an email campaign as opposed to four to six weeks for a direct mail campaign. Email advertising also allows for a rapid dissemination of an advertisement to a global target market. Third, email can encourage interactivity with consumers by including hyperlinks in the email (Brown, 2002; Garden, 2002). These hyperlinks can invite consumers, for example, to visit the company's website by clicking on the hyperlink in the email.

Recent research undertaken by practitioners indicates that consumers are interested in email marketing. For instance, a survey by DoubleClick of 1,015 respondents reveals that 77 percent of consumers wish to receive promotional offers by



email. Further, for 64 percent of consumers, email is the most popular means to learn about new promotions, products, and services (DoubleClick, 2002). Although commercially important, however, email advertising has been relatively neglected by academic research. In this article, we address this gap by exploring perceptions of email advertising using a sample of female consumers. Within this exploratory research context, we address two research questions:

- RQ1. What email advertising factors may influence visits to the company website?
- RQ2. What email advertising factors may influence visits to a physical (i.e., bricks-and-mortar) company sales outlet?

These research questions are examined using survey data from a sample of Finnish female consumers. Finland is a Nordic country of 5.2 million consumers situated between Sweden and Russia. It is 130,559 square miles in size, making it similar in size to New Mexico (121,598 square miles). The rationale for studying Finnish consumers relates to their widespread use of the internet. Recent statistics reveal that Finland has one of the highest levels of internet penetration in the world with 43.93 percent of the population online (Nua, 2002). Given the forecasts of increased email advertising by marketers, a study of Finnish consumers offers intriguing insights, especially since the international brand that provided the survey data for this study has been successfully engaged in email advertising in Finland since 2000. Thus, the insights we provide on perceptions of email advertising reflect what works for an experienced email advertiser for an international prod-

uct (i.e., cosmetics), rather than the results of a novice, start-up strategy.

Further, these research questions are explored in relation to permission-based email advertising that is most relevant to marketers today. Permission-based email is defined as email that has been requested by the consumer as part of an opt-in scheme (e.g., a consumer fills in their email address on a website and agrees to receive information of interest). In effect, marketers are receiving the consumer's permission to market to them. Permission-based emails are powerful because by signing up to an email list, the consumer is requesting the information from the advertiser rather than simply being exposed to it. Thus, advertisers can

### **Permission-based emails are powerful because . . . the consumer is requesting the information from the advertiser rather than simply being exposed to it.**

gain greater effectiveness in the spending of their budgets as the message recipients have already indicated a level of interest in the messages. Consequently, permission email advertising has been heralded as offering consumers reduced search costs and advertisers an increased level of precision (Rowley and Slack, 2001).

This form of email differs from unsolicited commercial email, also known as "spam," which is an increasing problem for consumers accessing their email. Indeed by 2006, the average email user is forecasted to receive 3,800 messages each year including 1,400 spam messages (Tchong, 2001). Research suggests that response rates for spam email stand at only 1 percent of the email sent out by advertisers, whereas the average clickthrough

rate for permission-based emails is between five and eight percent (Gartner, 2002; Tchong, 2001). Moreover, the aforementioned DoubleClick survey suggests that over 88 percent of respondents have made a purchase as a result of receiving a permission-based email (DoubleClick, 2002). Hence, this study examines permission-based email advertising.

In addition to permission-based email, there is also a growing recognition that appropriate email content plays a key role in advertising effectiveness (e.g., Carmichael, 2000; Waring and Martinez, 2002; Yager, 2001). Yet while email content as a whole is increasingly recognized as important, recommendations for what *specific* content advertisers should use tend

to be scarce and vague. For example, email content must be "targeted" (Waring and Martinez, 2002), "relevant and clear" (Carmichael, 2000), or "irresistible" (Yager, 2001). An exception is Garden (2002) who suggests (1) providing relevant product information, (2) advertising special deals, and (3) offering invitations to company functions. One of the goals of this study is to explore consumer perceptions of email content to gain some preliminary insight into what specific email topics are regarded as useful.

#### **METHOD**

##### **Sample**

The data used in this study were collected with the cooperation of the Finnish

division of a prominent cosmetics brand. This brand is one of the global market leaders in cosmetics and has products in four categories: skin care, makeup, fragrances, and body care. The company has an in-house permission-based list of its consumers from which the sample in this study was derived. Emails sent by the company, for example, advertised new products, promoted special offers, and provided links to the brand's website. The website stimuli display models and products that are uniform across the international sites (e.g., United States, Canada, Germany, Japan, Italy, and Finland) with the site modified for the Finnish market with the site written in Finnish. Thus, while the website is for a single brand of cosmetics, it offers information pertaining to a range of products.

We surveyed 2,200 people who were sent an email message containing a brief description of the survey and a link to a website questionnaire. Respondents were members of the company's permission-based, opt-in email list. The incentive to participate was a prize draw for 1 of 10 packages of cosmetics. This resulted in a database of 890 consumers who responded to our survey. Before exploring the research questions, the data were analyzed for missing values. Cases with missing values for more than 10 percent of the variables were excluded reducing the sample size to 839.

Missing values for the remaining consumers were estimated using the expectation-maximization method (Dempster, Laird, and Rubin, 1977). A posterior test on the means and variances revealed no differences between the variables before and after imputation. Hence, this technique did not distort the original data distribution. Finally, a judgment decision was made to remove the sole male respondent. As such, this study provides insights into female perceptions of email

advertising based on a sample of 838 consumers. This represents a response rate of 38.1 percent, which is in line with previous survey research (e.g., Agee and Martin, 2001; Kim and Kang, 2001). A profile of the sample is displayed in Table 1.

#### Survey instrument

The survey contained questions covering potential factors that may influence consumers to visit websites after receiving an email advertisement, or to visit the store.

These questions included: perceptions of email advertising usefulness; the level of interest generated by these emails; usefulness of the internet; the amount of email advertising received by the respondent; perceptions of the importance for the company to keep in regular contact with the respondent; website visits, store visits, and reasons for store visits inspired by email advertising. Three separate native Finnish speakers who were fluent in English agreed upon the following question translations.

**TABLE 1**  
Respondent Demographic Profile

Demographics	Frequency	Percent*
<i>Gender</i>		
Male	0	0
Female	838	100
<i>Age</i>		
<20	3	.4
20–29	79	9.4
30–39	156	18.6
40–49	250	29.9
50–59	272	32.5
>60	77	9.2
<i>Household income</i>		
<50,000 mk	80	10.2
50,000–100,000 mk	414	52.9
101,000–200,000 mk	134	17.1
>200,000 mk	155	19.8
<i>Education</i>		
Elementary school	146	17.6
High school graduate	129	15.6
Mid professional studies	325	39.3
Higher professional studies	134	16.2
University degree	94	11.4
Total sample size	838	100.0

\*Percentages based on totals of each characteristic.

Perceptions of email usefulness were measured by the item, "How useful do you find the emails received from (brand name)?" (1 = Not at all useful, 5 = Very useful). Likewise, email content interest was measured by the item, "What do you think about the contents of the email messages?" (1 = Not at all interesting, 5 = Very interesting). Internet usefulness was also measured by a 5-point item (1 = Not at all useful, 5 = Very useful). Respondents also indicated what types of email messages they regarded as very useful. Message types included: (1) information about new products, (2) special sales offerings, (3) information about beauty and treatments, (4) information about interesting new make-up trends, (5) hyperlinks to interesting websites, (6) information about different upcoming events, and (7) information about competitions. An open-ended question was also included for any category of importance that was not addressed by this group.

The amount of emails received from the company was measured by the item, "How many emails do you remember that you received from (brand name)?" (None, 1-4, 5-10, over 10). Perceptions of the importance of keeping in touch were measured by the item, "How important is it that (brand name) is regularly in touch with you?" (1 = Not at all important, 5 = Very important). Website visits were measured by the item, "Have you ever visited (brand name)'s internet pages?" (Yes, No). A further variable asked how often respondents had visited these pages (less than once or twice a week, once or twice a week, or more). Similarly, whether store visits had been inspired by promotional email advertising was measured on a 3-level item (never, once, more than once). Reasons for store visits inspired by email advertising were assessed by respondents indicating how many of the following reasons were applicable: to see products, to

get more information about products, to get personal assistance from a skillful salesperson, to buy products, and to visit a (brand name) event.

**RESULTS**

**Research Question 1:**

**Email advertising and website visits**

To address what email advertising factors may influence website visits, we performed a binary logistic regression that analyzed factors affecting whether the company website was ever visited. Specifically, the dependent variable measured whether respondents had visited the company's website via a hyperlink provided in the email advertising, with the alternative responses of "never," "once," or "more than once." Independent variables were email usefulness, amount of emails received, interest generated by the email advertising, usefulness of the internet, and the importance of the company staying in touch. Interestingly, this revealed significant negative associations for email usefulness ( $\beta = -.363, p < .05$ ) and the

amount of emails received ( $\beta = -.862, p < .001$ , see Table 2). While only a preliminary finding, this suggests that the more useful an email message, and the greater the number of such emails received, the less likely consumers are to visit the company's website. Since consumers are unable to purchase the products via the company website but need to visit a physical store, these results suggest that useful email advertising may represent a reason for why people to go directly to the store and purchase.

To further investigate this issue of website visits, we performed a binary logistic regression on the dependent variable of website visits that were independent of email advertising (i.e., website visits that were not triggered by an email received by the consumer) to provide insights of comparison to the previous results. Thus respondents were categorized as visiting the website once a week or more, or as less than once a week. These dichotomies were chosen to distinguish between frequent and infrequent visitors to the company's website. As displayed in Table 2, signifi-

**TABLE 2**  
Binary Logistic Regression Results

Dependent Variable	Independent Variable	Beta (standard error)	Exponential Value
Website visit (email)	Email usefulness	-.363 <sup>a</sup> (.163)	.696
	Amount of emails	-.862 <sup>b</sup> (.152)	.423
Website visit (general)	Email usefulness	-.719 <sup>b</sup> (.151)	.487
	Importance in touch	-.276 <sup>a</sup> (.127)	.759
Store visit	Email usefulness	.298 <sup>a</sup> (.103)	1.347
	Email interest	.647 <sup>b</sup> (.113)	1.909
	Amount of emails	.814 <sup>b</sup> (.114)	2.257

Note: The table includes only variables with statistically significant beta coefficients. Variables include internet usefulness.

<sup>a</sup>Beta significant at  $p < .05$

<sup>b</sup>Beta significant at  $p < .001$

cant negative associations were found for email usefulness ( $\beta = -.719, p < .001$ ) and the importance of the company staying in regular contact ( $\beta = -.276, p < .05$ ). Unsurprisingly, this indicates that if an email is perceived as useful, respondents are less likely to find a need to visit the company website. Likewise, if a consumer regards it as important that a company stays in touch with them on a regular basis, then again general visits to the company website are decreased. These results tend to suggest that when email advertising is seen as useful by consumers, they do not feel the need to visit the company's website, since the email is useful and provides sufficient information in the first place. Accordingly, it follows that consumers who place a high importance on a company staying regularly in touch with them do so because they find these emails useful. This view is supported by the polychoric correlation-coefficient between the importance of staying in touch and email usefulness, which is both high and statistically significant ( $r = .78, p = .001$ ).

Two other results are also of interest. First, whether email content was interesting was not a significant predictor of consumers visiting the website either independently ( $p = .26$ ) or by means of the hyperlink provided in the email ( $p = .63$ ). This suggests that consumers may be goal-driven and that they look for information that is useful to their purposes, rather than merely interesting. Second, the amount of emails received from the company was also not significant ( $p = .16$ ). This suggests that sending out large numbers of emails to consumers does not make them any more or less likely to visit the company website independently. However, since the amount of emails received from the company makes it less likely that a consumer will visit the company website via a hyperlink in an email, this suggests that after receiving relatively few

emails, consumers are likely to click on the hyperlink, yet with every following email, they are less likely to visit the website again. This could be because the website does not change often, or if it does change, the website is not perceived to be more useful than it was the first time it was accessed. We could imagine consumers accessing the site out of initial curiosity for instance, but after having visited it once through the hyperlink, they are unlikely to do so again when additional emails are received. Finally, the extent to which they find the internet in general as useful has no significant effect on either visiting the firm's website independently ( $p = .39$ ) or through a hyperlink ( $p = .21$ ), suggesting that consumers are driven by the usefulness of the email message rather than a general perception of the usefulness of the internet medium as a whole.

Overall, these results suggest a further question: If email advertisement usefulness may negatively affect website visits, what types of email content influence whether an email is perceived as useful? As displayed in Table 3, four types of email content are favored by more than

half of the respondents as being useful. Namely, information about special sales offerings (90.2 percent of respondents), new products (89 percent), competitions (69.2 percent), and information about beauty and treatments (68.7 percent). Interestingly, information on website hyperlinks of interest were not seen as useful (43.7 percent). These results suggest that consumers are interested in new and timely information.

#### Research Question 2: Email advertising and store visits

For this research question, a binary logistic regression was performed using the dependent variable of store visits and the same independent variables as for research question 1. Specifically, the dependent variable separated those consumers who had never visited a company sales outlet from those who had visited at least once. As shown in Table 2, this analysis produced three significant positive associations for email usefulness ( $\beta = .298, p < .05$ ), email interest ( $\beta = .647, p < .001$ ), and the amount of emails received by the consumer ( $\beta = .814, p < .001$ ). Thus, this preliminary finding suggests that consumers may be more likely to visit a store if they perceive emails as useful and interesting, and if they have received many email advertisements from the company.

This indicates that keeping in contact with consumers by email may make consumers more likely to visit the store directly rather than visit the website. In other words, they forego the website and go straight to the store. Why is this? An analysis of frequencies indicates that the reason why consumers visit a store is to either buy the product (40.4 percent of respondents) or to see the product firsthand (40.1 percent). To a lesser degree, consumers visit the store to gain additional product information (28.8 percent).

**TABLE 3**  
Email Content That Makes  
an Email Useful

Variable	Percent
Special sales offerings	90.2
Information about new products	89.0
Competitions	69.2
Information about beauty and treatments	68.7
Information about different events	43.9
Website hyperlinks	43.7
New makeup trends	41.3

**... keeping in contact with consumers by email may make consumers more likely to visit the store directly rather than visit the website.**

Consumers also visit the store for the personal assistance provided by sales representatives (19.1 percent), whereas attending in-store events (6.7 percent) do not appear to be a dominant reason for store visits. These exploratory results suggest that while much product information can be obtained by email or from the website, consumers presumably need to visit a store to experience other sensory aspects for an experiential product like cosmetics (e.g., the smell of a new fragrance).

#### DISCUSSION

The purpose of this study was to explore consumer perceptions of email advertising. Within this exploratory context, we studied what aspects of email advertising may result in consumers visiting, first, a company website, and second, a physical (i.e., bricks-and-mortar) company sales outlet. We found that visits to the company website appeared to be *less* likely the more useful the email advertisement, and the more emails received by the consumer from the advertising company. Instead, consumers who viewed emails as useful were more likely to visit the physical store. Our results suggest that the reason for a store visit is usually for consumers to either buy the product or to study it firsthand. As noted by Kover (2001), the web is ideally suited to products that do not involve human interaction with people or objects. In the case of cosmetics with fragrances or makeup products, such as lipstick, it is understandable that consumers visit the store to see if the product advertised by email suits them. Consumers who

find emails useful appear to want the company to stay in regular contact with them, suggesting that email offers advertisers the opportunity to become an important avenue for consumers to obtain information. Likewise, consumers who received many email advertisements appear to be more likely to visit the store.

We also found that the perceived usefulness of the internet medium as a whole had no effect on either website visits or store visits. This suggests that consumers may be goal-oriented, and that they value email advertisements that are useful, rather than merely interesting. Useful email content included special sales offerings, new products, competitions, and information about beauty and treatments. Interestingly, sending consumers hyperlinks in emails was not viewed as useful. This is perhaps surprising given the suggested benefits of hyperlinks as, for example, allowing consumers to obtain more information (see, e.g., Gallagher, Fosters, and Parsons, 2001). Our results therefore suggest a possible qualification to the benefits of offering consumers hyperlinks in the context of email advertising. Further, previous research in the field of print advertising offers theoretical support for this result. This research suggests that consumers consider purchase-specific advertising copy, such as information on the attributes of specific products, as more relevant than more general advertising claims, such as advertising the product class in general (Fernandez and Rosen, 2000). From this perspective, as was found in our results, email advertising copy re-

garding price and new product information should be viewed as more useful by consumers than general hyperlinks.

#### Limitations and future research

A variety of limitations should be acknowledged. First, the sample was limited to females, which limits the generalizability of our findings. This issue is relevant given that gender differences have been found in how consumers react to advertising and process information (e.g., Martin, 2003; Meyers-Levy and Sternthal, 1991). Thus, our results should be regarded as an exploratory study into female perceptions of email advertising, rather than being generalizable to the wider population of internet users. Future research should examine email advertising using gender-balanced samples of males and females, and could study populations from other cultures. In addition, as suggested by a reviewer, data could be collected involving more diverse products and sampling frame. For this study we used data from a single site and single brand. To improve predictive ability, researchers should employ two or three data sets from different e-commerce sites.

Second, most of the items in our study were single item measures. However, multi-item measures offer the opportunity to tap differing aspects of a construct (Robinson, Shaver, and Wrightsman, 1991). Further, multi-item measures allow estimates of reliability to be calculated and the use of statistical techniques, such as structural equation modeling, to be considered (Wanous, Reichers, and Hudy, 1997). Therefore, future research should employ multi-item measures.

Third, while we suggest that characteristics of email advertisements may influence consumers to visit physical stores, this finding requires qualification. It is important to note that the website in this study did not allow for on-line purchases.

Consumers had to visit a physical store if they wanted the product. Thus, our conclusion should be regarded as a preliminary finding. A stronger test would be provided by studying a site where consumers can choose to buy the advertised product from the company website or at a physical store and to then study what consumers choose to do. This would offer interesting insights into why consumers may choose to visit a physical store even though they can buy the product on-line.

The results of this study suggest a number of intriguing avenues for future research. For example, given that the importance of the interactive capabilities of the internet appears widely accepted (e.g., Cho and Leckenby, 1999; Yoo and Stout, 2001; Yoon and Kim, 2001), a natural extension of this study would be to examine consumer email responses to email advertising. Two areas in particular are of interest. First, consumer responses to the advertiser. Researchers have argued that in the digital domain, marketers and consumers can shape the content of promotional messages together (Rowley and Slack, 2001). Likewise, since highly focused, customized communications can be beneficial to building long-term relationships (Arnold and Tapp, 2001), it would be useful to explore how an interactive email response to email advertisements aids the development of the relationship between marketers and their consumers. Second, since email offers the convenient function of forwarding messages received to other people, the forwarding of email advertisements to other consumers in terms of word-of-mouth influence and penetration should also be examined.

A further avenue for future research involves the use of email advertising in conjunction with other media. Scholars have highlighted the need to explore the proper mix for marketers of online and traditional media (Kover, 1999; Sheehan

and Doherty, 2001). This is particularly relevant given predictions that the internet will become an important component of future Integrated Marketing Communications (Brackett and Carr, 2001). Further, research suggests that email use does not detract from the television viewing time of consumers (Coffey and Stipp, 1997), which offers the opportunity for synergistic mixes of email advertising and more traditional advertising media to be investigated. **JAR**

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## The effectiveness of targeted mobile advertising in selling mobile services: an empirical study

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**Abstract:** This article examines the effectivity of mobile advertising in sales of mobile services. Data from 5500 Finnish customers of a multinational service provider reveal that there is a significant increase in sales to customers who were exposed to mobile advertising compared to those who were not exposed. The differences between customer segments were also discussed.

**Keywords:** mobile advertising; mobile services; SMS; segmentation; targeting.

**Reference** to this paper should be made as follows: Merisavo, M., Vesanen, J., Arponen, A., Kajalo, S. and Raulas, M. (2006) 'The effectiveness of targeted mobile advertising in selling mobile services: an empirical study', *Int. J. Mobile Communications*, Vol. 4, No. 2, pp.119–127.

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## 1 Introduction

Marketers are now realising the importance of mobile phones as sales and marketing channel because its penetration goes up (Barnes and Scornavacca, 2004; Barwise and Strong, 2002). Following the technical development of mobile phones, new applications and services, like text and multimedia messaging (SMS and MMS), games, music, digital photography, and m-healthcare have emerged (Shchiglik *et al.*, 2004; Cocosila *et al.*, 2004). The convergence of mobile phones and the internet is creating new business and marketing opportunities to sell connectivity and services to end-consumers (Barnes, 2002; Narduzzi, 2002; Tsang *et al.*, 2004). Despite the promise of cost-effective and targeted communications offered by the medium, there is still surprisingly little research and empirical evidence on how mobile advertising actually works.<sup>1</sup> For example, can mobile advertising increase sales in the long term? Are there differences on how different customers respond to mobile advertising, and which segments are worth targeting? These are some of the questions that need more attention.

This paper presents results from analysis of the sales and marketing data of 5500 Finnish customers of a multinational provider of consumer mobile value-added services. From this data we investigate whether mobile advertising is effective in generating sales of mobile services. We also investigate how the effectiveness of mobile advertising depends on consumers' usage patterns of mobile services.

We first discuss the use of mobile phones as a marketing medium, and the different types of mobile products and services and their usage. Then we present our research questions and hypotheses. The research methodology and the results obtained constitute the next two sections. The paper concludes with a discussion of the results, its academic and managerial implications, and suggestions for future research.

## 2 Background

Mobile phones have become a serious marketing channel, as the penetration is very high in many countries. For example, in Finland penetration was 90% at the end of 2003 (Elisa Corporation, 2004) while in Europe and USA, the average mobile phone penetration was 75% (by the end of 2003) and 61% in Q3 of 2004 (Smith and Card, 2004, Enpocket, 2004), respectively. While mobile phones are still used primarily for voice, text messaging (SMS) has already proved to be a worldwide success among consumers. For

instance, in the UK, 2.13 billion person-to-person text messages were sent in September 2004 (Mobile Data Association, 2004).

Even though marketers are realising the business potential of mobile media and its importance as a marketing medium, its use is still in its development phase and deeper understanding is needed (Vrechopoulos *et al.*, 2002; Heinonen and Strandvik, 2003; Balasubramanian *et al.*, 2002). Initially, Marketers have been slow in realising the potential of mobile phones for advertising and promotions, but the situation is changing. According to Kearney and Cambridge University's Judge Institute of Management (2003), 54% of European consumers have received text advertisements on their mobile phones in 2003, compared to 40% in 2002. Forrester's research predicts that SMS marketing will continue to grow, as 50% more firms will adopt it and average campaign spending will double (de Lussanet *et al.*, 2003). However, business results are based on how consumers react to mobile advertisements. Initial figures seem quite disappointing; for example, in 2003 only 2% of European consumers said they had bought anything as a result of mobile text advertising (Kearney and Cambridge University's Judge Institute of Management, 2003). Therefore, it is very important to explore how mobile advertising really works, and to find out what product and service categories are effective and to which customers should these effective advertising categories be sent. However, human factors must also be understood (Choi *et al.*, 2005).

Previous research argues that mobile advertising is expected to work best for marketing products and services that are simple and inexpensive (Barwise and Strong, 2002; Kini and Tharnarithiporn, 2004). Consequently, we believe that mobile advertising could work well for products and services that are contextually familiar and related to the same channel (*i.e.*, mobile services). This enables consumers' instant response (Vihinen and Tuunainen, 2004; Kavassalis *et al.*, 2003). Consumers might appreciate the convenience of using a single device for getting marketing information, ordering, paying and consuming the actual products and services. Examples of these mobile services are entertainment services (*e.g.*, ringtones, graphics) that consumers increasingly use to personalise their mobile phones, and information services (*e.g.*, directories, weather, news). In Finland, these are the most desired and used mobile services (Karjaluoto *et al.*, 2003; Vrechopoulos *et al.*, 2003). The effectiveness of mobile advertising could also depend on consumers' usage patterns of the advertised product or service. For example, heavy users of mobile entertainment services might respond differently to mobile advertising than light users of information services.

### **3 Research questions and hypotheses**

The purpose of this paper, based on the discussion presented above and the need for empirical evidence of the effectiveness of mobile advertising is to answer the following research questions:

- Is mobile advertising effective in increasing sales of mobile services?
- Is the effectiveness of mobile advertising dependent on consumers' usage patterns of the advertised product or service?

According to these questions, we constructed the following hypotheses:

- Hypothesis 1* The purchase behaviour of the customers who had given permission to mobile advertising and those who had not given the permission was similar before starting mobile advertising.
- Hypothesis 2* After mobile advertising, the average daily expenditure to mobile services is higher among those who have received advertising messages.
- Hypothesis 3* The effectiveness of mobile advertising depends on consumers' usage patterns of the advertised product or service.

#### **4 Methods and data**

We examined customers of one of the world's leading provider of mobile services, operating in both Europe and Asia to examine how mobile advertising via SMS works to boost sales of mobile services and value of customers. Services offered by the company include communication, information, and entertainment (e.g., games, horoscopes, SMS chat, news and sports information, ringtones, and graphics). All of the services can be ordered on demand by text messaging a specified keyword to local short number (pull services), and many services can also be subscribed for regular automatic delivery to the mobile phone (push services). The service provider uses permission-based SMS push advertising to increase sales and cross-sell services to its existing customers, sending an average of 1.4 advertising messages to each customer in a month. About half of the messages sent promote entertainment services, while the other half promote information services. The company also advertises its products on their website and on magazines. However, the volume of this marketing was stable during the research period, giving confidence for isolating the effect of mobile advertising on sales.

A random sample of 5500 Finnish customers were selected from data comprising 1.8 million Western European customers. The sample covered individual sales and response data of those customers from a period of 18 months (April 2001 – September 2002). About half of the customers in the sample had given their permission for mobile advertising and had received promotional messages (N = 2453), while the other half of the sample were customers who had not given permission or received any messages (N = 3047). Furthermore, because there was approximately a three-month pre-marketing period in the beginning of 2001 – when there were advertising permissions but no messages were sent – we split the sample into two time periods: before and after mobile advertising. We could see if the customers who had given permission were inherently different in their purchase behaviour by analysing the time before advertising.

Mobile advertising success can be measured by consumer attention, consumer behaviour, and cost ratios (Dickinger *et al.*, 2004). Our data included purchasing history for each day during the observation period for every member of the sample. Therefore, we chose to use customers' average daily expenditure in cents/day (1 euro = 100 cents) for the company's mobile services to reveal whether customers exposed to mobile advertising buy more than those who have not received any mobile advertising messages.

Gilbert and Kendall (2003) suggest product use patterns as a segmentation dimension of mobile services. We wanted to know whether different usage patterns of mobile services affect how mobile advertising works. Thus, we divided customers into three approximately equally sized groups: heavy, medium, and light users based on the average daily expenditure before mobile advertising. We further divided them – based on the content of purchased mobile services – into entertainment-oriented, information-oriented, and mixed. Entertainment-oriented mobile service customers make extensive use of logos, ringtones, games, *etc.*, while information-oriented customers mainly use directory services (phone/address inquiries), news services, *etc.* Customers in the ‘mixed’ group use both entertainment and information services. Those customers who could not be classified into these segments were left out of these analyses. For example, if the number of purchases for an individual customer was too low, we could not tell his content preferences. With these analyses we wanted to find out whether heavy users differ from medium and light users, or whether entertainment service users differ from information service users in their response to advertising. Analysis of Variance (ANOVA) was used to reveal significant interactions. This analysis gives useful information for targeting and cross-selling purposes.

## 5 Analysis and results

Exploration of the time period before mobile advertising had started reveals that the average daily expenditure of mobile services of those who had given permission for mobile advertising did not statistically differ ( $t = 1.42, p = 0.16$ ) from those who had not given permission. Thus, Hypothesis 1 is supported.

On the contrary, analysis of the time period – after the mobile advertising had begun – reveals that there was a significant difference in the average daily expenditure between the customers who were exposed to mobile advertising against those who had not received any mobile advertising messages ( $t = -4.48, p < 0.01$ ), see Table 1.

**Table 1** Average daily expenditure of customers exposed to mobile advertising versus non-exposed

<i>Group: all customers</i>	<i>N</i>	<i>Mean (cents/day)</i>	<i>Standard error</i>
No marketing	3047	3.22	0.0020
SMS marketing	2453	4.36	0.0016

The average daily expenditure of those exposed to mobile advertising was 35% higher compared with those who were not exposed. From this, we can conclude that mobile advertising was effective in increasing sales. Thus, Hypothesis 2 is supported.

To explore the effects of both content preferences and level of mobile service usage on average daily expenditure, the data were analysed by 3 (content preference) × 3 (usage class) × 2 (exposure to SMS marketing) ANOVA, see Table 2.

**Table 2** Average daily expenditure by content preference, usage class, and exposure to SMS marketing: means and standard deviations

Content preference	Usage class	Exposure to SMS marketing	Dependent variable: average daily expenditure		
			Mean (cents/day)	Standard deviation	N
Total	Light	No	0.75	0.020	861
		Yes	1.49	0.032	633
	Medium	No	1.88	0.031	685
		Yes	2.68	0.041	810
	Heavy	No	5.26	0.093	688
		Yes	8.01	0.112	806
Entertainment	Light	No	0.19	0.009	402
		Yes	0.73	0.025	209
	Medium	No	0.30	0.009	234
		Yes	1.56	0.040	260
	Heavy	No	2.03	0.102	189
		Yes	3.39	0.053	179
Information	Light	No	1.08	0.028	251
		Yes	1.38	0.034	218
	Medium	No	3.03	0.042	216
		Yes	3.26	0.051	172
	Heavy	No	7.29	0.099	269
		Yes	11.40	0.158	176
Mixed	Light	No	1.42	0.022	208
		Yes	2.36	0.035	206
	Medium	No	2.41	0.028	235
		Yes	3.19	0.034	378
	Heavy	No	5.53	0.069	230
		Yes	8.52	0.101	451

An ANOVA on average daily expenditure yielded main effects for content preference, usage class, and exposure to SMS marketing ( $F = 96.60, 252.87, \text{ and } 50.23$ ;  $p < 0.01, < 0.01, \text{ and } < 0.01$ , respectively).

The two-way interaction between usage class and exposure to SMS marketing on average daily expenditure was significant ( $F = 13.15$ ;  $p < 0.01$ ). A comparison of customers who are exposed to mobile advertising with the non-exposed revealed that the average sales for light users increased by 0.74 cents/day, 0.80 cents/day for medium users, and 2.75 cents/day for heavy users. Hence, the value of the heavy user customers for the company increased most. However, the highest proportional gains were for the light users (+99%).

The two-way interaction between content preference and exposure to SMS marketing on average daily expenditure was not significant ( $F = 0.74$ ;  $p = 0.48$ ). However, the three-way interaction among content preference, usage class, and exposure to SMS marketing was significant ( $F = 2.62$ ;  $p < 0.01$ ). Hence, a comparison of customers exposed to mobile advertising with the non-exposed revealed that the highest increase in sales revenue was for the heavy users of information services (4.11 cents/day), and the best proportional increase was for the medium users of entertainment services (+420%).

Overall, the effectiveness of mobile advertising depends on consumers' both content preferences and usage level of the mobile services. Thus, Hypothesis 3 is supported.

## **6 Discussion of the results and conclusion**

The results of this study indicate that permission-based mobile advertising (using SMS) increases sales of mobile services, as we found a significant difference in average daily expenditure among customers who were not exposed to mobile advertising versus those non-exposed. However, mobile advertising works differently for different customers. The effectiveness of mobile advertising varies between customers with different content preferences (entertainment, information, or both) and service usage levels (heavy, medium, or light users). The highest gains in sales, when measured in money, were for the heavy users of the company's mobile services, while the highest proportional gains were for the medium and light users. These results imply that customers' content preferences and usage levels can be used as differentiating variables to target the right customers and achieve better results with mobile advertising.

The analyses of the impact of SMS mobile advertising on customer's purchases reveals that mobile advertising can, indeed, sell more mobile services to a company's existing customers. However, there are some limitations in this study. One limitation was the year when our data was collected, which is in 2001–2002. Back then, mobile marketing was not as common as it is today when mobile advertising volumes are higher. This somewhat limits the generalisation of the results. When consumers are increasingly exposed to mobile advertising, user acceptance is increasingly regarded as a critical success factor for mobile services (Amberg *et al.*, 2004; Heinonen and Strandvik, 2003). Therefore, a company should develop clear strategies for using mobile advertising, and decide which segments to target.

Another limitation is the lack of background variables in our data. We had to use behavioural and sales data. Marketers must also understand how customers perceive and evaluate mobile services and which attributes contribute customer satisfaction (Chong and Wong, 2005; Mylonakis, 2004) to deliver service quality. It would be useful to know whether more data on customers, including demographics and attitudinal data, could help track the impact of mobile advertising and build more sophisticated models of how mobile advertising can be used to trigger additional sales from a company's customer base.

This study provides useful information on how mobile advertising works and encourages future research, which needs to dig deeper into following questions: Does mobile advertising work better for products or services consumed in the same channel (as mobile services in this study), or can it also be successfully used in other product or service categories? What is the effect of the message content? Such classification of

different mobile advertising message content sent to different customers would give information on how customers appreciate various content and how cross-selling works. What is the optimum frequency of mobile advertising messages, and how it affects the duration of a customer relationship and customers' purchase frequency? These analyses would provide information on the effects of mobile advertising on customer lifetime value. Finally, replicating this study in different countries, such as USA or Japan, would reveal an interesting cultural and market differences.

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## Note

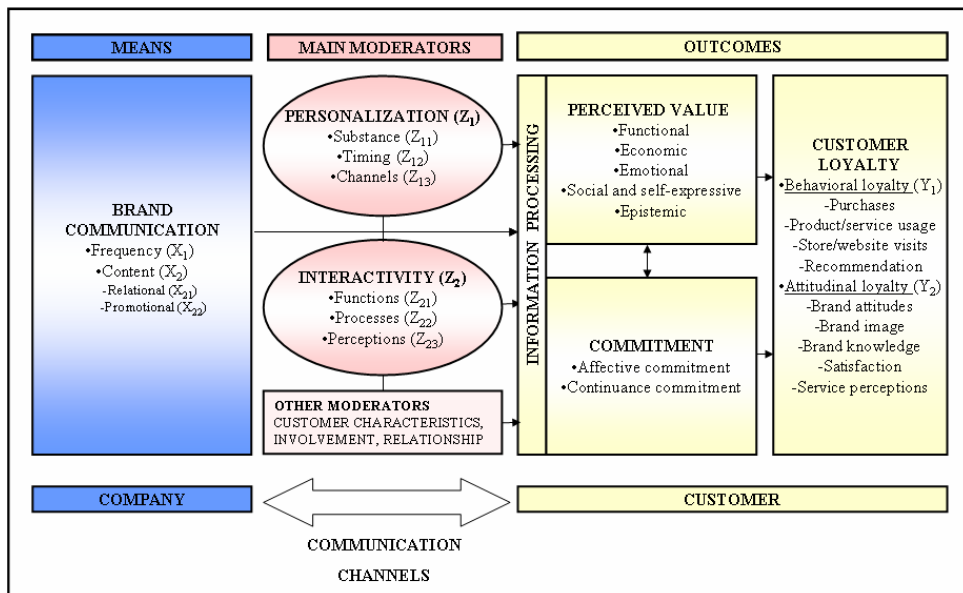
- 1 In this paper we use the term 'mobile advertising' to refer to SMS push-based mobile advertising, following the definition of IMAP (2003) which defines mobile advertising as 'the business of encouraging people to buy products and services using the mobile channel as medium to deliver the advertisement message'. IMAP (an innovative Interactive Mobile Advertising Platform) Project (2003).

## 5 Discussion

### 5.1 Research questions revisited

The objective of the study was to examine interaction between digital marketing communication (DMC) and customer loyalty. This main research question was divided into sub-questions exploring the key elements of DMC that interact with customer loyalty, the mechanism by which DMC interacts with customer loyalty, and the outcomes of DMC for customer loyalty. Figure 5 proposes an integrative model of the interaction between digital marketing communication and customer loyalty. The model is the key contribution of this dissertation. It depicts the key elements of DMC and explains how they interact with customer loyalty. Also, it suggests the outcomes of DMC for customer loyalty.

**Figure 5: An integrative model of the interaction between digital marketing communication and customer loyalty**



We suggest that brand communication builds customer loyalty mainly through frequency and relational content. Information processing triggered by brand communication generates customer value and commitment. Increases in these improve customer loyalty, both attitudinal and behavioral. Personalization and interactivity moderate the effects of brand attitudes

on customer loyalty. In addition, we propose that customer characteristics, involvement, and relationship can also act as mediators.

Related to the integrative model, research propositions were presented in Publication I. Table 2 summarizes these propositions.

**Table 2: Propositions of an integrative model of the interaction between digital marketing communication and customer loyalty**

Model Component	Proposition	Effects on Customer Loyalty	
		Behavioral (Y1)	Attitudinal (Y2)
Brand Communication			
- Frequency: increase (X1)	P1a, P1b	+	+
- Frequency: increase (X1)	P1c	+/-	+/-
- Content: relational (X21)	P2a, P2b	+	+
- Content: promotional (X22)	P2c, P2d	+	-
Personalization: substance, timing, channels (Z11-Z13)	P3a, P3b, P3c	+	+
Interactivity: functions, processes, perceptions (Z21-Z23)	P4a, P4b, P4c	+	+

Overall, evidence from Publications I-IV supports our claim that digital marketing communication works to cultivate customer loyalty. Table 3 lists the support of each publication's findings for our research propositions. Only propositions that were measured are listed.

**Table 3: The central findings of the publications in relation to research propositions**

<b>Publication</b>	<b>Hypotheses</b>	<b>Conclusion</b>
I	<i>All</i>	Supported. Conceptual model and hypotheses are based on theories and empirical evidence from various marketing literatures. DMC has a great potential for positive interaction with customer loyalty.
II	<p><i>Proposition 1a:</i> Increasing the frequency of brand communication (<math>X_1</math>) has positive effects on behavioral customer loyalty (<math>Y_1</math>).</p> <p><i>Proposition 1b:</i> Increasing the frequency of brand communication (<math>X_1</math>) has positive effects on attitudinal customer loyalty (<math>Y_2</math>).</p> <p><i>Proposition 2a:</i> Brand communication with relational content (<math>X_{21}</math>) has positive effects on behavioral customer loyalty (<math>Y_1</math>).</p> <p><i>Proposition 2b:</i> Brand communication with relational content (<math>X_{21}</math>) has positive effects on attitudinal customer loyalty (<math>Y_2</math>).</p> <p><i>Proposition 3a:</i> Personalizing the substance of brand communication (<math>Z_{12}</math>) positively moderates its effects on both behavioral (<math>Y_1</math>) and attitudinal customer loyalty (<math>Y_2</math>).</p> <p><i>Proposition 4a:</i> Customers' usage of interactive brand communication functions (<math>Z_{21}</math>) positively moderates the effects of brand communication on both behavioral (<math>Y_1</math>) and attitudinal customer loyalty (<math>Y_2</math>).</p>	<p>Supported - regular brand communication has a positive impact on customers' recommendation, website and store visits, and reported purchases.</p> <p>Supported - regular brand communication has a positive impact on customers' brand attitudes.</p> <p>Supported - relational brand communication has a positive impact on customers' recommendation, website and store visits, and reported purchases.</p> <p>Supported - relational brand communication has a positive impact on customers' brand attitudes.</p> <p>Supported - for the non-loyal customers the positive effects of relational brand communication were not as strong as for the loyal customers, and these groups prefer different content.</p> <p>Supported – customers' usage of email links were positively related to the number of store visits.</p>
III	<p><i>Proposition 1a:</i> Increasing the frequency of brand communication (<math>X_1</math>) has positive effects on behavioral customer loyalty (<math>Y_1</math>).</p> <p><i>Proposition 3a:</i> Personalizing the substance of brand communication (<math>Z_{12}</math>) positively moderates its effects on both behavioral (<math>Y_1</math>) and attitudinal customer loyalty (<math>Y_2</math>).</p>	<p>Supported – regular brand communication influenced customers' store visits, which were positively dependent on the number of received emails.</p> <p>Partially supported – those customers who perceived emails as useful were more likely to visit a store. Attitudinal loyalty was not modeled.</p>
IV	<p><i>Proposition 1a:</i> Increasing the frequency of brand communication (<math>X_1</math>) has positive effects on behavioral customer loyalty (<math>Y_1</math>).</p> <p><i>Proposition 2c:</i> Brand communication with promotional content (<math>X_{22}</math>) has positive effects on behavioral customer loyalty (<math>Y_1</math>).</p> <p><i>Proposition 3a:</i> Personalizing the substance of brand communication (<math>Z_{12}</math>) positively moderates its effects on both behavioral (<math>Y_1</math>) and attitudinal customer loyalty (<math>Y_2</math>).</p>	<p>Supported - regular brand communication has a positive impact on the purchases in the long term.</p> <p>Supported – promotional brand communication has positive effects on long-term behavioral customer loyalty.</p> <p>Partially supported – the effects of brand communication differ for different customer segments based on their content preferences. Attitudinal loyalty was not measured.</p>

The most significant support in the empirical cases was found for Propositions 1a and 1b, implying that frequent brand communication can have positive effects on customer loyalty, both behavioral and attitudinal. The positive interaction for both propositions was found in Publication II, and for Proposition 1b in Publications III and IV (where only behavioral customer loyalty data was available). Proposition 1c was not measured in the empirical cases.

Propositions 2a and 2b were strongly supported in Publication II, and Proposition 2c in Publication IV (where only promotional content was used). This implies that brand communication with relational content can work for enhancing customer loyalty, both behavioral and attitudinal. Also, brand communication with promotional content can improve behavioral customer loyalty. Proposition 2d was not measured in the empirical cases.

There was also support for Proposition 3a in Publications II, III and IV, suggesting that personalizing the substance of brand communication can positively moderate its effects on both behavioral and attitudinal customer loyalty. Propositions 3b and 3c were not measured in the empirical cases.

Proposition 4a was supported in Publication II, which implies that customers' usage of interactive brand communication functions can positively moderate the effects of brand communication on both behavioral and attitudinal customer loyalty. Propositions 4b and 4c were not measured in the empirical cases.

## **5.2 Theoretical contributions and managerial implications**

This dissertation makes contributions to both academia and practitioners. First, we have explored DMC, a new area in marketing, and integrated it into existing marketing theories and larger theoretical changes in marketing thinking. These include modern brand thinking (Aaker 1996; Fournier 1998) and the recent ideas of CRM and marketing productivity (Reichheld and Schefter 2000; Reinartz and Kumar 2003; Reinartz et al. 2005). We have conducted empirical research with companies and collected data that give insight and evidence how DMC works from a relationship marketing perspective, especially for cultivating customer loyalty. Hence, we find support for the suggested ideas of successfully applying the relationships marketing concepts in consumer and mass markets with the help of advances in information and communication technology (Bagozzi 1995; Bhattacharya and Bolton 2000). Also, there has

been a lack of models explaining how DMC interacts with customer loyalty. The conceptual model of this dissertation integrates ideas and findings suggested in many areas of marketing literature to show how brand communication, personalization, and interactivity interact with customer loyalty. As a major result, we have constructed a model that explains the interaction between DMC and customer loyalty. It contains a new combination of variables that are relevant for understanding how customer loyalty can be constructed in modern marketing environment in interaction with companies and customers. This model can be used to guide both academic research that digs deeper in this area and help marketers who carry out DMC.

DMC can help marketers improve their return on marketing and profitability (Reinartz and Kumar 2003; Reinartz et al. 2005). With such prospects in mind, it is not surprising that the use of digital channels in marketing is becoming an essential part of strategy in many companies. However, in many companies digital marketing is not conducted systematically. For example, it has been found that the application of interactive functions in brand websites is still quite limited (Dou and Krishnamurthy 2007). Our model can help to recognize the key elements and systemize digital marketing. It helps to identify the mechanism of how DMC interacts with customer loyalty and potentially improves it. Also, by listing the relevant outcomes it provides a framework for operationalizing and measuring the effects of DMC on customer loyalty. Thus the link between DMC and customer loyalty can be quantified and monetized, giving the information needed to assess and improve return on marketing and profitability.

The positive results of this thesis also encourage utilizing DMC despite the challenges raised by increasing spam and privacy concerns. Digital channels like email and mobile phones offer opportunities for a marketer to keep frequently in touch with customers and thus develop customer relationships and cultivate customer loyalty. When new digital channels and forms of communication are increasing at a rapid pace it is useful to keep in mind the basic concepts and mechanisms of DMC that were presented in this theses. Because these concepts are based on well-established theories, it is suggested that they work independently of the medium. When the objective of a company is to improve customer loyalty, DMC should be one of the essential marketing practices. In some cases it could be the most important and most efficient way to cultivate customer relationships. By measuring the outcomes of DMC on customer loyalty and comparing them with other marketing channels, optimal marketing communication concept can be built.

### **5.3 Limitations and future research**

We realize that there are limitations in our study. The building of the conceptual model has been an iterative process concerning literature reviews, discussions with companies, and collecting empirical evidence. As we preferred real-world data and our model is quite extensive, we found it difficult if not impossible to test the complete model at one time. In spite of numerous attempts to build experiments we could not find a case company that would be able and willing to test all components of our model. This was due to limitations concerning companies' skills, data systems, segmentation models, employee capacity, etc. It seems that at that point of time, our model was well ahead of the everyday reality where companies conducted digital marketing. Therefore, in this dissertation the evidence supporting the model is more explorative and its comprehensive testing will be conducted in future research.

The main objective of this dissertation was not to prove actual causal relationships. The model proposes mechanisms of the interaction between DMC and customer loyalty but the actual causal relationships have to be tested and verified in future research. Even if the publications provide some evidence of causal relationships between the researched concepts, they are not conclusive. In Publication IV's longitudinal study it was found that mobile marketing was effective in increasing customers' behavioral loyalty in the long term, verified by the fact that customers who were exposed to mobile marketing were not inherently different in their purchase behavior versus those who were not exposed. However, loyalty measurement was only limited to behavioral loyalty and attitudinal loyalty information was unavailable. Future research should incorporate similar longitudinal research designs, where customers' initial loyalty levels (both behavioral and attitudinal) would be measured in detail, then DMC would be carried out, and the outcomes would be measured in various points of time. Hence, the actual effects of DMC on customer loyalty could be verified.

Even if the main components and propositions of the model are tested, it needs more empirical support. Because of the number of constructs and the complex relationship among them, it would be best to test the model in two or more parts before testing the entire model. For example, as in this dissertation we focused mainly on customer loyalty as the outcome of DMC, the perceived value and commitment derived from DMC and their interaction with customer loyalty should be further examined. As value and commitment are rather established

concepts they provide a solid base for examining the more detailed mechanism of the model. Although value and commitment are proposed as antecedents of customer loyalty in this model, their role should be further analyzed in future studies. For instance, it could be examined how the variation of brand communication content affects the formulation of different types of perceived value, and how that leads to commitment and customer loyalty. Hence, the actual building process of customer loyalty could be better understood.

In this study most of the empirical evidence concerned the direct effect of brand communication on customer loyalty. Even if there was strong support for the positive interaction between frequent brand communication and customer loyalty, more detailed results could be obtained in future research where the effect of different frequency levels should be tested. In this way the possible wear out of point of DMC could also be recognized. Also, the effects of different brand communication content on customer loyalty should be systematically tested. Furthermore, the evidence supporting the moderating role of personalization and interactivity should be further researched. This could be achieved by designing experiments where different levels and types of personalization and interactivity would be incorporated into brand communication. For example, it would be interesting to design an experiment and test the effects of brand communication with or without a particular type of personalization and interactivity on the loyalty of different customer segments. In addition, the other moderators we recognized (customer characteristics, involvement, and relationship) need further examination. It should be found out which of the moderators are actually significant and what is their relative power to boost the effects of brand communication on customer loyalty.

Operationalization of the model components and relationships between them is also very important. Some measurement scales already exist and could be used to test some components of the model. For example, recent research on consumer-brand relationships offers scales to measure two way communication and emotional exchange (Veloutsou 2007). These scales catch some of the aspects of the model components interactivity and affective commitment. Still, some scales have to be designed. For example, there seems to be no established scales developed for measuring the effects of personalization on customer loyalty. Finally, the weakness of the quantitative methods is that they give little insight into the more detailed process behind the interaction between DMC and customer loyalty (see Babbie 1998; Marsden and Littler 1996). Thus, qualitative methods could hence help refining the model.



Although we have demonstrated cases where DMC has been effective, it is still to some extent unclear in which product or service categories and to which customers it is worth using DMC to cultivate customer loyalty. It may work better with highly involved and committed customers. As our empirical data were collected from consumers, it would also be useful to test this model on b2b customers. Another limitation in Publications II and III was that due to the nature of the brand examined, we only had female respondents in our data. This somewhat limits the generalization as there are gender differences related to information processing and advertising response (see e.g. Darley and Smith 1995). Even if our model covers all digital channels, the empirical cases mainly tackled email and mobile marketing. More research is needed on the Internet and other emerging channels. Obviously, DMC works differently in different channels and combinations of channels.

In today's marketing environment the role of interactivity is also becoming more important and complex. Communities and other Web 2.0 phenomena have become the everyday life for many consumers, often blurring the boundaries and roles of traditional marketing and emphasizing the role of customers as co-producers of value (Prahalad and Ramaswamy 2004). In this type of environment the marketing message created by a company/brand mixes with consumer generated content and evolves with new meanings. This places challenges for future research that must tackle the new interactive marketing environment with both appropriate models and methodology (Stewart and Pavlou 2002). Integration of traditional (offline) channels into the model could also be considered, thus making it more depictive of the multi-channel environment that marketers and consumers face today (see Coviello et al. 2003). Systems and process issues have to support this kind of multi-channel marketing and customer data from various channels and customer touch points should be brought together (see Vesanen and Raulas 2006; Zahay et al. 2004). Thus, the process of DMC and its integration into other marketing would also be a valuable research topic.

DMC often requires permission and willingness from customers. Therefore its practice and research is often concentrated on existing customers, as in this dissertation. The case of non-customers would also be an interesting research topic, although in practice it would be challenging to conduct. Although customers can perceive marketer's personalized and interactive communication as valuable, it can also raise social concerns such as privacy invasion arising from the collection and use of personal details (Evans 2003). Therefore, to avoid spamming marketers should be cautious and follow the rules of permission marketing

(see Godin 1999). Future research could focus on different stages and events of the customer relationship and understanding how customers would like their personal information to be collected and used in DMC.

The recognized limitations and full testing of our model provide a good basis for future research. This dissertation is intended to inspire research and the building of theory and models for a better understanding of how to nurture customer relationships and customer loyalty in the modern marketing environment.

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