Exploring the relative importance of customers' perceived relationship benefits and costs in the context of an e-service

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Abstract

This paper explores the customers' expectations and perceptions of relational benefits and costs, in the context of a non-merchant informational e-service. It further tests the effect of perceived relational benefits and costs on customers' overall evaluation of the service. Quantitative data were collected with the use of an e-questionnaire from 444 users of the service. Results indicate that all three types of benefits, functional, special treatment and social, have a significant impact on overall evaluation. Regarding costs, only privacy concerns showed a significant but low effect. This work contributes to existing literature by empirically studying relational benefits and relational costs together and examining social benefits in an e-context.

Keywords: *relational benefits, relational costs, e-CRM, internet*

Track: *e-services*

1. Introduction

It is widely accepted that the development and sustenance of long-term relationships with customers, is a key strategy for service companies to obtain a competitive advantage and be led to profitability (De Wulf *et al.*, 2001; Palmatier *et al.*, 2006; Ravald & Gronroos, 1996). In order to have a successful relationship, it has to be beneficial for both parties. Relational benefits have been indicated as important antecedents of behavioral outcomes (Palmatier *et al.*, 2006; Hennig-Thurau *et al.*, 2002; Vazquez-Carrasco & Foxall, 2006). Apart from benefits, another important issue concerned with relationships, are the costs that customers face (Bendapudi & Berry, 1997; Morgan & Hunt, 1994). Although costs and benefits are two related issues, to the best of our knowledge there is no empirical study to examine them together and the relative importance of relational benefits and costs on overall perceptions of an e-service has not been addressed.

This study is an attempt to fill this gap and contribute to the existing literature by testing the effect of relationship benefits and costs on customers' evaluation of an informational, non-merchant service, provided via the internet as a part of the company's CRM strategy.

2. Conceptual Background

2.1 Relational benefits

What customers expect from a relationship with a firm has been measured as relationship benefits (Bendapudi & Berry, 1997; Crosby *et al.*, 1990; Gwinner *et al.*, 1998; Hennig-Thurau *et al.*, 2002; Keating *et al.*, 2003; Reynolds & Beatty, 1999; Wang *et al.*, 2004). The study of Gwinner *et al.* (1998) is the first empirical work about the benefits customers receive from long-term relationships with service firms. Their study confirmed the existence of three types of benefits: social, special treatment and confidence benefits. Social benefits refer to the emotional part of the relationship, including customer's familiarity with employees, the recognition that accepts from the employees, and the creation of friendships with employees. Special treatment benefits involve price discounts, free samples, competitions, individualized services and faster service. Confidence benefits concern the perception of knowing what to expect in the service encounter, which lead to reduced anxiety.

Several studies in various service industries (e.g. Henning-Thurau *et al.*, 2002; Kinard & Capella, 2006; Molina *et al.*, 2007), confirmed these three types of benefits. Yet, in the e-context it has been suggested that because Internet-based self-service technology by definition excludes interactions with others, there is no opportunity to develop social relational benefits of the form described in prior studies (Yen & Gwinner, 2003). Finally, Reynolds & Beatty (1999) introduced a different categorization of benefits, conducting a study in a clothing shop. They grouped benefits to social (including enjoying the salesperson's company) and functional.

2.2 Relational costs

Several authors have included in the analysis of benefits the costs that a customer encounters in a long-term relationship (Ravald & Gronroos, 1996; Wang *et*

al., 2004). Still, there is very limited empirical evidence on measuring the impact of relationship costs on customers' behavior.

A first approach on the issue of relationship costs is provided by the literature of customer perceived value (Zeithaml, 1988). Storbacka *et al.* (1994) posed that customer's perceived value of a service is an exchange between service quality and the perceived sacrifices, compared with some implicit or explicit standards. In a similar way, Ravald & Gronroos (1996) defined customer perceived value as a proportion between the benefits and the sacrifices for all the episodes of seller-customer relationship. Such sacrifices can be the purchase price, various inconveniences related with the purchase, and also psychological and indirect costs.

Relational costs have also been studied as switching or termination costs. Switching costs are the penalties consumers feel when they move to another supplier (Burnham *et al.*, 2003; Jones *et al.*, 2007). Termination costs are a type of switching costs concerning short term inconveniences and physiological upsets, for the effort, the time and the money required to find an alternative provider (Bendapudi & Berry, 1997; Morgan & Hunt, 1994). Given the lack of studies on the simultaneous consideration of relational benefits and costs, the present work is an initial tempt to measure the relative importance of relational benefits *and* costs on the overall evaluation of an informational, non-merchant service offered through internet.

3. Methodology

P&G is one of the biggest companies worldwide in the sector of consumer products. As a part of its CRM strategy, P&G has created a hard-copy magazine and a web site, which constitutes the electronic version of the magazine (www.epithimies.gr). It contains articles about beauty & health, family & home, and fashion advices. Also, it provides free samples & coupons for the company's products and a subscription service. The company accepted to collaborate for the data collection and gave input for the questionnaire.

The questionnaire had four main parts. The first contained nine questions about the expected relational benefits. The second part included the same questions this time measuring customers' evaluations of the expected benefits. In order to better validate the structure of benefits, we preferred to measure benefits both as expectations and as perceived evaluations. The third part measured relational costs and the fourth the overall evaluation of the service plus demographics. Due to the non-merchant nature of the service, instead of confidence benefits we included functional benefits (i.e. benefits related to the information provided by the web site). Because the website provides the possibility and encourages users to ask questions, express their opinions, interact with each other and share experiences, social benefits were included. Finally, the competitions, the free samples and the personal offerings, led us to include special treatment benefits. Based on the literature and the input of the company, three types of costs were included: effort to register and use the web site, opportunity costs (loss of alternatives) and privacy concerns. Each benefit type was measured with 3 items, while costs were assessed by single item scales. Scales were developed using or adapting existing items (Gwinner *et al.* 1998; Reynolds & Beatty; 1999; Burnham *et al.*; 2003, Jones *et al.*, 2007). The questionnaire was uploaded on the e-magazine's website; 444 usable questionnaires were collected, the processing of which was conducted with the use of SPSS v. 17.

4. Results

4.1 Validation

To establish the structure of relational benefits we proceeded to an exploratory factor analysis (EFA) using Varimax rotation. Tables 1 and 2 show the results of the EFA for the expected and perceived benefits respectively. The same 3 factors were observed for both expectations and perceptions (eigenvalues greater than 1, Hair *et al.*, 1992), thus allowing us to conclude that this structure of benefits is robust.

The first factor groups the "Functional benefits" variables, the second groups the "Social benefits" and the third includes the "Special Treatment benefits" variables.

Table 1: *Results of EFA on **Relational Expectations***

From this web site I expect to…	Functional Benefits	Social Benefits	Special Treatment Benefits
Find useful info & advices for everyday life.	**0.826**	0.175	0.070
Find useful info & advice about the company's products	**0.727**	0.190	0.217
Find easy & quick the info I'm interested in.	**0.771**	0.081	0.134
Get free samples.	0.262	-0.050	**0.787**
Benefit from competitions / contests	0.050	0.164	**0.749**
Adjust the content & offerings to my needs.	0.118	0.279	**0.657**
Participate in the content of the website.	0.071	**0.839**	0.178
Have the chance to discuss ideas with other members.	0.251	**0.818**	-0.32
Be known & recognized.	0.148	**0.601**	0.330

Table 2: *Results of EFA on **Relational Perceptions***

In the web site…	Functional Benefits	Social Benefits	Special Treatment Benefits
I find useful info & advices for everyday life.	**0.841**	0.162	0.234
I find useful info & advices about the company's products	**0.880**	0.186	0.078
I find easy & quick the info I'm interested in.	**0.745**	0.246	0.313
I get free samples.	0.167	0.162	**0.897**
Benefit from competitions / contests	0.164	0.217	**0.889**
The content & offerings are adjusted to my needs.	0.321	0.351	**0.725**
I can participate in the content of the website.	0.234	**0.840**	0.180
I have the chance to discuss ideas with other members.	0.152	**0.864**	0.210
I am known & recognized.	0.265	**0.584**	0.447

Following the EFA, additive scales were computed for the three types of benefits. Table 3 presents the descriptive statistics of the benefits and costs as well as the reliability of the benefits scales.

Table 3: *Descriptive statistics and reliabilities (1-5 Likert scale)*

	Mean	STD	Cronbach's α
Expected functional benefits	4.05	0.68	0.728
Expected social benefits	3.54	0.84	0.708
Expected special treatment benefits	4.54	0.56	0.698
Perceived functional benefits	4.10	0.72	0.841
Perceived social benefits	3.29	0.93	0.801
Perceived special treatment benefits	3.26	1.12	0.882
Effort to register and use the website	4.58	0.80	
Cost of providing personal data (Privacy)	3.56	1.12	
Opportunity cost (loss of alternatives)	1.87	0.98	
Overall evaluation	2.21	0.80	

4.2 The influence of perceived relational benefits & costs on overall evaluation

To test which relational benefits and costs are salient predictors of the overall evaluation of the service, multiple linear regression was run. Results are shown on table 4.

Table 4: *Results of multiple regression*

Model	Coefficient Betas	Sign.
(Constant)		0.000
Functional Benefits	0.349	**0.000**
Special Treatment Benefits	0.193	**0.000**
Social Benefits	0.118	**0.023**
Effort to register and use the website	-0.001	0.981
Cost of providing personal data (Privacy)	**-0.105**	**0.009**
Opportunity cost (loss of alternatives)	-0.036	0.418
Adjusted R^2 = 0.310 Sign = 0.000		

5. Discussion, Implications and Limitations

5.1 Discussion

To the best of our knowledge this is the first time relational benefits and relational costs are studied empirically together and that social benefits are examined in an e-context. Functional benefits proved to be the most important benefit, followed by special treatment. The high importance of the functional benefits can probably be explained by the informational nature of the service. Social benefits have also a significant although weak effect on overall evaluation. This finding provides preliminary evidence that social benefits do exist in an e-context and are expected and appreciated by customers.

Of the three costs tested, only privacy showed a low but significant effect. This is consistent with previous work on e-commerce suggesting that privacy is an important concern for customers (e.g. Eastlick *et al.*, 2006; Liu *et al.*, 2004). The lack of influence of the effort cost may be due to the fact that subscribers of this e-service are familiar with the use of internet and thus the effort of using this web site is not an issue for them. As far as the loss of alternatives is concerned, it can be argued that the users of this service are not seeking information elsewhere, so they have no feelings of opportunity costs.

5.2 Managerial implications

Having explicitly realized both components of the relationship value equation, expected benefits and costs, and having the tools to measure them, marketers dispose of two leverages for increasing the value delivered to the customer: enhance benefits and reduce costs. Emphasis should be given on the content – functional benefits, yet special treatment and social benefits could become a means of differentiation from competitors. Costs should also be taken into account, especially personal data, which should be handled with extreme care in order to increase the value offered to the users.

5.3 Limitations and future research

Findings should be considered as exploratory, because of the specific context of this study and the scales that need further validation.

The relational benefits and costs types should be validated in other contexts, including more types of costs (e.g. time, stress of choice, monetary costs). The role of moderating variables in the relationship between benefits/costs and overall evaluation (such as loyalty, familiarity with the internet and the company) could also be tested. Finally the effect of benefits and costs on satisfaction and behavioral outcomes is an interesting future direction.

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