

Delivering Services via Internet: New Distribution Channel for Traditional Services

*Đurđana Ozretić Došen**

*Vatroslav Škare**

Abstract: Traditionally, services have been characterised as low tech and high face-to-face contacts. Today, information technology offers many opportunities for service providers. Thus, Internet presents new way for production, communication and distribution of services. In terms of distribution, for many traditional services (e.g. banking, insurance, travel, retail, etc.) Internet encourages disintermediation to certain extent, since it enables direct, two-way-communication without the need of going to the service outlet. But, this also means that customers must be motivated, willing and capable of using the Internet in their buying decisions and processes. In Croatia, Internet is relatively recent innovation available to consumers for household use.

JEL Classification: M31, O31

Key words: services, Internet, Internet and service delivery

Introduction

Service providers globally nowadays seek new or improved means for differentiating themselves and for increasing their competitive advantage. The growing number of service organisations makes services available to wide range of customers in a non-traditional way, i.e. using the Internet. Internet impacts dramatically to services and can provide a range of options for gaining and maintaining competitive advantage of different service providers. Also, the recent history of Internet shows that it can be expected that many new services will be available to consumers via this medium in the future. According to The Internet Group (an on-line consulting company), the Internet is the medium for delivering information-based value to the global

* Đurđana Ozretić Došen and Vatroslav Škare are at the Graduate School of Economics and Business, Zagreb, Croatia.

market-place. Internet provides consumers with access to an unprecedented diversity of possibilities and options. As customers make increasing use of Internet sites for different purposes, the delivery of services via Internet becomes increasingly important.

This paper has two objectives. One is to examine the existing literature on using the Internet in the services marketing context. The other is to concentrate on the opportunities that the Internet creates for service providers with particular emphasis on using Internet for delivering services. Also, the purpose of the paper is to develop a framework which Croatian service providers can use as a basis for strategic decision-making about electronic channels for delivering services. Therefore, a preliminary analysis of experiences of Croatian customers who use services delivered through the Internet is made.

The theoretical frame, i.e. issues relevant to marketing services via Internet, is briefly presented in the first part of paper. In the second part authors present their research – method, analysis and results. Recommendations for Croatian service providers follow next. Last section of the paper is dedicated to conclusions and future research directions.

Literature Review

In services marketing Internet may be applied in several ways. Heinen (1996) reports that for many companies primary driver for establishing Internet presence is not linked with financial return on investment (ROI), but companies implement it because of gaining qualitative marketing advantages that link business more closely with their customers.

Knowels-Mathur et. al. (1998) explain how use of the Internet for marketing activities is derived from its general use as an information distribution system in the digital age, combining digital communications technologies and digital computer technology. As an information distribution system, the Internet's span and size are immense, its use is not complex or time consuming, and it is available to all sizes of firms. In their research they examined the reaction of stock market to the use of the Internet for services advertising and for providing services on the Internet. The results of their study are twofold: they indicate a non-positive stock market reaction to service advertising on the Internet, but in the sharp contrast to the previous ones, results for providing services on the Internet show that investors react enthusiastically to these announcements.

Roxas et. al. (2000), claim that advances in Internet technology provide companies with a new tool for direct marketing and advertising that may be cost effective and provide maximum delivery to targeted customers. They report about

experiences of the American professional accounting firms (CPA's) using the Internet for marketing purposes, which, in order of importance, improve the firm's image, attract new clients within the firm's local area, better serve present clients, complement advertising and attract new clients outside the firm's local area.

According to Jarvinen and Lehtien (2003), high-tech, i.e., information technology, is usually used both and simultaneously in service production and in service delivery, stressing how service production must to a large extent be automated before service providers can take advantage of electronic channels in service delivery. They also warn, how in spite of success stories in utilising high-tech in service production and delivery, technology may bring disadvantages – service providers cut costs by replacing human faces with technology, which at the same time may reduce perceived service quality in the eyes of customers. For example, Mattila et. al. (2003) investigated consumers usage of online banking services in Finland (which is the highest level of usage in the world), and have found how perceived difficulty in using computers combined with the lack of personal service in e-banking were found to be the main barriers of Internet banking adoption among mature Finnish bank customers, who appreciate more helpful sales staff who understand and are sensitive to their needs.

Zinkhan (2002) concentrated his research on the promotional opportunities which Internet creates for service providers. He claimed that the Internet is uniquely poised to promote and deliver services, both to individual and business customers, because of its key feature, which is its potential to communicate with a global marketplace. Since the Internet can be used to communicate the full range of a company's offerings, two important issues which have to be considered by marketing professionals are segmenting and targeting, in order to determine what kind of customers could be reached via the Internet.

With no doubts, Internet offers better service flexibility and accessibility in comparison with traditional service delivery methods. Bitner et al. (2000) claim that technology can be used both by employees and customers as an enabler of service encounter satisfaction. They developed Technology Infusion Matrix which shows how better customisation and flexibility, effective service recovery and spontaneous delight can be achieved through the use of information technology that makes possible adaptation and adjustments of the service to customers needs and wants. But, they also point out how it is dangerous strategy to force customers to use technology in service encounter without other viable options, and suggest that it is critical to provide customers with alternatives.

Drennan and McColl-Kennedy (2003) state that Internet can be used as a tool for customer service, particularly in terms of enhancing customer satisfaction and building business revenue. In their research they focused on the impact of Internet on performance, and investigate the relationship between the extent of Internet use and

perceived performance among two types of small business firms – retail services and professional health services. They found that there is a direct positive relationship between perceived performance and Internet use, such that, the more one engages in Internet activities (particularly, email for contacting clients, obtaining customer feedback, searching for products and/or services, selling goods and services, and paying for purchases via the Internet) then the perceived performance is greater.

Parasuraman and Grewal (2000) developed a conceptual framework which integrates the quality-value-loyalty chain with the 'pyramid model', which emphasises the increasing importance of technology-customer, technology – employee and technology - company linkages in serving customers. They synthesise key insights and point out the needs of further research on the role of technology in quality-value-loyalty chain.

Contemporary research of the services delivered via Internet is often dedicated to the service quality dimensions. Many researchers stress that service quality is an extremely important feature for services produced and delivered through Internet. For example, Trocchia and Janda (2003) investigated Internet retail service quality and have found that customers perceive retail online service quality to consist of five dimensions: performance, access, security, sensation and information. They emphasise the importance of maintaining a high level of service quality, due to the fact that, although the number of individuals purchasing over the Internet continues to increase, the decline and failure of e-commerce sites increase, too. It is interesting to underline their finding how one of the dimensions of the service quality in which Internet failed in comparison with traditional retailers, is lack of visual and tactile contact with online merchandise.

Long and McMellon (2004) also explored the determinants of retail service quality on the Internet. Starting from the fact that electronic delivery of services lacks human interaction component, they concluded how consumers must either evaluate usual service quality dimensions differently or rely upon different dimensions. Therefore they indicated some advantages of services delivered through the Internet, like: doing business 24 hours daily, seven days a week without the bounds of geography and low switching costs for customers when looking for another service provider. But, they also pointed out some defects, like: necessary level of computer literacy, safety and privacy issues, problems with heavy traffic and inadequate computer hardware.

Gounaris and Dimitriadis (2003) investigated the service quality on the Web in the context of the Greek economy. Their findings regarding the quality dimensions of a Web portal did not coincide completely with the quality dimensions suggested by previous studies. They identified common elements with the WebQual interaction dimensions such as security of transaction, personal information, prompt delivery and communication with the organisation. They found differences in dimensions

regarding information benefit (believable, relevant, timely information) and in usability (ease of use and navigation, appropriate design). Also, they found out how Greek Internet services market is rather homogeneous one, since the perception of a portal's quality does not diverge among distinct groups of consumers.

Reichheld and Schefter (2000) studied the concept of e-loyalty, and concluded how service quality is especially important on the Web, since acquiring customers is expensive and for the purpose of making profits, online firms need loyal customers who will make multiple purchases over time.

Sultan and Henrichs (2000) explored how time as a factor influences consumer preferences for innovative technological services, i.e., for services delivered through Internet. They found that existing time preference frameworks, previously applied to technological consumer durable products, can be also applied to technical service innovations, such as Internet. Also, their research confirmed that preferences for Internet services vary by profile of service, and that some service features may be discounted in value by consumers more rapidly than others.

Hogg et al. (2003) conducted a study on the impact of the Internet on professional, health-care services. They found Internet to be a primarily an accessible information resource rather than a distribution channel for health-care services, but as such it has the potential to fundamentally change the way in which consumers interact with health-care service providers. They stressed how the issue of quality of health-care information on the Internet is acknowledged by health-care professionals as a major challenge in managing behaviour of Internet-empowered customers.

Finally, Grove et al. (2003) reported and analysed the insights of ten leading service scholars regarding the future of services marketing. Almost all the panel members highlighted the need to explore the growing interplay between services and information technology, and particularly the Internet and the e-commerce it has spawned. The experts outlined several related topics which need further detailed investigation: the role which technology plays in the communication, delivery, sale and support of services, the nature of the e-service encounter, the nature of service excellence, and the impact of high-technology service dimensions on demand for services.

Research

Authors tried to tap some of customers' perceptions and feelings regarding Internet as a service delivery channel on services market in Croatia. The nature of the research is essentially exploratory, since there is little scientific knowledge about the phenomenon in the context of the Croatian economy. The sample was convenient,

consisting of current graduate students of marketing at the Graduate School of Economics and Business, University of Zagreb. The instrument was survey.

Respondents were asked to participate in an academic study regarding their preferences and actual behavior with services delivered through Internet. They were asked to describe their experiences with different services delivered via Internet. Analysing this preliminary set of experiences, authors tried to develop several useful guidelines that Croatian service providers can follow while deciding on implementation of Internet in their marketing strategy. Furthermore, results of this research can help indicate how to best market innovative technological services to consumers, based on perceived advantages (benefits) both for consumers and service providers.

Convenience sampling was chosen because of the difficulties of finding people who use several or many services delivered via Internet. Since respondents in our sample are graduate students of marketing, they are 'high involvement' customers who have experiences in using the Internet because of specific educational needs. Furthermore, many of Internet adoption research concentrated on innovators and early adopters of the new technology, and respondents from the sample fit into that category for many of their demographic and behavioral characteristics.

The study considered consumers' preferences for current Internet services available on the Croatian market.

Descriptive statistics. - In terms of the demographic profiles, only 3 of 18 respondents were over the age of 30, while 15 were younger, age ranging from 23 to 30. Of all respondents, 13 were female. Respondents are highly educated, may have had more than average income level, and are more likely to own and use computers than an average Croatian household. With respect to occupation, all respondents hold professional marketing positions. Thus the profile of the sample, although could not be considered fully representative, is still indicative of consumers who were likely to use Internet services at the current situation of the Internet presence in Croatian households.

Data analysis. - First, respondents were asked to describe their different uses of Internet. Almost all of them, i.e. 17, stated that they use services delivered via Internet. They were asked to state which services they use and their answers reveal the following. Search for data is the most popular Internet activity among respondents. Fourteen out of 17 stated that data collecting services make part of their Internet activity. These services include search engines, web directories, database search and using corporative intranets. With exemption of database search, all of mentioned services are not traditional services that are now delivered via Internet. Namely, search engines, web directories and corporative intranets were established as 'pure' online services and Internet is their only distribution channel. Nevertheless,

they influence users' behaviour regarding data search, since people today usually refer to Internet as their primary and very convenient source of different data.

Internet banking and e-mail are also very popular services among respondents. These services were mentioned by 11 respondents. Probably all of the respondents use e-mail, but some of them do not think of it as of a specific service, since e-mail is one of the oldest Internet services. High percentage of e-mail use has strong impact on business communication. That includes standard person-to-person communication, placing orders and sending bills, mailing lists and advertising. On the other hand, Internet banking is relatively new but well adopted service. That indicates its usefulness and probably many advantages in comparison with traditional banking.

Interesting fact is that only about one third of respondents (6) use Internet for product purchasing. In the early stage of e-commerce development people mostly used Internet for purchasing relatively simple products, like books, audio CDs, DVDs. Today it is possible to buy variety of products via Internet, from home appliances to cars. Authors presume that shopping habits of Croatian buyers, who never heavily relied upon catalogues, mail-ordering or teleshopping, influenced these results.

Accommodation reservation and purchasing travel tickets are services used by 5 respondents. Other mentioned services include: news search (4), sending SMS messages (3) and e-postcards (1), ordering brochures (1), downloading software (1) and posting classifieds (1).

In the next phase of the analysis authors examined the dimensions of knowledge and time that were necessary for the use of services delivered via Internet. Respondents were asked to classify Internet services they use in two groups: services that are simple to use and services that are complex to use. Simple services are those that are not time-consuming and do not require special knowledge to use them (only standard knowledge in computers and Internet). On the other side, complex services are time-consuming and require advanced knowledge in computers and Internet.

The following services were classified as simple: e-mail (11 respondents), search for data (11), Internet banking (6), purchasing products – shopping (5), news search (4), accommodation reservation and purchasing travel tickets (3), sending SMS messages (3), ordering brochures (1). Services classified as complex were: Internet banking (4), search for data (3), accommodation reservation and purchasing travel tickets (2), purchasing products-shopping (1), downloading software (1) and posting classifieds (1). It is interesting to point out that more respondents classified Internet banking as simple rather than complex service. In general, more services were classified as simple. Authors believe this finding is related to the fact that respondents were 'high involvement' customers with experiences in using the Internet.

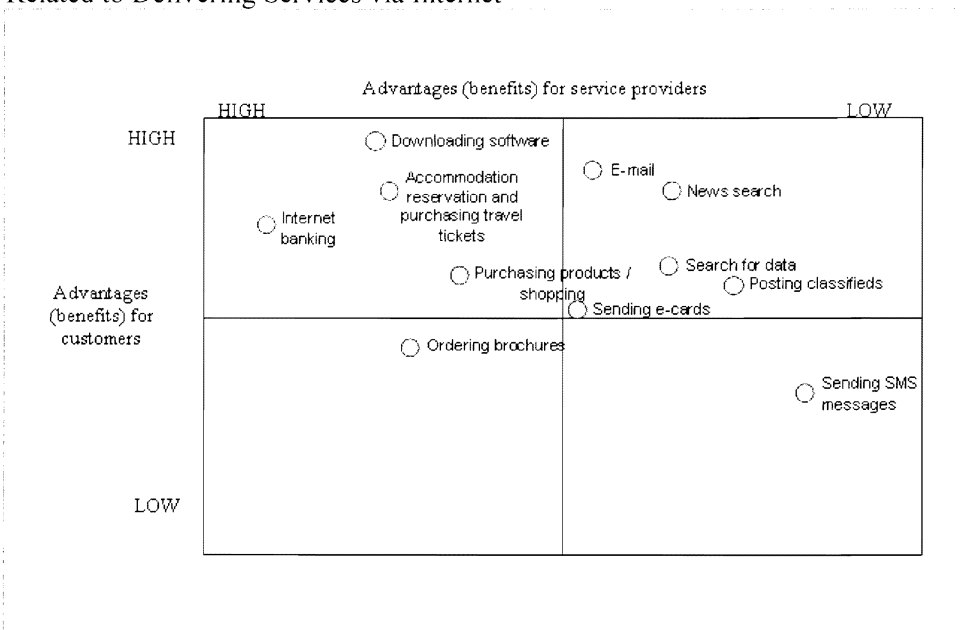
When asked to choose one service that they most commonly use, results were the following: 6 respondents indicated search for data, 4 Internet banking, 4 e-mail, 1 accommodation reservation and purchasing travel tickets, 1 news search and 1 respondent did not choose any service.

Finally, respondents were asked to estimate to what extent Internet became alternative distribution channel for traditional services. Almost all respondents agreed that Internet became an alternative distribution channel for traditional services. Most of them (16) estimated that Internet is partly an alternative distribution channel for traditional services while only one respondent held that Internet could completely replace other channels. One respondent reported he or she was not able to estimate.

Matrix of Advantages (benefits) Striving from Internet as a Service Delivery Channel

Based on the presented theoretical and empirical material, authors integrated various discussed elements in a matrix presented in Figure 1.

Figure 1.: Matrix of Advantages (benefits) for Customers and Service Providers Related to Delivering Services via Internet



Source: Own research results

Internet banking has relatively high advantages for customers because they can make transactions from their homes, offices etc. and save time. The advantage for customers would be higher if there would be possible to use all bank services via Internet. But, there are still services requiring customers to go to the bank personally (e.g. loan arrangements). Banks also benefit from Internet banking because less people go to the bank offices for the purposes of simple banking transactions.

Search for data has many benefits for customers and some limitations. For example, people can retrieve many useful data from the Internet, but in many cases it is hard to define whether collected data is correct and relevant. By putting different data on the Internet, service providers influence customers' behaviour. But, at the same time, they are faced with fact that customers can also quickly find data about competitors' products and services. That makes prices and information transparent.

Although ordering brochures via Internet is popular among customers (e.g. for tourist services), there is no special benefit for them, since information provided in the brochure is usually presented on the provider's web site. Also, provider has costs regarding printing and sending brochures while all information is available on the web site.

Sending SMS messages via Internet is not a mainstream way of using this primary mobile phone service. It is more difficult for customer to send an SMS message from a computer than from a mobile phone. Customers use this service only while using Internet for some other purposes. Mobile phone service providers also benefit more when SMS messages are sent from mobile devices.

Recommendations for Croatian Service Providers

Although the results of this research should be considered as applicable at a certain point in time, the research has demonstrated that there appears to be at least two elements which are important for right marketing decision about the usage of Internet in delivering services. The service itself should be thoroughly and well understood, in order to be able to know which service elements could lean on Internet. Also, market segment need to be investigated properly, to know for which service elements customers will appreciate technology and for which personal touch. Therefore, demographic variables, attitude toward computers, prior experience both with service and technology, reference group and other social and behavioral variables should be identified as determinants of adoption of Internet as a service delivery channel. Customer orientation, favourable outcomes, satisfying shopping processes, security issues – financial and non- financial are very important for online customers.

Services' nature changes over time. The number of different services delivered via Internet, like electronic shopping, banking, investment services, information

intensive services (the press, the encyclopedia and the distribution of music), social interaction (dating), etc. is growing. Monitoring consumer preferences and actual behaviour related to services delivered through Internet over time, could and should be valuable source of data for marketing managers.

Limitations

This study is not free of limitations. Since our framework is only based on one, small convenience sample, additional design and testing is necessary to advance understanding of perceptions of Internet services, and perception of the advantages (benefits) of service delivery through Internet, both for customers and service providers on Croatian services market. The results raise many questions for future research, among which important one refers to the degree of Internet adoption in the Croatian economy. However, authors believe that this paper will serve as a starting point for studies dealing with many other topics related to diffusion, adoption and perceptions of Internet services.

Conclusion

Developed and adopted marketing strategy of the company is the milestone and the starting point for decision making on use of Internet for service production, communication and delivery. All marketing decisions concerning the Internet should be consistent with company's goals, strengths, service offerings and area of specialization. The external environment, including all opportunities and threats will also impact on decision of Internet model which will be used for service production and delivery.

Effectively managed Internet can lead to beneficial outcomes for both service providers and their customers. Therefore, findings of this study are particularly interesting for practitioners. Service providers on Croatian market may use them as a reference when developing, managing and evaluating their alternative marketing strategies, while deciding on implementing Internet for service production and delivery. They can ascertain their own service Internet marketing situation and determine specific areas where there are gaps between customers' expectations and company performance.

REFRENECES

- Bitner, M.J., Brown, S.W., Meuter, M. (2000), 'Technology Infusion in Service Encounters', *Journal of the Academy of Marketing Science*, Vol. 28 (2000), no.1, pp.138-149.
- Drennan, J., McColl-Kennedy, J.R. (2003), 'The relationship between Internet use and perceived performance in retail and professional service firms', *Journal of Services Marketing*, Vol. 17 (2003), no. 3, pp. 295-311.
- Gounaris, S., Dimitriadis, S. (2003), 'Assessing service quality on the Web: evidence from business-to-consumer portals', *Journal of Services Marketing*, Vol. 17 (2003), no. 5, pp. 529-548.
- Grove, S.J., Fisk, R. P., John, J. (2003), 'The future of services marketing: forecasts from ten services experts', *Journal of Services Marketing*, Vol. 17 (2003), no. 2, pp. 107-121.
- Heinen, J. (1996), 'Internet marketing practices', *Information Management & Computer Security*, (1996), no. 4/5, pp. 7-14.
- Hogg, G., Laing, A., Winkelman, D. (2003), 'The professional service encounter in the age of the Internet: an exploratory study', *Journal of Services Marketing*, Vol. 17 (2003), no. 5, pp. 476-494.
- Jarvinen, R., Lehtinen, U., Vourinen, I. (2003), 'Options of strategic decision making in services – tech, touch and customization in financial services', *European Journal of Marketing*, Vol. 37 (2003), no. 5/6, pp. 774-795.
- Knowles-Mathur, L., Mathur, I., Gleason, K. (1998), 'Services advertising and providing services on the Internet', *The Journal of Services Marketing*, Vol. 12 (1998), no. 5, pp. 334-347.
- Long M., McMellon C. (2004), 'Exploring the determinants of retail service quality on the Internet', *Journal of Services Marketing*, Vol. 18 (2004), no. 1, pp. 78-90.
- Mattila, M., Karjauloto, H., Pento, T. (2003), 'Internet banking adoption among mature customers: early majority or laggards?', *Journal of Services Marketing*, Vol. 17 (2003), no. 5, pp. 514-528.
- Parasuraman, A., Grewal, D. (2000), 'The Impact of Technology on the Quality-Value-Loyalty Chain: A Research Agenda', *Journal of the Academy of Marketing Science*, Vol. 28 (2000), no.1, pp.168-174.
- Reichheld, F.F., Scheffer, P. (2000), 'E-loyalty: your secret weapon on the Web', *Harvard Business Review*, July-August, (2000), pp.105-113.
- Roxas, M. L., Peek, L., Peek, G., Hagemann, T. (2000), 'A preliminary evaluation of professional accounting services: direct marketing on the Internet', *Journal of Services Marketing*, Vol. 14 (2004), no. 7, pp. 595-606.
- Sultan, F., Henrieks, R.B. (2000), 'Consumer preferences for Internet services over time: initial explorations', *Journal of Consumer Marketing*, Vol. 17 (2000), no. 5, pp. 386-402.
- The Internet Group, [http:// www.tig.com](http://www.tig.com)
- Trocchia, P., Janda, S. (2003), 'How do consumers evaluate Internet retail service quality', *Journal of Services Marketing*, Vol. 17 (2003), no. 3, pp. 243-253.
- Zinkhan, G.M. (2002), 'Promoting services via the Internet: new opportunities and challenges', *Journal of Services Marketing*, Vol. 16 (2002), no. 5, pp. 412-423.