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# The Impact of Chatbots in Customer Engagement

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## TIIVISTELMÄ

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Tämän opinnäytetyön päätarkoituksena on avartaa näkemystä siitä, mikä vaikutus chatboteilla on asiakkaiden sitouttamiseen. Työn tavoitteena on myös selvittää, mitkä osatekijät voivat vaikuttaa chatbotin onnistumiseen asiakkaiden sitouttamisessa. Työssä myös tarkastellaan miten chatbotit eroavat muista kommunikaatiokanavista joiden tavoite on lisätä asiakkaiden sitoutumista.

Opinnäytetyö koostuu kahdesta osiosta; teoriasta ja empiirisestä tutkimuksesta. Teoria on jaettu kolmeen osioon. Ensimmäisessä osassa kerrotaan mitä asiakkaiden sitouttaminen on, ja miten yritykset voivat onnistua siinä parhaiten. Toisessa osassa kerrotaan yritysten digitaalisista kommunikaatiokanavista ja siitä mitä asiakkaat odottavat näiltä kanavilta. Kolmas osio kertoo chatboteista.

Opinnäytetyön empiirisessä tutkimuksessa käytettiin kvalitatiivista tutkimusmenetelmää. Kvalitatiivinen menetelmä mahdollisti tarkemman kuvan antamisen chatbottien käyttökokemuksista ja vaikutuksista asiakkaiden sitouttamiseen. Opinnäytetyön toisessa osassa tutkimustulokset käydään läpi niitä analysoiden ja verraten teoriittiseen taustatutkimukseen. Tutkimuksesta käy ilmi, että useimmissa tapauksissa chatbotit vaikuttavat asiakkaiden sitoutumiseen positiivisesti, ja että chatbotin tietynlaiset käyttötarkoitukset voivat tehdä käyttökokemuksesta kokonaan negatiivisen.

## ABSTRACT

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The main goal of this thesis is to understand the impact that a chatbot has on customer engagement. The thesis aims to find the factors that can affect the positive or negative outcome that the chatbot has on customer engagement. The thesis will also examine how chatbots differ from other communication channels that are used to increase customer engagement.

The thesis is divided into two parts; the theoretical framework and the empirical research. The theoretical part is divided into three sections. The first section will explain what customer engagement means and how businesses can succeed in increasing the customer engagement. The second part focuses on digital communication channels that companies are using, and what customers are expecting from these channels. The third will explain what a chatbot is.

The qualitative method was chosen for the empirical research. Six companies were part of the empirical research. Qualitative method was chosen because it enabled to get a more thorough picture of the experiences that the companies had with chatbot as a tool to increase customer engagement. In the second part of the thesis, the research results will be presented and analyzed by comparing them to the theoretical framework. The results show that in most cases the chatbot affects the customer engagement positively, and also that specific functions that the chatbot cannot perform can make the whole experience negative.

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Keywords                      chatbot, customer engagement, communication channels

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# **1 INTRODUCTION**

## **1.1 Background**

Chatbot is a computer program that is designed to have conversations with humans. Conversational bots have been around since 1966, when Joseph Weizenbaum introduced a chatbot named Eliza. Fifty years later, when Facebook launched chatbots on Messenger in 2016, they have become more and more popular channels for companies to increase engagement, brand awareness, customer service automation, sales and more. Chatbots on Facebook Messenger offer companies a new channel to communicate with customers, a channel that meets today's customers' demands.

In this thesis, chatbots' importance and effect on businesses is examined through customer engagement point of view, from the company perspective. This point of view was chosen because the author wanted to have an overall picture of chatbots' influence on businesses, and customer engagement is associated with most reasons why businesses want a chatbot in the first place; better brand awareness, automated customer service, and more engagement.

## **1.2 Objectives**

The objective of the thesis is to determine the impact of chatbots on customer engagement. The results of the research will give an idea if chatbots are an efficient channel of communication to engage customers compared to more traditional methods like email marketing. Hopefully, this thesis will serve as a helpful study for companies who are considering to adopt a chatbot as one communication channel.

## **1.3 Thesis Structure**

The thesis consists of two parts; the theoretical part and the empirical research. The theoretical part explains what are customer engagement, digital communication channels and chatbots. The theoretical part serves as a background information for the reader to better understand the phenomena and the empirical research. Following the theoretical framework, comes the empirical part of the thesis. In this part, the research methods, validity and reliability of the research are discussed, the participating companies presented as well

as the results of the research. In the last part conclusions and analysis are presented and analyzed in detail and summarized, also the suggestions for future research are presented.

## **2 CUSTOMER ENGAGEMENT**

Before, companies focused to market their brands to customers through mass media. Today's digital and social media have enabled to change the old marketing to the new, customer engagement marketing. New marketing no longer focuses on huge segments, but instead to more targeted segments that are engaged more deeply and interactively. The goal of the new customer engagement marketing is to not only sell the brand to the customers, but also to make the brand part of the customer's life and to tie an emotional bond between the brand and the customer. The key for the companies to succeed in their modern marketing efforts is to engage the customers rather than interrupt them. (Kotler & Armstrong, 2016, 42)

### **2.1 Importance of Customer Engagement for Businesses**

According to research conducted by Gallup (2014), customers can be divided into three groups determining how engaged they are; "Fully engaged", "Indifferent" and "Actively Disengaged". Customers in the fully engaged group have a strong emotional bond to the company. These customers add value to the company, and they are the ones spending more money, visiting more often and staying longer with the company. Indifferent customers are neutral to the company, they do not value the company more than its competitors or vice versa. The indifferent customers change between companies to whichever offers the best value for them at the moment without having emotional bonds to any of the companies. Actively disengaged customers have a negative opinion on the company. These customers are costing the company money, because they might share their bad opinions to other potential customers. The fully engaged customers tend to do more business with the company than the ones less engaged. It can be assumed that the higher the amount of engaged customers, the better the business performance. However, customers doing more business with the company might still not be more engaged than the customers doing business more rarely with the company. (Yu, Harter, Fleming, 2014, 3-5)

In the research conducted by Gallup in 2014, it is proven that customer engagement has a great impact on companies' revenue and profitability. In the research, Gallup investigated 19 business-to-customer clients, from nine industries and 12 markets. The results show that higher customer engagement results in higher revenue. Business units in the top quartile on engagement compared to the bottom quartile on engagement resulted in

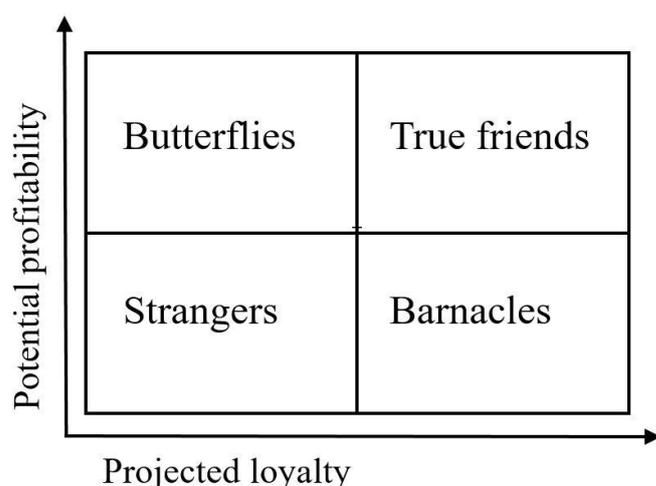
median percentage differences of 40% higher revenue/sales, 47% more customer preference for current brand as the first choice for future business, and 27% higher profitability. The results of the research show that fully engaged customers exhibit 51 percentages higher revenue/sales and 43 percentages higher profitability than actively disengaged customers on individual level. (Yu et al., 2014, 1-2, 12)

## **2.2 Factors that Influence Successful Customer Engagement**

In order to succeed in customer interaction and meet customers' demands, a company should make the customer processes seem personalized, so that the customer feels like the process is unique to his or her individual situation. To succeed in that, a company needs to utilize customer data in the process. The process should be fast and intelligent, it should be able to deliver unique requests of any given customer, at all times to achieve effective customer-centric outcomes. (Trefler 2014, 75)

Personalized services might not be good enough as many customers want fast service that might not even contain a human interaction. Many customers want the sellers' assistance throughout the purchase process to be as quick as possible. The customers can prepare a set of questions they want to ask before they make the purchase decision, that would make the process faster. Some customers even think that the interaction with the salesperson is an unfortunate side effect of making a purchase. (Care & Bohlig, 2008, 63)

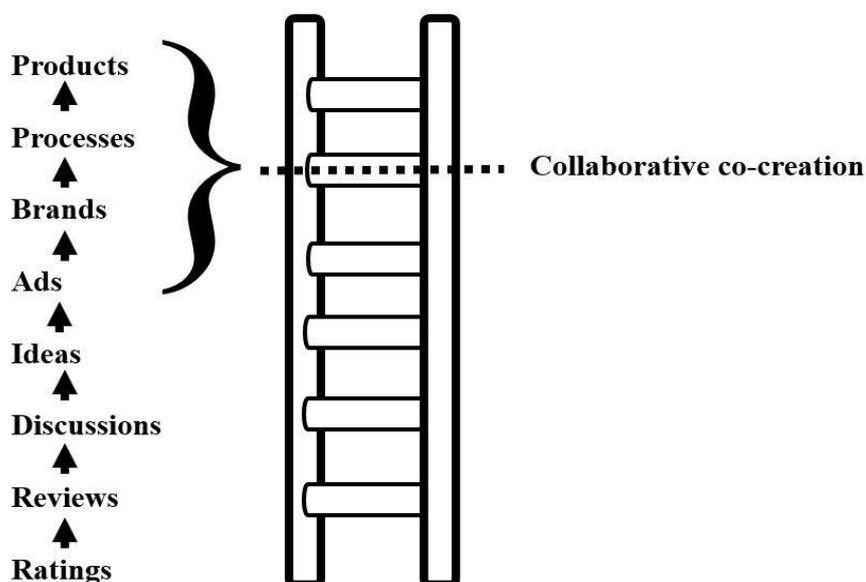
Dave Walters, a digital marketing caevangelist and veteran supports the idea of consumers wanting more individualized and fast services. Consumers have nowadays more information, access and choice than ever before. The loyalty of the consumer is no longer attained with features and prices, rather than long-term relationships and individualized services. Marketing has shifted from publishing content to an audience to more individualized interaction, where every customer needs to be served where and when they want to be served, with content that is designed and tuned especially for them, as individuals. Also, mobile technology like touch screens, voice recognition and GPS are driving customer engagement on mobile. Mobile devices offer the possibility to be within the reach for the customer at all times, but the problem is how to be always available for the customers carrying their mobile devices always with them. (Walters, 2015, ix; Weber & Henderson 2014, 4;)



**Figure 1.** Relationship groups

In order to effectively target the right customers and not waste money on customers who most likely will not engage with the brand, the customers can be divided into four relationship groups according to their projected loyalty and potential profitability (figure above). The groups are strangers, butterflies, true friends and barnacles. The company should have a different relationship management strategy for each group. (Kotler & Armstrong, 2016, 48)

The strangers show short term projected loyalty and low potential profitability. The company is not the right fit for these customers, and the strategy should be to not to invest money into these customers but to make as much money from each transaction. Butterflies have high potential profitability but short projected loyalty. The company offers what the customers in this group need, but only for short time. Since the efforts to make these customers more loyal are rarely successful, the companies should try to make as much as they can from the short period the company enjoys this group as customers. True friends show long-term loyalty and high potential profitability. The company offers what this group needs and wants to retain the customers by investing into the relationship. Barnacles have low potential profitability but the projected loyalty is long. The company's offerings are limited to their needs. It is possible to improve their profitability, but if they don't create enough money for the company, it does not make sense to keep them as customers. The idea of grouping the customers by their expected loyalty and profitability is to build the right relationships with the right customers in order to improve engagement. (Kotler & Armstrong, 2016, 48)



**Figure 2.** Ladder of engagement

The companies who understand the importance of engaged customers create stronger brands than their competitors. It is important to recognize and identify the already engaged customers and then strengthen the already good relationship. These customers are likely to become brand fanatics who spread positive word of mouth and give reviews. In order to identify the engaged customer, marketers need to follow return visits, purchases, reviews, blogs, discussion forums and the likelihood to recommend to a friend. Once the engaging customer is identified, it is possible to increase their level of engagement by involving them more in the product development process: for example by asking them to join a discussion, suggest ideas and test them. Once the level of engagement of the brand fanatics is increased, they feel like being a part of the brand. This can be explained with the concept of ladder of engagement (figure above). The lower ladder includes customers who engage to the brand with product ratings, reviews and discussions. The upper ladder encourages the brand fanatics to engage with user-generated content which makes the customers co-creators of the brand. The highest co-creation happens when customers are part of the creation of the products which they often buy (collaborative co-creation). (Smith & Zook, 2016, 17-18)

### 2.3 Customer Engagement Online

In order to build customer engagement, companies need to take advantage of new technologies and social media. Social media provides bigger customer reach and opportunity

to communicate with both business and consumer markets. Social media also provides the opportunity for the customers to become co-creators of the brand and add value for the company. Customers demand interaction and strong relationship with company in order to become engaged. By using social media, companies can forge relationships by interacting with the customers. (Sashi, 2012)



**Figure 3.** Customer engagement cycle

In a research conducted by C.M Sashi, a customer engagement cycle is proposed, in which the cycle takes into account social media as part of customer engagement. The cycle contains seven stages; connection, interaction, satisfaction, retention, commitment, advocacy and engagement. In the first stage, connection, a company connects with a customer by using traditional offline methods or new digital channels like social media. Once the company has connected the customer, the second stage, interaction, follows. Before digital age, the interaction meant word-of-mouth, letters, and phone calls that are restricted to a smaller social circle of family, friends and colleagues. Now customers can use social media to interact fast with the company and other customers no matter the time or location. Companies can play an active role in forming these online communities which can lead to improved understanding of customer needs. (Sashi, 2012)

The customers need to be satisfied (stage three; satisfaction) in order to continue the positive interaction with the company and lead towards to customer engagement. Stage four; retention, happens once a customer has been overall satisfied with the company over time

or when a customer has highly positive emotions about the company. Overall satisfaction over time results in long relationship between the company and the customer, while having highly positive emotions towards the company does not mean that the relationship has been long-term. (Sashi, 2012)

Stage five; commitment, has two major aspects; calculative and affective commitment. Calculative commitment results from lack of options and is more rational, for example a person needs to choose a specific restaurant because there is no other restaurants nearby. Affective commitment results from emotional bonds and trust in a relationship, for example, a customer is committed to a restaurant because the staff remembers his favorite dish. Calculative commitment leads to higher levels of loyalty and affective commitment to higher levels of trust and emotional bonds. (Sashi, 2012)

Commitment follows the stage six; advocacy. Happy customers can spread their positive experiences through social media or keep their happiness to themselves. Loyal customers who don't have an emotional bond to the company may not spread the positive feedback unless somebody is asking for it, while emotionally connected loyal customers are happy to become brand advocate. Being a customer advocate is not the only important factor of advocacy, but in the digital era the companies should also become the client's advocates. When a company advocates for the customer, it creates long-term trust and loyalty, even if it means helping the customer to the point where the company needs to offer its competitors' products. Once the customer is either loyal or happy with the service and he shares his positive experiences on social media, and becomes an advocate for the company, the foundation is ready for the last stage, engagement. In order to a customer to become engaged, both loyalty and happiness with the product/service is important, meaning engagement requires both affective and calculative commitment, or trust and commitment between the company and the customer. Customer engagement turns customers into loyal customer who will stay with the company through good and bad times. The relationship between the company and engaged customers lead to new connections and interactions which form the engagement cycle. (Sashi, 2012)

### 3 DIGITAL COMMUNICATION CHANNELS

In today's world, media is accessed by all customers through their smartphones, tablets, and other devices, which has led to more fragmented channels, which in turn have led to short attention spans and less time consumed on one channel by the consumers. Consumers' focus has moved and is still moving to direct, more data driven, primary digital channels from the mass media. Through digital channels a company can connect to the customer instantly, and at the same time generate data on consumers' interests. Consumers are expecting fast responses to their complaints, requests and reviews. Consumers make buying decisions in real time from their tablets and phones where ever they are. (Frawley & Frawley 2014, 3, 6)

Before 2006, when Facebook did not exist, the only two way communication happening digitally between the company and the client was through a company's web page's contact form. After that, companies started using blogs which enabled the customers to comment openly on the content the company was sharing. Once the social networking sites became popular, companies were able to ditch the middleman (TV, radio etc.) and start communicating straight from their own company profiles on social media. (Smith 2014, 7)

Digital communication channels and mobile technology provide a successful playground for marketers to drive customer engagement. Digital and social media marketing engages customers through websites, apps, email and other digital platforms, which are reached by the customers through their computers, smartphones and tablets anytime anywhere. The most basic way to engage customers digitally is by setting up a brand web page, where the brand can promote their products/services and provide information to the customers. Brand websites can serve as an online brand community where the customers connect with each other. Most companies are now also integrating social media into their marketing mixes on top of the brand website. It's hard to even find a company web page or a traditional ad that does not have links to the company's social media accounts. (Kotler & Armstrong, 2016, 49)

### 3.1 Email

Historically, marketing campaigns have been executed through email and telemarketing, which is one-way communication. The campaigns were set up one to four times a year and they had couple of different versions to track customers' preferences by evaluating which campaign was most profitable. There was not a way to communicate with the customers individually on a large scale. Nowadays, companies and marketers have the possibility to combine the reach of mass marketing and the targeting of direct marketing. (Frawley & Frawley 2014, xii-xiii)

Email marketing increases engagement, which is calculated by opens and clicks that lead to a short-term sale. The opt-out rate of the customers receiving emails from companies have been rising for the past few years. The consumers do not like companies filling up their mailboxes anymore. (Frawley & Frawley 2014, xii)

Marketers have realized the problem of spam email and they know customers get irritated from commercial emails filling up their mailboxes. The solution to the problem has been permission based mail marketing, which means that the customers have to "opt in" to receive emails from the companies. The customer can also choose which kind of email he/she wants to receive. Amazon.com takes advantage of permission based mail marketing by sending the customers who have opted in recommendations of products they might like according to their previous purchases and expressed preferences. This way Amazon.com enjoys better return rates and less alienated customers who did not want to receive the email in the first place. (Kotler & Armstrong, 2016, 542)

Although social media is growing fast, email marketing still has a big role as a digital marketing tool. A study found out that e-mail marketing is 40 times more effective than Facebook and Twitter combined. Email marketing is low-cost and it shows a high return on investment to the companies. Direct Marketing Association states that email brings \$44.25 return on every \$1 spent on email. Email enables well targeted and personalized messages, which can bring high returns on investments once done properly. (Kotler & Armstrong, 2016, 542)

### 3.2 Social Media

Social media marketing is used to promote the business', the product's or the service's attractiveness to the consumer. Successful social marketing is a three-step process which starts with useful and valuable content attracting the consumer, leading to use of social media to engage the customer and building a trust relationship, and then end up in to a sale. (Schaffer, Safko, Korhan, Goodman, Stratten, Zarella, 2013, 999w)

Social media marketing differs from traditional marketing methods like TV and radio. When marketing in traditional media can be described as "push" marketing, social media is more like two-way conversation between two or more people, with the brand included or not included in the conversation. On Facebook it is important not just to set up a fan page, but to interact with the fans on the page to drive engagement. (Schaffer et al., 2013, 1h)

Social media is cost effective, since many social media are free or inexpensive to use. The biggest bills go to the administration and creation of social media content. Compared to traditional media, like TV, social media offers high return on investment. Social media is great for smaller companies who don't have a big budget for marketing. The greatest advantage of social media is their engagement and social sharing capabilities. By using social media, the customers are more involved and they take part of shaping the brand, which leads to more engaged customers. The challenge for the companies is that social media is highly user controlled. Since the companies cannot just cut into the customers' lives, they have to find a way to become a wanted part of the customers' conversations without interrupting them. The great power of the customers in social media can be risky, since even well planned campaigns can backfire easily. (Kotler & Armstrong, 2016, 546)

Companies are able to engage their customers through social media by two ways; by using existing social media channels or by creating their own channel. Using existing social media is more common and easy than creating your own channel. The existing social media offers a huge user base; Facebook is accessed by more than 1.2 billion people every month, Twitter has 645 million registered users, YouTube has more than 1 billion users visiting the site monthly. (Kotler & Armstrong, 2016. 545)

### 3.2.1 Facebook

Facebook has more than one billion active users globally, and the user base includes everyone from the youngest to the oldest and everyone on the scale from tech-savvy to technically challenged. The most important part of succeeding in Facebook marketing is to share content that will engage the audience. (Schaffer et al., 2013, 1097x)

Facebook allows its users to connect, share, discover and communicate with each other. The Facebook News Feed shows advertisements and stories to its users in an algorithmically ranked order which is individualized for each user. Facebook has more products than just “Facebook”, including Instagram, Messenger and WhatsApp, which are all focused on connecting and communicating with other people. Facebook creates most of the revenue from selling advertising placements to companies. By using Facebook as advertising channel, companies can target their audience by factors such as age, gender, location, interests and behaviors. (Wehner, 5, 2018)

Facebook offers a huge opportunity for marketers to advertise with a 1.4 billion active users who can be reached 24 hours a day. The difference between personal Facebook page and Facebook business page is that the business pages are optimized for companies to reach their target audience. Business pages are optimized for search engines, where as personal pages are not, which means they do not show up on Google search. Facebook user connects to the business page by pressing the “like” button, where as personal pages connect to one another by sending and accepting friend requests. Facebook business pages include analytics, which means that the owner of the page can view the audiences ages, locations and genders and how engaged they are with the page or a specific post. That makes it easier for marketers to target the right audience and analyze their posts. (Dodson, 2016, 159)

## **4 CHATBOTS**

### **4.1 Definition**

In brief, chatbot is a conversational agent that stimulates conversations from user's voice or text commands. They are used by companies to engage and amuse customers in the fields of customer relations, customer service, ordering service and personal consultant. Chatbots can be found from different instant messaging applications, and are usually given humanlike characteristics. Chatbots are viewed as the next digital transformation by scholars and media. The potential of chatbots for businesses lay in the messaging applications popularity. Today, messaging applications user base is higher than for social networks, and for businesses, it is important to be where the customers are. (Vincze, 2017)

Chatbots come in two different types, one uses machine learning and the other functions based on pre-determined rules. The latter is less smart than the first, it only understands specific commands, meaning that if the user makes a typo, it will not understand it. This chatbot is only as smart as it is developed to be. The other chatbot that uses machine learning utilizes artificial intelligence. The chatbot is not limited to understand specific commands, it understands from the concept. Machine learning chatbot improves over time, which means it learns from the conversations it has had. (Schlicht, 2016)

The recent popularity of chatbots is affected by the growth of messaging applications and the advances in Artificial Intelligence (AI). Messaging applications now offer a range of services other than just having a conversation. They include features such as making a payment, ordering and booking, which all can be utilized by the chatbot. For example, now a customer can book a table from a restaurant with the chatbot. Artificial Intelligence has advanced a lot within few years. Especially with machine learning and deep learning, which take advantage of great volumes of data and cheap processing power to understand better and make better decisions. (Accenture, 2016, 3)

### **4.2 The potential of chatbots for businesses**

Chatbots' popularity lays on its convenience. Billions of people use instant messaging apps, and chatbots can be found from messaging app's contact list, and it can be contacted like any other friend on the list. When compared to mobile applications, a chatbot requires no installation and no time wasted on learning how to use it. (Carayannopoulos, 2017)

Chatbots offer personalized services. Since many chatbots are using machine learning, they learn from experiences and are able to personalize every conversation. On top of the service being personalized, it is also fast and accurate. Chatbot responds instantly with the exact answer to what was asked. Chatbots work around the clock and can have multiple conversations at once, there is no longer need for the customers to wait in queue. Chatbots are cost-effective since they come with a lower price than a traditional customer service agent. Also, when compared to mobile applications, the development costs are lower with chatbots, since they are easier to develop and don't require updates. (Hunt, 2017)

### **4.3 Facebook Messenger Chatbots**

First time Facebook introduced chatbots was in Facebook's yearly F8 conference in April 2016, when Facebook introduced Messenger Platform with bots. The platform supported more rich features such as images, call-to-action buttons and welcome screen on top of just sending and receiving messages. The platform enabled all developers and businesses to have access to build chatbots for Messenger. (Marcus, 2016) Later, Facebook have introduced updated versions (v1.2, v1.3, v1.4, v2.0, v2.1, v2.2, v.2.3) of the Messenger Platform, driving to become more user-friendly and engaging. The latest version (Messenger Platform 2.3) was introduced in February 2018. The latest platform has features to drive engagement, retention and user-friendliness. (Facebook, 2018)

#### **4.3.1 Messenger Platform main features**

Businesses can send text, audio, images, video and files via their chatbot to the customer. Messaging includes standard, subscription and sponsored messaging. In order to send the first (standard) message, the customer needs to initiate the conversation, either by sending a message to the chatbot, or by opting-in. Subscription messaging is still in beta phase, but it allows businesses to send specific kind of recurring messages to users. The specific kind of messages that can be sent on subscription basis need to be one of the following: news, productivity (with purpose to help people to manage their personal tasks, such as calendar events and reminders), and personal trackers (with purpose to help people receive and monitor information about themselves, such as fitness trackers). Sponsored messaging allows businesses to send ads via their chatbot to all conversations or specific group of conversations. (Facebook, 2018)

Webview on Messenger Platform helps businesses to send information that does not fit into the messaging bubble by allowing businesses to load webpages inside Messenger. This feature is valuable when the business wants to show something that requires visual view, for example product variety. (Facebook, 2018)

Payments on Messenger Platform are still in beta, but it allows businesses (who are accepted to the beta program) to accept payments that sent from the users to the chatbot. Payments can be handled through Buy Button or Messenger Webview, and the transaction needs to be completed with supported payment provider (Connected Stripe/PayPal account and tokenized payments). (Facebook, 2018)

To understand and measure the success of the chatbot, businesses can use Facebook Analytics and Built-in NLP (Natural Language Processing). Facebook Analytics enables businesses to view demographic information about their chatbot audience and understand the customer journey. Built-in NLP helps businesses to understand the messages their customers send to the chatbot, automate the replies, collect audience data and redirect the conversation to a human if needed. (Facebook, 2018)

#### **4.3.2 Gaining exposure and acquiring new conversations with customers**

Facebook Messenger had 1.2 billion monthly active users in April 2017, and Facebook 2.2 billion active users in the fourth quarter of 2017 (Statista, 2018). Facebook Messenger Platform offers tools for companies using Messenger chatbots to reach these customers on Messenger, Facebook, on the web and offline. (Facebook, 2018)

To gain exposure and acquire conversations, businesses can utilize the click-to-messenger ads and discover tab. Click-to-messenger ads are placed across Facebook, Instagram and Messenger. When customers click the ad, they will be immediately directed to the conversation in Messenger app. From the discover tab, Messenger users can find chatbots and nearby businesses to contact. The list chatbots and businesses on the discovery tab is unique to every user, as the list is determined algorithmically based on a variety of disclosed factors. Businesses can anyhow improve their chances to appear in the discovery tab, by having low block and report rates, high responsiveness rate and by utilizing many of the platform features. Messenger Platform offers variety of ways to direct people to the bot from Facebook page, website or offline. The tools include plugins, that can be placed on the company website, from where the customer is directed to the chatbot, or

opted-in to receive more messages on Messenger. Messenger Code and m.me-links are made to acquire customers both online and offline, the Messenger Code is scanned with the Messenger camera, and it will automatically direct customers to the chatbot, and m.me-link is made so that people can be directed straight to the chatbot without writing a long URL. (Facebook, 2018)

## **5 RESEARCH METHODOLOGY**

This part will describe the research and data collection methodology, and why these methods were chosen. Also the reliability, validity and limitations of the research are discussed.

### **5.1 Research Methods and Data Collection**

There are two sources of data in a research; secondary and primary data. Secondary data refers to analysis of pre-existing data, it utilizes the data that is collected and presented by another person. The primary data refers to the material that is collected by the researcher him/herself during the empirical study. Primary data can be collected by various ways such as interviews, observations, surveys and logs. (Sachdeva, 2008, 116)

The secondary data in the theoretical part of the thesis was collected from books, academic researches and reliable online sources. The primary data in the empirical study part of the thesis was collected by online phone interviews. The method was chosen because the locations of the respondents varied across the world. The length of the interview in each case was approximately 30 minutes. The sample consists of seven company representatives worldwide. The company representatives were found from chatbot-related Facebook groups. The companies were chosen randomly; all company representatives who volunteered to be part of the research were interviewed, only one was left out from the study because the age of the chatbot was only two weeks.

The two methods of data collection are quantitative and qualitative methods. The quantitative research method is based on numbers and calculations. It is used when the goal of the research is to measure numerical variables and their relationship. The data is collected usually with surveys with close-ended questions, experiments and correlation and regression analysis methods. The qualitative method aims to describe a phenomenon and acquire in-depth understanding of a situation. Qualitative techniques in data collection can be in-depth interviews, participant observation, case studies, document analysis and other ways to observe the reactions of people (role-playing, psychological testing etc.). The in-depth interviews can be done individually or in groups. The three types of individual interviews are unstructured interview, semi-structured interview and structured interview. The unstructured interview does not have specific questions or order of the topics that are

discussed in the interview. A semi-structured interview is done by having a framework of themes that are going to be discussed in the interview, but the questions may change according to the answers that the interviewee says. A structured interview has a specific set of questions and they remain the same for each interviewee. (Sachdeva, 2008, 172-177)

The empirical research of this thesis was conducted by using the qualitative method and the data was collected with semi-structured phone interviews. The qualitative method and semi-structured interview were chosen because the chatbot phenomenon is quite new, and companies do not yet have a lot of data about their chatbot's success. The goal is to describe the phenomenon and ultimately find out how the chatbots effect on customer engagement.

## **5.2 Reliability and Validity**

All academic researches should be examined from the reliability and validity point of view. According to Krishnaswami and Satyaprasad: "Validity refers to the extent to which the recorded observations accurately reflect the construct they are intended to measure" and "reliability entails consistency and freedom from measurement error" (Krishnaswami & Satyaprasad, 2010, 93).

Because of the nature of qualitative interview, it can lack reliability. This is because the interviewer and the interviewees are all humans, and it is true that different people can interpret same material (questions of the interview) in different ways. On the other hand, the idea of a qualitative research is to analyze in-depth information from people. In smaller qualitative researches that are based on few cases, the results cannot be generalized, which affects the reliability of the research negatively. (Brinkmann, 2013, 143-144, 156)

As the research of this thesis was done by using the qualitative method, assuring the reliability is challenging. The reliability was attempted to assure by selecting companies from different industries and locations. The goal of this research is to explore the thoughts and experiences of a small group, thus the research cannot be generalized to match all companies. Validity was assured by carefully choosing the themes of the interview as well as the interview questions to match the research problem. All the questions that were asked were leading the discussion towards finding out the answer to the research problem.

## **6 EMPIRICAL STUDY**

This part of the thesis will present the results of the interviews and the research methods that were used. The research problem was “What is the impact of chatbots in customer engagement?” The goal of the semi-structured interview was to find out how the chatbots have performed in each participating company, and how they have effected on customer engagement. In order to find out the previously mentioned goals of the research, the companies were asked questions from different themes that would help to determine the factors that have possibly led to the chatbots good or bad performance, and to determine which factors effect on the chatbots impact on customer engagement. The interview was divided in six themes;

- Background of the company
- The purpose of the chatbot
- Target audience of the chatbot
- Chatbot versus other digital communication channels
- Features of the chatbot
- Impact of the chatbot in customer engagement

All parts included 2-5 questions that would help the respondents to describe the part more in detail. The interview’s pre-determined questions served as guidelines for the discussions, and questions that were asked, were chosen according to the previous answers.

### **6.1 Background of the companies**

The purpose of this theme was to acquire the background information about the companies. The industry, business and location may have an effect on customer engagement and the chatbots performance. The companies were also asked that for how long they have had the chatbot for. This question was asked because the age of the chatbot will effect on the reliability of the answers.

Company	Age of the chatbot
Marketing agency	6 months
Marketing agency	7 months
Stock market consultancy	12 months
Restaurant	4 months
Restaurant	9 months
Online store	7 months

**Figure 4.** Age of the chatbots

The ages of the chatbots varied from four months to 12 months. Considering the recentness of the chatbot phenomenon, the shortest time; 4 months, is considered to be long enough for the insights to be reliable.

Industry	B2B	B2B	B2C, B2B	B2C	B2C	B2C
Business	Marketing agency	Marketing agency	Stock market consultancy	Restaurant	Restaurant	Online store
Location	USA	USA	Finland	USA	UK	Philippines

**Figure 5.** Public information about the participant companies

The six companies that participated in the interview varied from different industries; two marketing agencies, one stock market consultancy, two restaurants and one online store. The companies are located in different parts of the world; United States of America, Finland, United Kingdom and Philippines. Three of the six companies (both restaurants and the online store) are business-to-customer companies, two (both marketing agencies) are business-to-business companies, and one (stock market consultancy) is both business-to-business and business-to-customer.

## 6.2 Purpose of the chatbot

The purpose of this theme was to find out why the companies have decided to deploy the chatbot, and what the goal of the chatbot is. This theme will determine if the initial reason for the chatbot was to improve customer engagement.

There were four main reasons why the companies decided to deploy the chatbot; to try something new, to get better open rates (compared to email), to automate the customer service, and to provoke conversation and get in touch with customers. All these reasons

were mentioned twice in total. Another reason why the chatbot was deployed in the first place was to share content directly, this was mentioned by one company. One company wanted to deploy the chatbot because the other possibility was to create an app with same features, and chatbot was better option as they thought that the app industry is slowly dying.

All of the respondents mentioned more than one main goal for the chatbot. The most popular goal for the chatbot was to increase customer engagement, which was mentioned as one of the main goals from all of the six companies. Another goal that was mentioned by one company was associated with better customer engagement, as the goal of better customer service leads to increase in engagement. One company said that one of the main goals of the chatbot is to get more customers, which was the second most popular goal, as it was mentioned by three out of six companies. Other main goals were to get more ratings, raise awareness and to get better open rates.

### 6.3 Target audience of the chatbot

The purpose of this theme was to help to determine what the demographics of the target audience are. By utilizing this information it can be later evaluated if the target audience has impact on the chatbots success. Also, the respondents were asked if they had taken into account the level of engagement of their target audience or if they were targeting customers from all engagement levels.

Company	Marketing agency	Marketing agency	Stock market consultancy	Restaurant	Restaurant	Online store
Target audience	Business owners (real estate, restaurant, nightlife), adults	Entrepreneurs (Fitness, gym), adults	Stock traders, adults	"Blue-collar" workers, adults	Anybody close to the restaurant, adults	Anybody, adults
Target audience location	Australia, USA, Europe, Asia	USA	Finland	A city in the state of Texas in USA	A city in UK	Australia, USA, Asia
Engagement level	All	All	Fully engaged and indifferent	Fully engaged and indifferent	Indifferent	Fully engaged

**Figure 6.** Target audiences of the companies

Two of the six companies targeted customers from more than one country, two out of six from one city and two out of six from one country. All companies targeted customers who are adults; both restaurants targeted all adults from any age, the online store and stock

market consultancy targeted adults over 30, and marketing agencies any adult below the age of retirement. Age did not play as big role in the process to pick the target audience, as the location and work situation did; restaurants targeted people nearby and marketing agencies people who own a business.

Before asking questions about the engagement level of the respondents' target customers, it was explained what these three engagement levels mean; fully engaged, indifferent and actively disengaged. The most common target audience engagement level was fully engaged customers, which was chosen by five out of six companies. One of the companies chose only fully engaged customers because they tend to generate more revenue. Two of the companies targeted both fully engaged and indifferent customers, which was because they wanted to serve both returning customers as well as acquire new ones. The only one company that did not target fully engaged customers chose to target customers from indifferent level of engagement. This decision is very clear because the goal of the chatbot was to raise awareness. Two of the six companies targeted customers from all engagement levels. One of these two chose to target all levels because the company did not yet have enough data to target the customers from specific levels, and the other one because the company ideology is to make even the "haters" like you.

#### **6.4 Chatbot versus other communication channels**

The goal of this theme was to determine which digital and non-digital communication channels the companies had previously used, what is the difference between them and the chatbot, and which one has shown better engagement and performed better.

The most popular channel was email, which was used by five out of the six companies. All the companies that had used email before the chatbot, were still using it at the same time as the chatbot was available too. The main difference between the chatbot and email was that chatbot has better open rates, which was mentioned by all of the respondents who used email. Two of the five companies who used email said that chatbot is more engaging because it provokes conversation. This is because the customers tend to answer to the chatbot, whereas customers rarely answer promotional emails. Other differences of how chatbot was performing better than email, were each mentioned once by different respondents. The differences were; personalized messages, attraction, effectiveness and easiness to target specific people. The respondent who mentioned personalized messages,

told that where emails can be personalized by changing some words to match the customer's information and preferences, the chatbot is able to gather all that information from Facebook or by asking the customer. One respondent told that the chatbot is more engaging than email especially among younger adults, as they find the chatbot more attractive than email. These younger adults rather use chat for communication than ask by email or phone call. Other difference that was mentioned by one respondent was that customer targeting is easier with the chatbot, as Facebook allows to target the audience by demographics such as location and age.

There were some downsides for using the chatbot for the same purpose as email. One downside was that email allows the company to send more email without getting blocked, this was mentioned by one respondent. The respondent thinks this is because the chatbot is more "annoying" than email, the chatbot message comes straight to the phone, as an incoming promotion email might not even send a notification to the customer's phone. However, not being blocked by the customer does not necessarily mean that the emails get read. Other downside of the chatbot was that the messages are way shorter than in an email, which can make it a bit hard to share a lot of content, this was mentioned by one respondent.

The one company that did not use email previously, used website as the channel for communication. The respondent told that the main difference between the chatbot and the website is that website is "too full" and it can be confusing to the customer. This is because the customer does not know where to find the information he/she is searching among all the information that is shown in the website. At the same time a chatbot is more clear, because the customer is going to ask for the information he/she needs, and the customer does not have to navigate his/her way into the source of information needed.

The second most common channel to drive engagement was traditional offline advertisements, they were used by two companies; both restaurants. One of the restaurants is still using the traditional advertisements, which are in the form of leaflets. The other restaurant previously had advertisements in newspapers and billboards, and also stands in events. The respondents told that the chatbot is more engaging than the offline advertisements, for the same reason as email; it provokes conversation, it is more personalized and targeting is easier. The respondents told that the downside of offline advertising is that you may never know how many people actually see the advertisement, whereas Facebook

offers analytics so the company can see how many people have seen the advertisement, and how many customers answered to the chatbots message.

The ways to engage customers with the other channels than chatbot were content sharing, discounts and requesting for ratings and feedback. Four out of the six respondents told that chatbot can perform all of the things that the previous channels were used for. Also, when these four respondents were asked if the chatbot can do the same as the previous channels, all of the four respondents told that chatbot can do everything and even better. One respondent said that chatbot can do everything what the previous channels could do, but it does them differently, which does not necessarily mean that it is done better. One respondent said that the chatbot cannot do everything what the previous channel could do. The problem was that the chatbot cannot send as long messages as email can.

## **6.5 Features of the Chatbot**

The purpose of this theme was to discover the most important features of the chatbot. The reason why these questions were asked, is because the differences of which features are used may show a difference in customer engagement. The companies were asked about the features that the chatbot has, if they are working, and which features they wish the chatbot would have in the future.

The respondents were allowed to choose more than one feature to be the most important. The most popular answer to the question of which feature of the chatbot is most important was “the basics”, which was chosen by four out of the six companies. With “the basics” the respondents meant the ability to receive and send messages to and from the chatbot, and to do this any time of the day automatically from a messaging application. The second most popular answer was payments, which was chosen by three companies. The payments were found to be important because that is one of the main factors that differentiates a chatbot from other previously used channels.

Other important features were the ability for the customer to share the messages with other users that are not using the chatbot, online ordering, launching contests, requesting for ratings, segmenting, customization, and different kinds of content sharing (text, pictures, videos etc.). Five out of the six companies were utilizing the advertising options that Facebook offers. The advertising that the companies used varied from Facebook Ads, offline and online Messenger Codes and m.me-links that lead straight to the chatbot,

YouTube advertisements and website integrations. Only one company did not advertise the chatbot at all, which was because the company wanted to try first see the reactions of smaller group of people before “going viral” with the chatbot. Two of the companies who advertised their chatbot were not completely satisfied, this was because the links that were supposed to lead the customer to the chatbot did not do what they were supposed to do.

The companies were asked about the problems they have faced with the chatbot, and which features it is still missing. Two respondents told that there was a terrifying moment when Facebook put a pause on new chatbot launching, which affected also all chatbot building-platforms, including the ones the respondents were using. Two respondents told that they had faced some minor technical issues with the chatbot, but did not find them too problematic. One respondent found the chatbot “messy and primitive”, the same respondent had also faced problems with the m.me-links not working. One respondent told that the chatbot is unstable, as the respondent had had problems with the chatbot not sending messages at the time they were supposed to be sent. For the business of his company, it is very crucial that messages are delivered on time. The same respondent was also having problems with some features (like discovery-page) not being available in the country the chatbot is used in (Finland). The same respondent also faced difficulties with the chatbot understanding the language, this might be because the language the chatbot is using is Finnish, which is more complex than English language.

The features that the companies would like to have in the future for the chatbot were more analytics, easier way to acquire subscribers, integration with other platforms (Slack was mentioned), storing more data and ability to use voice commands with the chatbot, and to make the chatbot speak to the user.

## **6.6 The Impact of the Chatbot in Customer Engagement**

The purpose of the last theme of the interview was to get insights from the companies of what has been the impact of the chatbot in customer engagement. The companies were asked insights about the chatbot and its impact customer engagement and chatbot compared to other communication channels as tool to drive customer engagement. They were also asked about their overall experience with the chatbot. This question was asked to see what factors in their overall experience have impact on customer engagement. The companies were also if they will continue using the chatbot. The question was asked because

the future plan will give an overall picture of if the companies were satisfied with the chatbots performance in customer engagement.

Five out of six companies told that the chatbot has increased their customer engagement, in the form of open rates, responses, amount of customers and quality of leads. The same five out of six companies also told that the chatbot has performed better than previous channels of communication from the customer engagement point of view. One respondent told that there is no change in customer engagement after deploying the chatbot. The same respondent also told that the previous channel of communication, email, has performed better than the chatbot.

Four out of the six companies had had positive overall experiences with the chatbot. The factors that made the overall experience positive were positive customer experiences, ability to switch to a human customer service agent, easiness of communication, conversation provoking, relatability (chatbot does not feel like advertising compared to email), and the possibility to integrate to CRM software (Customer Relationship Management software). Five out of six companies said that they will continue using the chatbot. One out of the six companies was not yet sure if they will continue using the chatbot.

## **7 CONCLUSIONS AND ANALYSIS**

In this part of the thesis, the results of the empirical research will be analyzed, and concluded. Also suggestions for future research are presented. The results of the empirical research results will be first analyzed as a whole, and later every theme will be analyzed in more detail. The reasons behind the outcome of the empirical research will be explained by utilizing the theoretical framework, especially the theories about customer engagement from Gallup (engagement levels), Kotler and Armstrong (engagement groups), Smith and Zook (ladder of engagement), and Sashi (engagement cycle).

### **7.1 The overall research results**

From the empirical research results it is possible to see that one of the companies' experience is clearly different than the other five. The company that differs from the other companies is the stock market consultancy. This company was the only one that did not see a positive change in customer engagement after using the chatbot, also it is the only company that is not sure if the chatbot will be still used. The factors that affected customer engagement and overall satisfaction most crucially were the chatbots ability to perform tasks on time, perform the features it is supposed to perform, instability of the Facebook Messenger platform, the company location and what language the chatbot was using. The other factors did not show a clear impact on customer engagement.

### **7.2 Theme 1: Company background**

The location of the company had a clear impact on the chatbot. The company that was not satisfied with the chatbot was located in Finland, where some of the chatbot features are not yet launched. The discovery page was not available for the Finnish target audience, which excluded the possibility that the chatbot can be found randomly from the Messenger application. The company industry did not effect on the outcome, it did not matter if the company was business-to-business or business-to-customer. Even though it did not matter if the industry was business-to-business or business-to-customer, the company's business had an impact on satisfaction of the chatbot. From the results of the research it can be interpreted that most companies from different lines of businesses will be successful with the chatbot, unless accurate timing of the services is crucial. The only

overall unsatisfied company used the chatbot instead of email, to send daily stock market analysis to their customers, which should be always delivered on time.

### **7.3 Theme 2: Purpose of the Chatbot**

According to Trefler, the modern customer wants personalized services, and companies should be ready to use data in order to succeed in that (Trefler 2014, 75). Care and Bohlig state in their book that many customers want to have fast service with less human contacts (Care, Bohlig, 2008, 63), and according to Walters, customers should be served where and when they want to be served, as well as with content that is designed to match their personal preferences (Walters, 2015, ix). The companies participating the research had deployed the chatbot for at least one of these reasons. The results show that the reason behind deploying the chatbot was better customer service and engagement, which both are acquired by fast (automated) responses, and personalized content that is generated from the data that the chatbot gathers from its' users.

### **7.4 Theme 3: Target audience of the chatbot**

According to the theory presented by Gallup, customers can be divided into engagement groups according to their level of engagement. The engagement group (fully engaged, indifferent, or actively engaged) that was chosen by each company did not show a clear impact on the performance of the chatbot. Instead it supported well the purpose of the chatbot. The companies that selected all engagement groups as the target audience, were the ones that either did not have enough data to target just one of the groups, or who purposely wanted to make the actively engaged customers be at least in the indifferent group in the future. The companies who selected fully engaged and indifferent group, were the ones who wanted to both continue engaging the already engaged customers, and also to use the chatbot as an incentive to drive the engagement for the indifferent group. The only one company who selected only the fully engaged group because it is known that fully engaged customers create more revenue. This statement is supported by Gallup's research and also by the theory of relationship groups by Kotler and Armstrong. (Yu, Harter, Fleming, 2014, 3-5; Kotler, Armstrong, 2016, 48)

Customer targeting did not play a big part in the evaluation of success of the chatbot in this research. The reason for this is because all the companies had similar target customers.

## 7.5 Theme 4: Chatbot versus other communication channels

Five out of six companies stated that chatbot was showing better engagement than the other communication channels that were used for the same purpose as the chatbot. In four successful cases out of the five companies, the channel was email, and in one case it was website. The main reason why chatbot was increasing engagement compared to email was the higher open rate. Also, chatbots offer automated replies and 24/7 customer support. This finding supports the facts that Frawley and Frawley state about email marketing; the opt-out rate is rising with email, and customers are expecting fast responses and want to interact with the company at all times from their mobile devices (Frawley, Frawley, 2014, 3, 6). These results are the opposite to the statement of Kotler and Armstrong, who state that email marketing is 40 times more effective than Facebook and Twitter combined (Kotler, Armstrong, 2016, 542). The reason behind this might be the fact that in 2016, when the book from Kotler and Armstrong was published, chatbots were only in their starting phases.

One of the five companies that used email as the other channel to drive engagement did not see any difference in engagement, and was also unsatisfied with the chatbot's performance. This finding can be clearly explained with Sashi's customer engagement cycle.



**Figure 7.** Customer engagement cycle

The engagement cycle broke in this case in the stage three; satisfaction. The company in case provides daily stock market analysis, and customers are expecting to receive them to their emails in the morning at a specific time. The chatbot was not always able to deliver the analysis on time, which made the customers unsatisfied.

One of the six companies used website as the other communication channel. The results show that the chatbot presented better customer engagement. According to Care and Bohlig, many customers feel like interaction with a salesperson is an unfortunate side effect of making a purchase (Care, Bohlig, 2008, 63). The results of the research show this theory in action, in the words of the respondent; “the customers love it”. Also, contrary to Care’s and Bohlig’s statement, the respondent emphasized the importance of the possibility to switch to customer service provided by human if the chatbot was not able to understand the question.

### **7.6 Theme 5: features of the Chatbot**

The most important features of the chatbot were the features that differentiates the chatbot from other communication channels; being available all the time in the palm of the customers hand (mobile device), sending and responding to messages automatically, payments, customization and ability to share the chatbot’s messages to other friends on the Messenger application. These findings are supported by Frawley’s and Frawley’s statement of the modern customer wanting to have customized and fast service right to their mobile devices (Frawley, Frawley, 2014, 3, 6).

The ladder of engagement presented by Smith and Zook support the decision making of two of the companies who used contests or ratings as one feature of the chatbot to drive engagement. In the ladder of engagement, Smith and Zook state that once an engaging customer is identified, the engagement can be increased by making the customer co-creator of the brand by giving ratings, reviews and ideas and being part of the branding and product creation processes. Contests are one way to make the brands co-creators of the brand. (Smith, Zook, 2016, 17-18) Both of the companies that used either ratings or contests as one way to drive engagement found the chatbot overall successful and saw a positive change in customer engagement.

### **7.7 Theme 6: The Impact of the Chatbot in Customer Engagement**

The results of the research show that five out of six companies saw a positive change in engagement and the same companies were overall satisfied with the chatbot. One out of six companies did not see any change in engagement and the overall satisfaction was negative. The difference between the one unsatisfied company and the five satisfied companies is explained by Sashi’s customer engagement cycle; in the five successful cases,

the cycle was not broken at any point, but in the one unsuccessful case the cycle was broken already in the stage three; satisfaction.

In the five successful cases, the positive change in customer engagement was achieved in all of the seven stages of Sashi's customer engagement cycle. First, the customers connected with the chatbot and started interacting with the company through the chatbot (stages one and two; connection and interaction), then the customers became satisfied (stage three; satisfaction), as the service is fast and agile and the customers continued to use the chatbot service after the first satisfactory encounter (stage four; retention). After the retention was achieved, the customers became committed to the company (stage five; commitment). In these cases, the commitment can be both; calculative or affective. The chatbots provide all the tools for affective commitment, as the customers get always the service they want because the chatbot remembers their references. Also, calculative commitment can be achieved, as the customer does not find a lot of companies using chatbots (lack of options), and because Facebook Messenger platform shows only the suitable chatbots in the discovery section according to the customers preferences and demographics. The customers had the change to share the conversations and content that the chatbot is sending with their friends, which makes them advocates for the brand (stage six; advocacy). Finally after the success in the six stages, the seventh stage, engagement, was acquired.

## **7.8 Conclusions**

Overall, most of the companies were satisfied with the chatbot and saw a positive change in engagement, but none of them stopped using the alternative channel or channels that were used for the same purpose as the chatbot. Possibly, the instability and recentness of the chatbot phenomenon does not give enough trust for the companies to switch completely to chatbots even though in most cases the performance exceeded the other channels. From the results of the research a conclusion can be drawn, that the specific function of sending messages at a specific time plays a big role in the successfulness. The only company that was not satisfied with the chatbot had a specific function for the chatbot in which it was not able to succeed in (sending content at special time). All the insights from this respondent lead to this specific malfunction. If it is crucial for the company to share content at a certain time, more stable channels, like email, are the best way to go.

Chatbots offer all the tools to become the next best channel for engagement, but they need to become more stable in order to gain popularity on a big scale. Companies should also keep in mind the location and the language of the target audience before deploying a chatbot. Chatbot that does not understand the customer can affect very negatively on the customers opinion about the customer service. After some developments in stability, chatbots will serve as an efficient tool for companies to save money by automating services related to customer engagement.

### **7.9 Suggestions for future research**

As the chatbot phenomenon is quite new, and in this research most of the companies were not able to provide hard data on the chatbots success, the future researches could be done by utilizing more data and using quantitative research method. There is a lot of variables that effect the success in customer engagement and the chatbot's performance, a future research could examine the differences in the success by researching companies with different variables (location, industry, target audience, chatbots features). Another possibility for future research is to examine the phenomenon from the customer point of view.

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