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EXAMINING ONLINE SWITCHING COSTS OVER SEARCH PRODUCT AND EXPERIENCE PRODUCT CONTEXTS

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Abstract

Many Internet vendors have realized the importance of “locking-in” online customers in order to ensure their profitability. For this reason, many researchers have paid attention to the formation of switching costs which acting as a barrier that prevent customers from easily changing from one vendor to another. Erection of switching barriers will represent an important strategy for locking in customers and increasing their willingness to pay price premium. This study aims to examine the relationships among customer satisfaction, perceived value, relative advantage, and switching costs. This study further examines the effect of switching costs on customer’s willingness to pay more. This study collects data and test the research model over two contexts, search product context and experience product context. The empirical results show the key role of switching costs in leading to willingness to pay more and the relationships among the four constructs. The theoretical and practical implications of this study are then discussed.

Keywords: Switching costs, Online shopping, Search product context, Experience product context

1. INTRODUCTION

According to SciVisum eCommerce Regional Rift Study undertaken across the UK in May 2006, nearly three quarters of UK shoppers are turning their backs on the high street to shop online, with an average spending of £89 per month. One in ten UK consumers confessed they would splurge £5000 or more on a single purchase. The massive spending power online means online suppliers have to think long and hard about how to attract and keep customers.

Essential to the online companies' customer acquisition strategy, customers will experience some form of "locking-in" or switching costs to prevent them from changing companies; otherwise it will be very difficult for companies to recover the initial investment in acquisition (Chen & Hitt 2002). Weiss and Anderson (1992) suggest that consumers consider switching barriers when contemplating switching providers, and these barriers tend to reduce consumer's actual switching behavior. Switching cost is functionally like a barrier that prevents customer from changing vendors easily. Therefore, there is very strong motivation for online vendors to realize the importance of switching costs in order to 'locking-in' their customers, recover the initial customer acquisition cost and ensure a stream of long-term profits.

Switching costs as a construct have been studied in various fields such as economics, marketing and management literatures. Switching costs are associated with the likelihood of continuing an exchange relationship with a supplier (Weiss & Anderson, 1992; Ping, 1993; Morgan & Hunt, 1994) and customer repurchase intentions (Jones et al. 2002). Despite the ability of switching costs to retain customers, increase profits and create competitive advantages, customers actually face a low search cost, easy comparison between different vendors and low switching costs in the Internet shopping context compared to the offline shopping context. It has been observed that over 50 percent of customers stop visiting a website completely before their anniversary of using the website (Reichheld & Schefter 2000). If vendors are unable to 'lock-in' customers, long-term profitability may be difficult to attain.

As a way for locking-in customers, there are two approaches: dedication-based relationship building and constraint-based relationship building (Bendapudi & Berry 1997). Bendapudi and Berry (1997) posited that the customers maintains a relationship with a vendor either because of constraints (i.e., "have to" stay in the relationship) or because of dedication (i.e., "wants to" stay in the relationship). While customers in constraint-based relationships preserve the relationships because of exit costs (i.e., switching costs), customers in dedication-based relationships desire continuance. Constraint-based and dedication-based relationships act together to bring about customer's online shopping continuance with the focal company. Switching costs can be used for constraint-based relationship building (Bendapudi & Berry 1997; Fullerton 2003; Heide & Weiss 1995; Ng & Kwahk 2010). For the dedication-based relationship building, previous research has proposed customer satisfaction (Ng & Kwahk 2010; Oliver 1999), perceived value (Bitner and Hubbert 1994; Bolton and Drew 1991; Ng & Kwahk 2010; Sirdeshmukh et al. 2002), and relative attractiveness (Bendapudi & Berry 1997). This study aims to examine the relationships among the constructs for relationship building, centered on switching costs. Viewing switching costs from the online vendor's perspective, one of the most important consequences of switching costs would be the customers' willingness to pay more as this will ensure online vendor's ability to cover the initial acquisition cost and long term profitability as well as locking in the customers. This study further aims to examine the effects of switching costs on customer's willingness to pay more (i.e., price premium).

2. CONCEPTUAL BACKGROUND

2.1 Switching Costs

In the economics literature, switching costs are defined as relationship-specific investment between buyers and suppliers (Farrell & Shapiro 1988). In buyer-supplier relationships, switching costs are defined as an overall cost or difficulty of switching (Weiss & Anderson 1992), additional cost and effort in changing suppliers (Ping 1993), an undefined component of termination (Morgan & Hunt

1994) and investments that inhibit change (Nielson 1996). Burnham et al. (2003) defined switching costs as one-time costs that customers associate with the process of switching from one provider to another. Jones et al. (2000) defined switching costs as the perceived economic and psychological costs associated with changing from one alternative to another. Similar to the marketing literature, in the IS literature, Chen and Hitt (2002) defined switching costs as any perceived disutility an individual would experience due to switching service providers. Following previous research, the present study defines switching costs as *the perceived disutility a customer would incur in switching from one vendor to a new vendor*.

In the service or experience product context, customers seem to encounter a higher switching costs and it is difficult to switch even when quality and performance perceptions may be less than ideal. This is because that the clients of some professional service or “experience” product perceive considerable risk and uncertainty in switching to alternative provider. The present research conceptualizes switching costs as customer’s perceived costs including perception time, effort, difficulty, and money that associated with the process of switching from one vendor to another.

Klemperer (1987) identifies three types of switching costs: transaction costs, learning costs, and contractual costs. Transaction costs are costs that occur when starting a new relationship with a provider and sometimes also include the costs necessary to terminate an existing relationship. Learning costs represent the effort required by the customer to reach the same level of comfort of knowledge acquired of using a product but which may not be transferable to other brands of the same products. Contractual costs are directly firm-induced in order to penalize switching by customers. It includes examples such as repeat-purchase discounts or rewards and frequent flyer programs.

Besides these explicit costs, there are also implicit switching costs associated with decision biases and risk aversion (Caruana 2004). Such that switching costs should comprise psychological and emotional costs. A customer will want to avoid the accompanying psychological and emotional stress and the risk and uncertainty that the termination of the current relationship could bring (Caruana 2004). Guiltman (1989) identifies four types of switching costs: contractual, set-up, psychological commitment, and continuity costs. Burnham et al. (2003) provide a useful topology by classifying switching costs into three categories that can be used for both tangible and services: procedural switching costs, financial switching costs, relational switching costs. However, the present study conceptualizes switching costs as a single-dimensional construct because the research objective is to examine the relationships among the relationship building constructs rather than examining the dimensions of switching costs.

As we explained in the Introduction, the present study selects four relationship building factors: satisfaction, perceived value, and relative attractiveness for dedication-based relationship building and switching costs for constraint-based relationship building. We select relative attractiveness from the consideration of comparison of the focal online store with other online stores. We select perceived value and satisfaction from the consideration of cognitive experience and affective experience with the focal online store. Higher switching cost related to the intention to buy with incumbent vendors and makes other vendors less attractive. As a consequence of relationship building (i.e., relationship maintenance), customers choose to pay more to stay with the current seller. We focus on the willingness to pay more as a consequence of switching costs.

2.2 Willingness to Pay More

Willingness to pay more is an important issue in Internet shopping as it deals with the profitability of online suppliers. A report by McKinsey & Company found that one-percent increase in price produces an average increase in profitability of 7.4 percent. Willingness to pay is defined as the maximum amount of money a customer is willing to spend for a product or service (Cameron & James 1987; Krishna 1991). Willingness to pay is a measure of the value that a person assigns to a consumption or usage experience in monetary units. Economists refer to willingness to pay as the reservation price (Monroe 1990). Willingness to pay more has been defined as willingness to continue purchasing from the e-retailer despite an increase in price (Fullerton 2003); paying excess price, over and above the “fair” price that is justified by the “true value” of the product (Rao & Bergen 1992); or willingness to

pay price premium (Nault & Dexter 1995). Price premium is viewed primarily from the vendor's point of view, while willingness to pay more is from customer's perspective. The present study defines willingness to pay as customer's willingness to pay the price premium in order to stay with the current online vendor.

2.3 Relative Attractiveness

Online customers are value-driven (Levy 1999) and they are assumed to have well-defined preferences for alternative offered to them, such that the consumers select the alternative that offers the highest utility (Dhar & Simonson 1992). Customers will thus choose the one with high relative attractiveness. Most of the previous research focused on alternative attractiveness instead of relative attractiveness (Jones et al. 2000). Alternative attractiveness is conceptualized as the client's estimate of the likely satisfaction available in an alternative relationship (Ping 1993). A lack of attractive alternative offerings has been suggested to be a favorable situation to defend clients (Ping 1993). Relative attractiveness takes the current vendor as the reference point, while alternative attractiveness takes other vendors as the reference point. The problem about alternative attractiveness is the customers often lack of enough information about alternatives – a situation called knowledge uncertainty (Urbany et al. 1989). Customers with high knowledge uncertainty are more likely to engage quickly a heuristic choice that overrides any consideration of alternative evaluation (Urbany et al. 1989). Therefore, relative attractiveness of the current vendor will dominate customer's buying decision, especially when customers do not have enough information about alternative vendors. The present study defines relative attractiveness as *the customer's perception regarding the extent to which the Internet shopping at the current vendor is considered as a better alternative as compared to shopping at alternative vendors*. Customer's perceived qualities and benefits received will determine the relative attractiveness of purchasing with the current vendor.

2.4 Satisfaction

Viewing the literature of satisfaction, at least two conceptualizations of customer satisfaction can be distinguished: transaction-specific and cumulative (Boulding et al. 1993). From a transaction-specific perspective, customer satisfaction can be viewed as a post-choice evaluative judgment of a specific purchase occasion (Oliver 1993). In contrast, cumulative satisfaction is an overall evaluation based on the total purchase and consumption experience with a good or service over time (Fornell 1992). Transaction-specific satisfaction may provide specific diagnostic information about a particular product or service encounter, while cumulative satisfaction is more fundamental indicator of the firm's overall performance. Lin (2003) defines customer satisfaction as the result of a cognitive and affective evaluation, where some comparison standard is compared to the actual perceived performance. According to Fournier & Mick (1999), customer product satisfaction is an active, dynamic process; the satisfaction process often has a strong social dimension; meaning and emotion are integral components of satisfaction; the satisfaction process is context-dependent and contingent, encompassing multiple paradigms, models, and modes; and product satisfaction is invariably intertwined with life satisfaction and the quality of life itself. Satisfaction has also been defined as emotional response manifested in feelings, conceptually distinct from cognitive responses, brand affect and behavioral responses (Day 1983) and as an emotional state resulting from a process of combining cognitive evaluations (Sirgy 1984). This study defines satisfaction as *a customer's affect towards online shopping with the focal vendor*. It is linked to purchase experience and derived from perception of product or service quality.

2.5 Perceived Value

Customer value creation is discussed in the practitioner literature and it is often a part of organization's mission statement and objectives. It has been considered as the key to the long-term success and one of the most powerful forces in today's marketplace, with Albrecht (1992) arguing that the only thing that matters in the new world of quality is delivering customer value. Perceived value is frequently conceptualized as involving a consumer's assessment of the ratio of perceived benefits and perceived costs (Liljander & Strandvik 1992; Monroe 1990). Previous research (Zeithaml 1988) conceptualized value as a comparison of weighted "get" (e.g., quality) attributes to "give" (e.g.,

price) attributes. These two components have different and differential effects on perceived value for money. Zeithaml (1988) argued that some consumers perceive value when there is a low price; others perceive value when there is a balance between quality and price. Thus, for different consumers, the components of perceived value might be differently weighted. Also perceptions of value are not limited to the functional aspects but may include social, emotional and even epistemic value components (Sheth et al., 1991). The present study defines perceived value as *net benefit (perceived benefit relative to perceived cost) from a transaction with an Internet vendor* (Gupta and Kim 2010).

3. HYPOTHESES

As we discussed before, four factors (satisfaction, relative attractiveness, perceived value, and switching costs) related with relationship buildings in Internet shopping are identified. We are going to discuss how the identified factors are related with switching costs and how switching costs have an impact on willingness to pay more by developing the following hypotheses and research model.

Switching costs encompass both monetary expenses and non-monetary costs (for example, the time spent and psychological effort) (Dick & Basu 1994). Switching costs also involve cost and constraints of searching alternative vendors, such as time constraint, mobility constraint, and difficulty of store comparison (Urbany et al 1996). All these costs will increase the “full price” of the products (Ehrlich & Fisher 1982): *Full price of a product = product price + search cost + disappointing cost*

When customer considers switching vendors, they have to spend time and effort to search alternative vendor information and process the collected information before the actual switching. Especially for the customers who regard time of great value, they are trying to avoid “wasting” or “spending” time to search for a new vendor. Time is a resource, as is money. Constrained resources prevent people from getting and doing what they want (Okada & Hoch 2004). The search cost which is one type of switching costs will translate to a higher “full price” of the product. Instead of spending time to search for new vendor, they are more willing to pay the price premium if the price premium (i.e., higher price than the normal price) is lower than the search cost. Consumers generally pay price premium for convenience and incur temporal transaction costs in the process of information search and uncertainty reduction (Carlson & Gieseke 1983; Marmorstein, Grewal, and Fische 1992). Previous study also argued that vendor may be able to earn higher price if switching costs are sufficiently high (Lieberman & Montgomery 1988).

H1: Switching cost is positively related to willingness to pay more.

Customers desire to transact with a vendor that provides higher benefits and qualities compared to other vendors; and customer’s perceived qualities and in fact benefits received from the vendor determine the relative attractiveness of purchasing with the current vendor. Customers may decide to terminate the current transaction relationship with the current vendor and switch to a new online vendor if they perceive the alternative to be more attractive due to the availability of better service or products; but if customers view the online transactions with the current vendor as more attractive, they will perceive a higher loss of benefit in switching to other vendors.

H2: Relative Attractiveness is positively related to switching costs.

The present study concentrates on satisfaction with online transaction with a focal vendor, which is a post-experience evaluation of internet transactions with the vendor. If customers switch from the current satisfactory vendor to another, they will lose the satisfactory transaction relationship with the current vendor, which will lead to a loss of benefits relate to switching. Further, customers perceive satisfaction through Internet transactions with the focal vendor. As they perceive satisfaction in the transactions, they perceive less uncertainty in the transactions with the vendor. However, if customers are to switch to another vendor, they may have less information about transactions with the new vendor, which creates uncertainty costs for customers. Customer will this feel uncomfortable in terminating the satisfactory transaction relationship with the current vendor, worrying about if alternative vendors can provide satisfactory transactions or not. Therefore, those customers who are satisfied with the transactions with the current vendor will perceive higher switching costs than those customers who are less satisfied.

H3: Satisfaction is positively related to switching costs.

From a customer's view, obtaining value is a fundamental goal in most transactions with a vendor and pivotal to all successful exchange transactions (Holbrook 1994). Customers will still choose to purchase from the current vendor if the transaction with the vendor provides more value for them. Customers are seeking value from their buying, if online vendor can provide high value for customers these value will act like a barrier that actually can lock the customers in. Also because of the value delivered by the supplier, customer will form a dependence on the partner to achieve rational outcomes (value), and then he or she will feel constrained to terminate the relationship. Therefore, perceived value in transactions with an online vendor will create and increase switching costs.

H4: Perceived value is positively related to switching cost.

Perceived value is frequently conceptualizes as involving a consumer's assessment of the ratio of perceived benefits and perceived costs, while relative attractiveness is determined by the product or service quality, perceived performance and benefits offered by the vendor which means that relative attractiveness is highly depending on customer's perceived value. The value delivered by supplier will increase customer's perception that the current provider is unique and more attractive.

H5: Perceived value is positively related to Relative attractiveness.

Hartnett (1988) noted that when retailers satisfy customers' needs, they are delivering value, which puts them in a much stronger position in the long term. It has been long recognized that customer satisfaction is dependent on value. Perceived value is customer's overall evaluation or appraisal of attribute performance and that satisfaction reflects the impact of the total value delivered on customer's feeling state. Performance is not only referring to quality, the special service, for example, shorter waiting time, quick delivery, all these will add to customer's perceived value, and further increase customer's satisfaction. Customer's current experience with an online vendor's offering will have a positive influence on their overall assessment of how satisfied they are with the vendor. Such that, we expect that the perceived quality of goods and services will also have a positive impact on customer satisfaction.

H6: Perceived value is positively related to Satisfaction.

4. RESEARCH METHODOLOGY

The present study adopted online survey approach in testing the hypotheses. An Internet based questionnaire was developed based on the research model by adopting the existing validated scales whenever possible. We began with a literature review that generated an item pool designed to measure each of the constructs. This battery of items was further refined and adapted to reflect the definition of each construct. The questionnaire was administered using a seven-point rating scale (1 = Strong agree (not at all likely), 7 = Strong agree (very likely)). The final list of items is presented in Appendix.

In our first study, an Internet bookstore was chosen for data collection due to its "search" or "low touch" nature of the products (i.e., books) and a review of extant literature leads to the conclusion that online markets for online bookstore is one of the largest and fastest-growing online markets (Forrester Research 2000; Li & Gery 2000). Empirical data was collected using an online survey through an online bookstore as we are going to use real data to support our hypothesis and findings. Survey invitation emails with the URL of online survey website were sent to randomly selected registered customers. The final sample comprises 369 complete responses (see Table 1).

In our second study, an Internet flower shop was chosen for data collection due to its "experience" or "high touch" nature of the products (i.e., flowers). Empirical data was collected using an online survey through an online flower shop as we are going to use real data to support our hypothesis and findings. Survey invitation emails with the URL of online survey website were sent to randomly selected registered customers. The final sample comprises 261 complete responses (Table 1): Internet experience (mean = 7.1 years, s.d. = 2.0).

Measure	Mean	S.D.	Item	Frequency		Percentage	
				Online Bookstore	Online Flower shop	Online Bookstore	Online Flower shop
Gender	--	--	Female	270	87	73.2	33.3
			Male	99	174	26.8	66.7
Age	30.1	18.0	<20	53	0	14.4	0
			20 – 29	138	83	37.4	31.8
			30 – 39	143	151	38.8	57.9
			> 39	35	27	9.4	10.3
Profession	--	--	Housewife	79	5	21.4	1.9
			Student	138	12	37.4	4.6
			Employed	89	203	24.1	77.8
			Self-employed	13	21	3.5	8.0
			Others	50	20	13.6	7.7
Total				369	261	100	100

Table 1. Descriptive Statistics of Respondents

5. DATA ANALYSIS AND RESULTS

A two-stage data analysis methodology was carried out using LISREL (Anderson & Gerbing, 1988). The first step was to establish the convergent and discriminant validity of the constructs. The measurement model was tested using Principle Components Analysis (PCA) (SPSS) and Confirmatory Factor Analysis (CFA) (LISREL). In the second step, we examined the structural models based on the cleansed measurement models (LISREL).

ITEM	Std. Loading		T-value		Standard Error		AVE	CFR	Alpha
	(B)	(F)	(B)	(F)	(B)	(F)			
VAL1	0.87 ^(B)	0.85 ^(F)	20.37 ^(B)	16.75 ^(F)	0.25 ^(B)	0.28 ^(F)	0.70 ^(B) 0.70 ^(F)	0.90 ^(B) 0.90 ^(F)	0.902 ^(B) 0.902 ^(F)
VAL2	0.82 ^(B)	0.74 ^(F)	18.56 ^(B)	14.43 ^(F)	0.34 ^(B)	0.41 ^(F)			
VAL3	0.88 ^(B)	0.88 ^(F)	20.84 ^(B)	17.80 ^(F)	0.23 ^(B)	0.22 ^(F)			
VAL4	0.79 ^(B)	0.85 ^(F)	17.58 ^(B)	16.59 ^(F)	0.38 ^(B)	0.29 ^(F)			
SAT1	0.90 ^(B)	0.94 ^(F)	22.01 ^(B)	20.23 ^(F)	0.20 ^(B)	0.11 ^(F)	0.85 ^(B) 0.87 ^(F)	0.96 ^(B) 0.96 ^(F)	0.958 ^(B) 0.964 ^(F)
SAT2	0.93 ^(B)	0.95 ^(F)	23.33 ^(B)	20.48 ^(F)	0.14 ^(B)	0.10 ^(F)			
SAT3	0.95 ^(B)	0.94 ^(F)	24.34 ^(B)	20.00 ^(F)	0.10 ^(B)	0.12 ^(F)			
SAT4	0.92 ^(B)	0.91 ^(F)	23.24 ^(B)	18.97 ^(F)	0.15 ^(B)	0.18 ^(F)			
REL1	0.82 ^(B)	0.95 ^(F)	18.91 ^(B)	20.55 ^(F)	0.33 ^(B)	0.10 ^(F)	0.76 ^(B) 0.89 ^(F)	0.93 ^(B) 0.97 ^(F)	0.925 ^(B) 0.968 ^(F)
REL2	0.88 ^(B)	0.96 ^(F)	21.02 ^(B)	21.13 ^(F)	0.23 ^(B)	0.07 ^(F)			
REL3	0.90 ^(B)	0.89 ^(F)	21.80 ^(B)	18.49 ^(F)	0.19 ^(B)	0.20 ^(F)			
REL4	0.88 ^(B)	0.96 ^(F)	21.08 ^(B)	21.11 ^(F)	0.23 ^(B)	0.07 ^(F)			
SWC1	0.84 ^(B)	0.90 ^(F)	19.34 ^(B)	18.45 ^(F)	0.30 ^(B)	0.20 ^(F)	0.68 ^(B) 0.78 ^(F)	0.92 ^(B) 0.95 ^(F)	0.914 ^(B) 0.945 ^(F)
SWC2	0.87 ^(B)	0.94 ^(F)	20.46 ^(B)	20.15 ^(F)	0.25 ^(B)	0.11 ^(F)			
SWC3	0.77 ^(B)	0.82 ^(F)	17.08 ^(B)	15.89 ^(F)	0.41 ^(B)	0.33 ^(F)			
SWC4	0.85 ^(B)	0.89 ^(F)	19.99 ^(B)	18.38 ^(F)	0.27 ^(B)	0.20 ^(F)			
SWC5	0.80 ^(B)	0.85 ^(F)	18.20 ^(B)	17.08 ^(F)	0.35 ^(B)	0.27 ^(F)			
WPM1	0.83 ^(B)	0.87 ^(F)	19.27 ^(B)	17.79 ^(F)	0.32 ^(B)	0.24 ^(F)	0.81 ^(B) 0.89 ^(F)	0.94 ^(B) 0.97 ^(F)	0.942 ^(B) 0.969 ^(F)
WPM2	0.91 ^(B)	0.95 ^(F)	22.51 ^(B)	20.77 ^(F)	0.17 ^(B)	0.09 ^(F)			
WPM3	0.92 ^(B)	0.98 ^(F)	22.81 ^(B)	21.79 ^(F)	0.16 ^(B)	0.04 ^(F)			
WPM4	0.93 ^(B)	0.96 ^(F)	23.57 ^(B)	21.01 ^(F)	0.13 ^(B)	0.08 ^(F)			

Table 2. Results of Convergent Validity Testing (B: Online Book Store, F: Online Flower shop)

Variable	Mean	S.D.	VAL	SAT	REL	SWC	WPM
VAL	5.70 ^(B)	0.88 ^(B)	0.84^(B)				
	5.30 ^(F)	0.91 ^(F)	0.84^(F)				
SAT	5.56 ^(B)	1.14 ^(B)	0.64 ^(B)	0.92^(B)			
	5.62 ^(F)	1.02 ^(F)	0.81 ^(F)	0.93^(F)			

REL	5.49 ^(B) 5.52 ^(F)	1.05 ^(B) 1.10 ^(F)	0.65 ^(B) 0.79 ^(F)	0.42 ^(B) 0.64 ^(F)	0.87^(B) 0.94^(F)		
SWC	4.28 ^(B) 4.60 ^(F)	1.46 ^(B) 1.35 ^(F)	0.31 ^(B) 0.58 ^(F)	0.12 ^(B) 0.50 ^(F)	0.40 ^(B) 0.52 ^(F)	0.83^(B) 0.88^(F)	
WPM	3.08 ^(B) 4.30 ^(F)	1.47 ^(B) 1.51 ^(F)	0.12 ^(B) 0.27 ^(F)	0.05 ^(B) 0.23 ^(F)	0.15 ^(B) 0.25 ^(F)	0.38 ^(B) 0.47 ^(F)	0.90^(B) 0.94^(F)

Table 3. Descriptive Statistics and Correlations (B: Online Book Store, F: Online Flower shop)

Figure 2 shows the standardized LISREL path coefficients and the overall fit indices. The model fit indices are satisfactory in both cases. Switching costs (H1) were found to be significant to willingness to pay more. Relative attractiveness (H2) and perceived value (H4) were found to be significant to switching costs. Perceived value has significant effects on relative attractiveness (H5) and satisfaction (H6). However, we could not find significant effect of satisfaction on switching costs. Hypothesis 3 is thus not supported while other hypotheses are all supported. These findings are consistent over the two contexts.

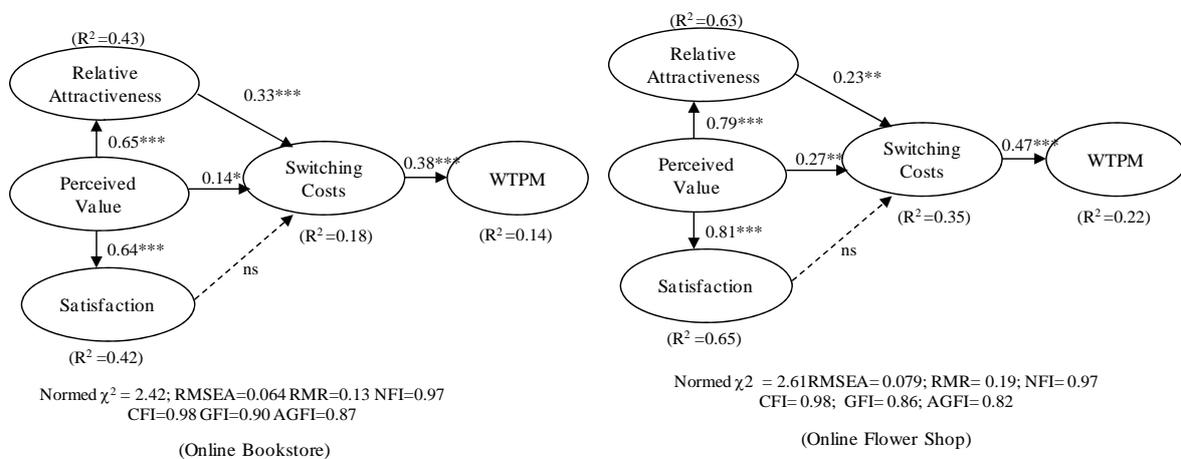


Figure 2. Testing results (ns: insignificant at the 0.05 level, ***: $p < 0.001$)

We conducted a post-hoc analysis to test the direct effects of the four relationship building factors on customer's willingness to pay more. As described in Figure 3, switching costs and relative attractiveness have direct significant effects on willingness to pay more in the context of online bookstore. In contrast, switching costs and satisfaction have significant direct effects on willingness to pay more in the context of online flower shop. It may mean that customers are willing to pay more based on relative advantage of the transaction with a vendor when they purchase search products. In contrast, customers are willing to pay more when they are satisfied with online transactions with a vendor when they purchase experience products.

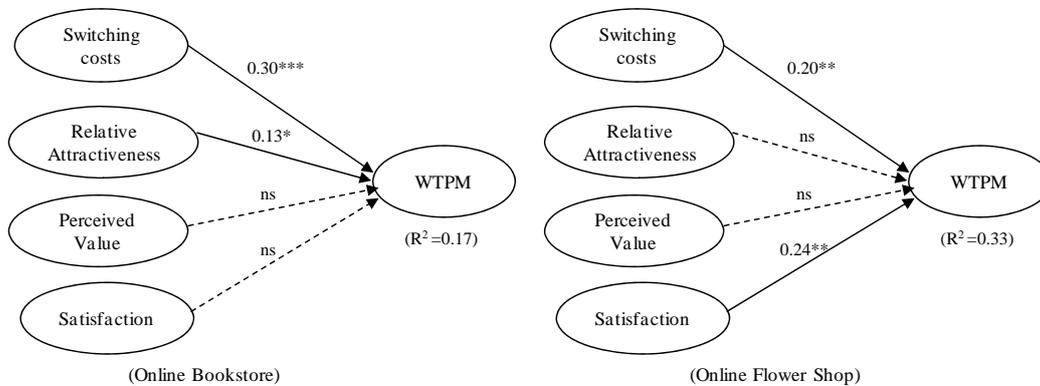


Figure 3. Post-Hoc Testing results (ns: insignificant at the 0.05 level, ***: $p < 0.001$)

6. DISCUSSION AND IMPLICATIONS

6.1 Discussion of Findings

This study has examined the relationships among the four relationship building factors and the effect of switching costs on willingness to pay more. We found consistently over the two contexts that relative advantage and perceived value have significant relationships with switching costs and switching costs have a positive significant effect on willingness to pay more.

We found that switching cost is positively related to willingness to pay more in both two studies. Whenever customer switches, they will incur some switching costs. If the price premium is lower than search cost or disappointing costs, customers will be more willing to pay the price premium in order to lower the “full price” of the product. This finding confirms the previous research which proposed that vendors are able to charge price premium if the switching costs are high (Leiberman & Montgomery 1988).

Perceived value is positively related to switching costs. The ability to provide superior value to customers is a prerequisite when trying to establish and maintain long-term transaction relationships. Customers will perceive a high switching barrier because they are locked-in by the value created already. Perceived value is a better predictor of outcome variable in the business marketing and it is the key to long term success.

Relative attractiveness is also positively related to switching costs. Most customers are very rational; the customers will choose the alternative that provides the most benefits. Thus when customers view the current vendor as more attractive than other alternatives, they will perceive a higher switching barrier which will prevent customer from changing vendors easily. Therefore, relative attractiveness will hinder customer to switch vendor.

In both studies, perceived value is positively related to satisfaction and relative attractiveness. This result confirms perceived value’s importance in post-purchasing decision and customer’s satisfaction with the vendor. Previous research also argued that customer satisfaction is highly associated with “value” and hence on “price.” It means that customer satisfaction is highly relied on perceived value which is defined as a customer’s overall assessments of the utility of a product based on perceptions of what is received (value, product quality or other benefits) and what is given (product price, total cost associated with the transaction).

We also found that perceived value is significantly affecting relative attractiveness. Relative attractiveness is customer’s perception regarding the extent to which the Internet shopping at the current vendor is considered as a better alternative as compared to Internet shopping at other online vendors; and it is determined by the perceived qualities and benefits which is part of the perceived value. Therefore, we can say that perceived value is an antecedence of relative attractiveness.

6.2 Limitations and Future Research Directions

We acknowledge that a number of limitations exist in this study. The sample in the study is limited to the customers of one country (Korea). Cross-culture testing may be needed in future. National culture is important because of the manner in which from high context, collectivist societies such as Thailand, China, Indonesia, or Korea, for example, establish and maintain relationships (Patterson & Smith 2003). The reported highly collectivist nature of Eastern countries is characterizes as “relationship rich”, and we expect they will more loyal to the relationship and such that when they consider switching provider they will perceive a high switching cost. On the other hand, in the individualistic cultures, such as America, Australia, and England, people tend to not be so easy to be locked in. Culture and history will affect their way of thinking and doing. Such that, it is better to test the switching cost model in at least two different cultures. This study only testing the antecedents of loss of benefit switching cost and psychological switching cost, maybe we should also examine the factor that affecting psychological switching costs. Investigation into relationship of other construct with switching costs would lead to new insights. Further, future research can choose multi-dimensional

constructs of switching costs and test the different effects of the multiple dimensions on willingness to pay more.

6.3 Theoretical and Practical Implications

We have identified willingness to pay more as the consequence of switching costs: switching costs are associated with higher profits and inelastic response to prices which provides an important implication for online vendors. By creating switching barriers and managing customer's perceived switching costs, vendors are able to charge price premium, recover the initial online customer acquisition cost and ensure long term profitability.

This study has particularly highlighted the importance of perceived value in Internet shopping context. Perceived value is positively related to relative attractiveness, satisfaction and it is significantly affecting switching costs. Albrecht (1992) also said that the only thing that matters in the new world of quality is delivering customer value. Customers are value-driven and they are seeking value when shopping online. The usual approach of value-adding strategies is that the supplier adds technical product features or supporting services to the core solution so that the total value of the offering is increased and customer will perceive a high value that received from the supplier. So establishing what value the customer is actually seeking from online provider's offering is a starting point for being able to deliver the correct value. Managers need to understand what each key customer is value and where they should focus their attention in order to achieve the need market place advantage. Only when suppliers are creating value that customer can see, they can 'lock-in' the customers.

Perceived value is also positively related to switching cost. Therefore, for online vendors, they can increase customer's perceived switching barrier by delivering value to them. Some customers will perceive high value because of the low cost; and they are more price-sensitive. In this case, the price as well as the total cost will have an effect on customer's perceived value of the offerings. While some other customers will perceive saving time as more important. Therefore, in order to deliver the right value to the right customers, online vendors should focus more on individual customer, what they really value, what special service or products do they want. Online vendors should not only consider what they can give the customers, rather they must also concentrate on the sacrifice the customer has to make.

Relative attractiveness is also positively related to switching costs. For online vendors, they can increase switching barrier to lock in customers by increase the relative attractiveness. In order to increase the relative attractiveness of the shop, online vendors can try to provide more benefits and more value to customers comparing to alternative vendors. For example, the coupons, accumulated points when shopping, the click-through rewards, all these will increase customer's perceived benefits from this supplier.

The ability of vendors to build a switching cost though an increase in perceived value or relative attractiveness would result in reluctance for online customers to switch; because of this switching cost and the problem of information asymmetry, it is possible for vendors to charge a price premium. As such, the identification of factors that affect switching barriers would allow online business to develop profit generating strategies to ensure the 'locking-in' of these customers as well as generate higher revenue from them.

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Appendix. Measurement Items

Variable	Description
Perceived Value (VAL1~VAL4)	Consider the money I pay, Internet shopping at this store is a (very bad deal / very good deal)
	Considering the time and effort I spend, Internet shopping at this store is .. (not at all worthwhile / very worthwhile)
	Considering all monetary and non-monetary costs, Internet shopping at this store is of .. (extremely poor value / extremely good value)
	Overall Internet shopping at this store provides me ... (extremely poor value / extremely good value)
Satisfact-ion (SAT1~SAT4)	Unsatisfied / Satisfied
	Frustrated / Contented
	Annoyed / Pleased
	Disappointed / Delighted
Relative Attractiv-ness (REL1~REL4)	Compared to shopping at other online bookstore/online flower shops, Internet shopping at this store/gardenflower would be more appealing to me
	Compared to shopping at other online bookstore/online flower shops, Internet shopping at this store/gardenflower would be more satisfactory to me
	Compared to shopping at other online bookstore/online flower shops, Internet shopping at this store/gardenflower would be more advantageous to me
	Overall, it would be better for me to shop from this store than other online bookstores/online flower shops
Switching Costs (SWC1~SWC5)	It would take a lot of time and effort to switch my shopping activities here to another online bookstore/online flower shop
	Switching my shopping activities here to another online bookstore/online flower shop would result in some unexpected hassle
	All things considered, I would lose a lot if I were to switch my shopping activities here to another online bookstore/online flower shop
	The costs in time, money and effort to switch my shopping activities here to another online bookstore/online flower shop are high
	It would be a hassle for me to switch my shopping activities here to another online bookstore/online flower shop
Willingn-ess to Pay More (WPM1~WPM4)	Would you pay the current prices at this store if other online bookstores / online flower shops lower their prices to a level slightly below those at this store for same products? (not at all likely / very likely)
	Would you pay the prices at this store if they are increased slightly? (not at all likely / very likely)
	Would you pay the price at this store if it is slightly higher than that for the same product purchase at other online bookstores / online flower shops? (not at all likely / very likely)
	Would you pay the prices at this store if it raises its prices slightly above those at other online bookstores / online flower shops for same products? (not at all likely / very likely)