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An Integrative Framework for Examining Customer Loyalty in Online Environment

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Abstract

Organisations are increasingly turning to the Internet to complement their traditional brick-and-mortar businesses. In our research, we are concerned with the current challenges of customer loyalty, or rather the lack of, in online environments. This paper discusses an approach which examines the relationship between customer e-loyalty and key antecedents like trust, customer satisfaction, perceived risk and corporate image.

Insights from this study will assist marketing managers in prioritising resources on training programs, communication and promotion initiatives. This will lead to improved segmentation techniques, more targeted marketing-mix and positioning strategies and finally, better e-customer relationship management.

1. Introduction

According to market research firm Jupiter Research [27], online retail revenue is forecasted to reach $105 billion by 2007, accounting for 5 percent of all U.S. retail spending. More significantly, the Internet medium will influence 34 percent of all U.S. retail spending by 2007. This rapid growth of e-retailing reflects the compelling advantages that it offers over conventional brick-and-mortar stores, including greater flexibility, enhanced market outreach, lower cost structures, faster transactions, broader product lines, greater convenience, and customization [64] [70].

Indeed, some recent studies reported that there might be systematic differences in customer attitudes and behaviour for products and services chosen online versus offline. For example, price sensitivity may actually be lower online than offline (e.g. [14] [41]). Perhaps this is because consumers are easily able to compare and contrast competing products and services with minimal expenditure of personal time or effort. According to Kuttner [40], "The Internet is a nearly perfect market because information is instantaneous and buyers can compare the offerings of sellers worldwide. The result is fierce price competition and vanishing brand loyalty."

Reicheld [57] asserts that the fundamental task of businesses today should be managing customer loyalty. After all, there is much agreement that building customer loyalty is a key factor in winning market share [35] and developing a sustainable competitive advantage [38]. The presence of numerous web sites means that e-retailers have a tenuous hold at best on a large number of "eyeballs" [64]. It thus does not come as a surprise that there is mounting interest to understand the determinants of customer loyalty in online environments. This would allow appropriate strategies to be implemented in order to reap the benefits of a loyal customer base.

To this end, a primary objective of this paper is to identify those managerially actionable factors that impact e-loyalty through a proposed integrative framework. This article is structured as follows. We first briefly discuss the concept of customer e-loyalty. We then introduce four focal constructs, which could potentially influence customer e-loyalty, namely trust, customer satisfaction, perceived risk and corporate image. We conclude by noting the managerial implications and limitations of this study.

2. Customer e-Loyalty

In research conducted in the 1960s and 1970s, customer loyalty was interpreted as a form of customer behavior (i.e. repeat purchasing) directed toward a particular brand over time (e.g. [68]). This is not surprising as most research originated from the field of packaged consumer goods [34]. Day [12], in particular, criticizes behavioral conceptualizations and argues that loyalty has an attitudinal component.

Attitude, which measures the degree of a consumer's disposition, was hence suggested to supplement the behavioural approach [1]. More recently, Dick and Basu [16] argued that loyalty is affected by the relative strength of the relationship between attitude and behaviour. Oliver [50] augmented this school of thought by arguing that consumers could become 'loyal' at each attitudinal phase. Specifically, consumers may become loyal in a cognitive sense first, then later in an affective sense, still later in a conative manner and, finally, in a behavioural manner, which has been described as "action inertia".

The cognitive form of service loyalty has been described to be of "shallow nature" [51] where customers "have not ceased attending to alternatives, but maintain their awareness of alternatives without "constant and frenetic testing" [21]. In addition, given that the future behaviour of customers is generally of more interest to marketers than current attitudes and/or behaviour, it is natural that the most frequently researched component of loyalty in the past decade is future intentions or conative loyalty [22] [71].

However, it is not well understood how accurately intention predicts actual purchase behavior [3] [43]. The operationalisation of future loyalty as a choice profitability for the next purchasing incidence would be subject to numerous situational factors as well, which cannot be easily monitored [73]. Hence, it is useful to conceptualise "customer e-loyalty" herein as retained preference [53] and as willingness to recommend the e-retailer to other people [31] [13].

3. Suggested Antecedents

3.1 Customer Satisfaction

Satisfaction has been identified as the driver of loyalty by some researchers [49] [52] [6] [8] [22] [3] [16] [50] and as non-significant by others [24] [36]. Reichheld [56] [57] is the flag bearer for the latter movement and suggests that loyalty, not satisfaction, should be the primary focus of a firm's marketing activities. Perhaps the varying relationship found between satisfaction and service loyalty is due to an incomplete portrayal of loyalty in these studies [28] which by itself, is a complex phenomenon that warrants a multifaceted conceptualization [16]. Given the unequivocal debate on the satisfaction-loyalty (and its sub-components) linkage (e.g. [43] [28] [60]), the strength of that link should be tested:

H_{1a}: *The greater the customer satisfaction, the greater is the customer e-loyalty.*

Meanwhile, rather than driving the relationship, trust has also been argued to be reflective of the level of customer satisfaction [24]. Although trust is usually understood as a future-oriented attitude, i.e. as a state of mind that goes beyond past experience, one can hardly deny that a certain amount of positive experience with a person or organization will at least support the development of trust towards this person or organization [23] [25] [32]. We hypothesise that:

H_{1b}: *The greater the customer satisfaction, the greater is the trust.*

3.2 Trust

Just like customer satisfaction, trust is one of the most widely examined and confirmed constructs in relationship marketing and more recently, electronic commerce research (e.g. [37] [10] [24] [32] [45] [46]). Despite attempts to understand the construct better, it remains elusive. For example, even though studies have generally found positive effects of trust on loyalty [24] [25] [47] [69], some studies refute the effects [17] [23] [26] [46].

In this paper, we argue that the intangibility (customers have difficulty evaluating both goods and services on the web before they have been purchased and delivered) and heterogeneousness (the lack of standards, particularly for services, makes it difficult to judge quality in advance of purchase) of electronic commerce "positions trust as perhaps the single most powerful relationship marketing tool available to the e-retailer" [7]. This is mainly attributed to its ability to diminish the perceived risk and vulnerability in a relationship that leads to a higher commitment to the relationship [23]. This, in turn, reduces transaction costs, as there is less necessity to establish expensive control mechanisms.

Specifically, trust is shown to have a positive influence on relationship outcomes in electronic commerce [33]. For example, the likelihood of Internet product purchase is influenced by the amount of consumer trust regarding the delivery of goods and use of personal information [33]. Other research also shows that the fairness of a company's website with respect to information privacy is a significant factor in building trust and in ensuring the continuation of the relationship with the e-retailer [11]. In consonance with the general school of thought (e.g. [47]), we propose that trust is an essential antecedent of loyalty:

H_2: *The greater the customer trust, the greater is the customer e-loyalty.*

3.3 Perceived Risk

The perceived risk construct was introduced to marketing in the 1960s by Bauer and his associates at Harvard Business School [5] [9]. It is defined by Dowling and Staelin [19] as a consumer's perceptions of the uncertainty and adverse consequences of engaging in an activity. Consumer behavior is motivated to reduce risk [5] [67]. When consumers intend to buy a product or a service, they often hesitate to make the final decision because they can't be sure that all of their buying goals will be accomplished with the purchase [59].

Donthu and Garcia [18] found that Internet shoppers are more less risk averse than Internet nonshoppers. According to SRI International, about 70 percent of Internet users have the risk-taker personality type. Miyazaki and Fernandez [44] further proposed that the rate of purchasing products online is negatively related to the perceived risk of conducting online purchase. They also suggested that higher levels of Internet experience could lead to lower risk perceptions regarding online shopping and fewer specific concerns regarding system security and online retailer fraud.

The variability and the non-standardized nature of the online offerings could lead to uncertainty about cost and product performance [48] and make it difficult for a consumer to evaluate alternatives before purchase [29]. The heightened uncertainty resulting from the lack of knowledge and information implies higher perceived risk, which affects customers' decision whether or not to make that online purchase [62]. However, it is also apparent that the amount of risk a buyer perceives depends on the characteristics of the buyer and the type of product or service being considered [30] [62].

In tandem with previous studies (e.g. [65] [66]), perceived risk is viewed as the subjective expectation of a loss or sacrifice. We thus hypothesise that:

H_{3a}: *The greater the perceived risk, the less is the customer satisfaction.*

H_{3b}: *The greater the perceived risk, the less is the customer loyalty.*

3.4 Corporate Image

Many conceptualisations of image have been advanced in the past [20] [39] but generally, image has been treated as a "gestalt", reflecting a customer's overall impression [72] [15] or as an "idiosyncratic cognitive configuration" [42]. Importantly, a growing number of companies have tried to position themselves through the communication channel [4] with the objective of building strong corporate images in order to create relative attractiveness. The importance of corporate image is heightened in the online world because customers, are more often than not, inundated by the variety of the offerings on the Internet. An obvious choice would be to go for a name they trust, select a company they have heard of, one with a reputation for service, quality and reliability.

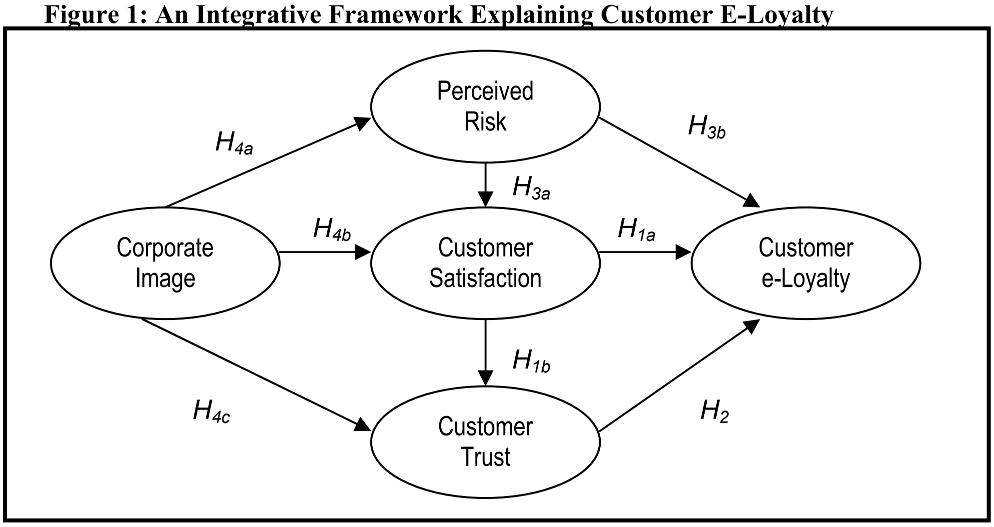
Corporate image could be treated as an outcome from accumulated attitude derived from experience and/or direct or indirect market communication [4]. As a consequence for the relationship level, it is not apparent whether corporate image should be seen as independent from perceived quality and customer satisfaction (as proposed by [4]) or as dependent (as proposed by [61]). Corporate image is defined in this study as the customer's emotional stereotypes associated with the e-commerce service provider. Given that perceived quality, trust and customer satisfaction are emotionally and holistically anchored [2], we thus hypothesize that:

H_{4a}: *The better the corporate image, the lower is the perceived risk.*

H_{4b}: *The better the corporate image, the greater is the customer satisfaction.*

H_{4c}: *The better the corporate image, the greater is the customer trust.*

Figure 1: An Integrative Framework Explaining Customer E-Loyalty



4. Managerial Implications & Conclusions

The antecedents of customer loyalty in the traditional brick-and-mortar marketplace have been studied in detail [63]. However, to the best of our knowledge, there have been no studies evaluating the roles of corporate image, trust, perceived risk, customer satisfaction and loyalty in online environments within a single study. This study thus hopes to make a contribution towards this critical knowledge gap. Based on our model, more comprehensive and richer models of e-loyalty could be developed and tested.

As noted by Peterson [54], electronic markets will lead to intense price competition resulting in lower profit margins. Customer loyalty has been mooted as the only source of sustainable competitive advantage for firms [57]. From a managerial perspective, an analysis on the underlying dimensions of elusive and difficult to operationalise constructs (e.g. corporate image) could provide insights into their relationships with loyalty, allowing marketing managers to justify expenditures on training programs and communication and promotion initiatives that contribute to higher levels of customer loyalty. Further, for compelling value propositions and effective marketing-mix strategies to be crafted, the effects of focal constructs like customer trust have been included. Such an understanding will allow companies to adapt operational variables (e.g. communication message) to increase consumers' receptiveness towards their online offerings. Finally, the study could be used to build indices to supplement measures of financial performance and market share. This, in turn, allows for the competitive benchmarking of e-marketing strategies.

There are some limitations of this research that should be considered when interpreting its findings. Our model does not take into account individual-level variables that also may have an impact. Such variables could be out of the control of the e-retailer (such as customer inertia) and other variables that are jointly determined by individual-and–business factors (such as reposed trust and satisfaction) which may also impact e-loyalty [58]. Also, the suitability of the Internet for e-retailing depends to a large extent on the characteristics of the products and services being marketed [55]. This study does not control for such differences across product & service categories. Researchers can develop richer models that capture and address these limitations.

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