The Influence of Merchant Reputation on Consumer Decisions to Shop Online

Full papers

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Abstract

Merchant reputation is a collective measure of trustworthiness derived from a combination of received referrals and consumer past purchase experience. The positive influence of merchant reputation on consumers' responses and attitudes has received much attention, particularly in terms of the connection between trust and merchant reputation. This paper focuses on how merchant reputation shapes consumer decision-making in online shopping, through an analysis of the perceptions of a select group of online consumers and merchants. The research reveals that merchant reputation has more influence on consumer confidence and trust than on the decision to shop online, but only if it is directly supported by peer recommendations and feedback. Indeed, reputation has a direct influence on consumer confidence and trust, which then indirectly affects the decision to shop online.

Keywords

Reputation, online shopping, trust, perceived risks, consumers, and merchants.

Introduction

This paper presents the results of research into the influence of merchant reputation on the decision-making of consumers to shop online. The study focuses on online consumers and merchants located in Melbourne, Australia.

The commercial use of the internet continues to grow and online shopping has become a part of everyday life. This is because consumers have realised the benefits of online shopping, such as saving time, convenience, competitive pricing and virtually unlimited access to a broader selection of goods and services. With the growth of online shopping, it has become increasingly important to identify the influences on a consumer's decision to shop online with a merchant who is not within their physical reach. Furthermore, one of the ways merchants can improve their online sales is to understand consumer online shopping decision-making, and the different factors that influence consumer decisions to shop online.

However, to date, most of the research findings about consumer-based reputation pertain to bricks-and-mortar firms (Walsh, Bartikowski and Beatty 2014). Previous studies have examined reputation of online retailers mainly in terms of "typical" service marketing outcomes, such as customer trust, loyalty, word-of-mouth behaviour and willingness to pay a premium (Caruana and Ewing 2010; Swoboda, Berg and Schramm-Klein 2013) and the effect of satisfaction upon trust (San Martín and Camarero 2009). Although a wealth of reputation research suggests that merchant reputation is an important driver of consumer behavioural outcomes (Lange, Lee and Dai 2011), very little research has specifically sought to understand how merchant reputation influences consumer decisions to shop online. This paper seeks to address the question 'How does merchant reputation influences consumer decisions to shop online'.

Reputation

Reputation has been defined as "the perceptual representation of a merchant's past actions and future prospects that indicates the merchant's overall appeal to its key constituents when compared to other leading rivals" (Fombrun, 1996, p.72). Essentially, reputation signifies a merchant's integrity and

reliability in relation to their constituents, which reduce consumer behavioural uncertainty (Walsh et al. 2015). Eisenbeiss et al. (2014, p. 257) argue that merchant reputation therefore acts as a safety net that serves as an important heuristic cue in pre-and post-purchase situations.

In the online shopping environment, merchant reputation can be interpreted as a collective measure of trustworthiness derived from a combination of received referrals and consumer past purchase experiences (Utz, Matzata and Snijders 2009). Lee, Ang and Dubelaar (2005) have revealed that reputation can help to reduce the perception of risk, even for a first-time purchaser, especially when there has been no previous online transaction experience with any online merchants and the lack of more physical signs of a well-established online merchant. Unlike a physical store, where a large, well-stocked, nicely decorated, well-staffed space can lend face validity to a company, online consumers can only see a two-dimensional screen with text and graphics. This means it can be very difficult to evaluate a product, as there are no tangible indications of quality or face-to-face interactions with sales staff (Masoud 2013). Therefore, levels of perceived risk surrounding online shopping are high, which reduces the likelihood of consumers buying over the internet (D'Alessandro, Girardi and Tiangsoongnern 2012).

The Important of Reputation

Signalling theory (Connelly et al. 2011) posits that information is not equally available to all parties at the same time and information asymmetry is therefore the rule. Thus, consumers often cannot readily obtain all-important information regarding a merchant. In the absence of detailed merchant-related information, consumers will therefore probably use reputation, to assess a merchant. As such, reputation is a parameter by which an online merchant can shape the beliefs of prospective and existing consumers and influence their buying behaviour (Smaiziene and Jucevicius 2015).

A reputable merchant gives consumers an ex ante quality assurance regarding the products sold. And consumers perceive that a merchant with a good reputation is less likely to make false claims that will weaken their credibility (Akdeniz, Calantone and Voorhees 2013).

Reputation and Perceived Risk

Dowling and Staelin (1994) suggest that consumers engage in risk relieving activities in order to reduce their level of perceived risk and hence their feelings of discomfort. Such risk relievers were found to limit the set of alternative merchants to those with well-known reputations. Lwin and Williams (2006) have analysed the existing research on perceived risk in the online retailing context. Their results indicate that merchant reputation ranks among the top risk relievers (Kim and Lennon 2013).

That is to say, reputation allows consumers to anticipate the future behaviour of a company. Positive reputation signals a high level of merchant trustworthiness and a low level of risk; therefore, in contexts involving greater risk in selection, consumers rely more on firm reputation to make purchase decisions (Walsh, Bartikowski and Beatty 2014). The competition among merchants to become an exclusive, best, responsible and reliable market player highlights the need to acknowledge reputation as an important source of competitive advantage (Smaiziene and Jucevicius 2015).

Thus, online merchants need to create a positive reputation for themselves in order to overcome consumer perceptions of risk and to persuade consumers to buy from them. For this reason, Eastlick, Lotz and Warrington (2006) claim that the direct effect of merchant reputation on trust in online shopping is one of the strongest relationships. This is consistent with the expectation that trust is derived from consumers' evaluations of a merchant's past behaviour. Furthermore, a number of studies have found that trust in an online merchant has a negative correlation with the perceived risk associated with shopping online (Koufaris and Hampton-Sosa 2004; Van der Heijden et al. 2003).

Reputation and Trust

Mitchell and Vincent-Wayne (1999) suggest that reputation affects cognitive perceptions of quality and in turn engenders trust. Moorman, Zaltman and Deshpande (1992) similarly assert that reputation is an indicator of trustworthiness and reliability. The notion that reputation increases consumer trust towards the merchant has been confirmed in relation to electronic travel services (de Ruyter et al. 2001), financial advisers (Johnson and Grayson 2005), legal service websites (Xie et al. 2006), traditional marketing

exchange (Doney and Cannon 1997) and electronic commerce contexts (Jarvenpaa, Tractinsky and Saarinen 1999).

Building a positive reputation is a difficult, expensive and time-consuming process that requires a great deal of consistent relationship-enhancing behaviour on the part of the merchant towards their consumers. As a result, consumers generally believe that merchants who have established a positive reputation will be reluctant to risk their reputation by pursuing short-term gains at the expense of their consumers (Akdeniz, Calantone and Voorhees 2013). Furthermore, the cost of untrustworthy behaviour is perceived to be higher for merchants who already have a good reputation (Park and Kim 2008). In this way, a reputation will not only serve as a guide to otherwise ignorant entrants, but will also enhance the predictability of a merchant's behaviour and trustworthiness in conducting their business (Lin et al. 2006).

In online shopping, as many consumers have difficulty remembering even prominent websites and are reluctant to pay for products from online merchants about whom they know little, reputation can be an important trust-building factor, particularly in the initial phase of the relationship (Caruana and Ewing 2010). For example, word-of-mouth reputation can be key to attracting customers. Hearing from someone else that buying from a particular merchant was a positive experience can help to alleviate a consumer's perceptions of risk. It can also help to support a consumer's beliefs about merchant competence, benevolence and integrity in online shopping (Cheung and Lee 2012).

In this regard, online merchants need to pay particular attention to creating and cultivating reputation and to converting that reputation into a source of sustainable competitive advantage and trust, as Amazon.com has done (Park and Kim 2008). The good reputation Amazon.com has established for itself has helped to boost its sales. In the broader literature on trust in consumer transactions, reputation has long been seen as a trust builder, particularly in relation to engaging consumer decisions to shop online (Fuller et al. 2007).

The Influence of Reputation on Consumer Decisions to Shop Online

Many consumers rely on merchant reputation to evaluate and differentiate between unfamiliar online merchants when making online shopping decisions (Luo and Chung 2010). Reputation has been linked to a number of beneficial consequences for the merchant, including consumer intention to purchase both tangibles and intangibles. There appears to be little doubt that consumers generally consider the reputation of the merchant before undertaking a purchase decision (Ha and Stoel 2009).

Reputation acts like a brand, and ample evidence shows that consumers use brands as a heuristic, especially to reduce uncertainty around a decision. As a result, claims from merchants who have good reputations are considered more credible (Wiles 2007), and such claims then become the antecedent of consumers' intentions to purchase (Bailey 2005). In addition, consumers tend to perceive merchant reputation as a sign of product quality. When the perceived reputation of a merchant becomes more favourable, better product value and quality will be perceived and consumers will exhibit higher intentions to purchase from that merchant (Ou, Abratt and Dion 2006).

Clearly a merchant's reputation is used as a heuristic for assessing the likelihood of satisfactory online shopping and where and whom to buy from, and is considered to be a diagnostic cue for assessing future performance (Purohit and Srivastava 2001). Merchants with good reputations want to maintain them, which gives them a strong incentive to fulfil their promises (Wiles 2007). And, as mentioned previously, this is particularly critical in the online environment. Good reputation simplifies a consumer's decision-making process by serving as a signal of trust and quality (de Ruyter et al. 2001). As a result, well-known merchants are likely to be evaluated more positively than relatively unknown merchants (Estelami et al. 2004).

Research Methodology

This section first explains why this research draws on the grounded theory approach. It then outlines the selection of a sample that was based on this approach. And finally, this section explains the method of data analysis used in this study.

Grounded Theory Approach

Strauss and Corbin's (1998) grounded theory analysis was drawn upon to analyse the data. This method analyses data to derive themes that become evident through iterative textual interpretation. This method was utilised to allow the interpretation to emerge from the study participants, and understanding of the research context to be inductively derived from the empirical data (Bowen 2008). Consequently, the findings provide a rich and meaningful interpretation of ordinary events that creates a convincing picture of the real situation in the study (Huberman and Miles 1994).

Data Collection

This research used a combination of individual interviews and focus group discussions, the latter of which confirmed the findings that emerged from the former. The strength of individual views can be tested through exposure to alternative perspectives in a natural way, uncovering new insights (Morgan 1998) to form the main source of data. Through focus group discussion, multiple views and opinions can develop into a group view as a result of social influences.

In this research, semi-structured interviews with open-ended questions were carried out with 30 online consumers and six online merchants, and two online consumer focus groups were conducted, with six participants in each group. The interviews and focus group discussions typically lasted 60 minutes. The responses were recorded and notes were taken during each interview. The responses were then transcribed, checked and edited. The transcript was sent to each interviewee with a cover letter asking them to confirm the contents or amend as needed.

Data collection was undertaken with two groups of participants: online consumers (Buyers) and online merchants (Sellers). All participants were selected based on their ability to directly address the research goals during the discussions, their relevant experience in online shopping and their understanding of what online shopping involves. For the interview stage, consumer participants were selected based on their extensive experience in online shopping – for example, that they had purchased between 10 and 12 physical items online locally and internationally in the past 12 months, with an average spend per transaction of AU$50–200, and an average of six years' experience shopping online. In selecting the sample of merchants, participants had to have at least five years' experience in conducting an online business locally and internationally, with an average of 50 sales transactions per week, and an average sold per transaction of AU$50–200. For the focus group sessions, consumers who were invited to participate had to fulfil the eligibility criteria mentioned above before being selected for participation.

Data Analysis

Data were analysed based on the coding technique proposed by Strauss and Corbin (1998) – open coding, axial coding, and selective coding – to rearrange the qualitative data into categories in order to observe any emerging patterns. This is a systematic process that makes sense of research data by categorising and grouping similar examples from the data (Fendt and Sachs 2008).

During the coding process, each relevant event is coded into as many subcategories of analysis as possible, as categories emerge or as data emerge to fit an existing category (Strauss and Corbin 1998). As data collection progresses, each piece of data is "systematically and thoroughly examined for evidence of data fitting into categories" (Isabella 1990, p.13); thus, subcategories are continuously challenged and restructured as necessary. Likewise, because subcategories may have more than one dimension, the researcher also compares new data to each dimension in the subcategory. This will determine whether the dimension is inclusive and able to incorporate new incidents, or whether new subcategories and/or dimensions need to be created.

Data collection and analysis continue until the researcher reaches a state of saturation of themes, which is reliant on data collection, coding and analysis reaching a state of completeness both within and across contexts (Goulding 2002). For instance, once several incidents are coded into a single category, it becomes easier to identify whether subsequent incidents in the same category are illuminating new aspects of the category. If so, categories are not yet saturated and require further data collection, coding and analysis; if not, the category has reached the point of saturation. Glaser (1978) defines this process as theoretical sampling, means that the sampling of additional incidents, events, activities, populations, and

so on is directed by the evolving theoretical constructs. Comparisons between the explanatory adequacy of the theoretical constructs and these additional empirical indicators go on continuously until theoretical saturation is reached. In this way, the resulting theory is considered conceptually dense and grounded in the data.

By presenting the evidence through this research methodology and data analysis technique, this study will "let the research findings speak for themselves" (Strauss and Corbin 1998, p.305).

Findings

Analysis of the interviews and focus group discussions led to the identification of the themes outlined below, which characterise the participants' experience with and understanding of the influence of merchant reputation in online shopping.

Consumer Interviews: Peer Recommendations and Feedback

Peer recommendations and feedback were the main inputs used by consumers to assess a merchant's reputation, and to establish a sense of confidence and trust in online shopping. For example, consumers had spent time and effort carefully searching for peer references, especially from those who had enjoyed a satisfactory shopping experience, or any important source of information that verified the merchant's track record. The objective was to take advantage of the available recommendations and feedback to make the right shopping decision and to decide which merchant was trustworthy. The findings, consistent with research carried out by Keh and Xie (2009) and Utz, Matzat and Snijders (2009), suggest that trust and reputation are closely interrelated: reputation is regarded as one of the key solutions to the problem of establishing trust online, and influenced consumers' decisions to shop online. One of the consumer participants noted:

> You can go into the chat room and plenty of forums where people discuss where they bought this and where they bought that. Go by the people experience; someone says, "I got great service" and someone says, "So did I", and that increases your trust level. You are more likely to trust the company if you see other people having a positive experience.

This study further confirmed that peer recommendations and feedback were important for verifying a merchant's identity and competency, and gave consumers a reliable way to establish merchant trustworthiness. This finding was unexpected and suggests that peer feedback and recommendations were of more importance than the availability of a refund and return policy in influencing a consumer's confidence to shop online. Indeed, the analysis of the interviews revealed that, when evaluating a reputable merchant, consumers had more confidence when relying on peer feedback and recommendations obtained through word-of-mouth or from someone they knew, than when depending on the availability of a refund policy or warranty procedures. Consumers had more confidence in a reputable merchant who could provide satisfactory purchase experiences or who had a successful track record. One of the consumer participants in this study commented:

> I will consider the feedback from previous buyers when judging the reputation of the seller. Generally, I will only shop at the well-known website or recommendation from friends who have made a purchase from the site or seller. I buy things not to return; I buy something because I want to use it and I like it.

Consumers were found to be confident about buying from a recognised name because they believed that such merchants are committed to maintaining their trustworthy status and image. They felt that these merchants prioritise the need to provide a safe and satisfactory online shopping transaction and therefore would be unlikely to cause any damage to their own reputation by acting unethically or dishonouring their transactions. This commitment was perceived as providing consumers with greater certainty and assurance and lower risk in online shopping. Particularly in international transactions, consumers interviewed wanted to make sure that their rights are adequately protected. The findings support the results of previous research that suggest that reputation gives merchants an incentive to keep their promises and maintain their credibility (Resnick and Zeckhauser 2002). Conversely, merchants who take the risk of acting opportunistically are likely to receive ongoing unsatisfactory and disreputable feedback among consumers.

Merchant Interviews: Peer Recommendations and Feedback

Merchants, aware that online shopping takes place in a virtual world, agreed that it is difficult for consumers to assess whom they are dealing with. In an online environment it may not be possible to identify or determine a legitimate or credible merchant based solely on their web presence. Nor can consumers ascertain whether they will be guaranteed to receive what they have purchased. A merchant's reputable identity, the merchants in this research believed, can assure and convince consumers that the merchant concerned is a real and genuine seller. The merchant participants agreed that a reputable identity affords an opportunity for consumers to assess that online merchants exist and that they are available to consumers, who can therefore feel confident with their purchases. The merchants interviewed also believed that a reputable identity is not self-proclaimed. Reputation, they argued, should be based on recognition, especially from those who have experienced a satisfactory online shopping experience. It was observed that this is because consumers are particularly concerned about and influenced by their peers' experience of online shopping transactions. Indeed, the experience of peers typically carries more weight than other sources of information in determining shopping decisions. One of the merchant participants in this study noted:

> An online environment is borderless and the activities are almost invisible. On the web you could be anybody and you could be anywhere. People need the confidence that you are who you say you are. I think that is important … they are so remote from the shops in this sense. They can't touch and feel the products, they can't see the people and they don't know where it is located.

These findings are consistent with those of Bhattacharya and Sen (2003), who argue that merchant identity is one of the primary determining factors of the degree of trust that consumers have in merchants. Keh and Xie (2009) also claim that there is a significant relationship between reputation and a merchant's trustworthiness. Utz, Matzat and Snijders (2009) and Koufaris and Hampton-Sosa (2004) have found that positive feedback from consumers significantly influences the reputable identity of merchants. Feedback, these authors argue, is evidence of the trustworthy nature of merchants on which consumers have come to rely.

The merchants interviewed accepted that consumers rely on peer feedback to assess the reliability of a merchant's reputation. Having some confirmation of reliability gives consumers a sense of security and assurance when shopping online, as they prefer not to take the risk of purchasing from an unknown merchant who has no certain credibility and about which there is no guarantee that the merchant will honour their transactions. Merchants therefore recognised that peer recommendations can be a powerful promotional tool for them. Merchants must always take this into account and strive for excellence in the market, in order to build a good reputation. On this point, one of the merchant participants commented:

> Peer recommendation and feedback played a critical role in influencing consumer trust because it was an actual satisfactory reference any consumer could access … they know others have purchased and been happy with the transactions … although this is not the best measure you can have, but I find it is effective. At least people were concerned about it and they actually read it and looked at it.

Thus, the merchants in this research agreed that a reputable business identity is essential to attracting consumers in online shopping. They believed that a good reputation resulted partly from merchants maintaining a good track record in fulfilling their responsibilities, for example, by ensuring that their consumers have a reliable and satisfactory purchasing experience. The merchants interviewed also expressed the view that reputation is not influenced solely, or even primarily, by the availability of a returns and refunds policy or money back guarantees. While these are offerings used by every merchant, the merchant participants believed that they have no significant influence on a merchant's reputation. Instead, the merchants interviewed felt that it is a merchant's responsible actions that really reflect who they are and promote their identity. Along these lines, the merchants noted that they would not risk damaging their reputation by failing to fulfill their responsibilities to their consumers.

Focus Groups: Peer Recommendations and Feedback

The discussions with consumers emphasised that consumers trust that peer references are reliable assurances of a safe and satisfactory purchase from a reputable merchant. Recognising the risk inherent to online shopping caused by the uncertainty around quality as well as the physical distance associated with online shopping transactions, consumers felt that the potential risk can be mitigated by peer feedback. In addition, they believed that buying from a reputable merchant means that product price and quality are guaranteed where they are not with an unknown merchant. One consumer claimed:

> Yes, I think reputation is important and I am more likely to go to a site because someone recommended the merchant to me than just surfing around finding the site and learning the terms and condition. I am a bit old school in that way. The latest one I found on Asos.com because a friend doing fashion design said, "This is where we buy stuff at the moment ... have a look". So that is much more powerful to me than just having to look around.

Once again, merchant reputation was regarded as more influential than the offer of a refund and return policy. Consumers had no high expectations of the availability of such a policy because they did not believe it was necessary – for example, when buying from merchants who already had good track records and when the transactions involved inexpensive goods or services that would only result in minimal loss if a problem were to occur. Furthermore, consumers were of the opinion that seeking a refund is difficult, so they felt that there is no benefit in relying on such policies. Thus, instead of worrying about the detail of any refund and return procedures available, consumers were more concerned about whether they could trust merchants to deliver their purchases satisfactorily.

Similar to the findings gathered from the interviews, the focus group consumers also suggested that a good reputation is more important than anything else. They believed that a merchant's reputation has an unbiased pre-purchase influence on their decision to purchase. It was perceived that it is safer to purchase from a reputable merchant who already has an established identity and credibility than to have access to a refund and return policy. One consumer claimed:

> I only buy online when somebody tells me. Like, "Why don't you try that online merchant?" And that's how I get there. So I go to every website based on reputation and recommendation from someone else. I don't look and discover ... I always work on the assumption that, if somebody told me that I should go online to buy something, it is because it is going to be cheaper and the quality is good. It was that somebody recommended it and it seems like a good way to get it.

The literature reviewed provides some evidence to strengthen the findings gathered from the focus groups. A study conducted by Lee, Ang and Dubelaar (2005) established that trustworthiness leads to a good reputation, and that this is particularly important in online shopping due to the inherent uncertainty associated with online transactions. For example, good merchant reputation influences a consumer's decision-making process by serving as a sign of quality, especially in relation to merchant performance and products and services (Keh and Xie 2009). Previous literature has also confirmed that recommendations and evaluation from peers are to promote promote merchant reputation and increasingly influence consumer confidence to shop online (Lee and Ma 2012).

Conclusion

Merchant reputation appears to be not as significant as has been previously thought in terms of its direct influence on consumer decisions to shop online. The analysis of the interview and focus group findings showed that reputation does influence consumer decisions to shop online, but only in an indirect way. The data analysis confirmed that reputation has a direct influence on consumer confidence and trust, which then indirectly affect the decision to shop online. Other studies have shown that reputation is regarded as one of the important supports to trust and influences consumer purchasing decisions (Keh and Xie 2009; Utz, Matzat and Snijders 2009). This research supports this argument, demonstrating that merchant reputation directly influences trust rather than the decision to shop online (see Figure 1).
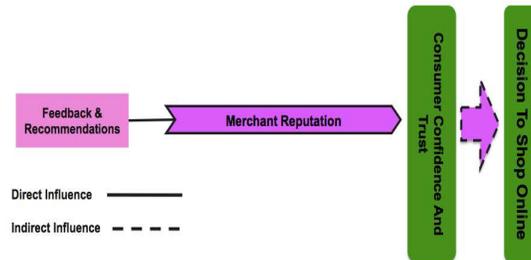
Figure 1: The Influence of Merchant Reputation on Consumer Decision to Shop Online

The model depicted in Figure 1 represents how merchant reputation has a greater impact on consumer confidence and trust than on the decision to shop online, and that reputation only influences such decisions if it is directly supported by peer recommendations and feedback. Peer recommendations and feedback appear to wield a significant influence on consumers' online shopping confidence and trust. In this regard, consumers in this research said that their confidence in buying from particular online merchants is shaped more by a merchant's good track record than by the availability of a refund and return policy.

The analysis of the data revealed that merchants believe that they need a good reputation to convince consumers to purchase from them online. Reputation appears to be an important and effective tool for merchants to implement their business strategy in order to influence consumer confidence and trust, and thereby influence consumer decisions to shop online. The merchants in this study noted that having both a positive track record and peer recommendations is important in promoting a merchant's reputable identity. The merchants considered that it is vital for them to meet consumers' shopping objectives and to satisfy consumer expectations if they hope to improve their track records or to gain positive feedback and recommendations from consumers. Given the rapid changes in the experience and growth of e-business activities in general and online shopping in particular, emphases on peer recommendations and feedback are becoming increasingly important to the consumers.

The analysis of the data obtained from the consumer participants also confirmed that merchant reputation is crucial to consumers when shopping online because reputation is built on trustworthy behaviour, and that reputation carries more weight than refund and return policies. It was agreed that a merchant with a good reputation will be reluctant to damage their image by pursuing opportunistic behaviour, particularly as a good reputation alleviates consumer uncertainty around decisions to shop online. This research identified that consumers have more confidence in shopping with merchants who have an established reputation that is supported by positive feedback and recommendations from peers. And, along these lines, consumers indicated that they would be unlikely to buy from merchants who are perceived to be untrustworthy. The real answer is that consumers are concerned with reputation and want to be connected to a reputation that they trust before deciding to shop online. The truth is that reputation can capture and reach their consumers. Knowing who those consumers are and getting them just a bit little more engaged seems like a win-win situation for consumers and merchants in online shopping.

Increasingly, online consumers are turning to their smart phones, tablets or laptops to carry out a quick search about merchants or sites. And they are no longer just searching on Google or Yahoo! They are asking their families, friends and peers on forums and sites like Facebook, Twitter, Instagram, Pinterest and beyond. Consumers are highly connected; they have access to unlimited information about merchant reputation and myriad online shopping sites (to identify positive, negative and neutral feedback and recommendations). They live and breathe this way, and their online shopping decisions are driven by this.

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