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Customer loyalty in e-commerce: an exploration of its antecedents and consequences

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Abstract

This paper investigates the antecedents and consequences of customer loyalty in an online business-to-consumer (B2C) context. We identify eight factors (the 8Cs—customization, contact interactivity, care, community, convenience, cultivation, choice, and character) that potentially impact e-loyalty and develop scales to measure these factors. Data collected from 1,211 online customers demonstrate that all these factors, except convenience, impact e-loyalty. The data also reveal that e-loyalty has an impact on two customer-related outcomes: word-of- mouth promotion and willingness to pay more.

Keywords: E-commerce; E-loyalty; Internet retailing

Introduction

According to the U.S. Census Bureau's *Monthly Retail Trade Survey,* Internet retail sales for 2000 were $25.8 billion, or 49% higher than 1999 sales of $17.3 billion.[1] 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. However, e-retailing also comes with its own set of challenges. Competing businesses in the world of electronic commerce are only a few mouse clicks away. As a result, consumers are able to compare and contrast competing products and services with minimal expenditure of personal time or effort. According to Kuttner (1998, p. 20), "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." Given the reduction in information asymmetries between sellers and buyers, there is a growing interest in understanding the bases of customer loyalty in online environments.

From a seller's perspective, customer loyalty has been recognized as a key path to profitability. The high cost of acquiring customers renders many customer relationships unprofitable during early transactions (Reichheld & Sasser, 1990). Only during later transactions, when the cost of serving loyal customers falls, do relationships generate profits. With millions of web sites clamoring for attention, e-retailers have a tenuous hold at best on a large number of "eyeballs." In order to reap the benefits of a loyal customer base, e-retailers need to develop a thorough understanding of the antecedents of e-loyalty, that is, customer loyalty to a business that sells online. Such an understanding can help e-retailers gain a competitive advantage by devising strategies to increase e-loyalty. The main objectives of this research are to identify those managerially actionable factors that impact e-loyalty and investigate the nature of their impact.

This article is structured as follows. We first briefly discuss the concept of customer loyalty and introduce eight factors potentially influencing e-loyalty. We then discuss the consequences of e-loyalty. Next, we describe the methodology and discuss the results of an empirical study of the eight factors. We conclude by noting the managerial and research implications of the study's findings.

Customer loyalty

Early views of brand loyalty focused on repeat purchase behavior. For example, Brown (1952) classified loyalty into four categories, (1) Undivided loyalty, (2) Divided loyalty,

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(3) Unstable loyalty, and (4) No loyalty, based on the purchase patterns of consumers. Lipstein (1959) and Kuehn (1962) measured loyalty by the probability of product repurchase. Some researchers (e.g., Day, 1969; Jacoby & Chestnut, 1978) have suggested that a behavioral definition is insufficient because it does not distinguish between true loyalty and spurious loyalty that may result, for example, from a lack of available alternatives for the consumer. In response to these criticisms, researchers have proposed measuring loyalty by means of an attitudinal dimension in addition to a behavioral dimension. Engel & Blackwell (1982) defined brand loyalty as "the preferential, attitudinal and behavioral response toward one or more brands in a product category expressed over a period of time by a consumer." Jacoby (1971) expressed the view that loyalty is a biased behavioral purchase process that results from a psychological process. According to Assael (1992, p. 87), brand loyalty is "a favorable attitude toward a brand resulting in consistent purchase of the brand over time." This rationale was also supported by Keller (1993), who suggested that loyalty is present when favorable attitudes for a brand are manifested in repeat buying behavior. Gremler (1995) suggested that both the attitudinal and behavioral dimensions need to be incorporated in any measurement of loyalty. For our purpose, we define e-loyalty as a customer's favorable attitude toward the e-retailer that results in repeat buying behavior.

The antecedents of e-loyalty

To obtain a detailed perspective on the antecedents of e-loyalty, we first conducted interviews with forty-two individuals —fifteen customers who purchased online, fifteen executives in the e-commerce arena, and twelve professional e-commerce website designers. Each of the individuals was asked six general questions about online shopping behavior. Additional probing questions were asked depending on the responses obtained. Most interviews lasted between ninety minutes and two hours. Based on these in-depth interviews we identified eight e-business factors that appeared to impact e-loyalty: (1) customization, (2) contact interactivity, (3) cultivation, (4) care, (5) community, (6) choice, (7) convenience, and (8) character. For brevity, we refer to these factors as the 8Cs. Each is briefly discussed below.

Customization

Customization is the ability of an e-retailer to tailor products, services, and the transactional environment to individual customers. As noted by Schrage (1999, p. 20), customization offers great potential for e-retailers as "the web has clearly entered the phase where its value proposition is as contingent upon its abilities to permit customization as it is upon the variety of content it offers." Many e-retailers have already begun to incorporate some degree of customization into their practices. In the current study, customization is operationally defined as the extent to which an e-retailer's web site can recognize a customer and then tailor the choice of products, services, and shopping experience for that customer.

There are multiple reasons why customization is expected to affect e-loyalty. Customization increases the probability that customers will find something that they wish to buy. A survey by NetSmart Research indicated that 83% of Web surfers are frustrated or confused when navigating sites (Lidsky, 1999). By personalizing its site, an e-retailer can reduce this frustration. Customization also creates the perception of increased choice by enabling a quick focus on what the customer really wants (Shostak, 1987). In addition, customization can signal high quality and lead to a better real match between customer and product (Ostrom & Iacabucci, 1995). Finally, individuals are able to complete their transactions more efficiently when the site is customized. A large product selection can, in fact, irritate consumers and drive them to use simplistic decision rules to narrow down the alternatives (Kahn, 1998). If the company is able to accurately tailor or narrow choices for individual customers, it can minimize the time customers spend browsing through an entire product assortment to find precisely what they want. These advantages of customization make it appealing for customers to visit the site again in the future.

Contact interactivity

Contact interactivity refers to the dynamic nature of the engagement that occurs between an e-retailer and its customers through its web site. Several researchers have highlighted the significance of interactivity to customer loyalty in electronic commerce (e.g., Deighton, 1996; Watson, Akselsen, & Pitt, 1998). Lack of interactivity is a problem for a majority of web sites. They are often hard to navigate, provide insufficient product information, and answer inquiries via e-mail only after a delay of a day or two. According to Salvati (1999, p. 6), e-retailers will not be able to capture significant market share until they "muster the full measure of dedication needed to achieve and capitalize upon electronic interactivity."

For this study, contact interactivity is operationally defined as the availability and effectiveness of customer support tools on a website, and the degree to which two-way communication with customers is facilitated. Contact interactivity is expected to have a major impact on customer loyalty for multiple reasons. According to Alba et al. (1997), interactivity enables a search process that can quickly locate a desired product or service, thereby replacing dependence on detailed customer memory. By replacing a consumer's need for reliance on memory with an interactive search process, an e-retailer may be able to increase the perceived value that the consumer places on a business transaction. A second reason is that interactivity dramati-