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Managing electronic commerce retail transaction costs for customer value

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Abstract

We investigate how electronic commerce (*EC*) retailers, or e-tailers, manage transaction costs and generate customer value. We integrate information systems and marketing theories in a framework for transaction cost management based on four contingency factors: channel, customer, product and shopping occasion characteristics. We build the framework using archival case studies and validate it with customer interviews. We show that trying to minimize the entire cost of retail transactions is either unsustainable or devalues the customer shopping experience. Instead, looking at transactions as a series of atomic steps enables e-tailers to better understand and manage what really matters for consumers.

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1. Introduction

The information economy has created more informed and demanding consumers than ever before. Successful retailers are responding to the needs of these customers by improving the tradeoff between the customer benefits and transaction costs, thus creating superior *customer value*. This, in turn, enables

retailers to attract and keep customers, increase sales and market share, improve profits and firm value [29,36,50–52,65].

A solution many retailers have explored in their search for increasing customer value is electronic commerce (*EC*) retailing, or *e-tailing* for short. From its early days, EC has been promoted as a way of reducing the monetary, energy, time and psychological transaction costs customers incur when shopping [2,4,5]. EC technologies allow shoppers to search for products, receive personalized product recommendations, evaluate and order products online, over the Internet. Retailers that use these technologies, operating either exclusively online or using a mixed

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strategy to sell both online and offline, are generally known as *EC retailers*, or *e-tailers*. As customers find it more convenient and less costly to shop online [11,49,60], e-tail sales are forecasted to reach \$250 billion in the U.S. and \$150 billion in Europe by 2008 [28].

However, during the tumultuous Internet boom and bust of the recent years, relatively few e-tailers have been able to create and appropriate enough customer value to remain in business. We are now witnessing a second, albeit quieter, EC revolution, with a surprising 40% of the over 200 public EC companies reporting fourth-quarter profits in 2003 [59] and traditional retailers profiting from blending online and offline operations [14]. In this paper we investigate some of the potential success factors for this revolution — namely successful management of retail transaction costs. We start with a review of prior literature, followed by our methodology explanation and data analysis. We then develop and validate a contingency framework for transaction cost management. We discuss our framework's applicability and propose a sample questionnaire for its implementation, and conclude with limitations and future research directions.

2. Transaction costs in the retail transaction chain

2.1. Transaction costs in the retail transaction chain

A *retail transaction* is an exchange between a consumer and a retailer in which the two parties obtain something from each other at a cost to each [12]. Our focus is on the set of costs incurred by the customer in each retail transaction, to which we will refer, as others have done before us [18,20,35,38], as *retail transaction costs*. As in this previous research, our definition draws from transaction cost theory, which advances the idea that transacting buyers (customers) and sellers (retailers) experience costs related to identifying the appropriate trading partners and obtaining product information and prices, writing contracts, purchasing, and policing and enforcing contracts [18,20,38]. Because the customer is at the center of our investigation, we focus on the demand-side transaction costs that a customer encounters when interacting with retailers, which capture the efficiency of the transaction from the customer's standpoint [20].

Transaction fees, time, effort, convenience, trouble, and ease of use have been used to describe the transaction cost of customers interacting with retailers [20,35,38]. This definition of retail transaction costs is also consistent with papers that label the costs customers incur while shopping as shopping costs [10], consumer purchase costs [12], transportation costs [6], buyer search costs [5] or customer objectives related to Internet shopping [32,60]. These transaction costs, or shopping costs, include price-type costs (such as parking fees, installation fees, credit charges, taxes, travel costs, transaction fees, etc.), time-type costs (such as travel time, waiting time, search time, overall shopping time, delivery time, etc.), and psychological-type costs (such as perceived ease of use, inconvenience, frustration, annoyance, anxiety, depression, dissatisfaction, disappointment, personal hassle, etc., due to the store physical environment and interactions with salespeople and other customers) [12,20,35,38]. Table 1 presents a summary of the variety of these customer-side (demand-side) transaction costs definitions (see Table 1).

Transaction costs occur in all steps of a consumer's purchase decision process: need recognition, search, alternative evaluation, purchase, and outcome [23]. To acquire products, or resources, customers go through a resource lifecycle that includes several stages, each with associated costs: establishing and specifying requirements, identifying the source, ordering, paying for, acquiring and testing, integrating, updating, monitoring and maintaining, and retiring the product [30]. Researchers have proposed that EC transactions can be described by similar sequences of steps such as brand search, product search, and purchase [43], forming a consideration set, choosing a product, and buying the product [8], need identification, evaluation of product alternatives, evaluation of merchant alternatives, negotiation, actual purchase and delivery, and product service and evaluation [39], or pre-purchase interactions (search, comparison, and negotiation), purchase interactions (order, payment, and product receipt), and post-purchase interactions (service and support) [36].

This purchase process, in general, and each of its stages, in particular, has associated costs and benefits. In this paper, our focus is specifically on the transaction costs of the purchase process. Overall transaction costs consist of comparison, negotiation, payment,

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