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# What induces online loyalty? Online versus offline brand images[☆]

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ABSTRACT

This study investigates the effect of the interplay between a multi-channel retailer's offline and online brand images on consumers' online perceived risk and online loyalty within the framework of a theory of cognitive dissonance. A sample of 671 female college students participated in an experiment using a 2 (prior offline brand image) × 2 (online performance) between-subjects design. Results reveal that offline brand image exerts significant effects on online brand image – which, in turn, significantly explains online perceived risk – and online customer loyalty. However, online perceived risk has no significant effect on online customer loyalty after controlling for the effects of online and offline brand images. These results provide implications for the direct and indirect halo effects of offline brand image and the direct effect of online performance that may influence consumers' perceptions, expectations, and loyalty regarding multi-channel retailers.

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## 1. Introduction

Retailing has become increasingly competitive since the advent of the Internet. Multi-channel retailing that incorporates the Internet into its channel portfolios has become a standard business strategy for once-traditional in-store retailers such as department stores and specialty stores (Geyskens, Gielens, and Dekimpe, 2002). In-store retailers' expansion to the e-channel has brought tremendous shifts in the retailing paradigm and the market structure (Nicholson, Clarke, and Blakemore, 2002). The multi-channel strategy may help retailers foster customer loyalty by increasing customer contact points, offering channel selections for the customer's convenience, and providing diverse types of services (Cassab and MacLachlan, 2006).

The synergy between online and offline operations generated by the seamless integration between the two channels enriches customers' experiences with the retailer, strengthens the brand image of the retailer, and cultivates customer loyalty in both channels (Bailer, 2006; Gefen, 2000; Harvin, 2000). On the other hand, the multi-channel strategy also implies that the retailer's unsatisfactory performance in one channel may impact the customer's image and expectations of the retailer in the other channels. For example, a brick-and-click retailer that possesses a negative brand image from inconsistent performance in its offline channel may have difficulties persuading consumers to believe that its online store will provide accurate information and reliable services.

Online retailers invest considerable resources to improve their web site content, structure, and product presentation methods to enhance customers' experiences with their online stores. Therefore, examining the effectiveness of their investment in improving consumers' perceived online brand image and online shopping behaviors is important to online retailers. In addition, the relative extent to which offline and online brand images influence consumers' expectations of the web site performance (e.g., perceived risk of using the web site) and behavior toward the web site (e.g., customer loyalty) is of special interest to brick-and-click multi-channel retailers.

This study investigates the effects of the interplay between a multi-channel retailer's offline and online brand images on consumers' online perceived risk and online loyalty toward the retailer. The theory of cognitive dissonance (Festinger, 1957) offers a framework for examining these effects. Specifically, this study addresses two objectives: (1) to investigate the effects of prior offline brand image and online performance of a multi-channel retailer on consumers' offline and online brand images of the retailer, perceived risk, and loyalty intentions regarding the online store of the retailer; and (2) to examine a structural model of relationships among consumers' offline and online brand images, online perceived risk, and online loyalty intentions regarding multi-channel retailers.

## 2. Conceptual framework and hypotheses

### 2.1. Multi-channel retailer brand image: offline and online

Brand associations held in the consumer's memory reflect brand image, that is, the reasoned or emotional perceptions about a brand (Keller, 1993). Since brand associations can be anything in memory

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that relates to a brand, they tend to be multidimensional (Keller, 1993), and may include functional, experiential, or symbolic attributes and benefits of a product or service and brand attitudes or overall evaluations of a brand (Keller, 1993). A retail brand image (or store image) may be more real to consumers than product brand images because the retail store provides the possibility that consumers literally experience the brand at the moment of purchase (van Tongeren, 2004). Store environmental cues can evoke emotional reactions, while diagnostic cues of the retailer's performance can generate cognitive inferences about a retailer. Consumers then integrate them into their global impression or brand image of the retailer (Baker, Grewal, and Parasuraman, 1994). The retail brand image, in turn, affects various attitudinal and behavioral responses of the consumers toward the retailer such as the customer loyalty that may create a strong store patronage intention, great willingness to pay a price premium, and a strong feeling of affiliation or liking (e.g., Dube, Chebat, and Morin, 1995; Merilees and Miller, 2001).

Brand image of a multi-channel retailer may be multi-faceted. Some multi-channel shoppers may form a brand image based upon information about the retailer from all channels they have experienced, while others may have a distinctive set of brand images and expectations about each of the retailer's channels. Expanding a traditional in-store retail brand to the Internet virtual space shares similar characteristics and implications with the extension of a product brand to other products. Like brand extensions, most brick-and-click retailers use the same retail brand name for both channels. A multi-channel retailer's services can vary through its offline and online channels. Nevertheless, as brand extensions benefit from the favorable associations of the parent brand (Keller and Aaker, 1992), multi-channel retailers may be able to leverage the halo effect from the images associated with their existing offline retail brand name and achieve favorable online brand image and evaluations of their online performance. The multi-channel retailers' recent victories over the so-called pure player that operates only on the Internet support this contention (Vishwanath and Mulvin, 2001). As multi-channel shopping becomes more prevalent, the importance of seamless integration of operations and consistency in branding strategies across multiple channels has become more evident for a multi-channel retailer to truly benefit from the transfer of a favorable offline brand image.

### 2.2. Perceived risk

Perceived risk refers to "the expected negative utility that consumers can associate with the purchase of a particular brand or product" (Dunn, Murphy, and Skelly, 1986, p. 205). E-tail researchers have frequently adapted the concept of perceived risk in their examination of online shopping or purchasing in general (e.g., Choi and Lee, 2003), for particular types of products (e.g., Pires, Stanton, and Eckford, 2004), and from a particular online store (e.g., Park, Lennon, and Stoel, 2005). To summarize their findings, perceived risk negatively affects consumers' responses to e-tailers: the lower the risk perceived by consumers, the higher their acceptance of the online shopping mode (e.g., Forsythe and Shi, 2003) and the greater their purchase intention from the online store (e.g., Park et al., 2005). Perceived risk is higher in online versus in-store shopping conditions, and this difference is especially true for non-digital, physical goods such as apparel products that require high involvement (Biswas and Biswas, 2004; Pires et al., 2004).

### 2.3. The effect of prior offline brand image based on theory of cognitive dissonance

According to cognitive psychology (e.g., Asch and Zukier, 1984), incoming stimulus information interacts with the individual's prior knowledge in the process of impression formation. In the retail context, consumers' prior knowledge about a retailer (e.g., prior retail brand image) can influence how they process new pieces of information about the retailer that may cause a biased integration of the information into the existing brand schema of the retailer. According to the theory of cognitive dissonance, postulated by Festinger (1957), when an individual is exposed to new pieces of information about an object that are inconsistent with his or her existing cognitions about the object, a state of dissonance is created. The presence of dissonance brings psychological discomfort to the individual, and thus motivates him or her to engage in various mental mechanisms by which the dissonance can be eliminated. The dissonance elimination mechanisms are more likely to be activated when the existing cognitions are stronger (e.g., strong brand image) (Fishbein and Ajzen, 1981). This is partly because the strongly held existing cognitions prevent the inconsistent new information from registering in the individual's cognition (this mechanism is called biased assimilation) or from impacting other existing cognitive elements (e.g., beliefs, perceptions, attitudes) about the object (this mechanism is called impact minimization) (Ahluwalia, 2000). In doing so, the individual refuses to be persuaded by the new dissonant piece of information and maintains his or her existing cognition. This phenomenon is less likely to occur if the existing cognition about the object is weakly held.

Biased assimilation is the tendency to deny the validity of information that is inconsistent with currently-held cognitions about an object or to erroneously interpret the information so that it can never be established in one's cognitions in a dissonant manner in the first place (Ahluwalia, 2000; Kunda, 1990). For example, consumers who have a strongly held positive offline brand image about a retailer based on their past experience with the retailer may perceive the retailer's online store performance (e.g., online brand image perceived from the web site) in a more positive way than do consumers who hold a weak offline brand image about the retailer. On the other hand, impact minimization refers to the tendency to reduce the extent to which the dissonant piece of information exerts an influence upon another cognitive element related to the object (Ahluwalia, 2000; Fishbein and Ajzen, 1981). Based upon the concept of the impact minimization mechanism of dissonance elimination, the impact of poor online performance on perceived risk associated with shopping on the retailer's web site is expected to be smaller for a multi-channel retailer that has built a strong, positive offline brand image than for retailers which have weak offline brand images.

In the multi-channel retailing context, the dissonance elimination mechanisms such as biased assimilation and impact minimization provide a theoretical framework which explains the halo effects of strong prior offline brand image. Halo effects refer to the phenomenon that evaluations of individual dimensions of an object are biased by the holistic impression of the object (Leuthesser, Kohli, and Harich, 1995; Thorndike, 1920). A strongly positive impression (image) of a multi-channel retailer that is held by consumers based upon their offline experience with the retailer may have a halo effect on their online evaluations of the retailer. The effect occurs by leading people to process online performance information about a retailer only if that information is consistent with the retailer's positive offline brand image, to interpret and remember the incoming online information in a more positive manner, or to restrict impact of negative information on their evaluations about other characteristics of the retailer. As a consequence, consumers may view a similar level of online performance (e.g., similar web site designs, similar products, similar service options) in a more positive way, and thus form a more positive online brand image and expectations (e.g., lower perceived risk) about a retailer for which prior offline brand image is strong (i.e., consistently positive) versus weak (i.e., inconsistent or negative image). The more positive online brand image and expectations may lead to a more positive behavioral response (e.g., loyalty intention).

Therefore, the following two hypotheses are based upon this rationale:

**H1.** Consumers' (a) perceived online brand image is more positive, (b) online perceived risk is lower, and (c) online customer loyalty