E-Loyalty—Elusive Ideal or Competitive Edge?

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Business-to-consumer (B2C) e-commerce has grown at a phenomenal rate and the best may be yet to come. The steady growth of B2C e-commerce over the last three holiday seasons is indicative of the remarkable potential of online retailing as an alternative to the traditional bricks-and-mortar mode of shopping. However, many consumers are hesitant to adopt this new way of doing business. Their satisfaction with and loyalty toward online shopping have been stalled by multiple episodes of frustration with online transactions, as illustrated by the following quote from an industry publication:

“Last season’s troubles were many. Some retail sites buckled under the weight of traffic, resulting in pages that loaded slowly or not at all. Others couldn’t keep up with customer service requests. Still others were spotty in fulfilling orders on time—Toysrus.com had to issue gift certificates when toys weren’t delivered in time for Christmas” [7].

Thus, while there seems to be a surge in online traffic, there is also a general consumer wariness about electronic shopping. For businesses, the equation is further complicated by high customer acquisition costs, low customer retention, and negative cash flows in B2C electronic commerce—all of which highlight the need to better understand customer interactions. This article aims to provide insights into the critical factors that create online customer loyalty.

Jeff Bezos, founder and CEO of Amazon.com, stated that creating a compelling online experience for cyber customers is the key to attaining competitive advantage on the Internet [11]. Our focus in this article is on consumer experience with online shopping. Using a paired sample approach in which customers’ online shopping experience is contrasted with their conventional shopping experience, we address the dimensions along which they perceive similarities and differences between the two modes of shopping. We aim to accomplish three objectives:
1. Compare e-loyalty with customer loyalty to conventional bricks-and-mortar shopping.
2. Assess the value of e-commerce by measuring consumer ease of use, and cost and time saving vis-à-vis bricks-and-mortar shopping.
3. Examine critical success factors for online retailing associated with customer loyalty. For example, what makes some online stores more successful than others? Also, what role do factors like reputation and Web site features play?

Using the paired sample approach, we asked 134 respondents about their shopping experiences for a product purchased through conventional channels. Then, we asked the same people to shop online for the same or a similar product and complete another survey with similar questions about their online experience. The rigor of the paired sample design allows for the capture of consumer perceptions by explicitly considering the response differences between the e-commerce and conventional channels. It controls for several extraneous or idiosyncratic factors, such as technical savvy of users and product type, which might make an across-the-board comparison of online shopping less accurate.

A Model for E-Loyalty
IT has impacted businesses in dimensions such as productivity, profitability, and consumer surplus [6]. For B2C e-commerce, the value to the customer may be derived from time saving, cost savings, preferences, and ease of transaction. We propose that the nature of the interaction between the customer and the online store has a consequential effect on the purchase decision. Thus, Web site features that make for a compelling shopping experience contribute to the likelihood of a purchase decision. Satisfaction, and perhaps repeated satisfaction with purchases, eventually leads to customer loyalty. We present a model for explaining online shopping loyalty in Figure 1. Three factors contribute to satisfaction with the purchase:

- The efficiency of the transaction as reflected by: ease-of-use, the effort required to search for the best product and complete the purchase, and the time involved in making a purchase;
- The value of the product or service to the customer, reflected in a better price or quality, or both; and
- The nature of the interaction resulting from the design of the Web site.

“If you build a good site, users will come, but if they visit only once, you lose,” say researchers [9]. Businesses strive to gain customer loyalty, but since switching costs in Internet shopping can be low, many assume loyalty for online stores might not be as high as for conventional stores. To address this issue, we asked the respondents to rate their perspectives on the following using a 7-point Likert scale ranging from “strongly disagree” to “strongly agree”:

1. I plan to use online shopping again.
2. I strongly recommend shopping online to others.
3. For products I can buy online, I intend to completely switch over to online shopping.
4. I intend to increase my use of shopping online in the future.
An important distinction must be drawn between several types of loyalty. In the minds of online shoppers, loyalty might be directed toward one of three objects: the online store, the channel of purchase (online or conventional), or the product. Our focus in this study was on purchase channel loyalty. Our statistical analyses yielded a surprising finding: on all counts our respondents were significantly more loyal to online shopping than to conventional shopping. Our findings provide strong evidence of consumer loyalty to online shopping, and run counter to the common belief that customers are not as loyal to the online shopping channel as they are to conventional stores.

Does a traditional virtue like loyalty still have value in the online world? After all, customers can defect with the click of a mouse. Reichheld and Schefter [10] argue that the unique economics of e-business make loyalty more important than ever. We believe that loyalty in cyberspace assumes even greater significance than loyalty in the physical marketplace because it is expensive to attract and obtain customers on the Internet. Unless customers remain loyal and make repeat purchases, it is not a profitable proposition for businesses. In the following sections, we report our findings regarding several factors that play an important role in building customer loyalty: customer satisfaction, price issues, time and ease-of-use issues, and returns processes.

Satisfaction. Satisfaction with the online purchase is a necessary antecedent of loyalty. In fact, continued satisfaction or repeated high customer satisfaction experiences lead to higher customer loyalty. Having observed a significant variation in purchase channel loyalty, we explored the difference between satisfaction with purchases through traditional and online channels. We asked respondents to rate their agreement with the following statements using the 7-point Likert scale (we asked conventional shoppers a comparable set of questions not shown here):
1. It was possible for me to buy the product of my choice easily.
2. The online site information content met my needs.
3. Overall, I was satisfied with this online experience.

The responses to the first two questions revealed significant differences between conventional and online shopping, while the last question on overall satisfaction did not suggest a significant difference between the two channels. Thus, while specific aspects of satisfaction were higher for online stores, overall satisfaction was not significantly higher than for conventional stores.

Price. The Wharton Virtual Test Market study [3] conducted at the University of Pennsylvania found evidence that online shoppers are more interested in saving time than money. An earlier price analysis of books, CDs, and software found that Internet prices were on average higher than prices in conventional outlets [1]. Our results are contrary to these findings. We found reasonably strong evidence that online shopping provided a significant price advantage over conventional shopping. Our research design enabled us to compare the price of the same product purchased online and at a conventional store. A statistical test of the price differential was found to be significant. Across the board, shoppers provided objective evidence of price differentials ranging from a few cents for books to several hundred dollars for airline tickets. These results are in line with more recent hypotheses that search engines would reduce search costs dramatically, leading to a significant drop in online store prices [5]. This is also consistent with arguments that lower search costs lead to lower prices [2].

Time, ease, and effort. An extensive body of literature indicates that the acceptance of any technology is determined largely by the perceived ease of use and usefulness of the technology. Parallel dimensions in the context of online shopping that may affect its acceptance are the time it takes to shop, the effort required to search for the best deal, the ease with which a transaction is completed, and the price advantage. While price advantage was assessed objectively, perceived efficiency and effort were assessed through consumer ratings of the following statements:

1. Generally speaking, shopping online helps me accomplish tasks more quickly.
2. I did not have to spend too much time to complete the transaction.
3. I did not have to spend too much effort to complete the transaction.

For all three statements, we found a statistically significant difference between conventional shopping and online shopping. We also found a statistically significant difference between conventional and online shopping for ease of use. We assessed ease of use using the following statements, which have also been used in prior studies:

1. It is easy for me to shop online.
2. Overall, I believe that shopping online is easier.

These results provide overwhelming evidence of online shopping's popularity in terms of the dimensions of time saving, ease of use, and effort. These findings corroborate several results from the Wharton Virtual Test Market study. The authors of that study concluded that online shoppers shop online primarily to save time. However, contrary to earlier studies, we found evidence that online shopping also provides significant monetary cost savings for shoppers.
Returns processes. Our findings on the returns process are subject to the caveat that only about half of the respondents returned a product. Perhaps customers do not think of returns processes at the time of purchase. But, when they do return an item, the experience affects whether they will continue to use a particular store. On this dimension, we found that conventional stores were ranked higher than online stores. Assessed along dimensions of ease of use and time spent, the returns process for conventional stores was much simpler and more acceptable compared to that of online stores.

This finding reinforces the common belief and experience of shoppers that online stores need to simplify the returns process. Of course, some products and services are easier to return or cancel such as airline tickets or long distance service contracts, while others are less likely to be returnable such as music or application software.

Critical Success Factors for E-Loyalty
Given the compelling evidence in favor of online stores along many dimensions, a natural line of inquiry involves examining what makes some sites more successful than others. The answer has significant implications for online retailers planning to establish or enhance their Web presence. We examined this issue through features of online sites that might have the most significant impact on customer loyalty. Although there are other ways to operationalize this issue, loyalty is a good starting point.

In accordance with the existing literature, we assessed features of online stores along several dimensions. Specifically, the literature on end-user computing [4] provides guidance on the factors and features that affect computing. The factors we considered include design features of the Web site, site security and choice of payment options, and store reputation. Figure 2 lists the critical success factors that shoppers associate with loyalty, in order of importance. The length of the bar is proportional to the degree of relationship or correlation between various features of the online store and customer loyalty.

![Critical success factors for online stores.](image-url)
Our analyses suggest two factors are most associated with loyalty: information content and transaction safety. The first factor involves the ability of the online store to give the customer all the information he or she needs to make an informed decision, while the second highlights the need for online stores to convince users about the safety and security of transacting through their Web store. Download time of the Web page was also a significant factor in determining loyalty. This implies that long download times translate into lost customers, even though the customers’ connection to the Internet contributed to the slow download. This is consistent with anecdotal evidence from a click-stream analysis of visitors to Jewelry.com. The site clocked 15,000 visitors per day, with 90% of the customers not going past the home page because the site was too slow [8].

Surprisingly, the factors that did not appear to matter much were the store reputation and the returns process. The reason for the first observation may be that in the case of a tangible product, as long as customers were able to order the desired product conveniently, the reputation of the store did not matter. The second result may be an artifact of our sample, since few respondents actually experienced a product return process.

We also used our analyses to examine another important question: Is there a relationship between user familiarity with the Web, Web shopping, and loyalty? The answer to this question may provide a glimpse of tomorrow’s loyalty of technology-savvy customers. In Figure 3, we illustrate how user comfort, prior online shopping experience, and Web familiarity correlated with customer loyalty. The relationship between all of these factors and loyalty was statistically significant. This indicates that as shoppers gain more familiarity and experience with online shopping, there is a greater chance of increased customer loyalty toward online shopping.

![Figure 3. Effect of familiarity on customer loyalty.](image)

**Conclusion**

Several important implications for online stores stem from the results of this study. First, online shopping is preferred for timesavings as well as for monetary cost savings. This is contrary to past studies suggesting timesaving as the only reason for e-commerce use. The proliferation of online stores, the use of comparison shopping serv-
ices, and more efficient Web engines may be factors tilting the balance toward online shopping.

The second interesting and surprising finding was that customer loyalty toward online shopping and online stores was significantly higher than their loyalty toward conventional shopping and stores. This is contrary to arguments that low switching costs lead to low loyalty for online stores, and bodes well for the future of B2C commerce. We find evidence that online shoppers exhibit a high degree of channel loyalty, and Web technologies that make the customer interaction a compelling experience reinforce their loyalty [10].

Third, our research suggests that the factors most valued by online customers are: information content, security, ability to remember repeat customers (customers do not wish to re-enter name, address, and payment information), and download times. This information may be useful for online stores as they devise strategies and designs to garner a larger piece of the market. Despite the higher overhead involved in administering such a study, our paired sample design provided a significantly stronger test of the difference in consumer perceptions of the two channels.

An interesting option that has significant implications is the possibility of a middle ground for online shoppers. Would customers value a store that provides a Web front and also the option for customers to visit a physical location? In other words, do customers value click-and-mortar? This does appear to be a strong customer sentiment, based on the statistically significant relationship between customer acceptance of online shopping and their responses to this survey question: “I think the service provided by an online store is better if the online store has a physical location where I can get services at some point.”

Robert Hershey, a senior vice president at KPMG Consulting, recently stated that some online retailers might seek to streamline fulfillment by focusing on their bricks-and-mortar facilities, such as distribution centers that allow them to get orders to customers quickly and efficiently. Or they may look to outsource order fulfillment to companies that specialize in delivery. Other e-retailers will likely integrate their online presence more tightly with their telephone call centers so an online buyer can place an order and immediately call a live person to check on the order or ask additional questions [7].

In summary, our findings indicate that online stores have an opportunity to gain loyalty of an increasing number of customers. Due to time and cost savings from online shopping, we find that customers are inclined to continue to reward online stores with their loyalty. However, online stores will have to address customer concerns of transaction security, download speed, personalization of transaction, and usefulness of information content. One question remains: Will online businesses pay attention to these customer demands in exchange for their loyalty?

References


