MASTER'S THESIS

Influential Factors of Customer E-loyalty In Iranian e-stores

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In the name of God

Abstract

The rapid development of technology and internet has diverted company direction to retain customer e-loyalty. Customer loyalty is becoming an area of great interest for companies and customer loyalty has a direct impact on the revenue and profitability of a company. With regard to customer loyalty's importance, we investigate three main research problems that are the most important barriers for e-businesses for survival, which are *customer too much switching, switching cost,* and *competition*. To overcome this barriers; companies had to invest on building loyal customer in long-time relationship. Also, in this research,, the influential factors of customer e-loyalty were investigated, which are e-satisfaction, e-trust, and e-quality.

In this research, e-loyalty and e-satisfaction models are elaborated, then, with regard to limitations, the conceptual e-loyalty model are assumed that investigate the relationship between the e-satisfaction, e-trust, and e-quality as basic constructs of model as well as the relationship between each constructs and e-loyalty.

In this study, quantitative research is best to this thesis because of linear structure between e-loyalty and its constructs. In addition, research purpose and research questions indicate that this thesis is primarily exploratory then descriptive. Since the aim of this research is to investigate the relationship some variables and to test some predefined hypothesizes among a number of e-retailers, survey is selected as research strategy.

The aim of this research is to identify influential factors of customer e-loyalty in Iranian e-retailers which are focus on selling Book and CDs. Thus, the sample of this survey consists of online buyers who have deals with three e-retailers. The names of e-retailers were considered anonymous due to owner's request since they feel free to give us customer's information. Moreover, the size of the population under this study is the sample size that has been determined 280 under formula, still, 352 questionnaire were gathered out which 322 were eventually accepted.

The result of this research shows that *delivery time, distribution system, specific invoice as well as convenience and flexibility* of online shopping is very underlying factor of e-satisfaction from customer point of view.

In addition, *giving Personal Data, Reliable information*, *Credit card information*, *and having Physical location* have a very influential effect on E-trust from customer point of view. Also, e-retailer *brand name* as well as previous user's *recommendations* is the most underling factors which bring about good word of mouth and finally lead to trust in online shopping. Moreover, Experience of members in *communities* and *chartrooms* leads to developing E-trust among members.

Besides, *need fulfillment, advertisement / promotions, and customized attention* are the influential factors of E-quality from customer perspective. Also, *sending reminder, relevant information, and share of business* with customer are the most underlying factors which affect cultivation and increase customer attention in online shopping and consequently increase e-quality. Moreover, *one-stop shop* and *carry a wide selection of products* are the most prominent issues which lead to e-quality.

In conclusion, all factors which increase E-satisfaction and E-quality lead to e-loyalty so E-satisfaction as well as E-quality considered as two influential factors of customer E-loyalty. Also, since significant relationship between E-trust with E-loyalty and E-satisfaction rejected, we can say that preparing e-trust solely has no effect on E-loyalty and E-satisfaction. In other words, trust is sufficient condition for any e-business for transactions with customer which is not lead to e-loyalty, exclusively. Beside, since there is significant and positive relationship between E-trust and E-quality, and because E-quality has direct effect on E-satisfaction and E-loyalty, we can conclude that E-trust in companion with E-quality will lead to E-satisfaction and E-loyalty.

Keywords: e-loyalty, e-satisfaction, e-trust, e-quality

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Chapter 1

Introduction and Preliminary

Chapter 1: Introduction and preliminary

In this chapter, we express the importance of e-businesses growth and e-commerce activity, then, we identify three important research problems from the seller's perspective and benefits of customer loyalty for companies. Finally, the objectives of research and key word definition will be presented.

1.1. Introduction

In the first quarter of 2002, US retail e-commerce sales were up 19% from the same period in 2001 and accounted for $9,849 million or 1.3% of all sales (US Department of Commerce, 2002). Forrester.com Internet consultants (2000) reports that customers are significantly more likely to repurchase products from their e-stores than from traditional retail outlets; that is, e-stores are ‘‘sticky’’ (Reichheld and Schefter, 2000). Overall, the dominant e-shopping developments are that (a) the percentage of total retail sales accounted for by e-commerce is likely to continue growing and (b) the majority of e-tailors seem to enjoy more customer loyalty than do their bricks and mortar competitors (Forrester.com, 2000).

In addition, 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 . Also, 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 (Srinivasan et al, 2002). 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(Srinivasan et al, 2002).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 (Srinivasan et al, 2002).

1.2. Research Importance from seller's Perspective

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).

With millions of web sites clamouring for attention, e-retailers have a tenuous hold at best on a large number of "eyeballs." In order to reap the benefits of 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 (Srinivasan et al, 2002).

The cost of acquiring new customers online means that loyalty becomes an economic necessity for the e-store (Reichheld and Schefter, 2000). While financial drivers result in more efficient systems resulting in a fall in customer acquisition costs (CyberAtlas, June 12, 2002), ''for most, . . . average customer acquisition cost is higher than the average lifetime value of . . . customers'' (Hoffman and Novak, 2000, p. 179). In addition to customer acquisition costs, retaining and winning back lost customers require a variety of ongoing costs (Griffin and Lowenstein, 2001a,b) such as marketing expenditures that help to build value equity (i.e., quality and convenience), brand equity (e.g., awareness and image), and relationship equity (e.g., loyalty or rewards programs) (Rust et al., 2000). Customer acquisition/retention costs remaining greater than the revenue generated from the customer, would clearly lead to the financial ruin of the organization concerned (Balabanis et al,2006).

1.3. Research Problem

In this section, we investigate three main problems which are the most important for e-businesses for survival, too much switching, switching cost, and competition. However, to overcome these switching barriers, companies had to invest on customer for long term relationship. In addition, the Internet has been commercialized it has created an intense competitive environment among organizations and forcing them to extend traditional marketing practices and focus on developing long-term relationships with customers to ensure their retention and loyalty (Papadopoulou et al, 2001)

1.3.1. Too much switching

While an increase in marketing efficiency can help to decrease the costs associated with each order, an increase in the lifetime value of the customer (CyberAtlas, June 12, 2002), extending the length and/or depth of the relationship between customer and e-tailer is more likely to result in a sustainable competitive advantage for the company. This advantage is most likely to be achieved by increasing the length of time customers stay with the company, or by increasing the frequency and value of customers' transaction (Balabanis et al, 2006). 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 and effort (Srinivasan e*t al.,* 2002).

1.3.2. Switching cost

Jones et al. (2002, p. 441) define switching costs as ''the perceived economic and psychic costs associated with changing from one alternative to another.'' Switching costs include time, effort, and financial costs such as those associated with training to use a new piece of equipment. Perceived switching barriers are ''consumer perceptions of [the] time, money and effort associated with changing service providers'' (Jones et al., 2000, p. 262). Broadly, research in traditional shopping environments has shown that switching barriers include factors such as interpersonal relationships with sales staff and/or the relative attractiveness of alternative suppliers (Jones et al., 2000).

Now days, it has been a very common understanding that the cost of acquiring a new customer is very much higher than the costs of customer retention because customer retention leads to a greater long-term profitability(Balabanis et al,2006). Finally, the products being sold do not vary across e-tailers, the basis of competition shifts to pricing, assortment, and service (Alba et al., 1997).

1.3.3. Competition

These days, businesses are facing fierce and too aggressive competition in both domestic and global markets. In order to enhance their chances of survival and growth in this uncertain environment organizations are forced to restructure themselves, In addition, with the Internet and other telecommunications innovations drawing us ever closer to the economist's concept of a perfect market, many products and services will be increasingly perceived more like commodities(Srinivasan et al, 2002). Consequently, as noted by Peterson (1997), electronic markets will lead to intense price competition resulting in lower profit margins(Cited by Srinivasan et al, 2002). For example, when a competitor introduces a similar product in the market then price usually becomes an issue and customer can easily switch for lower price or better terms because in transaction marketing the price sensitivity of customers is often high. To compete successfully, e-retailers will need to develop and maintain customer loyalty (Srinivasan et al, 2002).

1.4. Research Goals and Objectives

From the problem discussion above, the purpose of this study is to gain a deeper understanding of how to create and retain customer e-loyalty on website from company's perspective.

1.5. Key Word Definition

E-loyalty:

E-loyalty defined as a customer's favorable attitude toward the e-retailer that results in repeat buying behavior (Srinivasan et al, 2002).

E-satisfaction:

Oliver (1999, p. 34) defines customer satisfaction as the consumer's sense that consumption provides outcomes against a standard of pleasure versus displeasure.

E-trust:

E-trust will therefore be defined as the degree of confidence customers have in online exchanges, or in the online exchange channel. (Ribbink et al, 2004)

E-quality:

For the present study according to the Ribbink et al, 2004,five commonly used e-quality dimensions is ease of use; web site design; customization; responsiveness; and assurance.

Chapter 2
Literature review

Chapter 2- Literature review

In this chapter, first, we describe the history of customer loyalty, then, we discussing about benefits of customer loyalty and, finally, definition of customer e-loyalty.

2.1. Introduction

In the 1990s, the introduction of the World Wide Web on the Internet represents a turning point in electronic commerce, as it provides businesses with a cheaper way to carry out their activities, requires a minimal infrastructure investment and enables more diverse business activities. The advances in information technology and more recently, the Internet, offer a wide range of opportunities for companies to find new ways of contacting their businesses in order to cope with increased competition more efficiently and effectively (Kalakota & Whinston, 1997).

Organizations are deploying their information systems in order to, among other applications, co-ordinate their transactions with their customers and other business partners. (Kalakota & Whinston, 1997)

The rapid increase in Internet usage and on-line shopping draws both business managers' and academic researchers' attention to consumer satisfaction and loyalty in the on-line environment. The importance placed on on-line satisfaction and loyalty has increased because of the competitive nature of the on-line market, fueled by the increase in the number of on-line retailers and service providers. Now, it is easier and less costly for consumers to search for more product information and to comparison shop to arrive at a purchase decision. The decreased consumer search cost and increased competition makes it more important for marketers to build and maintain consumer loyalty (Rodgers et al, 2005).

2.2. Customer loyalty history

Brown (1952) classified loyalty into four categories, (a) Undivided loyalty, (b) Divided loyalty, (c) Unstable loyalty, and (d) No loyalty, based on the purchase patterns of consumers.

In addition to repeat purchases that lead to increases in the number of products bought, loyalty relates to an enhanced resistance to competitive messages, lower selling costs, a decrease in price sensitivity, and an increase in favorable word-of-mouth (Zeithaml, 2000). Indeed, research shows that retaining customers is a more profitable strategy than only increasing market share or decreasing costs (Zeithaml, 2000). Creating loyalty depends on meeting the needs of the customer better than competitors do(Reynolds and Beatty, 1999).

Nevertheless, a number of mostly practitioner-oriented studies examine how Internet companies can retain customers. For example, Smith (2000) proposed that online loyalty is driven by brand image, prices, product quality and service. She further suggested that the design and content of the web site and continuous communication/dialogue with the customers accompanied with an appropriate rewards program to be important to customer retention (Reynolds and Beatty, 1999).

Customer loyalty is strongly associated with the customer's willingness to continue in a relationship, however customers switching behavior has a direct and strong affect on loyalty. Customer loyalty can be understand in different ways depending upon the nature of the product or service which is being offered to a customer, for example, a bank customer is typically loyal as long as he holds an account with bank and switch when he change his account. On the other hand, the owner of a Mercedes can only show his loyalty to its brand when he make a same purchase next time. Furthermore, a customer can demonstrate his loyalty to a brand by showing his commitment and by providing a positive word-of-mouth to friends. With connection to the loyalty, it is a general rule that service quality and customer satisfaction has strong affect on customer retention (Reynolds and Beatty, 1999). The concept of e-loyalty extends the traditional loyalty concept to online consumer behavior. Customer loyalty has a direct impact on the revenue and profitability of a company. The e-loyalty of customers will be negatively related to customers search for alternatives and positively related to their word-of-mouth, behavior and willingness to pay more (Srinivasan et al, 2002)

2.3. Benefits of Customer Loyalty

The first step to understand the benefit of customer retention in business is to calculate the profit earned from customers and then identify the difference between the mature and new