Customer Loyalty Strategy in the Internet Era

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Abstract

Along with the e-commerce development, relationship between customers and vendors in e-retail market arouses researchers’ attention. The technology explosion, particularly in the area of knowledge management, makes track of customer behaviour possible. Much research has been done on trust and satisfaction in e-commerce, but little studies integrate confirmation of expectation and sense of belonging with customer loyalty. There is a gap in directly addressing confirmation of expectation, satisfaction, trust and sense of belonging, with regards to customer loyalty. In our study these four factors are described as four staged perceptual ingredients constituting customer loyalty. They ultimately affect the customers’ re-purchase intention on the Internet. Corresponding strategies are brought forward according to these assumptions. This paper aims at the application of customer loyalty in the Internet era.

Keywords

Customer loyalty, information technology, expectation, satisfaction, trust, sense of belonging

Introduction

According to International Data Corp. (Jaffe 2002), the number of Internet users in the Asia-Pacific region is increasing at an unprecedented rate and is expected to surpass those in the United States by 2005. Rapid growth in information technology, as well as the economic recovery, ensures the Asia-Pacific region’s potential capacity to be at the forefront in the Internet revolution.

For online customers, the Internet offers powerful search engines for products and services with the advantages of less efforts and shorter time comparing with traditional business. For e-retailers, data warehousing and data mining techniques benefit companies in accessing online customers and gaining insights into the online customers’ value. As a result, both of the buyers and sellers can benefit from the multiple applications of information technology. Obviously, the Internet is a nearly perfect market because information is instantaneous and buyers can compare the offering of sellers worldwide. However, this function also leads to vanishing customer loyalty (Kuttner 1998). Unless companies can retain loyalty from their customers, they will not be able to assure repeated business and a long-term future (Linton 1993).

This paper is constructed as follows. First of all, from the e-commerce development perspective, we point out the necessity of studying customer loyalty in the Internet era. By conceptualizing
customer loyalty, we propose an e-loyalty wheel with four staged factors: confirmation of expectation, satisfaction, trust and sense of belonging. In the third part, strategies to enhance customer loyalty are put forth based on the e-loyalty wheel. In conclusion, the paper suggests that the future study should carry on longitudinal study and empirical test on e-loyalty. The goal of this paper is to construct e-loyalty and its application strategy. This paper will be of great interest to obtaining competitive advantages in e-commerce.

**Literature review**

**Customer Loyalty**

Customer loyalty is typically defined within the context of customer’s purchase behaviours. In some industries (such as retail, service), a loyal customer is defined by his purchase details: recency, frequency and monetary value. The topic of loyalty, mainly in brand loyalty, has been widely researched for decades. Jacoby and Kyner (1973) defined brand loyalty in six directions, which provide some understanding from the psychological angle: (1) the biased, (2) behavioural response, (3) expressed over time, (4) by some decision-making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological processes. In the changing environment, the concern is to ensure customer’s continued patronage despite the lure from competitors. In the non-Internet marketplace, customer loyalty is primarily cultivated by superior quality of product or service (Gefen 2002).

E-loyalty is an extension of the loyalty concept to e-commerce. E-loyalty refers to customers’ loyalty to an e-retailer (Turban 2002). From this perceptual definition, there are no significant differences between customer loyalty and customer e-loyalty. The first one is evaluated in the traditional business and the latter is defined in the e-commerce world. Both of them refer to the favourable intention to continue to patronize some specific offline/online vendor (Srinivasan 2002).

Especially, many studies (Betty et al. 1996, Chow & Holden 1997, Cadogab & Foster 1999, Sideshmukh & Sabol 2002.) in marketing area have confirmed the role of salesperson as mediator in the relationship between customer and brand. The better the interaction with the salesman, the more loyal is the customer in the selling-buying relationship. However, from the communication viewpoint, the channel to interact with customer has been changed due to the Internet functions.

From table 1, we can see that the Internet provides both buyers and sellers with a new communication channel to enhance the ease of information access. Web functions, such as chat room and shopping agents, have replaced the role of salesperson. Other technologies, e.g. cookies, are also popularly applied in the background to study the online customer’s behaviour. The communication has been changed to the interaction between customer and website. Due to this evolution, the four staged factors can be matched with the facilitating information technologies. All these technologies are helpful to improve the frequency of customer revisit, which is positively related to online customer loyalty.
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<td>Salesperson</td>
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*Table 1. Emergent technologies for customer interaction compared with traditional business*

*Adapted from Romano (Working paper)*

**Four factors of e-loyalty**

In 2001, Bhattacharjee built an “Expectation-Confirmation Model” from the perspective of the consumer behaviour. This study theorizes a model of continuance. Expectation here refers to “consumer’s beliefs about the potential utility that can be derived from B2C service” (Bhattacharjee 2001a). Adopting “Expectation-Confirmation Theory” (Bhattacharjee 2001b), which is widely used in the consumer behaviour to study customer continuance intention, we propose that the confirmation of customer’s expectation can improve the possibility of repurchase at a specific e-retailer. It is the starting point to construct e-loyalty.

Customer satisfaction is thought to affect attitudinal change and purchase intention (Oliver 2000). This factor has always been hypothesized as a consequence of expectation and expectancy...
Bhattacherjee (2001a) proved that satisfaction can positively influence continuance intention. Several studies (Bolton 1998, Crosby & Stephens 1987, Martensen et al. 2000) have explored its important role in forming customer loyalty and revealed a positive effect of satisfaction on the continued activities in online transactions.

<table>
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<th>Four staged factors</th>
<th>Offline Transaction</th>
<th>Online Transaction</th>
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Table 2. Different contents of four factors in offline and online transactions

Numerous authors (Chow 1997, McKnight et al. 2002) suggested that trust is an important element of long-term buyer and seller relationship. Trust is considered as a critical factor because of its capability to affect the perception of uncertainty in decision-making process. Trust also plays a central role in helping online consumers to overcome perceptions of risk and
insecurity associated with making purchases at an e-retailer. This paper proposes that higher trust brings about higher possibility of transaction, which influences online re-purchase.

Similar to trust, sense of belonging is believed to be a valuable ingredient for successful long-term relationship (Dwyer & Schurr 1987, Morgan & Hunt 1994). The sense of belonging is the feeling of connections and affiliation with a brand or a vendor, which is “an enduring desire to maintain a valued relationship” (Moorman et al. 1992). Other studies (Reheigold 1993, Hiltz 1997) explored sense of belonging in a virtual community context. Sense of belonging has been proved to have a positive affection on continued intention to use a system. Consequently, we propose that strong sense of belonging has a positive relationship with e-loyalty and e-loyalty positively influences the continuance use of website for re-purchase in e-commerce.

**E-loyalty Wheel**

Customer e-loyalty, generally measured in repeated online purchases and referrals, is the key driver of revenue for e-commerce. According to the research by Bain & Company and e-strategy consulting firm Mainspring, the more often a customer visit a website, the more likely that online customer will spend an increasing amount of money. In this study, e-loyalty is constructed with four stages (figure 1). Confirmation of expectation is engendered after the first purchase. Evaluation is made after satisfied or dissatisfied repeated purchase. Trust is built on the accumulation of satisfaction, which reduces the perception of uncertainty in online transaction. Based on the emotional bond, sense of belonging is formed. Results from every stage will influence the customer e-loyalty. This is because only when the outcomes of the four stages are positive, the preferable e-retailers could be selected.

![E-loyalty Wheel](image)

*Figure 1. E-loyalty wheel*

**Customer’s confirmation of expectation**

Expectation is the first step in the decision-making process when customer makes a purchase. After purchase, a stable status of expectation is engendered in business performances that include brand, image, price, product quality and service quality (Smith 2000). In order to establish pervasive customer retention and loyalty, firms continually improve on their offerings to meet the customers’ expectations. Vendors need to promise only as much as they can do in the deliverables. Otherwise customers will get the feeling of disconfirmation (Hiscock 2001). In the
Internet era, online customers can easily obtain vendors’ information, e.g. brand recognition, reputation level, product and service evaluation, which affects the customers’ expectation from the Internet. Customers today take better services for granted. The expectations have increased. As online service qualities are improved, customer expectations grow, but e-loyalty falls.

Customer’s satisfaction

The customer satisfaction is engendered from a procedure of internal evaluation that actively compares expectation before the purchase behaviour with the susceptibility during the online purchase. The stage of satisfaction is formed according to the confirmation level of expectation. It is not only about the perceived performance, but also affiliated with the online purchase experience (Satmetrix 2001). In economic terms, the perception of satisfaction is a flow resulted from the interaction with a firm. According to Kolter (1997), satisfaction is the consequence of the customer’s experiences during hierarchy purchase stages of (1) need arousal, (2) information search, (3) alternative evaluation, (4) purchase decision, and (5) post-purchase behaviour. When applied to online transaction, satisfaction is defined as a preferable attitude towards interaction with the website. It drives online customers to stay longer in this website and browse more information. All these activities enhance the chance of repeated purchase.

Customer’s trust

Trust is a perception conditioned by customers’ further confirmed satisfaction of online experience. If online customers are more satisfied with products and services, they are more willing to build trust towards the vendor that make consumers more comfortable in sharing information, making decision and accepting the vendor’s offering. Trust is also an essential foundation of making repeated purchase. The accumulation of satisfaction gives rise to increasing the level of trust in the firm’s reliability and stability of performance (Morgan & Hunt 1994, Chang & Wildt 1994). Trust is an important determinant e-loyalty construction (Gefen 2002). It reduces the perceived uncertainty and risk in the case of online transaction. The reliable feeling on the trusted party makes online customer more willing to involve in the trading relationship due to the perception of assurance or confidence. Accordingly, understanding the nature of trust is a major issue for both researchers and practitioners in the e-commerce environment (Jarvenpaa & Fitzpatrick 1999).

Customer’s sense of belonging

Positive attitudes towards a vendor might lead to the belief that this vendor will offer better service than other competitors. Trust is extended to sense of belonging. Sense of belonging is a key-mediating factor in successful relational exchanges (Mugan & Hunt 1994). This emotional bond is characterized by a high solidarity. When customer is in this stage, the favourable emotion is translated into the willingness to re-purchase. The mental loyalty is formed in this stage and facilitates the real activities in online transactions. If the vendor initiates an online community, customer is more willing to attend. Members would be willing to invest time to build up a relationship with the online vendor through such online communities. Positive comments from virtual community are one of the factors that convince more online consumers to make repurchase decisions. It makes them feel committed to the worthy online vendor. In another aspect, members will be less wary about revealing personal information. For the online vendor, it is an important way to obtain consumer transaction data that helps to devise effective
marketing programmes to improve e-loyalty.

After the stage of sense of belonging, customers continue to expect more attention and care. Moreover, the stable expectation about the firm’s capability of handling an exchange is engendered. The e-loyalty wheel is structured in this circle (figure 1). During the stages following the wheel of confirmation of expectation, satisfaction, trust and sense of belonging in every purchase, customers generally form a habit of links with the online vendor.

**Strategy of Customer loyalty**

Via the Internet, there has been an explosion of new technology-driven ways to reach the customers. Company can exploit the marketing and management channels from telephone, the Internet, branch offices, mobile commerce, kiosks, ATMs, TV, and relative conventional methods to construct customer loyalty. However, success lies not in the amount of channels but the effective integration of the channels aiming at fulfilling the business’s objectives (Kelly & Fitzpatrick 2002). Customers are the most valuable assets. Adopting the customer e-loyalty wheel, this paper suggests the following strategies that focus on attracting profitable customers, making customer loyal and improving customer retention, with which the company could acquire high levels of profit.

**Strategy of confirmation of expectation**

For most companies, understanding customer expectations is difficult because of its perceptual nature. Usually companies take it for granted that they know what customers expect. Customers’ desires and needs change quickly over time since the new information can be rapidly transmitted via the Internet channel. With the Internet, companies could benefit from the periodical evaluation of what the customer currently expects and wants. Information technologies equip business to attain the accurate forecast using the tools of data mining, customer tracking, etc. While online vendor knows what the customers’ expectation is and what they experience in the decision-making process, customer databases that describe customer profiles can be established. Such database permits the identification of customer desires and needs necessary for constructing e-loyalty. This kind of database paves the way to access customer’s allegiance, which equips business with more across-the-aboard information to meet the expectations of customers.

**Strategy of enhancing satisfaction**

Forrester report in 2002 predicted that sophisticated online business would eventually slow spending in infrastructure and redirect resources to improve overall customer satisfaction. Online companies will soon reach a critical point of diminishing returns due to the lack of repeated purchase. Especially to the service e-retailer, the information content will strongly influence the overall evaluation from customers. Company should well design the website with abundant and pertinent contents. Companies can consider loading and usability test in order to improve online consumers’ satisfaction with the online experience. In addition to rigorous website reviews and usability studies, progress in design and navigation functions will boost end users’ satisfaction. Multi-layered contents and online medium help provide richer information. Business can create value and get a deeper insight of e-loyalty by enhancing online customer satisfaction with
examining the information content as well as system quality. In conjunction with the provision of high quality products or services, e-retailer can achieve greater e-loyalty, especially for customers whose decision-making process requires detailed information and added value.

**Strategy of strengthening trust**

Over the Internet, e-retailers need to proactively administer trust components: ability benevolence and integrity, which can be managed to convey the e-retailers’ trustworthiness (Zeithaml et al. 1996). The urgency to gain and retain online customer is considered critical in e-commerce. No relationship can be built online without trust. Privacy and security issues are two very significant components of trust building (Steer 1999). Weak management of privacy exposes the incapacity of a website to retain customers. Website may post statements that clearly clarify the privacy and security policies. Third-party certification (e.g. eTRUST) could help to provide guarantees for the online transactions. Security issues have been the core concerns in most transaction systems. Customers want to be protected from hackers during and after the online purchase.

**Strategy of building up sense of belonging**

Because human wants social interaction and enjoys sharing experiences, online customer and vendor find that virtual community is a good way to build and enhance e-loyalty. Establishment of an online community and provision of interaction for the online consumers are essential ways for better communication online. In this virtual community, vendor can provide information on service. Members can also use this community to make comments and share the purchase and post-purchase experiences. Word-of-mouth can be employed for loyalty building based on the recommendation from respected members. Sense of belonging and word-of-mouth functions are recognized as being more powerful than any other marketing techniques, such as email, band advertisements, etc. The use of online communities to execute effective interaction among customers can dramatically cultivate customers’ sense of belonging, and consequently bring forth the highest level of emotional bonding loyalty.

**Conclusive remarks**

The wheel of e-loyalty offers new insights on understanding how to increase re-purchase behaviours among customers. Its four staged factors have been separately tested in various researches. However, since there is no study to date that integrates them into a four-factor stage model, it is necessary to conduct a longitudinal study and empirical test. This dynamic model helps online firms to track the stages the customers are currently at. Based on this knowledge, corresponding strategies can be initiated that aim at the customers’ position. No one can guarantee that the customer can be faithful all the time. The online vendor should, above all, consider the four aspects that constitute the e-loyalty and make an appropriate program to achieve customers’ e-loyalty.

Future studies should include time as unique moderator factor because customers with different extent of online shopping experiences might have different degrees of e-loyalty.

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