E-LOYALTY IN VIRTUAL MARKETS

INDEX

INTRODUCTION

Loyalty is not probably the first idea that comes into our head when we think about e-commerce. However, managers at the cutting edge of e-commerce (Dell, eBay, etc) care deeply about customer retention and consider it vital to the success of their on-line operations. They know that loyalty is an economic necessity. Acquiring customers on the Internet is very expensive, so those customers must make a lot of repeat purchases over the years to make profits really grow. Without loyalty, even the best-designed e-business model will fail.

For traditional business and marketing, building and maintaining brand loyalty has been a central theme for a sustainable competitive advantage. In traditional consumer marketing, the advantages enjoyed by a brand with strong customer loyalty include: ability to maintain premium pricing, greater bargaining power with channels of distribution, reduced selling costs, a strong barrier to potential new entries into the product/service category and synergistic advantages of brand extensions to related product/service categories.

With the rapid growth of e-commerce, building and maintaining customer loyalty in electronic marketplaces has become a priority.

This paper just pretends to be a summary of different factors, ideas and concepts that affect and inflence e-loyalty. It will also bring out some similarities and differences between traditional brand loyalty and e-loyalty and how to turn brand loyalty into e-loyalty.

DEFINITIONS

Brand loyalty

Brand loyalty, in marketing, consists of a consumer´s commitment to repurchase or otherwise continue using the brand and can be demonstrated by repeated buying of a product or service or other positive behaviors such as word of mouth advocacy.

E-loyalty

E-loyalty can be defined as feelings or attitudes that incline a customer to re-visit a website for information, communication or entertainment purposes, or to re-purchase a particular product or service from an online business.

BRAND LOYALTY AND E-LOYALTY

Brand loyalty is more than simple repurchasing, however. Customers may repurchase a brand due to situational constraints, a lack of viable alternatives, or out of convenience. Such loyalty is called "spurious loyalty" (false loyalty). True brand loyalty exists when customers have a high relative attitude toward the brand which is then exhibited through repurchase behavior. This type of loyalty can be a great asset to the firm: customers are willing to pay even higher prices, they may cost less to serve, and can bring new customers to the firm. For example, if Joe has brand loyalty to Company A he will purchase Company A's products even if Company B's are cheaper and/or of a higher quality.

A significant contemporary example of brand loyalty is the dedication that many Mac users show to the Apple Company and its products.

E-loyalty can also be defined as "*feelings or attitudes that incline a customer to re-visit a website for information, communication or entertainment purposes, or to re-purchase a particular product or service from an online business*". While many online business models exist, e-loyalty is critical to business success and profitability.

Creating and enhancing e-loyalty is a core objective of loyalty marketing. The fundamental assumption in loyalty marketing is based on the well-known business principle that keeping existing customers is less expensive than acquiring new ones. Reichheld and Sasser claimed that a 5% improvement in customer retention could cause an increase in profitability between 25% and 85% (in terms of net present value) depending upon the industry. These figures will also vary depending upon the online business model. Still, improved e-loyalty means increased customer profitability.

However, not all customers are profitable, and efforts to maintain the e-loyalty of unprofitable customers can be a waste of precious resources.

The concept of brand loyalty has been extensively discussed in traditional marketing literature with the main emphasis on two different dimensions of the concept: **behavioral and attitudinal loyalty**.

Another definition for brand loyalty can be (Oliver, 1999): "*a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior*".

The concept of e-loyalty extends the traditional brand loyalty concept to online consumer behavior. Although traditional brand loyalty and the newly defined e-loyalty are generally similar, there are unique aspects of it in the area of Internet based marketing and buyer behavior.

Schultz (2000) describes customer/brand loyalty in cyberspace as: "*an evolution from the traditional product driven, marketer controlled concept towards a distribution driven, consumer controlled, and technology-facilitated concept*". Also, e-loyalty has several parallels to the "store loyalty" concept such as building repeat store visiting behavior as well as the purchase of established brand name items in the store. E-loyalty is all about quality customer support, on-time delivery, compelling product presentations, convenient and reasonably priced shipping and handling, and clear and trustworthy privacy policies.

We are now going to see the similarities and differences, considering different aspects:

- **Attitudinal Loyalty.** The traditional concept of attitudinal brand loyalty includes cognitive, affective, and behavioral intent aspects, so companies have made strong efforts on developing brand image through mass media. In e-marketplaces, technology allows to increase the cognitive aspect by offering customized information. If a company wants to increase the affective dimension in e-loyalty, trust, privacy, and security become more important.

In general, loyalty implies satisfaction, but satisfaction does not necessarily lead to loyalty. So, there is an asymmetric relationship between loyalty and satisfaction. This is particularly important in e-marketplaces, because (dissatisfied) customers have a greater variety of choices than in traditional markets. Highly loyal buyers tend to stay loyal if their attitude towards a brand is positive. So, the ability to convert a switching buyer into a loyal buyer is much higher if the buyer has a favorable attitude toward the brand. We will talk more deeply about loyalty/satifaction later in this paper.

- **Behavioral Intent.** Behavioral intent is a midpoint between attitude and behavior. It represents the intention to act in the buying decision process. Behavioral intent appears in various forms such as a predisposition to buy a brand for the first time or a commitment to repurchase a current brand. Brand loyalty research has focused on factors related to maintaining and augmenting this repurchase commitment and converting behavioral intent to an actual purchase. In e-loyalty, which has a relatively compressed buying cycle time, the main emphasis is on converting behavioral intent to immediate purchasing action.

- **Behavioral Loyalty.** Traditionally, behavioral loyalty has been defined in terms of repeat buying behavior, but can be seen in different ways, for example, customers can be loyal to brands and/or they can be loyal to stores. When we try to spread of behavioral loyalty to the e-market, both the conceptual and measurement issues become more complex and sophisticated. Factors such as repeat site visits without purchases and amount of time spent at the e-commerce site have to be considered. Then again, it is important to satisfy the customer in order to create behavioural loyalty. A satisfied customer tends to be more loyal to a brand/store over time than a customer whose purchase is caused by other reasons such as time restrictions and information deficits. We can see satisfaction again becomes significant.

In the Internet a customer is able to collect a large amount of relevant information about a product/store in a short amount of time, which is going to influence the final buying decision. Behavioral loyalty is much more complex and harder to achieve in the e-space than in traditional market, where the customer often has to decide with limited information and possibilities.

- **Brand Building Activities.** Traditionally there are two main areas: brand image building and frequency programs. Promotional tools have been traditionally used to draw up a brand's image. These short-term tools are balanced with long-term activities to create a favorable brand image. With the Internet this can be done in a different way. The one-way mass communication model of traditional advertising campaigns can be replaced by a two-way approach in e-brand building. For example in the Internet products can be customized.

Frequency programs have always been an important technique to retain customers. Traditionally, loyalty cards have been used to prevent brand switching at a product or store level. Loyalty programs based on frequency are easier to apply in e-markets due to the presence of database technologies. Still, as it is easy to copy these concepts, and anyone can use them, it is hard to get a competitive advantage from them. They just have become a defensive tactic to prevent brand switching.

We can also consider promoting and supporting “user groups” to inhance positive brand image and loyalty as an important tool used in traditional brand management. As an example we can mention the “Volkswagen Owners Association” or the “Mickey Mouse Club". In these types of traditional consumer brand organizations, communications about the brand and the relationship are managed by the marketer. In contrast, the “online community” has the advantage of peer-to-peer brand related communications as well as the unique 24/7 access and global reach of the Internet. It is very important to build stronger brands through online communities and techniques for managing these communities.

- Trust and Loyalty. The role of trust in building and maintaining brand loyalty has always been one of main objectives of companies. Trust plays an important role in increasing both behavioral and attitudinal loyalty. Trust and privacy are two of the main factors to gain e-loyalty in e-markets.

TRUST AND E-LOYALTY

All over these years we´ve heard how the Internet has overturned all the old rules of business, but when it comes to customer loyalty, the old rules are as vital as ever. Loyalty is still about earning the trust of the right kind of customers, those customers for whom the service and experience *you* offer is superior, and they will want to do all their business with *you*. The web places old rules in a new context.

Many researchs have been done analyzing customer life cycle economics in several e-commerce sectors. These researchs have proved that at the beginning of the relationship, the outlays needed to acquire a customer are often considerably higher in e-commerce than in traditional retail channels. Instead, in future years, profit growth accelerates at an even faster rate. This phenomenon is particularly visible in the business-to-business sector. In addition to purchasing more, loyal customers also frequently refer new customers to a supplier, providing another rich source of profits. Referrals are lucrative in traditional commerce as well, but then again, the Internet amplifies the effect, since *word of mouse* spreads even faster than *word of mouth*. Also, loyal customers work not only as advertisers and sellers, they also advise and guide other customers, for free! All this means that the value of loyalty is greater on the Internet than in the physical world, so companies doing e-business cannot generate superior long-term profits unless they achieve superior customer loyalty.

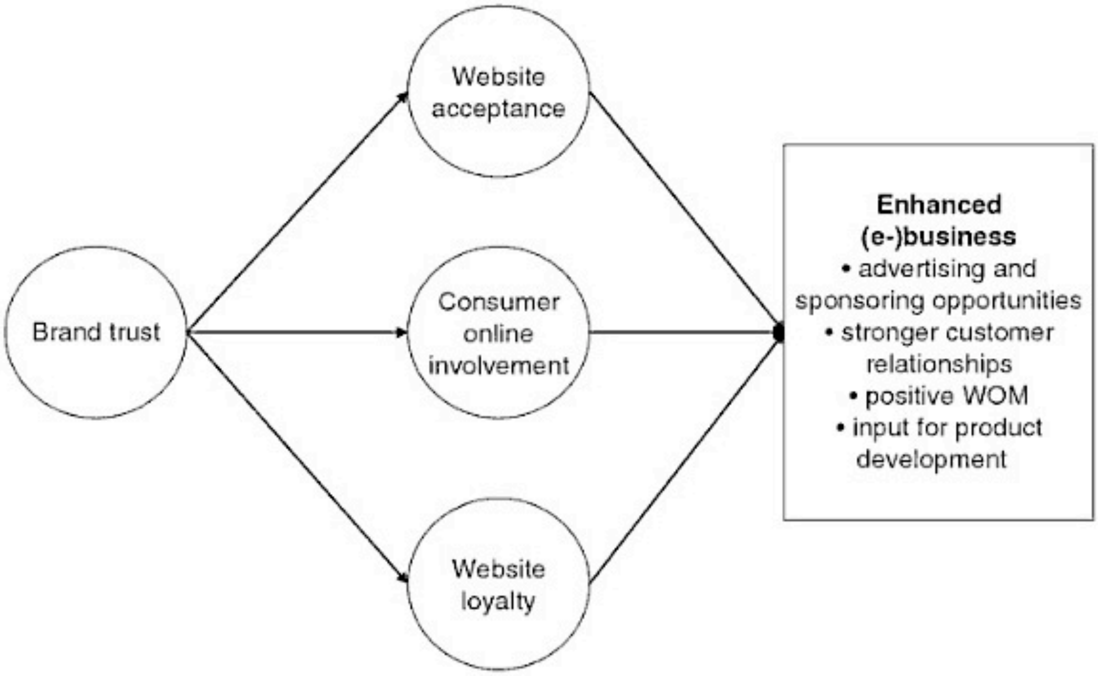
But to gain customers loyalty, first the company has to gain their trust. It has always been like this in traditional markets, but on the Web, where business in done at a distance and risks are higher, it´s even more important. On the Web, the customer can´t see or touch the product, can´t judge the store, they have to rely on promises and images, and they need to trust the company, otherwise they´ll buy elsewhere. **Price does not rule the Web, trust does**. When customers trust an on-line vendor, they share information with the seller, which becomes an advantage over competitors. For example Amazon.com has become one of the most trustworthy web site, so people don´t care sharing their names, credit card numbers, etc. with them. This allows them to quickly repeat a purchase, turning convenience into an advantage. Other e-retailers, as Ebay, use other rules to reinforce trust, for example, buyers and sellers rate each other after every transaction, and the ratings are posed on the site, so anyone can see them.

As the Internet is accessible to any on-line customer anytime, anywhere, managers often have the temptation to try to attract as many potential buyers as possible, and the traditional customer selection is ignored. This lack of focus makes building loyalty much more difficult. The more people the site targets, the more complicated, confusing and slow it is to use. Focusing is necessary, but identifying which customers to attract (and which to avoid) is the first step. Most on-line shoppers don´t seek the absolute lowest price, they are seeking convenience above all, just to make their life easier, even if they have to pay more. Others are looking for a brand, on a stable long-term relationship.

Although the Internet seems anonymous, it is really easier to track customers, their purchase history and their preferences than in traditional markets. With these data, companies have a great opportunity to get to know their customers, change products and customize offerings, but companies are more focused on increasing their visitor counts, and on-line sales. Some researchs say that web sites achieve less than 30% of their full sales potential with each customer.

In fact, the five determinants of loyalty are not related to technology, but to traditional customer-service basics: quality customer support, on-time delivery, compelling product presentations, convenient and reasonably priced shipping and handling, and clear and trustworthy privacy policies.

Teemu Kautonen and Heikki Karjaluoto assume that brand trust has a positive impact on website acceptance and adoption, on consumer online involvement in the website, and on website loyalty. These three factors have many and diverse business benefits, as it are shown in next figure.



Business impacts of brand trust online. (Kautonen and Karjaluoto)

HOW E-SATISFACTION INFLUENCES E-LOYALTY

Traditionally, searching for customer's loyalty, most companies try their best to continually satisfy their customers and develop long-run relationships with them. Although satisfaction measures seem to be an important barometer of how customers are likely to behave in the future, there are two issues to consider:

- Satisfaction measures tend to be partial.
- Establishing the relationship between satisfaction and repurchase behavior is difficult.

Loyalty. Engel, Kollat, and Blackwell (1982) defined brand loyalty as *"the preferential, attitudinal and behavioral response toward one or more brands in a product category expressed over a period of time by a consumer".*

Gremler (1995) suggested that both attitudinal and behavioral dimensions needed to be incorporated in measuring loyalty. Therefore, for present research purposes, *e-loyalty* is defined as *the customer's favourable attitude toward an electronic business resulting in repeat buying behavior*.

Satisfaction. Satisfaction, according to Oliver (1997) is "*the summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with a consumer's prior feelings about the consumer experience".*

As it seems obvious, a dissatisfied customer is more likely to look for alternatives and to switch to competitor offers than is a satisfied customer. Also, a dissatisfied customer is more likely to resist attempts by his or her current retailer to develop a closer relationship and more likely to reduce dependence on that retailer. Moreover, the dissatisfied buyer may wish to change the relationship.

We can say that, **the higher the level of e-satisfaction, the higher the level of e-loyalty.**

Rolph Anderson and Srini Srinivasan (Drexel University) have evaluated the influence of satisfaction in loyalty, considering two kinds of variables: **Individual Level Variables** and **Business Level Variables.**

ROLE OF INDIVIDUAL LEVEL VARIABLES

The variables that tend an individual customer to either accentuate or reduce the impact of e-satisfaction on e-loyalty are:

- Role of inertia. Customers tend to visit the sites out of habit rather than consciously. When inertia is high, the impact of e-satisfaction on e-loyalty is lower; but when inertia is low, the impact of e-satisfaction on e-loyalty tends to be higher.
- Role of convenience motivation. The motivations of consumers can be very different, some customers are driven by information and money saving, while others are driven by the need of convenience. The relationship between e-satisfaction and e-loyalty is stronger for customers with a high convenience orientation than for those with low convenience orientation.
- Role of purchase size. The bigger is the purchase, the higher is brand loyalty. E-satisfaction will have a stronger impact on e-loyalty for strong buyers than for light buyers.

We can also say that, **the impact of customer e-satisfaction on e-loyalty is moderated by inertia, convenience motivation, and purchase size.**

BUSINESS LEVEL VARIABLES

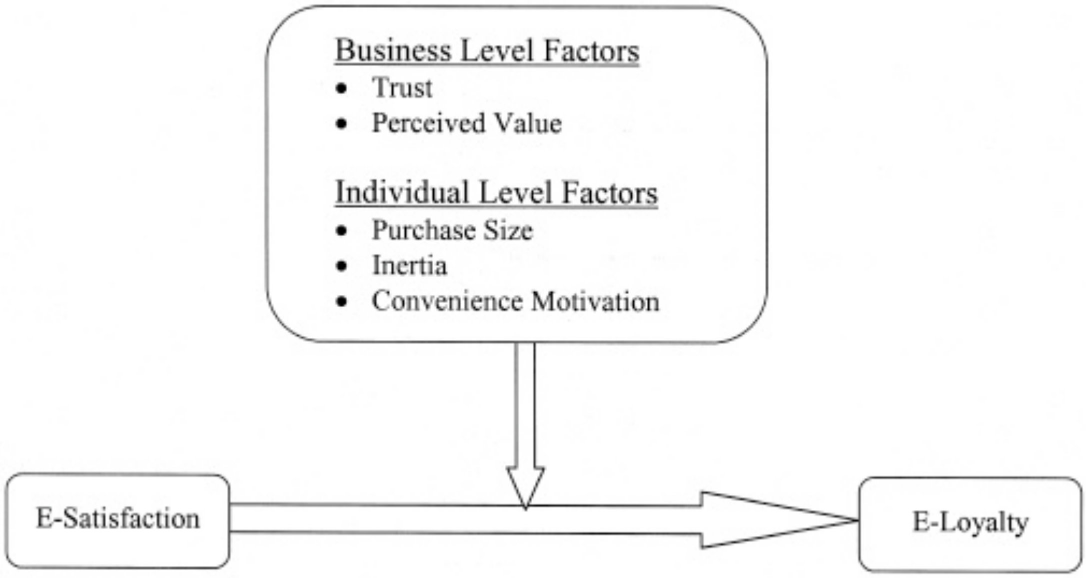
The impact of e-satisfaction on e-loyalty is also likely to be affected by business level variables:

- Role of trust. One of the main reasons for the importance of trust or confidence in an online business is the perceived level of risk associated with online purchasing. Customers who do not trust an e-business will not be loyal to it even though they are satisfied with it. So e-satisfaction makes higher e-loyalty when customers trust the e-business. Trust becomes a determinant aspect of e-loyalty.
- Role of perceived value. Perceived value in e-commerce is important because it is easy to compare product features and prices online, so it contributes to e-

loyalty by reducing a customer's need to seek alternatives. If the perceived value is low customers tend to switch to competitors in order to increase perceived value, declining loyalty.

So, finally we can also say that, **the relationship between e-satisfaction and e-loyalty is moderated by trust and perceived value.**

Rolph Anderson and Srini Srinivasan developed a research methodology using a random sample of 5000 potential respondants, with a questionnaire, offering in the end a $500 prize to the participants. This produced 1211 responses. Other important data about the respondants were collected. The different topics explained before were measured using different tools. All these items were turned in a regression model equation to test the hypotheses. But anyhow, the mathematical results are not the objective of this paper.



Effect of e-satisfaction on e-loyalty. (Anderson and Srinivasan)

From this research we can obtain some conclusions:

Because of high competition, companies have necessarily become interested in identifying, understanding, and keeping their profitable existing customers.

Typically, e-satisfaction has been assumed to be a natural antecedent to e-loyalty, but we have seen that the impact of e-satisfaction on e-loyalty can be significantly moderated by individual level variables (inertia, convenience motivation, and purchase size) and company level variables (trust and perceived value). Individual customer variables, such as inertia or convenience motivation, and the resultant customer switching behavior are beyond the control of company. However, management may control trust and perceived value.

To remain competitive, a company must try to enhance perceived value for customers to discourage their switching to competitors.

Building trusting relationships is an even more difficult challenge that may require e-commerce companies to go reduce profit to differentiate themselves from competitors. Demonstrating to customers that you care about them and want to assist them independently of the short-run profit consequences helps to create and make a strong trusting relationship that derive on customer loyalty.

HOW DESIGN INFLUENCES E-LOYALTY

Dianne Cyr researched on how these three topics must be taken into consideration while measuring e-loyalty:

Trust development in e-business

The goal is to build a model of e-loyalty taking different cultures into account. Topics like privacy, security and ethics are considered as they relate to trust and e-loyalty. The key research question is: *How are e-loyalty and trust built in online environments from a social-psychological perspective?*

Despite variations in business formats introduced by on-line sales and after sales service, earning the trust and loyalty of valued customers remains a valuable requirement. However, the rules of the game are changing. In a traditional business context, trust is built through face-to-face contact or physical access to products. On the Web, where there is necessarily greater reliance on images and promises, Web buyers tend to seek "a Web site I know and trust". Other attributes such as cost and selection remain behind whether the site and vendor could be trusted.

Building loyalty in e-business on the Internet requires a rethinking of previous business models. Relationship building is important to trust building, and is challenged in an Internet environment due to conditions such as infrastructure vulnerability leading to cyber fraud and other forms of digital threat.

Culturally sensitive interface design

Building B2B or B2C trust on the Web will require user interface characteristics appropriate for culturally diverse audiences. Components of localized Web design involve translation, but go far beyond this to include colors, icons, graphics, symbols, page layout, navigation formats, etc. that comprise the overall user experience. The key research question is: *How does culturally-relevant user interface design cause growth in trust and loyalty in electronically-based businesses?*

The goal is to provide a technologically, linguistically and culturally neutral platform from which to launch global e-commerce initiatives while allowing a framework that incorporates local content and functionality.

Adaptative design for mobility

As electronic business migrates to mobile commerce and wireless technologies such as cell phones, personal data assistants, or wearable devices there is a requirement to determine how the integrated design of product and interface can accommodate user needs including trust concerns. The key research question is: *How can product technologies be better designed to utilize cultural factors to build trust and e-loyalty among customers?*

Designing for cultural diversity is a particularly critical aspect of mobility and mobile-commerce. The cultural background of a user or a group of users plays a key role in the adoption of new devices. In this context, there is an important requirement to determine how the combined product and interface design can accommodate user needs, including trust concerns. A pressing issue is how product technologies can evolve to support e-loyalty in customers.

CONCLUSIONS

In the end we can see there are many aspects around e-loyalty, but loyalty is not won with technology, it is won through the delivery of a consistently superior customer experience. The basic rules of building loyalty have not changed. What is changing is the speed with which companies need to improve their products and services if they hope to keep customers loyalty. There is no more tolerance to mediocrity. In the past, other aspects as store locations, aggressive price policy and lack of information forced customers to be loyal, not by choice, but by necessity. With the Internet customers can compare suppliers in real time, whenever they want. Building superior customer loyalty is today essential for survival.

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