ELECTRONIC RETAILING:

AN ANALYSIS OF WEB IMPACTS AND

RELATIONSHIP MARKETING OPPORTUNITIES

By

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Abstract

The Web brings enormous opportunities for retailers, where customer retention is important for e-tailing success. While relationship marketing (RM) and e-tailing are both active research areas, there is inadequate research on relationship marketing in e-tailing. This thesis was an effort to integrate the two areas of research, RM and e-tailing, and investigate online consumer RM issues.

The focus of the thesis was to examine the Web factors that represent a significant impact on the retail market and contribute to online consumer RM. After addressing the research motivation and objectives in Chapter 1, Chapters 2 and 3 review RM and electronic marketing literature respectively. A hypothesized model is constructed in Chapter 4 to examine the effects of four online market characteristics (perceived shopping risks, perceived consumer power, perceived interaction, and perceived relationship investment) on consumer relational intention, through three important mediators (perceived switching costs, satisfaction, and trust). An empirical study, aimed to validate the hypothesized model, was reported and discussed in Chapter 5. The hypothesized model was supported. It was found that the online market characteristics and mediators incorporated in the model were critical for online consumer relationship building, and the relations among these constructs reveal important implications for e-tailers reviewing their RM strategy. Contributions and limitations of the research are presented in Chapter 6.

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Chapter 1. Introduction

The World Wide Web has opened the door for electronic commerce (e-commerce) in the business-to-consumer (B2C) environment and created a new business avenue, electronic retailing. Electronic retailing, which involves the selling of goods and service to the consumer market via the Internet, is also called e-tailing, e-retailing and e-commerce in the B2C market. The emergence of this electronic retail market has been rapid. According to the 2001 *E-commerce Multi-sector Report* released in March 2003 (http://www.census.gov), U.S. retail e-commerce sales in 2001 accounted for 1.1% ($34 billion) of total retail sales. E-tailing growth of 22% between 2000 and 2001 strongly outpaced total retail sales growth of 3%. With a high degree of technological sophistication, characterized by the highest levels of Internet access (62%), Canadian consumers increasingly are using the Internet as a method to interact with retailers (http://www.statcan.ca/english/freepub/56F0003XIE/index.htm).

With such a large potential, e-tailing has attracted tremendous attention and investment in the past few years. Numerous e-tailing startups appeared, seeking new market opportunities in the late 1990s. However, market development has not been as successful and rapid as expected. Troubled by a lack of profitability, many e-tailers, such as valueamerica.com, pets.com, living.com and furniture.com, were forced to close their businesses despite successfully increasing customer awareness and generating large sales volumes (http://www.businessweek.com/1999/99_52/b3661019.htm). Unfortunately, these business closures were not isolated cases, and many other e-tailers soon faced a similar fate. It is clear that additional research on e-tailing is needed to understand and interpret related phenomena, and to provide guidance concerning its implementation.

Early research on e-tailing focused on the effects of the Web on product pricing. When the Web became a marketing medium, many assumed that it was a cheap medium to reach consumers and conduct e-marketing/e-tailing (Nunes et al., 2000; Sinha, 2000). Among many others, Clay et al. (2001) examined pricing in the online book industry; Brynjolfsson and Smith (2000) examined online book and CD retailing; Morton et al. (2000) examined Internet car retailing; and Brown and Goolsbee (2002) examined the life insurance industry.

On the other hand, the large amount of information about pricing, competitors, and features available on the Internet also helps to create a cost transparent environment. This severely impairs a seller's ability to obtain high margins, because it turns products and services into commodities, and may damage company reputations by creating perceptions of price unfairness (Sinha, 2000). Early work suggested that the Internet could present a threat to branding and erode loyalty (Kalakota & Whinston, 1996; Mitchell, 1999). As a result of this cost-benefit focus, many e-tailers offered low prices and focused on customer acquisition.

The dot com crash triggered a shift in research focus. Early assumptions and strategies were challenged (Gallaugher, 1999). Schlauch and Laposa (2001), for example, found that e-tailers were not realizing real estate-related cost savings over their retailing competitors. Lee (1998) found that the efficiency of electronic means for commerce is sometimes countered by increased product costs. More importantly, price is not the first consideration when people buy products online (Kwak, 2001). Depending on the shopping context, consumers may place more emphasis on convenience, control, or other aspects of online shopping.

Many researchers reflected on the reasons for e-tailer failures. Senn (2000) concluded that e-tailer failures stemmed from neglect of sound business strategies, intellectual capital, brand, market size, and business processes. It was discovered that marketing costs for online businesses could actually be much higher than for traditional firms (Gallaugher, 1999). Customer retention was also seen as a large problem for e-tailers. Steve Johnson, a partner at Andersen consulting (Sterlicchi & Gengler, 2000) commented that "e-tailers can't continue to lose one of every three consumers and expect to survive."

Contrary to the early image that the Web was a place for bargain hunting, the Web is more and more viewed as a place to provide better service and enhanced consumer relationships (Rust & Kannan, 2002). It is now realized that companies must strive for a complete view of their customers, as the relationship shifts from commerce to collaboration. Due to its potential for interactive communication, the Internet is considered a promising tool for relationship marketing (Thorbjornsen et al., 2002). This thesis defines relationship marketing (RM) as "identifying and establishing, maintaining, and enhancing, and when necessary terminating, relationships with customers and other stakeholders at a profit, so that the objectives of all parties are met; this is done by a mutual exchange and fulfillment of promise" (Grönroos, 1994). Evidence suggests that RM can benefit firms in an online context in that it may help reduce marketing costs, develop loyal consumers, and thus generate profitable sales. For example, competing with the core offering may not satisfy customers. Competing with the total offering, where the core product becomes only one element or one service of the total service offering, is what counts (Grönroos, 1996).

RM may also benefit the online consumer. Certain evidence indicates that Web customers tend to consolidate their purchases with one primary retailer, to the extent that purchasing from the retailer site becomes part of their daily routine (Reichheld & Schefter, 2000). Relationships, in terms of trust in quality and brand, may serve as an important element in consumer decision making on purchasing products online, as the Internet lacks support for evaluative criteria such as tactile input (Citrin et al., 2003). Relationships, in terms of retailer reputation and brand image, can serve as risk reducers for consumers that shop online (Lee & Tan, 2003).

Knowing that RM can work online, the focus of research can be more productive if it shifts to determining what factors contribute to a consumer's intention to build a relationship with an online retailer. Much research has been conducted in order to develop an understanding of online consumers. Some investigators (Montoya-Weiss et al., 2000; Yoo & Donthu, 2001) have focused on Web site characteristics such as navigation structure, information content, graphic style, ease of use, design, speed and security. Others (Dabholdar, 1996; Eroglu et al., 2001; Schlosser & Kander, 2001) have addressed consumer acquisition, the first stage of relationship building. The benefits of e-tailing to consumer retention, such as convenience, product cost, and availability, also have received attention (Szymanski, 2000; Yang et al., 2000). More recent research (Odekerken-Schroder et al. 2003; Srinivasan et al., 2002; Wolfinbarger & Gilly, 2003) has begun to analyze marketing tactics such as customer service, community, interactivity, and care.

All this work contributes to our understanding of the online consumer relationship building process. However, more research is needed to understand consumer relational behavior. After reviewing 351 articles published since 1994 on online consumer behavior, Cheung et al. (2003) concluded that most research addressed consumer online purchasing intention and online purchasing stages, and research on consumer online repurchasing was still in its infancy. While it is important to attract online consumers, it is equally important for online retailers to retain their customers; failing to do so doomed many dot com companies. Additionally, the factors that first attract consumers to generate first-time online purchases may differ from those that are important in building long-term customer relationships.

Research in e-tailing and consumer RM is not well integrated. Most previous research fails to address the fundamental changes the Web brings to retailing, or to examine the impact of these fundamental changes on consumer relationship building in a systematic manner. For example, much research has examined Website design perspectives and various benefits of e-tailing, such as convenience. However, these e-tailing characteristics are widely available or easily copied and can hardly provide sustainable competitive advantage. Moffett et al. (2002) state "a major problem … , however, is that most have not updated their approach to knowledge management to take into account the learning from new channels of communication. This is crucial in understanding consumer behavior and response to these new channels." It is important to identify the major potential impacts the Web brings to the retail market, which may provide opportunities for e-tailers to develop sustainable competitive advantages.

From the consumer RM aspect, most previous research does not consider the complete relationship mechanism, that is, how market characteristics affect consumer relationship intentions. Many (e.g., Muylle et al., 1999; Zeithaml et al. 2002) have employed relationship mediators such as trust and satisfaction as the destination construct, or have neglected the mediators (e.g., Wolfinbarger & Gilly, 2003) between market or consumer characteristics and relational intention or behavior. This only provides us with a partial understanding of the market characteristics that affect consumer relationship intentions.

There also is a need to establish and validate constructs for online consumer RM research. Wolfinbarger and Gilly (2003) note that previous research has not sufficiently conceptualized or carefully selected constructs for online consumer research. Many researchers use a list of attributes rather than well-defined, higher level constructs. When constructs were employed, they often were not carefully generated to reflect the important issues (Wolfinbarger and Gilly, 2003).

Although academics recognize the Web's importance for facilitating RM implementation, empirical evidence on the nature and extent of its impact on consumer shopping and RM success is still needed. In particular, collecting information from the consumer side of the B2C dyad is important to future research on Web retailing. While consumers should be central in retailing, there is often an inadequate focus on the consumer in both Web retailing and RM literature. Most researchers examine RM or Web retailing techniques from the retailer perspective without properly analyzing consumer characteristics (Geiger & Martin, 1999; Griffith & Krampf, 1998; Werbach, 2000). However, the success of any marketing technique depends on its fit with a consumer group.

Based on previous literature, this thesis systematically brings together two fields of research, e-tailing and RM, and attempts to determine what factors contribute to a consumer's intention to build a relationship with an online retailer through supporting mechanisms. From an e-tailer's perspective, how can those who are already practicing RM online do a better job by understanding what leads consumers to form relationships with online retailers? Three specific questions are addressed:

- What Internet characteristics facilitate/hinder relationship marketing in online retailing?
- Do online customers seek relationships with e-tailers?
- What factors are important to online customers in determining their relationship intentions with e-tailers?

To respond to these three questions, this thesis will analyze online consumer relationships from the consumer perspective. The thesis is organized as follows. Chapter 2 provides a review of RM literature, focusing on understanding the consumer relationship building process. Based on this fundamental understanding of consumer RM, particular attention is devoted to summarizing what is known about online RM. Chapter 3 discusses the impacts of the Web on the retail market and retail marketing strategies. Recent research on the online consumer relationship building process is reviewed and evaluated.

Based on this review, a model of consumer intention to engage in online relationships is proposed and discussed in Chapter 4. Four constructs, including perceived shopping risks, perceived relationship investment, perceived consumer power, and perceived interaction, are selected to represent the fundamental changes of the Web on the retail market, retailers, consumers, and the channel, respectively. Three relationship mediators (perceived switching costs, trust, and satisfaction) are identified from consumer RM literature, and incorporated in this model to examine the mechanics of consumer response to market perception constructs.

Chapter 5 describes the survey design, data collection, and structural equation modeling (SEM) methods that were used to test the hypothesized model. Results confirm that the four market perception constructs are positively related to relationship intentions, which implies that firms should focus on enhancing marketing tactics to improve consumer perceptions on these four aspects. Chapter 6 discusses the contributions and limitations of this thesis and proposes areas for future research.

This research makes several contributions. First, two fields of research, consumer relationship marketing and e-tailing, are brought together in a systematic manner. Gaps in the online consumer relationship literature are identified. In addition, the Web's fundamental impact on the retail market is closely examined for its effects on consumer relationship building. This lays the theoretical groundwork for understanding the differences between online vs. offline consumer relationship marketing. Practically, this research will assist in the design of future RM strategies by pointing out focal constructs.

Finally, this research was conducted in a Canadian context. With the Web diminishing the importance of physical location, Canadian retailers are facing giant U.S. competitors who may entice the customers of their smaller Canadian counterparts. This research helps us to understand the online Canadian consumer, which in turn can help Canadian e-tailers to retain or build competitive advantage.

Chapter 2. Relationship Marketing in the Retail Market

The focus of this thesis is online consumer Relationship Marketing (RM). To achieve the objectives of this thesis, this chapter provides a research foundation by:

- Developing an understanding of RM,
- Developing an understanding of the consumer relationship building process and consumer RM strategies, and
- Analyzing the basic conditions of RM success in the retail context.

This chapter is organized as follows. Section 2.1 reviews RM concepts, and Section 2.2 examines consumer RM concepts and problems of RM in the retail market. Section 2.3 categorizes three stages of the consumer relationship building process, and Section 2.4 discusses consumer RM strategies and techniques. Section 2.5 outlines the basic conditions for RM success in the retail market, while Section 2.6 provides a brief discussion of the role of communication technology, such as the Internet, in consumer RM.

2.1. Relationship Marketing

The relationship concept is not new to marketing. However, researchers have only begun to systematically study marketing relationships in the last few decades. In the mid-1960s and early 1970s, a transactional focus (Kotler, 1972), and the 4P marketing mix model (product, place, price, and promotion) dominated (Kotler, 1967). However, by viewing exchanges discretely, transaction marketing does not evaluate customer life time value. In the late 1970s and early 1980s, a new exchange paradigm was suggested, where attention was placed on understanding the relationship dimensions of the exchange (Pels, 1999). The *IMP* group (Häkansson, 1982; Turnbull & Valla, 1986), the *Nordic School of Services* (Berry *et al.*, 1983; Grönroos & Gummesson, 1985) and the *Social Exchange School* (Bagozzi, 1974, 1975, 1978; Houston & Gassheimer, 1987; Hunt, 1976, 1983) were pioneers in this analysis.

RM focuses on relationship building with customers (Arnett, 2003; Buttle, 1996; Coviello et al., 1997; Dwyer et al., 1987; Jackson, 1985; McKenna, 1991). Customer retention is the primary focus, as opposed to the market-share focus found in transactional marketing. With RM, interacting with customers and satisfying customer needs are more important to marketers than ever before.

RM can help increase marketing effectiveness and efficiency by building customer relationships and creating a "win-win" situation for marketers and customers. The focus of RM is to increase customer retention and develop loyal customers. From the marketing point of view, RM helps to generate profitable customers. It has been demonstrated that it is far less expensive to retain a customer than to acquire a new one (Reichheld & Sasser 1990; Stone et al., 1996). Also, the longer the customer stays in the relationship, the more profitable this becomes to the marketer. Marketing cost is also reduced by asking consumers to do the marketer's work (Sheth & Parvatiyar, 1995), such as communicating the marketer's message to friends and members of virtual communities. RM can help to reduce price sensitivity, enable price premiums, and create opportunities for up-selling and cross-selling (Copulsky & Michael, 1990). RM erects barriers for customers to exit and for competitors to enter (Aaker, 1991) and facilitates database development (O'Malley & Tynan, 2000). Loyal customers are important determinants in predicting market share (Baldinger & Rubinson, 1996; Jacoby & Chestnut, 1978) and profit levels (Reichheld, 1996). Relationships developed through RM can become an important source of competitive advantage where loyal customers become competitive assets. Due to these benefits, RM may generate more profitable sales than transactional marketing methods. Realizing this, marketers have been shifting from transactional to relationship marketing (Buttle, 1996).

From the customer point of view, market costs, including searching and switching costs, are also reduced while in a relationship (Odekerken-Schroder et al., 2003; O'Malley & Tynan, 2000). Trust and confidence are increased (Ford, 1980; Griedman et al., 2000). They may learn more about the products and obtain better service. Individual consumers, in general, are more satisfied when in control (Halinen, 1997).

However, there are limitations and drawbacks to RM. Relationship building may require significant time, technology, and personnel investment. Risks for the marketer increase when needed time and investment increases. In the retail market, relationships between retailers and consumers may be difficult to build and maintain, since providing special treatment to individual consumers or consumer groups may be very challenging for a large consumer base. There may also be a dark side to long-term relationships. It has been suggested that, as a relationship becomes more long-term, it becomes prone to negative influences that dampen the positive impact of relational factors (Grayson & Ambler, 1999; Moorman et al., 1992). For example, long-term relationships may dampen the influence of trust as an antecedent to positive relationship outcomes. As relationships progress, customers may perceive that marketers lose their ability to be objective or creative, and the business value of the relationship is decreased. From the consumer perspective, certain RM techniques may trouble consumers and destroy consumer relationships if used inappropriately (Fournier et al., 1998). For example, companies may flood consumers with too many requests, messages, and options (Fournier et al., 1998).

Overall, the RM concept is loosely defined and the concept has been incorporated under various names. Many versions of the RM concept exist. Harker (1999) listed 26 such definitions in his examination of the RM concept. The most cited and "best" (Harker, 1999) definition is from Grönroos (1994): "RM is to identify and establish, maintain, and enhance, and when necessary also to terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, and this is done by a mutual exchange and fulfillment of promise." This definition covers the seven elements of RM, including birth, develop, maintain, temporal, interaction, output and emotional content, which Harker (1999) identifies as being commonly agreed upon by researchers through their appearance in the literature. However, this definition still does not clearly state the meaning of "relationship" in RM. It is criticized as it sets out the goal of RM, rather than what RM actually entails (Too et al., 2000).

Researchers agree that RM is primarily customer-centric marketing (Sheth et al., 2000). Customer-centric marketing emphasizes understanding and satisfying the needs, wants, and resources of individual consumers rather than those of mass markets or market segments. The customer is the starting point of the planning process in customer-centric marketing. In contrast, the product and the market are the starting points in product-centric and market-centric approaches, such as transactional marketing. The customer-centric marketing concept covers more than RM since transactional customer-centric marketing occurs where the level of customer involvement and interest in an interactive relationship is low, such as in direct marketing (Sheth et al., 2000).

Many contrast RM with transactional marketing, in that transactional marketing examines transactions discretely and RM takes a more continuous view (Grönroos, 1991). The suitability of the two approaches or their combination may differ according to product/service categories, market types, or customer orientation (Jackson, 1985). For example, Anderson and Narus (1991) argue that partnering is a focused marketing strategy, suitable only for customers with a collaborative orientation. RM was proposed as a paradigm shift in marketing strategy (Grönroos, 1996). However, a recent survey (Coviello et al., 2002) suggested that marketing practices are pluralistic across various industries in that firms of all types (consumer goods or services, business-to-business goods or services) employ different levels of transactional/relational hybrid marketing strategies. Managerial practice, therefore, has not shifted from transactional to relational approaches *per se* (Coviello et al., 2002).

A useful way to examine RM is through its classification. Coviello et al. (1997) developed a RM classification scheme by classifying RM as database marketing, interaction marketing and network marketing. Database marketing is defined as a technology-based tool, interaction marketing focuses on a dyad (two-party) relationship, while network marketing considers the entire relationship network. The classification can be modified by reclassifying database marketing from the RM domain to the transactional marketing domain (Pels et al., 2000) or by incorporating an e-marketing element (Coviello et al., 2001). E-marketing, "the new approach [that] involves using the Internet and other interactive technologies to create and mediate dialogue between the firm and identified customer" (Coviello et al., 2001), was viewed as a tool/technique in marketing.

This classification of marketing practices into transaction marketing, database marketing, interaction marketing, and network marketing (Coviello et al., 1997) was used to examine marketing practice by different firm sizes (Coviello et al., 2000) and different industrial types (Coviello et al., 2002). No fundamental differences were identified between large and small firms (Coviello et al., 2000).

2.2. RM Application in the Retail Market

The concept of a "consumer relationship" has a long history. However, retail is a rather new frontier for relationship marketing applications (i.e., Buttle, 1996; McKenna, 1991). Certain characteristics of retail markets, such as a large number of consumers, communication and data collection constraints, make it difficult for retailers to build and maintain relationships with consumers.

While relationships do exist in the retail market (Webster, 1994, provides several examples), theoretical research in its adaptation to the retail market has a history that grew from obscurity to popularity (O'Malley & Tynan, 2000). Until the mid-1980s, RM in the retail market was relatively unknown to researchers due to the differences between the retail market and B2B (business-to-business) market, where B2B markets are heterogeneous, buyers and sellers are both active, and interaction and relationships are important. From the late 1980s to the mid-1990s, RM went through a discovery period in consumer marketing when the benefits of building relationships with consumers became recognized and database and Internet technology emerged. RM was generally accepted in the consumer market by the mid-1990s. Sheth and Parvatiyar (1995) proposed a link between consumer behavior, RM, and direct and database marketing, thus laying the conceptual groundwork for business-to-consumer relationships. RM, and thus the exchange relationship paradigm, has become an alternative approach to the retail market (Cumby & Barnes, 1996; Liljander & Strandvik, 1995; McKenna, 1991; Pels, 1997; Peterson, 1995; Sheth & Parvatiyar, 1995; Webster, 1994). Since the late 1990s, RM has gained popularity in consumer-oriented literature. The consumer relationship building process and appropriate marketing tactics have been identified in research (Dwyer et al., 1987; Kalakota & Whinston, 1996; Wang et al., 2000).

While the concept is popular, the practice of RM in the retail market and the real benefits for retailers have been questioned (Cahill, 1998; Hibbard & Iacobucci, 1998). From the practitioner's perspective, RM can bring invaluable benefits. Slow growth and intense competition in the retail market accentuate the need to retain existing customers (Sirohi et al., 1998). However, RM practice itself can be costly and difficult. Concerns expressed include the anonymity of consumers, limited interactions, the low value of individual interactions compared to the high costs of RM programs, etc. Consequently, while RM has received attention from both researchers and practitioners in the retail market, transaction marketing still prevails (Coviello et al., 2002).

There are three general views on RM feasibility in the retail market. Most literature does not limit the application of RM (Berry, 1995; Rowe & Barnes, 1998). After a survey and analysis in three categories of industry (manufacturing, retail/wholesale, other) on RM orientation and business performance, Yau et al. (2000) concluded that RM orientation is appropriate for every industry, and is particularly important in the manufacturing industry. In fact, some researchers and practitioners have tended to apply this concept universally. For example, Vavra (1992) recommended a thorough after-marketing program for all businesses. In contrast, some have suggested that RM is merely a scholarly concept with little interest for real-life practice. Hibbard and Iacobucci (1998) conducted a meta-theoretical analysis of more than ten years of literature and concluded that there is no empirical evidence to suggest that B2C relationships exist. An alternate view suggests that RM in the retail market is suitable for certain relationship-friendly products (Cahill, 1998) and is dependent on the willingness of consumers to participate (Christy et al., 1996; Sheth & Parvatiyar, 1995).

To better understand consumer RM and to design RM strategy and tactics, it is important to understand the consumer relationship building stages and factors that play vital roles in consumer relationship building. Thus, section 2.3 discusses consumer relationship stages, and Section 2.4 discusses factors related to consumer relationship building.

2.3. Consumer Relationship Stages

To understand consumer RM and interpret different research results, an understanding of consumer characteristics and the relationship building process is a must. Researchers recognize that there is a continuum of customer relationships, (Dwyer et al., 1987) ranging from transactional to highly relational bonds. Different levels or lengths of relationships are discussed in customer relationship research (Wyner, 1999). Consumers in three stages of the relationship building process (transactional consumers, repeat or loyal consumers, and relational consumers), are categorized in Table 2.1.

Consumer relationships fall along a spectrum, ranging from no relationship to high commitment and emotional bonds, and can be described according to a three-level transactional, loyal or repeat, and relational consumer typology. Transactional consumers shop around and follow a full decision making process. They gather product/service information, generate their alternatives and study them before making their final purchase decision. Applying Simon's (1960) decision making model, transactional consumers perform all stages (intelligence, design, choice) before purchasing. They welcome and actively search competitor information. Repeat consumers, who are called loyal consumers by many practitioners, repeat their purchases from a particular retailer but are open to other offers. For convenience and cost savings, they undergo a reduced decision making process by trusting the retailer to fulfill their purchasing goal. There is limited design (generation of alternatives) before a purchasing choice. For example, a customer loyal to Wal-Mart because of his/her trust in Wal-Mart's ability to provide low prices may easily switch to other retailers when seasonal sales or discounts are offered.

Repeat customers are different from relational consumers in that repeat transactions are only a precursor of relationships (Pels, 1999; Webster, 1992; 1994). "Repeat patronage may be one of the conditions that one looks for as evidence of a relationship, but it is certainly not the only one" (Barnes, 1995). Relational consumers have established a non-contractual commitment with a brand/retailer and they usually show emotional or social bonds. Sheth and Parvatiyar (1995) have shown that some consumers might wish to establish a direct relationship with a supplier. The decision making process is minimized as most relational consumers simply make their purchasing choice without passing through intelligence and choice stages. They ignore competitor information and do not even look at their advertisements (Cahill, 1998).

	Transactional Consumers	**Loyal (Repeat) Consumers**	**Relational Consumers**
Market appearance	Shop around	Repeat purchases, open to other offers	Exclusive, repeat purchases, emotional bond
Decision making process	A full decision making process (intelligence; design; choice)	Reduced decision making process (design; choice)	Minimum (choice)
Attitude to competitor information	Welcome and actively search	A certain level of interest	Ignore competitor offerings
Orientation to relationship	Low	Medium	High and collaborative
Basis for future purchase	Satisfaction	Trust or favorable evaluation	Commitment
Psychological attachment	Unattached, unbiased	Favorable	Emotional attachment
Knowledge about Marketers	Low	Medium	High
Involvement and initiatives	Low; passive targets	Low to medium; passive targets	High; active partners
Relationship type	Not applicable	Transactional relationship	Non-contractual commitment

Table 2.1: Consumer Relationship Building Process

Consumers differ in how they value long-term relationships. Transactional consumers have a low relationship orientation and put more emphasis on short-term benefits. Repeat or loyal consumers recognize the benefits, such as reduced transaction costs and loyalty program incentives, of being familiar with a particular marketer. They show a medium level of relationship orientation. Relational consumers value long-term relationships and collaborations. They are motivated to engage in B2C relationships in order to reduce both choice and risk (Sheth & Parvatiyar, 1995).

Relationship orientation is usually a result of two important factors: the consumer's willingness to be involved, and ability to manage a relationship (Sheth & Parvatiyar, 1995). Consumer relationship orientation may vary according to marketers and product/service categories. A consumer may be interested in developing relationships with some actors and not with others (Pels, 1999). Consumers share the relationship management responsibility with retailers, though traditionally marketers take a major role.

Consumers, depending on their relational orientation, will differ in the relative importance of their overall satisfaction or their trust and commitment towards marketers (Garbarino & Johnson, 1999). For the low relational customer, overall satisfaction is the primary mediating construct between the component attitudes and future intentions. For the high relational customer, trust and commitment, rather than satisfaction, are the mediators between component attitudes and future intention (Garbarino & Johnson, 1999). Transactional consumers may return to a retailer when they are satisfied with previous experiences. Repeat consumers return for favorable evaluation and tangible rewards. A favorable evaluation may be based on their belief or trust that the retailer provides satisfactory offerings. Relational consumers return because of their commitment. Their relationships can make them overlook the little things that go wrong (Cahill, 1998). In addition, continued business is built less on financial benefits than on psychological ones (Gwinner et al., 1998).

Knowledge about partners is an important prerequisite for relationship development (Sheth & Parvatiyar, 2000). Transactional consumers have a low level of knowledge about marketers whereas repeat consumers know more and have distinct preferences. Relational consumers have a high level of marketer knowledge that may develop into an emotional attachment.

Involvement includes not only activity involvement but also emotional involvement (Shani & Chalasami, 1992). Initiative refers to how actively consumers participate in the market. Both are important in relationship building. Transactional consumers do not tend to get involved and are passive targets of marketing programs. Repeat consumers may be more involved in marketer activities, but still remain rather passive targets. Relational consumers are not passive targets but active partners and are highly involved. They may interact often with marketers and have emotional involvement.

The nature of relationships is determined by the commitment of both actors and by the bonds that exist between them (Liljander & Strandvik, 1995). Overall, repeat consumers are characterized by transactional relationships (Iacobucci & Ostrom, 1996), while relational consumers are typified by non-contractual commitment. Relational consumers are also repeat purchasers, but the repeat purchasing is further characterized by high and stable "share of wallet" (Sheth et al., 2000). In contrast, the repeat consumers "share of wallet" may be low or very vulnerable to short-term offerings of competitors. While relational consumers focus on long-term advantages, repeat consumers are attracted to short-term benefits.

This relationship difference may be examined either from a process point of view or from a segmentation stand-point. From the process point of view, the different levels of relationships can be viewed as component stages of the consumer relationship building process. Thus, marketers need to attract transactional consumers, convert them to repeat or loyal consumers, and then develop them into relational consumers.

While the relationship continuum may represent various stages of the relationship building process, marketers must further realize that different consumers are suited for different levels of relationships. That is, the stages of the relationship continuum also may characterize distinct consumer segments. It is critical for marketers to analyze the product/market position and consumer characteristics, and acknowledge that a "higher-level" relationship is not always feasible or even desirable. From the marketer's point of view, a RM endeavor can be very costly. It is only when this cost generates profit that RM is meaningful. From a consumer perspective, relationships may not always be desirable. Relationship building requires data collection, and as such, may be viewed as an invasion of privacy. Marketers must realize that there may be a limited relationship level and adopt a strategic point of view. Different levels of relationships exist and the particular relationship building approach must consider the market and target.

Many marketing techniques relating to consumer relationships and loyalty, such as micromarketing (Winokur, 1994), database marketing (Davis, 1997), direct marketing (Grönroos, 1996), one-to-one marketing (Greco, 1995), wrap-around marketing (Kotler, 1992), customer partnering (Magrath & Hardy, 1994), and interactive marketing (Grönroos, 1995), have been suggested for enhancing consumer relationships. For consumers in different stages of relationship building, there are different marketing strategies. A three-step approach is summarized in Table 2.2, incorporating consumer acquisition, retention, and relationship.

Marketing strategy in the stage of consumer acquisition may employ either mass marketing or transactional techniques. Marketers usually do not collect individual data other than that essential for transactions. The analysis is conducted at an aggregate level. Pricing, or other transactional incentives, often are used to promote sales.

Suitable marketing strategies for consumer retention include segmentation, loyalty programs that are viewed as sophisticated sales promotions (Dowling & Uncles, 1997), and a mix of transactional and relationship marketing techniques (Pels et al., 2000). Strategies are usually market-centric, which begin with market segmentation. Marketers are interested in identifying consumers and their characteristics and thus collect more than essential data. However, data collection is still at the transaction level. From the consumer point of view, data collection may be viewed as an invasion of privacy. Because the relationship level between marketer and consumer is limited, neither party is interested in exchanging more detailed information. Both tangible and social rewards are used to stimulate purchases.

	Consumer Acquisition	**Consumer Retention**	**Consumer Relationship**
Permission when sending message	No	Sometimes	Asked
Strategic focuses	Increase market share	Increase retention rate	Increase share of wallet
Marketing strategy	Mass marketing; transactional marketing	Segmentation; loyalty program; mix of transactional and relationship marketing techniques	Relationship marketing; co-creation marketing
Orientation and organization	Product	Market	Customer
Information collected and used	Transactional level; basic	Transactional level; detailed	Relational level; detailed
Tactical focus	Price or other transactional incentives; tangible rewards	Social aspects and tangible rewards	Intangible rewards (risk reduction, emotional/social bonds)
Time frame	Short-term	Medium-term	Long-term

Table 2.2: Consumer Marketing Strategies

Different strategies and tactics may be exercised for relational consumers, since long-term relationships are desired. Marketing orientation and organization are both customer-centric. Product design and marketing plans begin with consumer analysis and emphasize the individual customer. Consumers are willing to provide more personal information to maintain and benefit from the relationship. Marketers are likely to focus more on intangible consumer rewards such as risk reduction and the establishment of emotional or social bonds.

Much literature (e.g., Berry, 1995; Coviello et al., 1997, 2002; Rowe & Barnes, 1998) incorporates a similar approach like the one described above to designing RM strategies. For example, Rowe and Barnes (1998) identify four tangible manifestations of RM in consumer markets: locking in customers, customer retention, database marketing, and close personal relationships. Berry (1995) proposed three levels of RM. The first level relies on pricing incentives to secure customer loyalty. This level is more transactional than relational. The second level focuses on the social aspects of a relationship, which are exemplified by regularly communicating with consumers or referring to their names during encounters. The third level offers structural solutions to customer problems. A similar progressive RM classification also can be found in

Coviello et al. (1997, 2002), where RM is classified as database marketing, interaction marketing, network marketing, and e-marketing.

2.4. Factors Influencing Successful Consumer RM

Various factors relating to successful consumer RM can be found in the literature. For example, Sheth and Parvatiyar (1995) analyzed consumer motivations to build relationships with marketers and suggested that consumer engagement in relational market behavior is influenced by personal, social, and institutional factors. For personal reasons and psychological confort, consumers want to simplify information processing, purchase and consumption, reduce perceived risks, and maintain cognitive consistency, all at a state of psychological comfort (Sheth & Parvatiyar, 1995). For social and institutional reasons, consumers engage in relational market behavior because of family and social norms, peer group pressures, government mandates, religious tenets, employer influences, and marketer policies (Sheth & Parvatiyar, 1995).

Factors that influence consumer relational behavior are discussed further below. Previous research results are categorized and interpreted from two aspects: conditions for successful consumer RM, and mediation constructs.

2.4.1. Conditions for Successful Consumer RM

While RM is powerful in theory, it is troubled in retailing practice (Fournier et al., 1998; Pressey, 2000). Retailers may have practical difficulties implementing RM. The retail market, in many cases, is not a natural or suitable climate for profitable long-term relationships. Some research has addressed the conditions of retailing which facilitate RM success. For example, Zeithaml et al. (1983) propose that RM exists where markets are heterogeneous, buyers and sellers are both active, and interaction and relationships are important. Pressey and Mathews (2000) concluded that balanced power, high level of purchase involvement, professionalism of the service provider, and a high level of personal contact are pivotal in RM success. High consumer involvement exists in product categories characterized by inelastic demand and regular consumer interaction (O'Malley & Tynan, 2000). It is very important to understand these conditions since their creation and facilitation may be key to successful RM. Therefore, those conditions that suit consumer RM are discussed below according to: market, retailer, consumer, and communication channel aspects.

2.4.1.1. Market Conditions

Certain market environments are critical for consumer RM. In addition to the operational strategies employed by marketers, the propensity to develop B2C relationships is also dependent on the "relationship friendliness" of the product-market (Christy et al., 1996; Sheth & Parvatiyar, 1995). Industry structure and the nature of the offerings are also important since they help to create different levels of relationship friendliness in individual product-markets (Christy et al., 1996). It has been argued (Christy et al., 1996; Sheth & Parvatiyar, 1995) that B2C relationships only exist in certain relationship-friendly product markets. For example, apparel stores seem to offer better RM conditions than supermarkets (Odekerken-Schroder et al., 2000). Thus, defining the product or the offering becomes important from a RM perspective for retailers (Ravald & Grönroos, 1996).

Service is a further determining factor for the nature of offerings in relationship building (Grönroos, 1996). Along with a process management perspective, as well as partnerships and a network (Grönroos, 1996), the service aspect is one of the three important strategic issues of RM. The service aspect of the offering is what offers relational consumers a direct benefit. Several conditions that facilitate relationship building can be applied to both service and product aspects. The offerings should not be generic. Price or accessibility are not major issues (Palmer, 1995). Professionalism (Pressey & Mathews, 2000) and complexity (Sheth & Parvatiyar, 1995) in decision-making and the purchase process also contribute to relationship success.

Liljander and Strandvik (1995) further propose that exchange paradigms are not strictly related to the type of product or service being sold. Market transparency and perceived risks also affect the relationship-friendliness of a market. Transparency refers to how well parties in transactions are informed. It may consist of vendor transparency, customer transparency and process transparency (Egger & Helm, 2000). Market transparency is highly related to consumer knowledge, which is an essential part of consumer market power, thus contributing to relationship success (Egger & Helm, 2000; Webster, 1994).

According to the Merriam-Webster dictionary, risk is the possibility of loss or injury (www.webster.com). Accordingly, perceived risk is a subjective judgment of this possibility. Perceived risk is an important topic in consumer research (e.g., Bhatnagar et al., 2000; Mitchell, 1999). It is powerful in explaining consumer behavior; the theory has intuitive appeal and broad application, since consumers tend to seek risk reducing strategies (Mitchell, 1999; Miyazaki & Fernandez, 2001; Park & Jun, 2002; Taylor, 1974). Higher risk perceptions increase decision making complexity and switching costs, and thus are often central for relationship involvement (Webster, 1994).

2.4.1.2. Retailer Tactics

Operational strategies employed by marketers are important to RM success (Christy et al., 1996; Sheth & Parvatiyar, 1995). Marketers may implement various consumer RM strategies and tactics. Research has revealed that different RM techniques achieve different market responses. For example, De Wulf et al. (2001) tested the effects of direct mail, preferential treatment, interpersonal communication, and tangible rewards, on consumer perceptions of retailer relationship investment in food and apparel industries in three countries (U.S., Netherlands, and Belgium). They found that the four techniques had different effects in different industries and countries. The conclusion that different RM tactics may have a different impact on overall perceived retailer loyalty efforts has been confirmed in other studies. For example, Odekerken-Schroder et al. (2003) examined the effects of communication, preferential treatment, personalization, and rewards on the perceived retention orientation of the retailer. They found that rewards and personalization were better tactics than communication and preferential treatment.

Marketing techniques leading to the perception that marketers care about consumers also are important to consumer relationships (De Wulf et al., 2001; Odekerken-Schroder et al., 2003), and thus are important in customer relationship building. A dyadic exploratory study of clothing store managers and their customers revealed that customer perceptions of clothing store relationship marketing efforts are crucial to enhanced commitment and loyalty (Too et al., 2000).

2.4.1.3. Consumer Conditions

Consumer relationship proneness is important (De Wulf et al., 2001), reflecting the value of relationships to consumers and predicting the strength and length of relationships. Odekerke-Schroder et al. (2000) investigated the impact of four categories of potential contingency factors on RM effectiveness in a retail context: demographic characteristics of the consumer (age and gender), personal values of the consumer (social recognition and social affiliation), shopping-related characteristics (product category involvement, store relationship proneness, and shopping enjoyment), and contextual characteristics (industry and country). Their results indicated that RM is more effective if directed at consumers who are young and female, have a high need for social recognition and social affiliation, and show high levels of product category involvement, store relationship proneness, and shopping enjoyment.

The propensity to develop B2C relationships is also dependent on the willingness of customers to participate (Christy et al., 1996; Sheth & Parvatiyar, 1995), which in turn depends on consumer relationship evaluation, their natural relationship orientation, and their ability to join a relationship. Personal characteristics are largely determined by demographic attributes and psycho-socio-cultural context. Under certain psycho-socio-cultural contexts, consumers remain in the relationship to resolve a life theme such as concerns or tensions in daily life (Fournier, 1998), or to maintain cognitive consistency (Sheth & Parvatiyar, 1995). For example, loyalty to a brand may help a consumer to simplify a long shopping process, or build a social or personal image. Attitudinal conditions include consumer perceptions and knowledge. The purpose of consumer market behavior is to satisfy needs under time and economic constraints. The tighter the time constraint, the more consumers value relationships. Relationships help consumers to avoid complexity and achieve efficiency. Consumers also remain in the relationships for convenience. Balanced powers of exchange between parties are necessary due to the cooperative nature of relationships (Pressey & Mathews, 2000). Traditional consumers have had an imbalance of power in their exchange with retailers. Contrary to the consumer's traditional assumption of a passive role, an active role, including voluntary participation (Christy et al., 1996), high level of involvement, and high degree of interactivity (Geiger & Martin, 1999; Pels, 1999) is required for relationship building. In a brick-and-mortar retail environment, even when consumers desire relationships, they may have few opportunities to interact with retailers and manage relationships.

2.4.1.4. Communication Channel Conditions

An interactive communication channel is important to consumer relationships since a true relationship can not be built without interaction between two parties. According to Deighton (1996), "the term 'interactive' … points to two features of communication: the ability to address an individual and the ability to gather and remember the response of that individual. These two features make possible a third: the ability to address the individual once more in a way that takes into account his/her unique response." The shorter the communication distance between marketers and buyers, the easier it is to build consumer relationships (Pels, 1999). Continuous interaction is a key to relationship building (Coviello et al., 2000; 2001; 2002).

Interactivity incorporates addressability (Blattberg & Deighton, 1991). Companies with an interactive channel can track customer preferences and tailor their advertising and promotions. An interactive channel helps to build and manage dialogues with customers, integrate marketing campaigns, and improve marketing productivity (Blattberg & Deighton, 1991). An interactive communication channel helps marketers to win power back from distribution channels (Blattberg & Deighton, 1991), and establish a direct market feedback loop. However, such an interactive channel often is lacking in traditional retail markets with brick-and-mortar stores (Pels, 1999).

2.4.2. Other Consumer Relationship Related Concepts

Several concepts are closely related to consumer relationships. For example, commitment (Garbarino & Johnson, 1999) and relationship quality (De Wulf et al., 2001) have been used as relationship mediators. This section addresses consumer satisfaction, trust, and switching costs, which are among the most important factors influencing successful consumer RM (Chen & Hitt, 2002; Garbarino & Johnson, 1999).

2.4.2.1. Satisfaction

Szymanski and Henard (2001) conducted a meta-analysis of empirical evidence of customer satisfaction. They analyzed satisfaction from antecedents (which include expectation, disconfirmation, performance, affect and equity) and consequences of customer satisfaction (which include complaining behavior, word-of-mouth behavior, and repeated purchasing) (Szymanski & Henard, 2001). It is found that equity and disconfirmation are most strongly related to customer satisfaction on average. Other factors may lead to overall satisfaction, such as customization, reliability, customer expectations, and perceived value, as discussed by Fornell et al. (1996).

Customer satisfaction is driven more by quality and customization than by value (price) and reliability. Satisfaction can be transaction-specific or cumulative, and these have varying effects on consumer perceptions (Olsen & Johnson, 2003). While equity, or "a fairness, rightness, or deservingness comparison to other entities, whether real or imaginary, individual or collective, person or non-person" (Oliver, 1997), is a driver of transaction-specific satisfaction, it is more of a post-satisfaction evaluation when modeling cumulative satisfaction.

Satisfaction is highly correlated with long term relationships (Fornell et al., 1996; Ganesan, 1994; Garbarino & Johnson, 1999; Mittal & Kamakura, 2001; Olsen, 2002). Satisfaction is widely used as a mediator to customer relationships (Garbarino & Johnson, 1999; Jiang, 2002; Lee, Lee, & Feick, 2001; Lee, Pi, Kwok, & Huynh, 2003; Lemon, White, & Winer, 2002; Magi, 2003; Meuter et al., 2003; Mittal & Kamakura, 2001; Olsen, 2002; Olsen & Johnson, 2003). The role of satisfaction in the customer relationship building process also may vary according to the business context and consumer level variables. Garbarino and Johnson (1999), for example, found that for low relational customers (individual ticket buyers and occasional subscribers), overall satisfaction was the primary mediating construct between the component attitudes and future intentions. However, overall satisfaction was not the primary mediating construct among high relational customers. Satisfaction has a positive, albeit modest, effect on share of wallet (Magi, 2003). Recent studies also indicate that the relationship between satisfaction and behavior is moderated by consumer level variables (Hombur & Giering, 2001; Mittal & Kamakura, 2001). However, not all consumers respond equally to increases in satisfaction (Hombur & Giering, 2001; Mittal & Kamakura, 2001).

2.4.2.2. Trust

Trust has been conceptualized as a link between buyer-seller relationships and customer retention and loyalty (Baggozzi, 1975, Reichheld, 1994; Schurr & Ozanne, 1985). Trust refers to consumer willingness to rely on an exchange partner in whom one has confidence, and it can be a multifaceted construct (Wirdeshmukh et al., 2002). For example, consumers may have different trust in a product, a company, or a sales person. Trust can be transformed to value and customer loyalty (Wirdeshmukh et al., 2002).

In a recent meta-analysis of the trust-commitment link, Harhay (2003) found that the relationship between trust and commitment was stronger in a retail setting than in a B2B setting. Furthermore, it appears that for high relational customers, it is trust, rather than satisfaction, that mediates the relationship between component attitudes and future intention (Garbarino & Johnson, 1999).

2.4.2.3. Switching Costs

Another important construct relating to customer relationship is switching costs. Switching costs refer to those incurred when customers switch to another marketer, and include transaction, learning, and artificial or contractual costs (Klemperer, 1987). Transaction costs are costs to terminate an existing relationship and start a new relationship. Learning costs occur when a customer to learn new facilities and new products. Artificial switching costs can be created by marketer relationship investments such as frequent flyer programs. There are other types of switching costs, such as consumer risk aversion (Chen & Hitt, 2002), which is consumer intention towards lowering risks in exchange for higher switching costs.

Switching cost is positively associated with loyalty (Ping, 1993, 1994), and it is an important mediator between consumer loyalty and its antecedents (Sharma & Patterson, 2000). The impact of trust and satisfaction on consumer commitment appears to vary according to contingency conditions of switching cost antecedents (Sharma & Patterson, 2000). In a low satisfaction relationship, switching costs may act as an exit barrier.

2.5. Discussion

This chapter has provided a basic understanding of RM and focuses on addressing issues in consumer RM. Due to the characteristics of the retail market, the implementation of consumer RM has experienced certain difficulties. To better understand consumer RM, this chapter examined consumer relationships through various stages and influencing factors.

From four aspects: market, channel, retailers, and consumers, we examined the necessary conditions for market success. From a market perspective, in a product/service market where offerings are not generic, and decision-making is complex, building consumer relationships is valuable. High market transparency and market risk also help to develop successful consumer relationships. From a retailer perspective, retailers need to invest in relationship building programs and show their customers they "care". An interactive channel is important to address and communicate with consumers. Consumers need to value the relationships and have the capacity and power to be involved in and manage long-term relationships.

Since many of these conditions are rare in a traditional retailing context with brick-and-mortar stores, the discussion of a "good" RM environment is mostly theoretical in nature. Very few empirical studies have been carried out to validate these conditions. Pressey (2000) attempted to analyze RM barriers from aspects of: power balance, level of purchase involvement, professionalism of the service provider, and level of personal contact. However, this study was limited to the service industry (hairdressers, opticians, and recreation centres). Thus, it is still necessary to determine if these conditions are important for consumer relationship building in a product retailing context.

Finally Chapter 2 also identified three important constructs that are related to consumer relationships, including satisfaction, trust, and switching costs. It is important to address these constructs when analyzing consumer relational attitudes and behavior. Chapter 3 discusses online consumer RM. With the theoretical foundation provided by this chapter in mind, Chapter 3 has a specific focus on the impact of changes in online retailing on consumer RM.

Chapter 3. Online Retailing and Relationship Marketing

Following the examination of consumer relationship marketing in Chapter 2, this chapter addresses the topic from the online perspective. The purpose of this chapter is to:

- Understand the impact of the Web on the retail market, and
- Review previous research on online consumer relationship marketing;

This chapter is organized as follows. Section 3.1 discusses the Web's role in retailing and marketing, and then analyzes its impact on the retail market; from market, channel, retailer and consumer perspectives. Section 3.2 summarizes current research addressing the online consumer relationship-building process and identifies gaps in this work. Section 3.3 provides a discussion that links this work to the following chapters.

3.1 The Web's Role in Retailing

Internet technology is one of the most significant technologies of the twentieth century (Teo & Pian, 2003). The Web is an Internet application that plays an important role in modern marketing and retailing. With the Internet, "the separation between IT and 'the business' is disappearing" (Earl & Khan, 2001).

The marketing opportunities fueled by the Web can be viewed from three aspects (Feeny, 2001): enhanced selling process, enhanced customer buying experience, and enhanced customer usage experience. The selling process can be improved by customer input, customer targeting, customer aggregation, benefit selling, and achievement selling. The customer buying experience can be enhanced by providing solutions and tailored products while the customer usage experience can be enhanced with value-added services and customized support.

E-tailing growth is affected by various factors. Sindhave and Balazs (1999) analyzed factors from five aspects: product-related, medium-related, consumer-related, firm-related, and environment-related. Many have researched the barriers or motivations of retailer adoption of the Internet (e.g., Doherty et al., 2003; O'Keefe et al., 1998; Teo et al., 1997; Vadapalli & Ramanurthy, 1997). It has been demonstrated that the market sector, view of the viability of the Internet, Internet strategy, senior management commitment, and presence of an appropriate infrastructure and development capability are important factors influencing the adoption decision (Doherty et al., 2003).

There are many documented studies of business techniques: Web-based strategies (Graham, 2000; Griffith & Krampf, 1998; Oliva, 2002); marketing techniques such as interactive marketing and database marketing (Coviello et al., 1997; Gupta & Lehmann, 2003; Jackson & Wang, 1995); new business models (Gulati & Garino, 2000; Hoffman, 2003; Werbach, 2000); and Web-based information systems (WIS), a new category of information systems that facilitates online business (Isakowitz et al., 1998; Wang & Head, 2001).

At the strategic level, the role of the Web in retailing is discussed in terms of the role of the Web in marketing and the relationship between e-tailing and brick-and-mortar retailing. The use of interactive media in itself may not comprise a specific marketing technique since many marketing approaches can be implemented with or without IT/Internet infrastructure. For example, the idea of database marketing was widely used in direct marketing long before the existence of database technology (Petrison et al., 1997). Thus, instead of viewing e-marketing as a category of marketing techniques, e-marketing can be simply viewed as electronic media-enabled marketing. Following Wang et al. (2002), the Web's impact on consumer marketing can be viewed from a marketing tool or marketplace perspective. The first perspective considers the Web as one of many tools available for marketers to communicate and sell their products to customers (Burke, 1997; Deighton, 1997; Peterson et al., 1997). The second view recognizes the potential power of the Web to create a new marketplace (Mahajan & Wind, 1989). Table 3.1 summarizes three works which express a similar classification.

<table>
<tr><th>Reference</th><th colspan="4">Role of IT or the Web in Marketing</th></tr>
<tr><td>Christensen (1997)</td><td colspan="2">Sustaining</td><td colspan="2">Disruptive</td></tr>
<tr><td>Wang et al. (2002)</td><td colspan="2">A marketing tool</td><td colspan="2">A new marketplace</td></tr>
<tr><td>Coviello et al. (2001): For literature classification</td><td colspan="2">A tool</td><td>New models</td><td>A new channel</td></tr>
<tr><td>Coviello et al. (2001): Approach to IT</td><td>A reinforcing tool</td><td>An enhancing tool</td><td colspan="2">A transforming philosophy</td></tr>
</table>

Table 3.1: The Web's Impacts on Consumer Marketing

Differentiating between the role of the Web as a tool or as a marketplace is similar to the concept of separating sustaining and disruptive technologies (Christensen, 1997). Using the Web as a marketing tool, businesses are actually adopting a sustaining approach to employ new technology. By viewing the Web as a new marketplace, business strategies are more disruptive, and may thus lead to dramatic changes in the organization. Different views will generate different strategies, which will have different implementation implications. Coviello et al. (2001) proposed a similar classification. They found three schools of thought in the literature on the impact of the Internet to marketing: offering a tool, requiring new models, or providing a new channel. The latter two, requiring new models and providing a new channel, are captured here under viewing the Web as a new marketplace. In the same paper, Coviello et al. (2001) addressed the role and approach of IT to marketing practice: as a reinforcing tool, an enhancing tool, or a transforming philosophy. The roles of reinforcing and enhancing tools are incorporated here as viewing the Web as a marketing tool, while the transforming philosophy corresponds to viewing the Web as a new marketplace.

While it is important to understand the Web's role in retailing and retail marketing from a higher level (strategic point of view), it is also important to understand the impact of the Web on various retailing aspects. Studying the characteristics of new media technology provides a structured context to understand social effects and compare different media (Williams et al., 1994). By understanding the Web's impact and potential on major aspects of retailing, we can make better use of these impacts through marketing programs and build sustainable marketing strategies. For the purpose of this research, these impacts are examined for their roles in consumer RM.

The Web can have major impacts on a variety of retailing dimensions, and researchers have used various frameworks to discuss these impacts. For example, Peterson and Balasubramamian (2002) discuss the Web's impact on retailing from globalization, human resources, consumer behavior, and retail formats. Wang et al. (2002) provide a framework to systematically view the Web's impact on the retail market. The unique characteristics of the Web for retail applications are categorized from three dimensions: technology infrastructure, channel integration, and market information, and its market effects are analyzed through product offerings, a new consumer participation model, and changes in industrial structure (Wang et al., 2002). Others have focused on specific issues such as interactivity (Teo, Oh, Liu, & Wei, 2003), price searching (Suri, Long, & Moroe, 2003), and multi-channel distribution (Balabanis & Reynolds, 2001; Tang & Xing, 2001).

Following the discussion in Chapter 2, which suggested that successful consumer RM requires certain conditions (from the retail market, retailer, consumer, and communication channel), the Web's impact on the retailing market will be analyzed from four aspects: online market, communication channel, retailer, and consumers. The insight provided here is important for understanding online consumer RM, and essential for building the hypothesized model developed and analyzed in Chapters 4 and 5.

3.1.1. Online Market

The Web is a truly information-intensive environment. Vast amounts of information can be collected, integrated, processed, presented, and accessed through the Web by both marketers and consumers. Marketers can now track detailed information for all e-tailing consumer interactions, and not just selected samples. However, data that pertain to soft market features, such as reputation and reliability, may be more difficult to gather and evaluate. Consumers can gain more market knowledge for criteria comparison, but the potential for information overload may increase perceived searching costs (Head et al., 2000). Marketers may provide tools to facilitate consumer information collection, but may have to redesign their marketing strategies because competitors also can accumulate market knowledge and match price differences.

Many researchers believed that the mass of information online would enhance comparison shopping (Evans & Wurster, 1999; Hoffman et al., 1995). However, the processing capacity of human memory is limited. Miller (1956) suggested that the processing capacity of short-term memory is approximately seven pieces of information. Malhotra (1982) showed the dysfunctional effects of information overload when consumers are provided with 10 or more alternatives in a choice set. This simply means that the mass of information online may have a complicated impact on consumer searching and evaluating information. It was found (Suri et al., 2003) that consumer motivation level and information load mediate consumer price searching behavior and interpretation of different price levels. For motivated consumers, a high price level was evaluated as higher in value when the information load was excessive. On the other hand, when the motivated subjects did not have an excessive information load, they evaluated a low price level as better value. For less motivated subjects, the high price level was perceived higher in value and quality than the low price level. This implies that non-price information online may reduce consumer price sensitivity, thus contributing to consumer relationship orientation.

Although better information availability is not necessarily related to better use of information by consumers, it does help to create a transparent environment. The wide availability of price and non-price information may alter the consumer decision making focus. The traditional information asymmetry between the buyer and seller has been improved, which reduces the ability of marketers to differentiate solely on the basis of price (Grewal, Iyer, Krishnan, & Sharma, 2003).

Online information presentation is still limited. Consumers cannot touch or feel products. This may result in transformed search attributes and decision making processes online compared to traditional shopping. It has been demonstrated that the consumer's need for tactile input negatively impacts the purchase of products on the Internet, particularly those requiring more tactile cues for evaluation (Citrin et al., 2003). This limitation on the presentation of information may enhance the value of customer relationships, in that customers in these relationships are familiar with a retailer/product and may therefore demand less tactile information content for decision making.

While a positive facet of the digital market is the availability of information, a drawback is higher shopping risk, compared to traditional marketing through brick-and-mortar stores. Consumers may not physically examine the retailer's products before ordering, and must enter a contract before anything is delivered. Forsythe and Shi (2003) identified six components of perceived risk, including financial, product performance, social, psychological, physical, and time/convenience loss from the literature. They found four types of risk that were of concern to Internet shoppers and browsers, including financial, product performance, psychological, and time/convenience loss risks. It has been suggested that product category risk and financial risk are two predominant types of risks in online shopping (Bhatnagar et al., 2000). In addition, many researchers have examined online privacy and security risks (Miyazaki & Fernandez, 2001; Tuthill, 2002; Vice, 2001). Privacy is an issue which draws much more attention in the online environment than in offline retailing (Wolfinbarger & Gilly, 2003). Online consumers are keenly aware of their need for privacy/security (Culnan, 1999; Friedman et al., 2000).

Compared to in-store shopping, consumer product-related risk perception does not significantly increase, but service-related risk perception increases in online shopping (Lee & Tan, 2003).

Furthermore, a comparison of frequent online shoppers, moderate online shoppers, and online browsers, demonstrated that browsers perceived considerably more financial risks, time/convenience risks and psychological risks than others. Frequent online shoppers perceived fewer risks than others in all risk categories, and moderate shoppers were more likely to perceive product performance risk than the others (Forsythe & Shi, 2003). This confirms that risk perception of online shopping decreases as shoppers purchase more online, and implies that shoppers at different shopping stages may perceive different shopping risks.

3.1.2. Communication Channel

The success of relationship marketing depends heavily on the collection and analysis of customer information. Buttle (1996) points out that marketing problems are, by nature, information-handling problems. Knowledge about individual customers can guide highly focused marketing strategies. Hence technology such as the Web, which facilitates information handling, may lead to the implementation of more effective marketing strategies.

The Internet can be an interactive channel. Many applications, such as personalization and online communities (Holland & Baker, 2001; Thorbjornsen et al., 2002), can help to provide interactivity to consumers. Individual customers can receive tailored information through user profiles and identification. Consumers can be welcomed with a personalized greeting when entering a site. When a returning consumer visits a Website, the site can alter color, layout, and content according to the individual's pre-recorded preferences.

Online communities are another interactive online application. The Web provides a community-building infrastructure (chat rooms, bulletin boards, interactive events), which has a positive effect on loyalty intentions (Mathwick, 2002). Dialogue can proceed in real time in chat rooms, or asynchronously on bulletin boards. It was found that personalized web sites developed stronger consumer-brand relationships for respondents with extensive Internet experience, and customer communities developed stronger relationships among respondents with limited Internet experience (Thorbjornsen et al., 2002).

Perceived interaction consists of three aspects: interaction quality, interaction quantity, and personalization. The Web enables consumers to interact with retailers and product manufacturers (Mundorf & Bryant, 2002). Generally, this process is consumer-directed computer interaction. In current practice, personal interaction with sales staff is lacking in the online experience. The technological nature of the interaction enables service automation, which may decrease the intensity of individual interaction but increase the overall level of interaction received by the general population. Individual interaction, in cases such as technical support, can be complemented through the integration of other media, such as the telephone. Due to the wide availability and ease of use of Web interaction, consumers may tend to interact easily with marketers in this environment (Teo et al., 2003). Because of the high personalization that can be incorporated into Web interactions, consumers may perceive higher interaction quality levels. The Web also provides a convenient way for consumers with similar interests to interact through virtual communities.

Online consumers have more opportunities for product/service involvement. Online consumers can even be involved in product design and product testing (Chen et al., 2001). For example, online consumers can help to design cars or select new songs for promising artists. The Web enables them to provide product feedback much more easily than they could in the traditional market. They can search for answers to their problems and share knowledge in virtual communities. The value chain becomes transparent to them in the sense that they can understand what happens behind the retail scene, and thus online consumers may feel more involved in the value delivery process. An increase in both psychological and activity-based involvement from consumers is important for RM (Pressey & Mathews, 2000).

The Internet channel also differs from traditional channels in that it has network externality effects. The more people that use it, the more valuable it may be to an online shopper in terms of the usefulness of information or level of involvement. However, the value of the online channel for a consumer is complicated. Sohn et al. (2002) pointed out that, besides the positive network externality of the online channel (the more users the better), the presence of more users implies a reduction of available capacity, which consumers care about. Sohn et al. (2002) developed a model to estimate consumer utility through a function of all other consumption, knowledge, and network externalities (Sohn et al., 2002). Their results indicate implies that online interaction is very complex, consisting not only of retailer-consumer relationships but also consumer-consumer functions (Sohn et al., 2002).

3.1.3. E-tailer Opportunities

The Web enhances the retailer's ability to implement RM (Berthon et al., 1996; Burke, 1996; Werbach, 2000). In the past, firms did not have the tools to manage numerous interactive actors, and consumers were passive because they had no way of expressing themselves. E-tailers are more capable, in terms of available techniques and implementation cost, to implement RM (Gorin, 1999). Through the Web, companies can respond to various consumer requests and create a feedback loop. Personalized Web sites and communities can be built (Holland & Baker, 2001; Thorbjornsen et al., 2002). It is typically more feasible and cost efficient for online marketers than traditional marketers to track Web users and deliver personalized messages.

The Web can expedite the integration of products and services in retailer offerings, since products and services can be bundled. A developing characteristic of online offerings is the enhanced ability of e-tailers to customize offerings (Grewal et al., 2003). For example, individual customers at Dell Computers (http://www.dell.com) can choose a computer configuration that best matches their needs. While much of this is done through computer automation, consumers may perceive this as individual treatment in the shopping experience. E-tailers are moving from a core product sale to a service-based offer, or from a product-centered view of value creation to a service-centered view of value creation.

Customized service also is viewed as an opportunity provided by the Web (Hindman, 2000). Because of this service perspective of retail offerings, the way retailers keep their market promises has changed (Grönroos, 1996). Instead of focusing on product features, as in the traditional market, e-tailers need to consider elements such as technology, knowledge, and time, which are involved in the service aspect. Bitner et al. (2000) suggested that the latest advances in Internet technology, including greater access to customer data and speed of service, are providing firms with the ability to resolve specific problems more quickly and thoroughly and, thus, with better service recovery. The impacts of service components on e-tailing are complicated. Consumer product-related risk perception online is not higher than in-store, but the service related risk perception online is higher than with in-store shopping (Lee & Tan, 2003).

Service components are most prominent in the information/knowledge and delivery aspects of e-tailing. Personalization becomes an important service dimension for Web users (Yang & Jun, 2002). E-tailers are faced with the challenge to design usable and useful Web storefronts to facilitate customer navigation. Many e-tailers feature a large portfolio of products, requiring powerful search tools and methods to cater to the heterogeneity of consumer information requirements. The Web encourages after-sales service by facilitating access to rich information and customer interaction. Customer relationship management (CRM) systems have become popular tools to support these relational interactions (Dunn, 2003). CRM systems can automatically record detailed consumer activities, and the data collected can be used to build consumer profiles. By understanding consumers better, marketers can employ relationship marketing techniques in the retail market to provide personalized services.

3.1.4. Online Consumers

Surveys (Ernst & Young, 2001; Shneiderman, 2000) show that the gap in Internet usage between men and women, and among different age groups, has been declining. However, online customers still represent a distinct group with higher income and education. In making their decisions, they search the Web for information, lower prices, and higher value. They have access to more information and thus possess more market knowledge. They actively exchange information with other customers, evaluate products, and purchase either on- or offline. Online customers may have different decision-making processes, and incorporate evaluation criteria that rely on electronic tools. Lynch and

Ariely (2000) show that lowering search costs through effective navigation design in WIS (Web Information Systems) may alter a customer's decision-making criteria.

Online customers may have different price sensitivity, compared to traditional retail customers. Alba et al. (1997) propose that, when quality-related information becomes a brand-differentiating factor for customers, interactive retailing could lead to lower price sensitivity. Degeratu et al. (1999) found that online promotions, which are indicators of price discounts, lead to higher price sensitivity. Shankar et al. (1999) also identify the effects of various online characteristics on customer price sensitivity. Lynch and Ariely (2000) conducted an experiment to test the online effects of three different search costs on consumer price sensitivity: search cost for price information, search cost for quality information, and search cost for comparing across two stores. Their empirical results showed that lowering the cost of search for quality information reduced price sensitivity, while lowering the cost of cross store comparison increased price sensitivity.

The passiveness of consumers in a traditional environment may be attributed to a lack of interaction possibilities, rather than a lack of desire to interact (Pels, 1999). With the Internet, consumers online may be more active. Both marketers and consumers perform information-processing and decision-making tasks. Market participation is determined by interaction and information-processing/decision-making activities.

The Web is an integrated channel, which greatly facilitates information access, collection, and analysis for all market participants. Both consumers and marketers can actively participate in the market at all interaction phases. While consumers can dramatically increase their market power, various marketers can also enhance their market capabilities. The communication medium and distribution channels are no longer market buffers but rather they serve as interaction carriers, allowing both marketers and consumers to establish direct contact with each other. Therefore, the capabilities of the communication medium and distribution channel do not limit the power of market participants. Timely and accurate feedback can be delivered to manufacturers, and consumers can find information that fits their specific needs.

This new market participation model leads to various changes in consumer characteristics, attitude and behaviors. Consequently, consumers play a different role in the marketing process. Marketing has traditionally been viewed as a task undertaken by marketers. Consumers take on a more active role in Web market participation. The opinion that consumers carry out their own marketing tasks is addressed by the concept of "reverse marketing" (Koulopoulos, 2000; Mitchell, 1999) or "marketing by consumers" (Wang et al., 2000). Wang et al. (2000) pointed out the importance of recognizing and facilitating consumer control of databases, and formation of relationship networks, for the success of consumer RM.

As outlined above, electronic shoppers may possess different characteristics than traditional retail customers. User characteristics also affect online interactivity.

Mehlenbacher et al. (2000) found that reflective, global learners performed significantly better than active, sequential learners in online environments, despite the fact that no differences between them exist in the conventional offline environment. Ramey (2000) also pointed out the importance of user characteristics in improving online interactivity.

The nature of the electronic shopper will continue to evolve. For example, the "Net generation" refers to the generation born after 1977 (Chen, 2000), who grew up with and spent the majority of their learning years with the developing Web. Understanding the Net generation is critical to understanding the future of e-tailing, and still requires tremendous effort. As analyzed by Wood (2002), different generations have different requirements and expectations for e-shopping. For example, the "boomer" (those consumers born between 1946 and 1965) generation focuses more on convenience, while "boomlets" (consumers born between 1977 and 1997 and also known as "Gen Y") are more prone to product customization (Wood, 2002). It is important to understand the characteristics and needs of new generations, in order to design successful long-term marketing strategies.

Consumer power has been a major enhancement of the Web. Consumers can access more information, and better-informed consumers may make better decisions. Consumers can also exchange information with each other and form virtual communities. In this way, it is easer to accumulate and share market knowledge. Consumers can also group together and form a market force to influence retailers. For example, retailers may improve product features, which are critiqued and discussed in consumer forums. Consumers can interact with retailers to negotiate and personalize. In the traditional market, marketers sell available products or services, and meeting future consumer needs depends on the new product development team. Consumers in the Web market may also join the product development process. Their power may call for a change of business structure or business strategy, such as promoting business alliances between retailers and suppliers. Also, consumers can employ their own tools to process and manage market information, such as through a Web agent. For example, mySimon.com (http://www.mysimon.com) helps consumers to search a desired product across several online retailers for availability and cost. Consumer involvement is required to facilitate consumer self-service and self-management. Through all these changes brought by the Web, consumers can become an active and knowledgeable market force.

The Web helps to increase consumer power. Andresen (1999) proposed that the Internet is a voice channel for consumers to speak up, as compared to silently trying to influence retailers by exercising their power to "exit" the relationship. First, the Web helps consumers to access market information and gain knowledge (Sharma & Krishnan, 2000). Through increased knowledge, consumers not only understand more about the market, including products, marketers, and the value delivery process, but they also can understand more about themselves, such as their behavior in a shopping process. Thus, they can make better decisions by knowing their needs, identifying their constraints, and searching for best solutions.

Second, consumers now have control over the interaction medium through the Web (Godin, 1999; Peterson et al., 1997). They can choose the hardware, software and interface used. They can post messages and use various Web-based shopping services such as the shopping lists provided by online grocery retailers to manage their own data. They have more control over their shopping processes and can play an active role in both searching for information and providing feedback. Online consumers can initiate interactivity and manage the interaction. The potential for the user to modify the environment is the essence of user control (Klein, 2003).

The Internet threatens the amount of control marketers have over the source and character of information presented to consumers (Ward & Ostrom, 2003). Although word-of-mouth (WOM) has always been largely out of the marketer's control, WOM and WOM-like information has never before been so readily available in a mass medium (Ward & Ostrom, 2003). It has been found (Ward & Ostrom, 2003) that Internet searches are more likely to return information from "unofficial" than "official" sources. Additionally, consumers who gather information from online discussions (Internet forums or bulletin boards) report greater interest in the product topic than those consumers who acquired information from market-generated sources (Bichart & Schindler, 2001). Not only do Web groups have a strong effect on purchaser decision-making (Armstrong & Hagel, 1996; Kozinets, 1999; Wotring et al., 1995), but they may also affect market variables such as products and prices. For example, stocks that capture the attention of participants in chat rooms can move noticeably in price (Bruce, 1997).

Third, online consumers may have a greater impact on the market environment and the purchasing process. For example, there are various techniques or tools on the Web for negotiation or bargaining (Sharma & Krishnan, 2000). Web price comparison agents allow consumers to compare price and offerings. The Web provides a transparent environment (Sinha, 2000), where retailer and fellow consumer knowledge is available for negotiation support. For example, consumers can name their prices for airline tickets on Priceline (www.priceline.com). Online car referral services can help their average customers pay approximately 2% less for a car (Morton et al., 2000). As an interactive marketplace, the Web also gives the consumer data selection and personalization power. Customers can select information of interest and personalize presentation forms for their own use. Personalized Web pages, which can be constructed quite easily, increase customer power (Rousseau et al., 1999). Customers on the Web have greater control over what they view and examine. They can select their own path through the information network, process the data, or initiate communication with marketers.

The mass of information available on the Web prepares online consumers with knowledge. Consumer knowledge is important in explaining brand loyalty, choice and search behavior (Ratchford, 2001). Knowledgeable consumers gain a better position in negotiation with marketers. It is often advised that negotiators learn as much as they can about the other party (Thompson, 2001). Consumer intimidation in negotiation often comes from a lack of information about the negotiation process, about the other side's reservation price, and so on (Bazerman, 2001). With the Internet, a large number of Websites (e.g., www.cartalk.com) provide information specifically to help in consumer negotiations.

3.2. Online Consumer Relationship Marketing

The new generation of communication technologies (most notably, the Internet) provides not only a tool for consumer RM, but also a new marketplace where many conditions for consumer RM are enhanced (Wang et al., 2002). Technology's role for consumer RM has long been recognized (Grönroos 1996). Zineldin (2002) even argued that, without the effective use of technology, RM is not an effective strategy. He used the word "technologicalship" to refer to the relationships based on the use of information technology, and argued that relationship marketing based on technological advances can be considered a new paradigm.

A variety of research can be found in the literature related to online consumer RM. For example, Lee and Tan (2003) studied consumer choices between e-tailing and physical retailing. It was found that retailer relationships and manufacturer relationships with consumers converge to some extent in e-tailing, in that online consumers shop for well-known brands and they are less likely to shop online from lesser-known retailers who carry well-known brands than from reputable retailers, even if the latter carry lesser-known brands (Lee & Tan, 2003). Grewal et al. (2003) studied the impacts of the Internet on the price-value-loyalty chain and suggested that marketers have to explore online consumer value components and determine newer ways to create and deliver such value.

With the Web's ability to reach consumers, and the resulting privacy threat it brings, the permission marketing concept has become important. Popularized by Godin (1999), permission marketing suggests that marketers obtain consumer permission to send customized advertising material to them. Godin (1999) suggested the following levels of permission:

1). Intravenous level: a marketer has the permission to make the purchasing decisions on behalf of the consumers. Sometimes, in a purchase-on-approval model, consumer authorization is required before an actual purchase is made.

2). Points level: reward points programs, which reward consumers who accumulate enough points, are a formalized, scalable approach to attracting and keeping the prospect's attention.

3). Personal relationships level: establish personal relationships with customers.

4). Brand trust level: a marketer with a trusted brand has some power in communicating with consumers, such as in brand extension.

5). Situation level: ask permission each time when contacting consumers.

Tezinde et al. (2002) analyzed relevance factors (affiliation and personalization) affecting consumer permission. A study was carried out by sending letters to university alumni to ask them to enroll as alumni members. The response rate was analyzed with respect to two relevance constructs (high/low affiliation and hand-written/printed address). It was suggested (Tezinde et al., 2002) that relevance, in terms of personalization, brand equity, and previous relationships, influenced response rates.

Finally, a developing body of research examines the factors that affect online consumer relational attitudes and behaviors (DeWulf et al., 2003). This research stream is discussed in detail in the following sections.

3.2.1 Research Focusing on the Market, Channel, Marketers, and Consumers

From the interactive communication channel perspective, research indicates that online interactivity affects online consumer attitude and behavior. Berthon et al. (1996) found that the interactivity level of a site was critical in converting site visitors to interactive customers. It has also been suggested that the relationships between Web users and the Web may change when the level of interactivity changes (Hoffman & Novak, 1996; Light & Wakeman, 2001). Teo et al. (2003) compared three Web sites with different levels of interactivity in a controlled laboratory experiment and suggested that increased levels of interactivity on a Web site have positive effects on user perceived satisfaction, effectiveness, efficiency, value, and overall attitude towards the site.

Various research has addressed online consumer behavior, the motivations, task characteristics, and personal characteristics of online consumers.. Convenience is consistently reported as an important consideration when shopping online (Childers et al., 2001; Liao & Cheung, 2002; Park, 2002; Shim et al. , 2002). Consumers are also motivated by factors such as freedom, control, and fun (Wolfinbarger & Gilly, 2001). Childers et al. (2001) further classified online shopping motivations into utilitarian and hedonic dimensions. For example, Holland and Baker (2001) suggested that consumer goals in visiting a Website (task or experiential) affect their propensity to be site-loyal.

Personal characteristics are a further determinant of online consumer behavior (Bellman et al., 1999). Life style, perceptions, needs, and the situation, all affect consumer online involvement (Wu, 2002). Shim et al. (2001) showed that consumer attitudes toward Internet shopping, perceived behavioral control, and previous Internet purchase experience, are predictors of consumer intentions to use the Internet to search for information. In turn, a consumer's intention to use the Internet for information search is a strong predictor of online purchase intention (Shim et al., 2001). Product interest, product type, entertainment shopping orientation, experience of online buying, and Web-site trust also predict online purchase intention (Park, 2002). Research has also addressed the role of Web visit tasks in consumer behavior.

From a retailer's perspective, research has addressed the business aspects that impact e-loyalty. Srinivasan et al. (2002) identified 8 "Cs" (customization, contact interactivity, care, community, convenience, cultivation, choice, and character) As dimensions of customer relationship investment. With the exception of convenience, these constructs were significant antecedents of e-loyalty. A recent study (Jiang, 2002) of online computer shopping found that most online consumers are not yet willing to pay more for customization. However, those who are willing to pay tend to be more confident in their purchase choice, more likely to be satisfied, and more likely to revisit the customization provider.

Wolfinbarger and Gilly (2003) addressed e-tailing quality and established four dimensions for customer judgment of quality, website design, fulfillment/reliability, privacy/security, and customer service. Web design features such as reliability, navigation, quality information, product comparison, personalized information, experiential, speed and ease of ordering contribute to establishing a Web site image, which leads to online consumer loyalty (Page & Lepkowska-White, 2002). The online retailing industry also recognizes the importance of Web site design for consumer relationships. Through interviews with Web site designers, Geissler (2001) proposed a model illustrating a direct relationship between Web site design and the online customer conversion process.

From a market perspective, many have addressed the role of risks in online consumer behavior. It was found that risk is an important factor affecting consumer use of online shopping (Bhatnagar, Misra, & Rao, 2000; Liao & Cheung, 2001, 2002). Forsythe & Shi (2003) found that perceived risk is a useful tool for explaining consumer patronage behavior, while Park and Jun (2002) found that the perceived risks of online shopping significantly affected online shopping frequency in Korea, but not in the U.S.

3.2.2. Mediators

While computer user satisfaction has traditionally been a subject for management information systems (MIS) research investigation, consumer satisfaction has been a research topic in marketing. Since an online consumer is a user and a shopper simultaneously, it is necessary to measure online shopper satisfaction from both stand points. Cho and Park (2001) developed a user-consumer satisfaction index for online shopping by incorporating 51 items from 10 factors (product information, consumer service, purchase result and delivery, site design, purchasing process, product merchandising, delivery time and charge, payment methods, ease of use, and additional information services) identified in the fields of marketing and MIS. Szymanski and Hise (2000) examined e-satisfaction from consumer perceptions of online convenience, merchandising (product offerings and product information), site design, and financial security. It was found that convenience, site design, and financial security are dominant factors in consumer assessment of e-satisfaction (Szymanski & Hise, 2000). Most studies of the relationship between satisfaction and customer relational behavior have been carried out in a traditional shopping context. Studies investigating outcomes of e-satisfaction are needed (Szymanski & Hise, 2000).

Trust is also an important construct discussed in online consumer RM literature. Yoon (2002) studied the role of trust in online purchase decision-making by analyzing the antecedents (transactional security, Web-site properties, search functionality, and personal variables), consequences (purchase intention), and mediating variables (Web-site awareness) of online trust. Gefen (2002) analyzed dimensions of trust and trustworthiness among online consumers from integrity, benevolence, and ability perspectives, and showed that window-shopping intentions were affected by the ability-trustworthiness of the vendor, while overall trust in the vendor and its integrity-trustworthiness affected purchase intentions.

Trust and satisfaction have complicated roles in online consumer behavior. First, they may respond to different antecedents. Yoon (2002) found Web site trust depended significantly on site properties, including image-related variables such as company awareness and company reputation, whereas satisfaction depended on navigation functionality. Trust and satisfaction can be highly correlated, and both are important to online purchase intention.

Compared to trust and satisfaction research, there have been few studies of switching costs in online retailing contexts. However, some have studied switching costs in the online service environment (Chen & Hitt, 2002; Keaveney & Parthasarathy, 2001). Keaveney and Parthasarathy (2001), for example, studied switching behavior among general online service users and reported that certain behavioral (information that customers used when making the online service decision, and their service usage), attitudinal (risk-taking propensity), and demographic (income and education) factors were effective in discriminating between continuers and switchers.

Chen and Hitt (2002) studied switching costs and customer intention in the online brokerage industry. Examining the effects of systems usage, service design, and other firm and individual-level factors on switching and retention, they found that firms had different abilities to establish switching costs. System usage measures, system quality, and firm characteristics such as product line breadth and quality, were associated with reduced switching, just as they are in an offline environment. However, customer demographics had little effect.

3.2.3. An Evaluation of Previous Studies

Because this thesis focuses on the factors and mechanisms that affect online consumer relational intention, it is especially important to review previous model development and empirical results pertaining to factors that affect online consumer relationship building. Tables 3.4(a) and 3.4(b) summarize empirical studies that examined various consumer relationship building stages/characteristics of e-tailers. Table 3.2(a) includes work that focused on constructs in the consumer acquisition stage, while those in Table 3.2(b) explicitly considered the consumer retention stage. This summary provides an outline of relevant published empirical research rather than a comprehensive portrayal of all literature in this stream.

The research included in Table 3.2(a) examines constructs that are important in customer acquisition, and considers both Web site and customer perspectives. Montoya-

Weiss et al. (2002), for example, explored the impact of Web site design on consumer attitude toward the site and found that navigation structure, information content, and graphic style were important in attracting customers. Shim et al. (2002) examined the effect of Web presentation on online shopper experiences, and found that convenience and simplicity were more important than other factors such as customer-service policy information, leading-edge technology, or presentation of product/service information, for online shoppers. Park and Jun (2002) tested a model of online buying intention as explained by Internet usage, perceived risk, innovativeness of the site, and online buying experience in Korea and the U.S.. They found that Internet usage time and innovativeness on the Internet were more important in the U.S. than in Korea, while the perceived risks of online shopping were more important in Korean. The length of Internet usage period affected online shopping frequency in both counties.

In addition to investigations concerning consumer response to technical aspects of online channels, other research has examined the online shopping environment more generally. Childers et al. (2001), for example, found that navigation, convenience, and the substitutability of the electronic environment for personal examination of products were important predictors for online shopping attitude. Furthermore, consumer hedonic motivations, (mediated through "enjoyment"), were as important as utilitarian motivations (mediated by "usefulness" and "ease of use") in affecting consumer online shopping intentions. Schlosser and Kander (2000) found that interactivity and marketing content were important in determining consumer attitudes toward a site and intention to buy. Teo et al. (2003) focused on the effect of interactivity on Web user attitude. They suggested that increased level of interactivity on a Web site has positive effects on user's perceived satisfaction, effectiveness, efficiency, value, and overall attitude towards a Web site. Shim et al. (2001) tested an online pre-purchase intention model and found that intention to use the Internet to search for information was the strongest predictor of Internet purchase intention, and that it mediated relationships between purchasing intention and other predictors (i.e., attitude toward Internet shopping, perceived behavioral control, and previous Internet purchase experience).

Some research examining online customer acquisition addressed other constructs that are important in customer retention (relationship building). Krishnamurthy (2001) examined the antecedents to customer confidence in e-tailers. It was found that the ease of use of a site, the level of online shopping resources, and the presence of a trusted third party seal, all positively impact the level of customer confidence, but online relationship services did not have an impact on consumer confidence. No large differences were identified across different product categories.

Gefen (2002), Loiacono et al. (2002) and Yoon (2002) addressed the trust construct. Gefen examined online consumer trust in a three dimensional scale, dealing with integrity, benevolence, and ability. It was found that different consumer beliefs influence different consumer activity intentions. Window-shopping intentions were affected by the ability-trustworthiness of the vendor, while overall trust in the vendor and

Articles	Dependent Variables	Independent Variables
Childers et al. (2001)	Online shopping attitudes, usefulness, easy of use, enjoyment	Navigation, convenience, substitutability of personal examination
Gefen (2002)	Overall trust, window-shopping intentions, purchase intentions	Ability, integrity, benevolence, purchase
Krishnamurthy (2001)	Consumer confidence	Site ease of use, online resources, relationship services
Loiacono et al. (2002)	Intention to purchase, intention to revisit	Ease of understanding, intuitive operation, information quality, interactivity, trust, response time, visual appeal, innovativeness, flow
Montoya-Weiss et al. (2000)	Online channel use	Navigation structure, information content, graphic style
Park and Jun, (2002)	Frequency of online shopping, online buying intention	Hours online per week, length of Internet use, perceived risks, innovativeness
Schlosser and Kander (2000)	Attitudes toward site, intentions to buy	Person interactivity (customer service), machine interactivity (navigation and role playing), traditional marketing content
Shim et al. (2001)	Intention to use the Internet for information search, intention to use the Internet for purchasing	Attitude toward online shopping, subjective norm, perceived behavioral control, Internet purchase experience
Shim et al. (2002)	Consumer evaluation of an e-tailer site	Customer-service policy information, leading-edge technology, convenience/simplicity, presentation of product/service information
Teo et al. (2003)	Satisfaction, effectiveness, efficiency, value, attitude	Interactivity
Yoon (2002)	Web site trust, web site awareness, Web site satisfaction, on/offline purchase intention	Transaction security, Web site properties, navigation functionality, personal variables

Table 3.2(a) Research Focusing on Customer Acquisition

Articles	Dependent Variables	Independent Variables
Francis and White (2002)	Intentions	Web store functionality, product attribute description, ownership conditions, delivered products, customer service, security
Jiang 2002	Satisfaction, revisit intention	Customization
Koufaris et al. (2001-2002)	Unplanned purchases, intention to return	Perceived control, shopping enjoyment
Lee et al. (2003)	Satisfaction	Socio-psychological value, economic value, product value
Srinivasan et al. (2002)	Customer loyalty	Customization, contact interactivity, care, community, convenience, cultivation, choice, character
Szymanski and Hise (2000)	Satisfaction	Convenience, merchandising, site design, financial security
Thorbjornsen et al. (2002)	Consumer-brand relationships	Personalized Web sites, customer communities, consumer Internet experience
Wolfinbarger and Gilly (2003)	Quality	Fulfillment/reliability, website design, privacy/security, customer service
Yang et al. (2000)	Satisfaction/ dissatisfaction	Product cost and availability, customer service, online information systems quality
Yoo and Donthu (2001)	Overall site quality, attitude toward site, online purchase intention, site loyalty, site equity	Ease of use, design, speed, security
Zeithaml et al. (2002)	Quality	Efficiency, reliability, fulfillment, privacy, customer service (responsiveness, compensation, contact)

Table 3.2(b) Research Addressing Customer Retention

its integrity-trustworthiness affected purchase intentions. Lioacono et al. (2002) also studied the importance of trust in determining consumer intention to purchase online, and to revisit a site. Yoon (2002) website trust was influenced by site properties and personal variables, and it was an important mediator in online purchase intention.

Research summarized in Table 3.2(b) was conducted with e-shoppers who had previous online shopping experience, and addressed their re-purchase intention or post-purchase evaluation. Some of these studies examined online shopper satisfaction and its antecedents. Lee et al. (2003) examined relationships between the customer's commitment value and the customer's satisfaction. Commitment value refers to a total value perception from a buyer and is composed of three components: socio-psychological, economic, and product values. It was found that the socio-psychological value (i.e., shopping enjoyment and convenience in purchasing) and the product value (i.e., product quality) contributed significantly to the attainment of customer satisfaction, while the economic value (i.e., reduction of time spent in Internet shopping) did not. Szymanski and Hise (2000) examined the role that consumer perceptions of online convenience, merchandising (product offerings and product information), site design, and financial security play in e-satisfaction assessments, and found that convenience, site design, and financial security are the dominant factors in consumer assessments of e-satisfaction. The study by Yang et al. (2000) identified that product cost and availability, customer service, and online information systems quality, were important for consumer satisfaction.

Other investigators have focused on the construct of quality. Zeithaml et al. (2002) examined the service quality of e-tailers, and found that efficiency, reliability, fulfillment, privacy, and customer service were important for consumer evaluation of quality. Wolfinbarger and Gilly (2003) suggested that four factors (website design, fulfillment/reliability, privacy/security, and customer service) were strongly predictive of customer judgment of quality. Yoo and Donthu (2001) suggested that overall site quality was important for consumer attitude toward a site, and consumer loyalty.

A third research stream concerns consumer re-purchase intentions (Jiang, 2002; Thorbjornsen et al., 2002). Foufaris et al. (2001-2002) found that customer intention to return is associated with perceived control and shopping enjoyment. Srinivasan et al.'s (2002) identification of factors that impact e-loyalty also confirmed that e-loyalty has two customer-related outcomes: word-of-mouth promotion and willingness to pay more.

While the above work contributes to our understanding of the online consumer relationship building process, there are research gaps and weaknesses. First, as noted by Wolfinbarger and Gilly (2003), previous research tended to provide a list of attributes, instead of adequately defined constructs. For those who employed higher level constructs in their studies, the authors did not adequately address why they were chosen over some other possible constructs (Wolfinbarger & Gilly, 2003).

Second, while the previous research creates a picture of attributes that are important to online consumers, the research fields of e-tailing and consumer RM are not well integrated. Most of this research has failed to address the fundamental changes the Web brings to retailing, or to examine the impacts of these fundamental changes on consumer relationship building in a systematic fashion. For example, convenience is an important consideration when shopping online (Childers et al., 2001; Liao & Cheung, 2002; Park, 2002; Shim et al., 2002), but it may not be an important contributor to online consumer relational behavior. Srinivasan et al. (2002) failed to identify the connection between convenience and e-loyalty. Meanwhile, many studies examined the Website design perspectives and benefits of e-tailing such as convenience (Childers et al., 2001). However, these e-tailing characteristics can apply to every e-tailer, and thus they do not result in a sustainable competitive advantage.

Third, most previous research did not consider a complete relationship mechanism, which is how market characteristics affect consumer relationship intentions. Many (e.g., Muylle et al., 1999; Zeithaml et al., 2002) employed relationship mediators such as trust and satisfaction as the destination construct, or examined the direct relationship (e.g. Wolfinbarger & Gilly, 2003) between market/consumer/channel characteristics and relational intention/behavior. Without considering the overall mechanism, our understanding is incomplete.

3.3. Discussion

Recently, there have been an increasing number of research papers on online consumer behavior. Cheung et al. (2003) classified 351 articles published since 1994 that are related to online consumer behavior, and incorporated them in three stages of consumer online behavior: consumer online purchasing intention, consumer online purchasing, and consumer online repurchasing. After reviewing research in these three stages of consumer relationship building, they concluded that research on consumer online repurchase is in its infancy; very few studies have attempted to investigate the impact of online market factors, such as medium, merchant, and intermediary characteristics, on consumer online repurchasing.

The research in the following chapters will help to fill this void by establishing and empirically testing a model of online market factors and the mechanism by which consumer relational attitudes are affected. Based on the discussion provided by Chapters 2 and 3, a hypothesized model is developed in Chapter 4 and tested in Chapter 5. This model incorporates the fundamental impacts of the Web on the retail market, channel, marketers and consumers, and examines their impact on consumer relational intention through the relationship mediators of trust, satisfaction, and perceived switching costs. The hypothesized model integrates research findings from the fields of consumer RM and e-tailing, as discussed in Chapters 2 and 3. Important market characteristics (consumer power, perceived relationship investment, perceived interaction, and perceived shopping risks) will be selected, based on e-tailing research in terms of their importance on market impacts, and the potential for retailers to differentiate from their rivals and to build sustainable competitive advantage. The impact of these factors on online consumer intentions will be examined by incorporating relevant mediators (perceived switching costs, trust, and satisfaction) from consumer RM research. Meanwhile, the main effort will be on establishing and validating constructs for online consumer RM research.

Chapter 4. A Model for Consumer Relational Intention

Having reviewed and evaluated previous research in consumer RM in general (Chapter 2) and in the online environment in particular (Chapter 3), this chapter builds a hypothesized model that:
1) examines the impacts on consumer relationship building of the most fundamental changes the Web brings to the retail market,
2) examines the role of mediators in the formation of relational intention, and
3) outlines relevant hypotheses.

This chapter is organized as follows. Section 4.1 provides a brief discussion of the hypothesized model. Section 4.2 addresses the ultimate dependent construct, consumer relationship intention. Section 4.3 describes the three relationship mediator constructs, which are perceived switching costs, satisfaction, and trust, and outlines their relationships with consumer relationship intention. Section 4.4 discusses the four constructs of consumer market perceptions, including perceived relationship investment, perceived consumer power, perceived interaction, and perceived shopping risks.

4.1. The Hypothesized Model

Relationship marketing (RM) literature (see Chapter 2) emphasizes that there are certain environmental requirements, covering markets, marketers, consumers, and channel perspectives, that should be satisfied if RM implementation is to be successful (Christy et al., 1996; De Wulf et al., 2001; Pels, 1999; Pressey, 2000; Sheth & Parvatiyar, 1995). These requirements are often lacking in brick-and-mortar retail outlets. As discussed in Chapter 3, the Web provides many new opportunities for e-tailers. Assessing the impacts of e-tailing on consumer relational intention, particularly from the consumer perspective, may help to fill a gap that exists in online retailing studies and RM research.

Figure 4.1 provides a model that investigates attitudinal and perceptional factors affecting consumer relationship building in the online environment. Three layers of constructs are organized in this model: consumer market perceptions, relationship mediators, and consumer relationship intention. Consumer market perceptions include four constructs: perceived consumer power, perceived relationship investment, perceived interaction, and perceived shopping risks. The model suggests that consumer market perceptions should be a precursor for consumer relationship intention. This model also seeks to examine relationship mediators: perceived switching costs, trust, and satisfaction, which have been incorporated between consumer perceptions and the relationship building process.

Table 4.1 provides a summary of the characteristics and expected changes of the constructs in Figure 4.1 for online consumer shopping. There are two common criteria for the four constructs of consumer market perceptions. First, as discussed in Chapter 3, these factors: perceived shopping risks, perceived relationship investment, perceived consumer power, and perceived interaction, represent the fundamental changes the Web

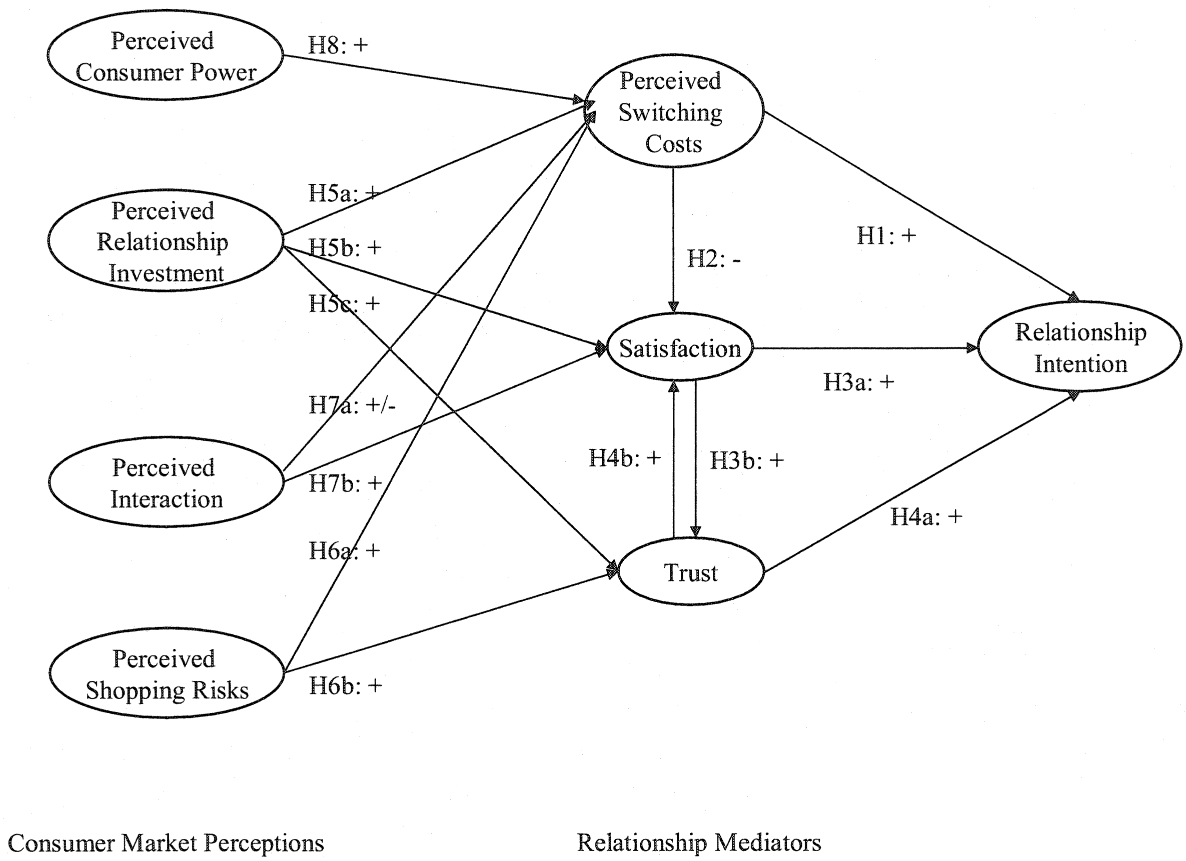


Figure 4.1: The Hypothesized Model

brings to consumer shopping from four perspectives: market, retailer, consumers, and channel, respectively. Based on the theoretical analysis in Chapter 2, they may represent major facilitators for successful consumer RM. Second, the four consumer market perceptions may be evolving. As discussed in Chapter 3, the Web can be viewed as a marketing tool or a new marketplace. As the view of the Web evolves, so do the consumer market perceptions. Details of these constructs are presented in the following three sub-sections.

4.2. Consumer Relationship Intention

It is important to understand how and why online consumers participate in long-term relationships. Consumer relational behavior is generally demonstrated through the action of repeat purchases. Some researchers, such as Sheth & Parvatiyar (1995), also view it as purposeful choice reduction behavior. Practitioners also use various pointers, such as consumers thinking of a retailer first when considering a purchase, low price sensitivity, etc., to evaluate consumer relational behavior (Claycomb & Martin, 2001).

	Constructs	Characteristics and expected changes in online shopping
Consumer market perceptions	Perceived consumer power	• High • May possess a correlation with length and quality of relationship • Future focus shift from market feedback loops to product design and overall market
	Perceived relationship investment	• High • An additional/complementary channel for traditional retailers • Future focus shift from retention orientation to relationship orientation
	Perceived interaction	• High: many interaction opportunities, personalized interaction • Consumer-directed computer interaction • Future focus shift from B2C computer orientation to interaction with a broad range
	Perceived shopping risks	• High • Online shoppers have overcome a certain level of risk perception to transact online • Future focus shift from transaction or product related risks to relationship or service related risks
Relationship mediators	Perceived switching costs	• Unsure, may increase or decrease depending on the specific shopping context • New categories of switching costs
	Satisfaction	• An important mediating factor to relationship building • Subjective judgment based on previous experience
	Trust	• Difficult to build • An explicit effect in consumer shopping decisions
Relationship intention		• A high level of relationship intention • Speeded/reduced relationship building process

Table 4.1: A Summary of the Constructs in the Model

Various constructs have been used to represent consumer relational characteristics. Moorman et al. (1992) and Grayson and Ambler (1999) use commitment. Garbarino (1999) applied commitment and future intentions. Relationship intention is used as the final dependent construct in the model developed in this chapter. This construct represents consumer attitudes toward future shopping behavior, which underlies their psychological reasons for relational behavior. Also, since online shopping is still in its infancy, many shoppers may not have formed long term relationships with retailers. It is likely that many are in the process of relationship building. Therefore, relationship intention is an appropriate construct to research the consumer relationship building process.

4.3. Relationship Mediator Constructs

Perceived switching cost, trust, and satisfaction constructs are used to mediate the relationships between consumer perceptions of market characteristics and their relational behavior.

4.3.1. Perceived Switching Costs

Switching costs refer to those incurred when customers change suppliers (Lee, et al., 2001). Switching costs have long been associated with customer satisfaction and loyalty (Lee et al., 2001), but little research has examined the role of switching costs in online shopping (Chen & Hitt, 2002).

The online environment was once said to present lower switching costs for consumers than the brick-and-mortar shopping environment, because of the high availability of online alternatives (Lee et al., 2001) and ease of comparison. Other constructs, such as perceived relationship investment, perceived shopping risk, and efficiency needs, may also positively impact perceived switching costs (Chiagouris & Wansley, 2000; de Figueiredo, 2000; Wang et al., 2000). Online shoppers may have additional technology-related efficiency needs (Nielsen, 1993) compared to traditional shoppers. A Web user may go through a learning curve before skillfully browsing a commercial site and identifying targeted information. This may build a high technology-related switching cost. Most online transactions require financial information such as credit card information and certain personal information. This may present a high security and privacy-related switching cost. There is no evidence yet as to whether overall switching cost is increased or decreased in the Web environment.

Perceived switching cost is a component of perceived relationship value. When consumers think that switching to another retailer is costly, they are more likely to stay with the current retailer and exhibit relational market behavior. Thus, it is proposed:
H1: A higher level of perceived switching costs leads to a higher level of relationship intention in online shopping.

Consumers realize that online market information is vast and easy to access (Smith et al., 1999; Sweat, 2000). Retailing competitors are a click away in the online environment (Sinha, 2000; Wang et al., 2002). Knowing that it is easy to access other retailers and that decisions are based on comparison of market offerings, will enhance consumer satisfaction. On the other hand, knowing that a purchase has to be made from a particular retailer because of the high switching cost may decrease overall satisfaction. Thus, it is proposed:
H2: A higher level of perceived switching costs leads to a lower level of satisfaction in online shopping.

4.3.2. Satisfaction

Based on existing literature (Fornell et al., 1996; Garbarino & Johnson, 1999; Spreng et al., 1996), satisfaction is used here to refer to a consumer's purchase evaluation through a comparison of perceived/expected value and received value. Customer satisfaction may consist of different aspects. Here, overall satisfaction or cumulative satisfaction is used as a mediating construct between consumer perceptions of market characteristics and their relational choice. Overall satisfaction could be an accumulation of separate satisfaction evaluations with different factors such as the shopping environment or products, among others (Westbrook, 1981).

For online consumer satisfaction, Szymanski and Hise (2000) concluded that convenience, site design, and financial security are the dominant factors in consumer assessments of e-satisfaction. This model examines the antecedent effects of consumer market perceptions such as perceived relationship investment, perceived interaction, efficiency needs, and consumer power. Satisfaction is widely used to predict behavioral intentions (for example, Fornell et al., 1996; Garbarino & Johnson, 1999; Jiang, 2002; Lee et al., 2002; Teo et al., 2003; Zeithaml et al., 1996). For a long-term non-contractual relationship, customers have to be satisfied continuously. Otherwise, they may begin to search for alternatives. It is one of the most important criteria for customer loyalty (Heskett et al., 1994).

Satisfaction is highly correlated with long term relationships (Fornell et al., 1996; Ganesan, 1994; Garbarino & Johnson, 1999; Mittal & Kamakura, 2001; Olsen, 2002); relationships are actually based on continuous satisfaction (Olsen, 2002). With previous satisfactory experiences, consumers will tend to repeat their purchases from a particular retailer.

Satisfaction also plays an important role in the formation of trust (Claycomb & Martin, 2001; Garbarino & Johnson, 1999). When consumers are satisfied with the previous purchase, they start to believe that the retailer will provide another satisfactory shopping experience. Most studies of the relationship between satisfaction and customer relational behavior have been carried out in a traditional shopping context. Studies investigating outcomes of e-satisfaction are needed (Szymanski & Hise, 2000). It is proposed that:

H3a: A higher level of satisfaction leads to a higher level of relationship intention in online shopping.

H3b: A higher level of satisfaction leads to a higher level of trust in online shopping.

4.3.3. Trust

Trust refers to the reliability of a market player and the confidence others have in that player (Garbarino & Johnson, 1999; Moorman et al., 1993; Morgan & Hunt, 1994). It is usually a result of the market player consistently fulfilling promises. Certain market knowledge, attitudes, or perceptions, such as the brand name of a retailer, positive experiences shared from a friend, a recommendation from a consumer review report, or a certificate or a seal of trust from a third party (Head & Hassanein, 2002), may invoke the generation of trust even before a market interaction.

Trust is a multi-dimensional construct, and different dimensions of trust affect different stages of customer equity management (Blattberg et al., 2001; Sirdeshmukh et al. , 2002), including customer acquisition, retention, and relationship expansion. In e-tailing, it has been found that window-shopping intentions are affected by the ability-trustworthiness of the e-tailer, while overall trust in the e-tailer and its integrity trustworthiness affect purchase intentions (Gefen, 2002). Trust plays an important role in fostering strong relationships (Sirdeshmukh et al., 2002), and is positioned as perhaps the single most powerful RM construct available to a company (Berry, 1996).

In a traditional market, since the consumer visits the "brick-and-mortar" store and can physically examine the product, it is easier to believe that the shop will satisfy its market promise. The risk factor of shopping with an unfamiliar retailer is typically low. With online shopping in its infancy, consumers display different levels of trust towards online retailers. It may take significantly longer to build trust online than offline (Head & Hassanein, 2002). Trust is expected to play an important mediating role in an online market. Based on the above, it is proposed:
H4a: A higher level of trust leads to a higher level of relational intention in online shopping.
H4b: A higher level of trust leads to a higher level of satisfaction in online shopping.

4.4. Consumer Market Perception Constructs

Four consumer market perception constructs are tested in the hypothesized model: perceived relationship investment, perceived shopping risks, perceived interaction, and perceived consumer power. As shown in Chpater 3, it appears that there are significant differences in online vs. offline markets, marketers, channels and consumers (Andresen, 1999; Bhatnagar et al., 2000; Godin, 1999; Krishnamurthy, 2001; Miyazaki & Fernander, 2001; Peterson et al., 1997; Sharma & Krishnan, 2000; Tuthill, 2002; Vice, 2001; Yang & Jun, 2002). The constructs incorporated in the hypothesized model represent some important enhancements in online retailing. They may invoke significant changes in consumer relationship orientation, as shown in the analysis found in Chapter 2 (Coviello et al., 1997; De Wulf et al., 2001; Krishnamurthy, 2001; Pressy & Mathews, 2000; Sheth & Parvatiyar, 1995; Smith, 1998). By analyzing these constructs, we can better understand the mechanics of Web effects on consumer relationship building.

4.4.1. Perceived Relationship Investment

Perceived relationship investment is a consumer's perception of the extent to which a retailer devotes resources, efforts, and attention to maintain or enhance relationships with customers (De Wulf et al., 2001; Smith, 1998).

The employment of the Web in retailing increases perceived relational investment. As outlined in Chapter 3, e-tailers are more capable, in terms of available techniques and implementation costs, of implementing RM tactics (Godin, 1999). E-tailers have more tools to build relationships with consumers, such as personalized Web sites and communities (Holland & Baker, 2001; Thorbjornsen, Supphellen, Nysveen, & Pedersen, 2002). The Web not only helps B2C communication, but also affects market offerings. Service is an essential part of online offerings. As a result, online consumers may receive better individual treatment, including personalized interaction and customized offerings.

E-tailer RM efforts may be more visible to consumers. Due to the convenient and interactive nature of the Web, consumers may respond favorably to an e-tailer's RM tactics. Even when RM is not the central strategy of a commercial Website, consumers may appreciate the information and contacts provided. Consumers may interpret a retailer's employment of the Web as customer-caring and as intent for interaction. Consumer perception of marketer RM efforts may lead to their willingness to enter into a relationship.

Retailers with higher perceived relationship investment encourage customer retention and create psychological bonds for customers to reciprocate retailer relationship efforts. Research in the traditional retailing context has demonstrated that perceived relationship investment affects relationship quality, ultimately leading to behavioral loyalty (De Wulf et al., 2001). Online empirical data reports that the greater the online resources offered to enhance the shopping experience, the greater the customer's confidence (Krishnamurthy, 2001).

Relationship investment is an important aspect of retailer marketing strategy and is highly context specific. The effect of relationship investment on online consumer attitude is not fully understood. While it has been demonstrated that perceived relationship investment affects relationship quality, ultimately leading to behavioral loyalty (De Wulf et al., 2001), Krishnamurthy's results (2001) did not support the proposition that online relationship services positively impact consumer confidence. The hypothesized model predicts the impact of relationship investment on consumer relational attitude through three mediators. Consumers do not gain benefits from retailer investments by switching to another retailer. Consumers feel that the retailer with a high relationship investment cares about them, leading to high trust and satisfaction. Based on the above, hypothesis 5 is presented:
H5a: Perceived relationship investment positively impacts perceived switching costs in online shopping.
H5b: Perceived relationship investment positively impacts satisfaction in online shopping.
H5c: Perceived relationship investment positively impacts trust in online shopping.

4.4.2. Perceived Shopping Risks

Risks are associated with online shopping. As discussed in Chapter 3, e-tailing is associated with many kinds of risks, such as financial, product performance, psychological, and time/convenience loss risk (Forsythe & Shi, 2003), as well as privacy and security risks (Miyazaki & Fernandez, 2001; Tuthill, 2002; Vice, 2001). These risks affect consumer online patronage behavior (Forsythe & Shi, 2003).

Online shopping risks may consist of two aspects: (i) environmental risk associated with the online media and thus affecting all retailers; and (ii) retailer risk associated with a specific retailer, which can have varying effects on trust. Perceptions of environmental risk may differ significantly among individuals. The higher the risk evaluation is, the less trust consumers may have in any online retailers. On the other hand, online shoppers have to overcome certain levels of risk perception about retailers to purchase online. It has been found (Yang & Jun, 2002) that the concerns about risk components for online purchasers and non-purchasers are different. Where reliability is the most important dimension for online purchasers, security is the most critical concern for non-purchasers (Yang & Jun, 2002). In a high-risk situation, environmental risk may reinforce the trust a shopper has in a particular retailer, since it is valued by shoppers and difficult to build. Higher perceived risk leads to a greater consumer propensity to reduce choices and engage in relational market behavior (Sheth & Parvatiyar, 1995). Relational behavior develops consumer self-confidence (Sheth & Parvatiyar, 1995).

Since perceived shopping risks is a construct here representing changes in retail market, this research focuses on testing environmental risk rather than retailer risk. Thus, the higher the perceived risks are, the higher the trust may be. Meanwhile, it is feasible that the higher the risk is, the higher the perceived switching costs. Based on the above theoretical analysis and findings, the goal is to confirm that:

H6a: A higher level of perceived shopping risk leads to a higher level of perceived switching cost in online shopping.

H6b: A higher level of perceived shopping risk leads to a higher level of trust in online shopping.

4.4.3. Perceived Interaction

The Web is viewed as an interactive medium (Coviello et al., 2001; Sohn et al., 2002; Wang et al., 2000). With the high interactivity enabled by the Web, the point is no longer whether interaction may occur, but rather in understanding the different levels of interaction that the various actors may desire (Pels, 1999).

As addressed in Chapter 3, the Web creates opportunities for enhanced consumer interactivity. A higher level of interaction creates opportunities for, and speeds the building of, relationships. Interactive marketing is an important category of RM (Coviello et al., 1997, 2001), and interaction during the shopping process is important for a satisfactory shopping experience (Pels, 1999). It is an essential process for consumers to access information that will answer their questions (Kolesar & Galbraith, 2000).

Consumers may believe that a good and informed decision is made through interaction with retailers (Wang et al., 2000).

Interaction online has two aspects: retailer ability and willingness to interact, and consumer ability and willingness to interact. Retailer offers of interaction may be perceived as a special attribute of relationship investment and may thus increase the perceived switching cost. On the other hand, consumers play an important role in interaction. Personal orientations toward interactions may apply to all retailers and make switching easier, thus negatively influencing the relationship between perceived interaction to perceived switching cost. Additionally, online consumers may require certain skills, such as computer proficiency, to feel comfortable in interacting with retailers. In this respect, high perceived interaction may demonstrate consumer ability and tendency to interact online. Consumers with high ability and tendency to interact may access more competing retailers, resulting in lower switching costs. In the online environment, the consumer side of the interaction is especially prominent. From the retailer side, interactions provided by most online retailers are quite standard. Higher interaction levels may not build switching barriers online. It is suspected that the effect of perceived interaction on perceived switching cost is negative. Thus, it is proposed that:
H7a: A higher level of perceived interaction leads to changes in perceived switching cost in online shopping.
H7b: A higher level of perceived interaction leads to a higher level of satisfaction in online shopping.

4.4.4. Perceived Consumer Power

Power is the ability to act or produce an effect and possession of control, authority, or influence over others (Merriam-Webster's Collegiate Dictionary, www.webster.com). In the hypothesized model, consumer power is defined as the ability to understand, control and potentially change the marketplace. The enabling and limiting factors of consumer power can be analyzed through four main categories: constellation of actors and interests, context of interaction, process of interaction, and outcomes (Grönmo & Ölander, 1991).

There is an imbalance of power between consumers and retailers in the traditional market, where consumers are passive targets for fixed offerings. While consumers can negotiate pricing in select situations, such as car purchasing, they may not achieve their ideal goals due to limited market information. Pressey and Mathews (2000) confirmed that reducing the imbalance of power facilitates the conditions needed for relationship building in a consumer market.

As discussed in Chapter 3, the Web empowers consumers and creates a transparent environment. Online consumers can access more information and make better decisions. The Web can serve as a voice channel for consumers. Consumers can interact with each other and group to influence retailers. Because of the interactive nature of this channel, consumers have more opportunities to negotiate with retailers.

Consumer power is important for long-term relationships. Both long-term relationships and coordination exist with parties that have balanced power (Pressey & Mathews, 2000). Consumers will not have the same level of power across different retailers. Since consumer power is related to specific retailers, retailers may build a switching barrier by enabling consumer power. It is also suspected that power will affect consumer satisfaction. This has not been studied in previous research, but will be explored as a possible additional path. Therefore, it is proposed:
H8: A higher level of perceived consumer power leads to a higher level of perceived switching costs in online shopping.

4.5. Discussion

This chapter provides a model to systematically examine the mechanism of the relationships between Web impacts on the retail market and consumer relationship intention. The model is different from those studied in previous research in that it:

(1) focuses on the fundamental elements of online retailing, which provides opportunities for online retailers. The model addresses perceived risks, perceived relationship investment, perceived interaction, and perceived power from consumer perceptions on the retail market, channel, retailer, and consumer respectively. If it can be shown that these constructs work for consumer relationship building in online retailing, e-tailers can focus on these aspects to build consumer relationships, and gain an online competitive advantage.

(2) specifically addresses consumer relational intentions. Rather than addressing the common constructs of consumer online shopping intention and adoption (Cheung et al., 2003), this research specifically focuses on examining consumer relational attitude through their re-purchase intention. The model designed has a solid theoretical basis in consumer RM literature.

(3) investigates the mechanism of the impacts of consumer market perceptions on relationship intention, involving three mediators: satisfaction, trust, and perceived switching costs. The constructs in this model have been carefully selected and designed in a manner that should lead to an understanding of how these mechanisms affect consumer intentions.

The hypothesized model is based on a theoretical analysis of research in both the e-tailing and consumer RM fields. The next chapter describes the survey and confirmatory analysis that investigate this model.

Chapter 5. An Empirical Study of Consumer Relational Intentions

Following the theoretical research of the previous chapters, this chapter reports on an empirical study, carried out to:

1) test the hypothesized model proposed in Chapter 4, and
2) help fill gaps found in previous research.

This chapter is organized as follows. Section 5.1 discusses research methodology, including research settings, sample, procedures, and the development of measurement models. Section 5.2 provides research results and findings. Section 5.3 further discusses the meaning of the research results and addresses some research limitations.

5.1. Methodology

5.1.1. Setting, Samples and Procedure

A survey was conducted at two Ontario universities. Paper-and-pencil administration of questionnaires was used instead of online questionnaires or a mix of the two. In their evaluation of computer vs. paper-and-pencil questionnaires, Webster and Compeau (1996) found that different patterns of relationships exist among constructs between the two modes of questionnaire administration. A copy of the survey instrument appears in Appendix I. This study measures subjective opinions of online shopping. First, online shopping is a computer-related experience where certain measures may be sensitive to online testing. Using an online questionnaire may make the online perspective more salient, thus influencing the relationships among constructs (Drasgow et al., 1993). Second, subjective instead of objective measures were used in this study and it has been found that relationships among subjective measure are more affected by different questionnaire administration modes (Webster & Compeau, 1996). Thus, the administration of questionnaires with only one of the two modes is preferred, to avoid any possible discrepancies with multiple administration methods. Paper-and-pencil was chosen for this study.

Consumers with online shopping experience were asked questions based on their last shopping experience, rather than providing a hypothesized context. Survey participants were asked whether they had previously purchased books, CDs, or DVDs online. If they had, they were asked to answer the questionnaire according to their last experience in this product category. If not, they were asked to report on the product bought in their last online shopping experience and to answer the questionnaire accordingly. If they had no online shopping experience, they were not asked to complete the questionnaire.

The product category of books, CDs, and DVDs was selected for several reasons. First, since the ultimate goal of this research is to investigate consumer relationship building factors and mechanisms, it was desirable to eliminate any product-associated variables. Second, according to a recent Ernst and Young report (2001), books and CDs are among the top four online purchased categories in most countries, including Canada.

During a pre-survey research session, it was found that this product category would obtain the highest response to the survey.

During a six-week survey period, 186 survey responses were received. Preliminary data inspection showed that 9 respondents had purchased the products in this category in online auction sites, such as eBay. Because auction sites did not comply with our research parameters, these respondents were excluded. Thus, a total of 177 responses were retained for analysis.

Since the survey was conducted at universities and data were from students, the respondents tended to be young (mean age = 26), well educated (62% held or were working towards a bachelor degree, 38% held or were working towards a masters or Ph.D. degree), and from lower income brackets (80% had annual income below CAN$30,000). Male respondents (119) out-numbered female respondents (58). Approximately half of the respondents were from engineering majors, and most of these were male. For respondents with majors other than engineering, males slightly outnumbered female respondents. The respondents were Web proficient, with 60% spending more than 7 hours online per week. The top five online retailers the respondents purchased from were: Amazon (37.85%), Chapters/Indigo (21.47%), HMV (5.65%), Columbia House (5.65%), and Future Shop (3.39%). The average amount spent on their last online purchase was CAN$87. Thirty-six percent of the respondents were first time shoppers at the online retailer where their last purchase was made. Twenty-one percent reported two purchasing experiences from the retailer, and 35% reported three or more purchasing experiences from the retailer.

The data were analyzed with structural equation modeling (SEM) techniques. SEM was chosen because of its advantages over other methods. SEM can be used as an alternative to multiple regression, path analysis, factor analysis, time series analysis, and analysis of covariance, which can be seen as special cases of SEM (Garson, 2002). It is more powerful in that it "takes into account the modeling of interactions, nonlinearities, correlated independents, measurement error, correlated error terms, multiple latent independents each measured by multiple indicators, and one or more latent dependents also each with multiple indicators" (Garson, 2002). The result is more accurate parameter estimation and a "more realistic" (Bollen, 1989) analysis. SEM has other advantages such as allowing more flexible assumptions, the ability of testing models overall rather than individual coefficients, the ability to model error terms, handle difficult data, and so on (Garson, 2002).

The sample size obtained in the survey was sufficient to analyze the hypothesized model using SEM. According to Anderson and Gerbing (1988), a sample size of 150 is needed to obtain parameter estimates that have standard errors small enough to be of practical use in SEM. Also, a rule of thumb (Bentler & Chou, 1987) is that the ratio of sample size to the number of free parameters should be at least 5:1, and a ratio of about 10:1 is desirable (Bentler & Chou, 1987). A meta-analysis performed by Baumgartner and Homburg (1996) showed that the average ratio of sample size to number of parameters estimated is 6.4. According to these guidelines, the sample size used in this analysis was sufficient, at approximately 10:1.

5.1.2 Measurement Models

The data were analyzed using LISREL 8 (Joreskog & Sorbom, 1993, 2001, 2002). The models were tested using the two-step structural equation procedure advocated by Anderson and Gerbing (1988) and employed by many other researchers (e.g., Garbarino, 1999; Lee et al., 2003; Shim et al., 2001; Spreng, et al., 1996). Separate measurement models were run for constructs of consumer market perceptions (exogenous constructs), and constructs of relationship mediators and relationship intention (endogenous constructs).

Three evaluation criteria are essential to measurement development: reliability, content validity, and construct validity (Gefen, 2002). Reliability reflects the extent of consistency among construct measures, and often is assessed by statistics such as the Cronbach α (Gefen, 2002). Content validity is a qualitative assessment of whether measures of a construct capture the real nature of the construct (Gefen, 2002), and is usually established through the literature and expert judges. Construct validity is a set of quantitative measures that assess how accurately the scale measures the studied construct, and is usually evaluated through convergent discriminant validity (Gefen, 2002). This section focuses on reporting content validity by explaining the measure development. Construct reliability and validity are addressed in subsequent sections.

The construct measures are based on existing literature, as outlined in Table 5.1. Measures for many constructs are available in the literature (Bhatnagar et al., 2000; De Wulf et al., 2001; Garbarino & Johnson, 1999; Mitchell, 1999; Park & Jun, 2002), and have been adapted to suit the context of this survey. Because of the novelty of research in online shopping, some measures were based on previous related literature, because no appropriate, previously validated, measurements were available. Three core measurements were employed in each of the eight constructs, respectively. Due to the inherently high correlation that may generally exist among the various relationship constructs (Garbarino & Johnson, 1999; Morgan & Hunt 1994; Smith & Barclay 1997), which may cause high errors in validating the measurement model, as a precaution, one alternative question was included in the questionnaire for each of the six constructs. Shown in Table 5.1, the eight alternative questions are not as good as the core questions, and were not included in the data analysis. However, after the establishment of the measurement model, a test was conducted that included these alternative questions in the measurement model. It was found they do not improve the model fit. Seven-point Likert-scales were employed in the questionnaire. The questionnaire was pre-tested by 12 Ph.D. students in the DeGroote School of Business and revisions (mostly clarification of wording) were made according to their suggestions.

Construct	Validated Measures in the Literature	Measurement Items Used in This Study
Perceived relationship investment	This store makes efforts to increase regular customers' loyalty(De Wulf et al., 2001)	This retailer makes efforts to increase regular customers' loyalty.
	This store makes various efforts to improve its tie with regular customers (De Wulf et al., 2001).	This retailer makes various efforts to improve its ties with regular customers.
	This store really cares about keeping regular customers (De Wulf et al., 2001)	This retailer really cares about keeping regular customers.
	Developed according to Odekerken-Schroder et al. (2003)	This retailer implements many marketing techniques to enhance customer relationship.*
Perceived interaction	Not available (N/A)	I can easily find a way to communicate with the retailer.
	N/A	I can easily get answers for my questions.
	N/A	The retailer values my feedback.*
	This website gives you personal attention (Wolfinbarger & Gilly, 2003)	The retailer provides me with personalized interaction.
Perceived consumer power	N/A	I feel that I can influence this retailer on their offerings, pricing, or services.
	N/A	I think I can easily communicate with or influence other consumers in the online environment.
	N/A	I have many choices for products and retailers. *
	N/A	I can control my online shopping process.
Perceived shopping risks	I do not think there is much risk involved with purchasing …. (Schoenbachler & Gordon, 2002)	It is risky to purchase from an unfamiliar online retailer.
	Proposed online risk categories (Bhatnagar et al., 2000)	If I purchase from an unfamiliar online retailer, I am concerned about giving financial or personal information.
	Proposed online risk categories (Bhatnagar et al., 2000)	If I purchase from an unfamiliar online retailer, I am concerned about refund and after-sale service procedures.
	Proposed online risk categories (Bhatnagar et al., 2000)	Shopping with an unfamiliar online retailer may pose problems for me that I just don't need.*

Table 5.1(a): Content Validity for Exogenous Measure Development

Construct	Measures in the Literature	Measurement Items used in this Study
Satisfaction	How satisfying was your last shopping experience at this store? (Sirdeshmukh et al., 2002)	I am satisfied with this purchase.
	How would you rate this theater compared with other off-broadway companies on the overall satisfaction? (Garbarino & Johnson, 1999)	Compared to other online retailers, this retailer provides good service.
	N/A	I made a good choice by purchasing from this retailer.
	N/A	My shopping was done in an effective and efficient way.*
Perceived switching costs	N/A	Becoming a regular customer of this retailer will benefit me in future online shopping experiences. *
	I feel unhappy if for some reason I had to switch to another organization (Pressey & Mathews, 2000).	I feel unhappy when shopping from another retailer.
	It would cost me more money, or I would lose money, if I were to switch to another organization (Pressey & Mathews, 2000).	It will be financially detrimental for me to switch to another retailer.
	If I used another organization I would lose some kind of benefit (Pressey & Mathews, 2000).	If I purchase from another retailer, I would lose some other kinds of benefits such as convenience or confidence.
Trust	I trust … (Gefen, 2002) I have trust in this store (De Wulf et al., 2001)	This retailer can be trusted.
	… likely to be reliable (Gefen, 2002)	This retailer is reliable.
	This store's behavior meets my expectations (Jarvenpaa et al., 2000).	This retailer consistently meets my expectations.*
	I can count on … (Gefen, 2002) knows how to provide excellent service (Gefen, 2002)	This retailer can be counted on to provide high quality products and services.
Relationship intention	Proposed consumer RM theories (Sheth & Parvatiyar, 1995)	I will reduce my searching process the next time I shop online with similar needs.*
	I plan to do business with this company in the future (Schoenbachler & Gordon, 2002) Use this airline the very next time you need to travel (Sirdeshmukh et al., 2002)	I will purchase from this retailer the next time I shop online with similar needs.
	I would keep buying there as a regular customer (Odekerken-Schroder et al., 2003)	I would like to become a regular customer of this retailer.
	I feel loyal toward this store (Odekerken-Schroder et al., 2003).	I feel loyal to this retailer.

* Alternative questions

Table 5.1(b): Content Validity for Endogenous Measure Development

Excluding the alternative questions asked in the questionnaire, twenty-four measures were used in the data analysis to capture the various latent constructs (shown in Table 5.2). Separate confirmatory factor analyses were performed on variables associated with the exogenous constructs and variables measuring the endogenous constructs. The exogenous models initially were run with 12 measures to assess four latent constructs. One measure ("I can control my online shopping process") was excluded from the exogenous model because of loading on two other constructs (perceived relationship investment and perceived interaction). Multiple loadings of a measure need to be interpreted substantively by theories or underlying logic, which was not the case for this measure.

Construct	Measurement Items	Mean	SD	λ	t-Value
Perceived relationship investment	This retailer makes efforts to increase regular customer loyalty.	5.28	1.37	0.82	12.57
	This retailer makes various efforts to improve its ties with regular customers.	5.19	1.25	0.82	12.48
	This retailer really cares about keeping regular customers.	5.25	1.29	0.85	13.13
Perceived interaction	I can easily find a way to communicate with the retailer.	4.53	1.46	0.85	12.08
	I can easily get answers for my questions.	4.20	1.31	0.66	8.89
	The retailer provides me with personalized interaction.	4.43	1.59	0.73	10.01
Perceived consumer power	I feel that I can influence this retailer on their offerings, pricing, or services.	3.15	1.46	0.84	10.49
	I think I can easily communicate with or influence other consumers in the online environment.	3.58	1.63	0.84	10.51
	I can control my online shopping process. *				
Perceived shopping risks	It is risky to purchase from an unfamiliar online retailer.	5.66	1.41	0.79	11.96
	If I purchase from an unfamiliar online retailer, I am concerned about giving financial or personal information.	5.69	1.32	0.83	12.76
	If I purchase from an unfamiliar online retailer, I am concerned about refund and after-sale service procedures.	5.42	1.41	0.89	14.13

Table 5.2(a): Measures and Estimates for Exogenous Constructs

Construct	Measurement Items	Mean	SD	λ	t-Value
Satisfaction	I am satisfied with this purchase.	5.29	1.19	0.74	11.09
	Compared to other online retailers, this retailer provides good service.	5.52	1.21	0.95	16.04
	I made a good choice by purchasing from this retailer.	5.76	1.18	0.79	12.22
Perceived switching costs	I feel unhappy when shopping from another retailer.	2.99	1.56	0.81	10.48
	It will be financially detrimental for me to switch to another retailer.	3.10	1.69	0.78	10.15
	If I purchase from another retailer, I would lose some other kinds of benefits such as convenience or confidence. *				
Trust	This retailer can be trusted.	5.61	1.20	0.92	15.10
	This retailer is reliable.	5.68	1.19	0.95	15.89
	This retailer can be counted on to provide high quality products and services. **				
Relationship intention	I will purchase from this retailer the next time I shop online with similar needs.	4.91	1.49	0.57	7.73
	I would like to become a regular customer of this retailer.	4.72	1.48	0.88	12.44
	I feel loyal to this retailer. *				

*Item dropped because of loading on more than two constructs.
** Item dropped because of high error correlation.
SD =standard deviation

Table 5.2(b): Measures and Estimates for Endogenous Constructs

Based on the criteria of fitness indices, convergent validity, and Cronbach alphas, shown in Tables 5.2, 5.3, and 5.4 respectively, it was determined that the measurement models achieved good fits. While a large sample was used, the measurement models still presented very good fitness indices. *P*-values of both the exogenous construct measurement model and the endogenous construct measurement model were not significant (p=0.20, 0.06, respectively, exceeds 0.05). The ratios of chi-square to degrees of freedom (d.f.) were 1.19 and 1.53 for the exogenous constructs and endogenous constructs, respectively, below the cutoff ratio of 3:1 used by Gefen et al. (2003) and 5:1 suggested by Marsh and Hovecar (1985). Goodness-of-fit indices (GFIs) of both models are 0.96, above 0.9, a commonly used reference point for acceptable fit (Baumgartner & Homburg, 1996; Gefen et al., 2000; Hair et al., 1998). Comparative fit indices (CFIs) (Bentler 1990) of both models are 0.99, above the commonly used thresholds of 0.9 (Gefen et al., 2000; Gefen et al, 2003; Hair et al., 1998) or 0.95 (Hu & Bentler, 1999).

Adjusted goodness-of-fit indices (AGFIs) of both models are 0.92, above 0.8, which was suggested as an acceptable value (Gefen et al., 2000; Gefen et al., 2003; Hair et al., 1998). Convergent validity is shown through large *t*-values and average squared multiple correlations (SMC). The *t*-values in Table 5.2 show that all the measures loaded significantly on the intended latent constructs ($t > 1.96$). The squared multiple correlations (SMC) ranged from 0.32 to 0.90, and the averages are reported in Table 5.4. Large values for average SMCs indicate that a substantial amount of the variance in the measures is captured by the latent constructs. The Cronbach alpha is used to judge set reliability. Rivard and Huff (1988) suggest that the Cronbach alpha measures for reliability should be higher than 0.5 and ideally higher than 0.7. Nunnally (1978) also recommends the Cronbach alpha of a scale should be greater than 0.7 for items to be used together as a construct. The Cronbach alphas of seven constructs out of the eight exceed the 0.7 threshold, with the remaining construct having a 0.63 alpha value. There were no standardized residuals greater than 3.00. Root mean square errors of approximation (RMSEA) of the models were 0.033 and 0.055, respectively, below the cutoff value of 0.06 suggested by Hu and Bentler (1999) and 0.08 suggested by Jarvenpaa et al. (2000).

	α	Average SMC
Exogenous constructs		
Perceived relationship investment (3 questions)	0.85	0.69
Perceived interaction (3 questions)	0.75	0.56
Perceived consumer power (2 questions)	0.80	0.70
Perceived shopping risk (3 questions)	0.84	0.70
Endogenous constructs		
Satisfaction (3 questions)	0.83	0.69
Perceived switching cost (2 questions)	0.73	0.63
Trust (2 questions)	0.87	0.87
Relationship intention (2 questions)	0.63	0.55

Note: α = Cronbach alpha; SMC = squared multiple correlation.

Table 5.3: Construct Validation

Model	**df**	χ^2	χ^2/df	p	**GFI**	**AGFI**	**CFI**	**RMSEA**	p
Exogenous constructs	38	45.17	1.19	0.20	0.96	0.92	0.99	0.033	0.78
Endogenous constructs	21	32.18	1.53	0.06	0.96	0.92	0.99	0.055	0.38

Note: df = degree of freedom; χ^2 = chi-square; GFI = goodness of fit index; AGFI = adjusted goodness of fit index; CFI = comparative fit index; RMSEA = root mean square error of approximation (prefer non-significant p value).

Table 5.4: A Summary of Fit Indices for the Measurement Models.

Setting the correlation between each pair of constructs in the two measurement models to 1, one pair at a time, a discriminant validity test was carried out following the procedure recommended by Anderson and Gerbing (1988). In all cases, the overall fit of the model, as shown by chi-square fitness, GFI, AGFI, and CFI, is significantly diminished, confirming that all the constructs are empirically distinct.

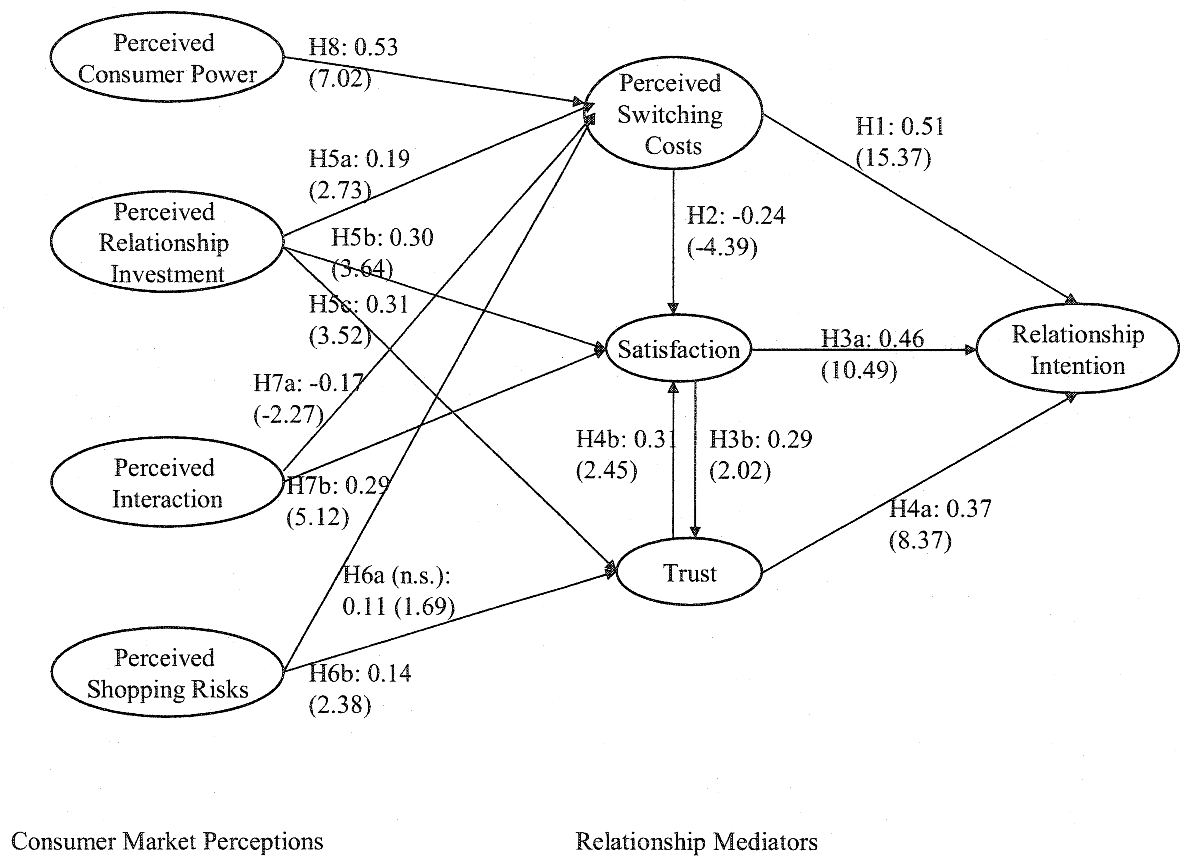
5.2. Results and Findings

The hypothesized structural model was analyzed using LISREL 8 (Joreskog & Sorbom, 1993, 2001, 2002). The correlation matrix is shown in Table 5.5.

	Y1	Y2	Y3	Y4	X1	X2	X3	X4
Satisfaction (Y1)	1.00							
Perceived switching cost (Y2)	-.09	1.00						
Trust (Y3)	.66	0.5	1.00					
Relationship intention (Y4)	.66	.49	.70	1.00				
Perceived relationship investment (X1)	.48	.30	.47	.52	1.00			
Perceived interaction (X2)	.45	.16	.27	.42	.38	1.00		
Perceived consumer power (X3)	.13	.49	.07	.31	.30	.47	1.00	
Perceived shopping risk (X4)	.18	.03	.23	.15	.12	.09	-.17	1.00

Table 5.5: The Correlation Matrix of Constructs

Figure 5.1 shows the standardized parameter estimates and *t*-values (in parentheses) for the hypothesized paths of the structural models. These parameters also are summarized in Table 5.6. Thirteen out of the total 14 hypothesized paths (93%) were significant, with absolute *t*-values exceeding 1.96. The path from perceived shopping risks to perceived switching costs (H6a) is not significant. The perceived shopping risks tested here is the risks perceived on the online shopping environment. A significant level of environmental risk perceived by online shoppers may be overcome as shoppers become more comfortable with the online environment. This may also reflect the fact that there are many competitive or brand name retailers in this product category. Perceived shopping risks do positively affect trust, which positively affects relationship intention directly and indirectly through satisfaction. Thus, perceived shopping risks contribute to relationship intention. The data analysis supports the theoretical framework underlying hypotheses H6b and H7a, and confirms that perceived shopping risks positively impacts trust, and perceived interaction negatively impacts perceived switching costs. This highlights the importance of trust in online shopping and the importance of the consumer aspect in interaction.



Note: the numbers following the colons are parameter estimates, the numbers in parentheses are *t*-values.

Figure 5.1: The Model with Confirmatory Analysis Results

The data from the survey support the hypothesized model, as seen in Table 5.7. The overall fit of the model was excellent. Chi-square (8 d.f.) was 9.76 and the ratio of chi-square to degrees of freedom is 1.22. The p-value (0.28) of chi-square was not significant. Goodness of fit index, adjusted goodness of fit index, and comparative fit index were 0.99, 0.94, and 1, respectively. Root mean square error of approximation was 0.036 with a *p*-value of 0.57. No modification indices were suggested by the LISREL program.

After the confirmatory analysis, it was natural to perform some additional exploratory research (e.g., De Wulf et al., 2001; Garbarino & Johnson, 1999). A series of nested models were tested which included the exploratory propositions in the previous analysis (relationships: power to satisfaction, and perceived interaction to trust). The estimate for the link from power to satisfaction was 0.00. The links from perceived interaction to trust was insignificant, with a *t*-value of 0.20. Thus, no link from the nested tests was recommended.

Parameter	**Estimate**	***t*-value**
H1: perceived switching costs to relationship intention	.51	15.37
H2: perceived switching costs to satisfaction	-.24	-4.39
H3a: satisfaction to relationship intention	.46	10.49
H3b: satisfaction to trust	.29	2.02
H4a: trust to relationship intention	.37	8.37
H4b: trust to satisfaction	.31	2.45
H5a: perceived relationship investment to perceived switching costs	.19	2.73
H5b: perceived relationship investment to satisfaction	.30	3.64
H5c: perceived relationship investment to trust	.31	3.52
H6a: perceived shopping risk to perceived switching costs	.11	1.69
H6b: perceived shopping risk to trust	.14	2.38
H7a: perceived interaction to perceived switching costs	-.17	-2.27
H7b: perceived interaction to satisfaction	.29	5.12
H8: perceived consumer power to perceived switching costs	.53	7.02

Table 5.6: Standardized Parameter Estimates for the Hypothesized Model

df	χ^2	χ^2/df	*p*	**GFI**	**AGFI**	**CFI**	**RMSEA**	*p*
8	9.76	1.22	0.28	0.99	0.94	1	0.036	0.57

Note: refer to Table 5.4 for notations.

Table 5.7: A Summary of Fit Indices for the Structural Model

To confirm the mediating role of the three mediators (perceived switching costs, trust, and satisfaction) in the hypothesized model, an alternative model, shown in Figure 5.2, was tested. The alternative model was constructed following De Wulf et al. (2001) and Garbarino and Johnson (1999) in that the mediators became the ultimate constructs. In this model, perceived switching costs, trust, and satisfaction were not mediators, and direct links from four consumer market perceptions (perceived consumer power, perceived relationship investment, perceived interaction, and perceived shopping risks) were added. As shown in Table 5.8, the overall fit of this model was not as good as that achieved with the hypothesized model. The three market mediator constructs were also excluded one at a time as the mediating links from the four consumer market perceptions to the relationship intention construct. The overall fit was also decreased significantly (all *p*-values of chi-square were reported as 0.00000). The mediating role of the three market mediator constructs was therefore confirmed.

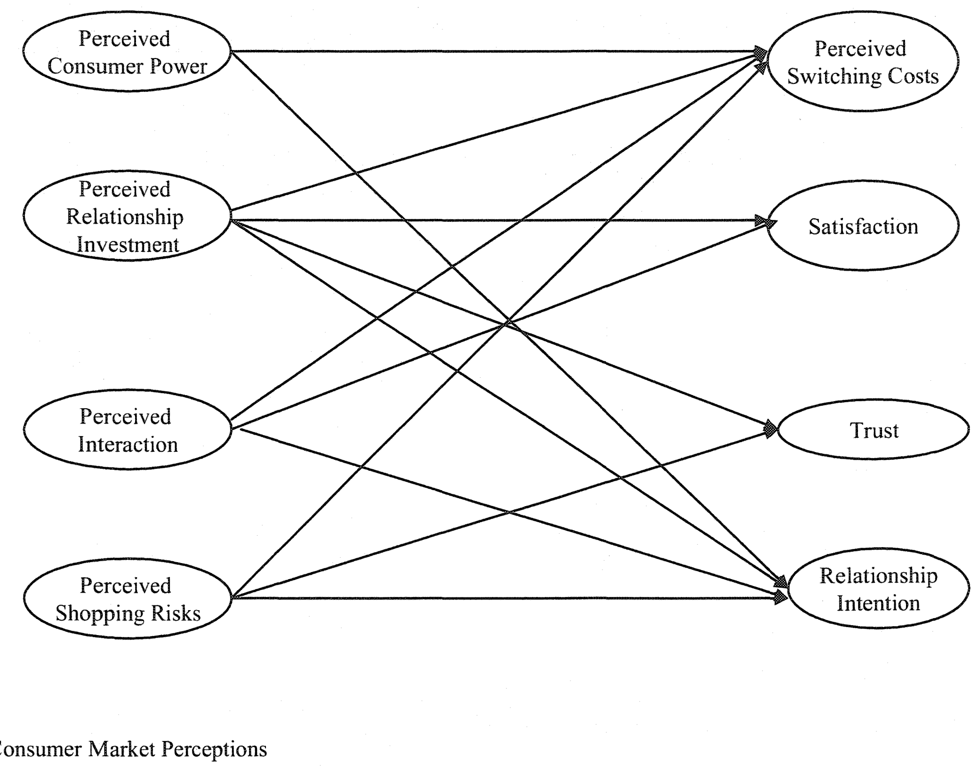


Figure 5.2: An Alternative Model

df	χ^2	χ^2/df	*p*	GFI	AGFI	CFI	RMSEA	*p*
9	229.10	25.45	0.00	0.75	0.018	0.55	0.377	0.00

Table 5.8: A Summary of Fit Indices for the Alternative Model

The effects of the three mediator constructs were further assessed using the method proposed by MacKinnon (1995). In this approach, a model with both mediators and direct paths is included. According to Mackinnon (1995), if the direct path coefficient is zero when the mediator is included in the model, then the program effect is entirely mediated by the mediating variable.

Based on MacKinnon's (1995) approach, a model, as shown in Figure 5.3, was constructed and tested. In this model, four direct paths, from the four market perception constructs to the relational intention construct, were added to the hypothesized model.

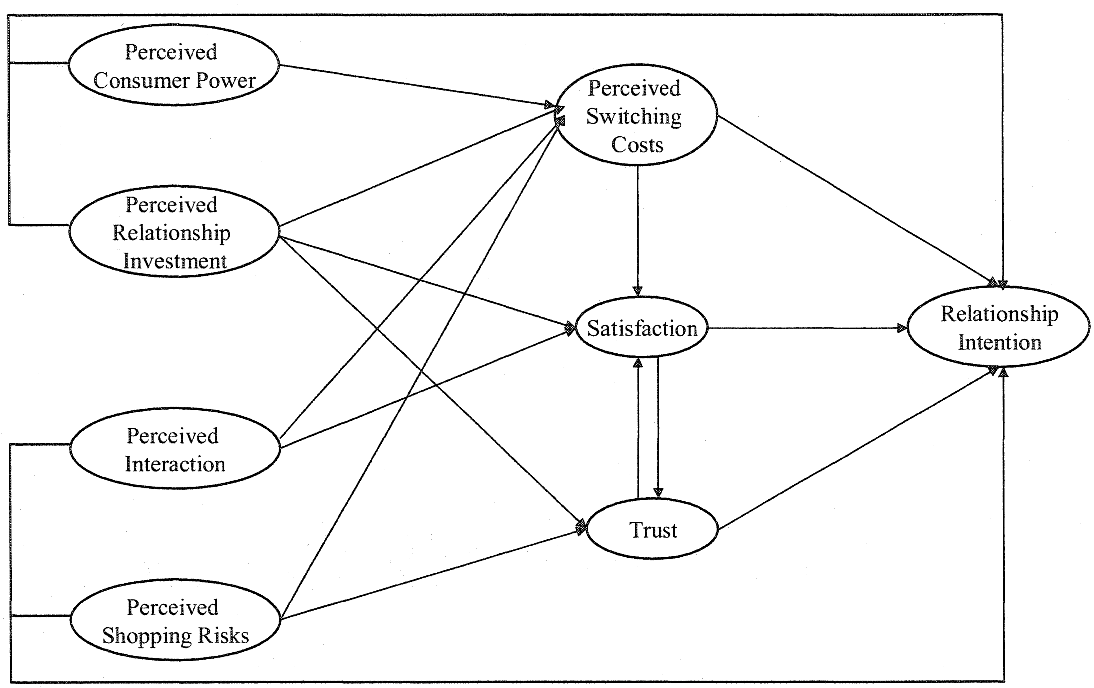


Figure 5.3: Another Alternative Model

The estimates of the direct paths from the four market perception constructs to the relationship intention construct from the LISREL results are summarized in Table 5.9. The estimates for the four paths are all very small and have non-significant *t*-values. These results, therefore, provide additional evidence that the selected mediators (satisfaction, perceived switching costs, and trust) are appropriate and that they mediate the effects of the market perception variables (investment, interaction, power and risk) on the relationship variable.

Direct path to Relation	Coefficient	*t*-value	Significance (α=0.05)
Perceived Relationship Investment	-0.05	-1.23	Non-significant
Perceived Interaction	0.08	1.95	Non-significant
Perceived Consumer Power	-0.08	-1.90	Non-significant
Perceived Shopping Risks	-0.05	-1.58	Non-significant

Table 5.9: Estimation of the Direct Paths

Further exploratory analyses were conducted by testing models where each of the relationship mediators was removed. As shown in Table 5.10, none of these models improved fit compared to the hypothesized model, which further supports the soundness of the original model.

Models	df	χ^2	χ^2/df	*p*	GFI	AGFI	CFI	RMSEA	*p*
Without Satisfaction	9	87.59	9.73	0.00	0.89	0.56	0.84	0.226	0.00
Without Perceived Switching Costs	7	108.64	15.52	0.00	0.85	0.40	0.71	0.291	0.00
Without Trust	8	57.66	7.21	0.00	0.92	0.66	0.91	0.191	0.00

Table 5.10: A Summary of Fit Indices for Alternative Models Removing Relationship Mediators

5.3. Discussion

Overall, the results from the above data analysis provide strong support for the hypothesized model. It is clear that the four factors: perceived relationship investment, perceived consumer power, perceived interaction, and perceived shopping risk, can be important characteristics in online shopping, by facilitating relationship building through their effects on satisfaction, trust, and switching costs. This research is valuable for both theoretical research and industry practice. From the theoretical perspective, this is one of the few empirical studies of RM in the consumer market and it is certainly one of the earliest to systematically apply RM to online consumer groups. This research combines findings from different areas (RM, online retailing, and consumer research), and extends previous research to a new domain. We developed and/or validated measures for four consumer perceptions, three relationship mediators, and relationship intention. The perceived consumer power construct is novel, and its measures achieved a good fit. This can serve as a basis for future research in this area. The research results also present valuable implications for practitioners. It identifies the important areas online retailers should concentrate on to help build customer loyalty, showing that consumer satisfaction, trust, and perceived switching costs work together and can have a profound effect on customer relationship building. Shown in Table 5.2 (b), the means of two measures of the relationship intention construct value are 4.91 and 4.72, respectively. This corresponds to a response of "somewhat agree", and indicates online shopper intention to build a continuous relationship with e-tailers.

It has been shown that customization is more important than reliability in determining customer satisfaction (Fornell et al., 1996). Tested in the online context, our perceived interaction construct includes a customization component by asking shoppers to evaluate "personalized interaction". While no questions were asked directly about the reliability of the e-tailer from whom the respondents purchased, the relative reliability of the e-tailer was implied in the perceived shopping risks construct through shopper evaluation of risks with unfamiliar online retailers. This study shows that perceived interaction is an explicit antecedent to satisfaction, while perceived shopping risk is not. This finding is somewhat consistent with the findings of Fornell et al. (1996) on the effects of customization and reliability on satisfaction.

It has been found that the risk perception with a retailer in a traditional context is not an important antecedent for trust building (Schoenbachler & Gordon, 2002). However, this thesis found that risk perception plays an important role in trust building in online retailing. This simply highlights the high risk perceptions of online shoppers and the importance that retailers should place on mitigating some of these risks.

Furthermore, this study confirms the mediating role of perceived switching costs, trust and satisfaction between market perceptions and customer relationship intention. The mediating roles of these constructs were discussed and evaluated in previous research. For example, Olsen (2002) proposed satisfaction as a mediator between quality and repurchase loyalty.

Previous research claimed that satisfaction is linked to repeat purchases (Magi, 2003; Mittal & Kamakura, 2001). It was also found (Mittal & Kamakura, 2001) that consumers with different characteristics display varying thresholds such that, at the same level of rated satisfaction, repeat purchase rates are systematically different among different customer groups. Our research confirms the relationship between satisfaction and repeat purchase intention, and shows that relationships work for online consumers.

The high correlation between trust and satisfaction has long been discussed and repeatedly evidenced (Garbarino & Johnson, 1999; Yoon, 2002). The reciprocal relationship between trust and satisfaction was analyzed in the hypothesized model of this study and supported by data. Trust and satisfaction may play different mediating roles in various market environments. Garbarino and Johnson's work (1999) demonstrated that trust is a primary mediating construct between attitude components and future intentions for high relational customers but not for low relational customers, and satisfaction is the primary mediating construct for low relational customers. The online environment may be a highly relational environment. However, because most online consumers have emerged during the last few years, they are in the early stages of using this media for shopping. Depending on shopper personal attributes, they may be high or low relational customers. Thus, both satisfaction and trust appropriately played mediating roles in our study.

This research confirms that a higher level of perceived switching costs leads to a lower level of satisfaction in online shopping. While switching costs have been associated with customer loyalty, few studies have examined the mediating role of switching costs between customer satisfaction and customer loyalty. Due to the perception that switching costs are low in online shopping (Nunes et al., 2000; Sinha, 2000), few have examined switching costs in online shopping. This work contributes to the literature by examining switching cost and its mediating role in the online environment. Lee et al. (2001) confirmed the mediating role of switching costs between satisfaction and loyalty in the mobile phone service industry by showing that some seemingly loyal customers are actually dissatisfied but do not defect because of high switching costs. Our research provides a further step in explaining the complex relation between switching cost and satisfaction. While switching cost has a direct positive effect on relationship building, it has a negative effect on customer satisfaction in online shopping. Online retailers who choose to be listed in search engines, shopping agents, or provide competitor price search buttons and match the lowest competitor price instantly, may generate higher consumer satisfaction and trust.

This research has some limitations. The first of these pertains to the hypothesized model. While the model is designed to address RM effects from the impacts of the Web on consumer market perceptions, being in a relationship may also affect consumer market perceptions (perceived relationship investment, perceived interaction, perceived consumer power, perceived shopping risks), and evaluation of relationship mediators (satisfaction, trust, perceived switching costs). For example, repeat online shoppers may perceive more relationship investment, interaction and power, due to their familiarity with the e-tailer. Meanwhile, repeat shoppers may also possess higher trust, satisfaction, and switching costs with an e-tailer. The benefits from being a repeat shopper are called commitment values (Lee et al., 2003). Lee et al. (2003) studied the effect of the commitment value, from socio-psychological (shopping enjoyment and purchasing convenience), product, and economic (cost reduction, time spent, and time to receive product) aspects, to customer satisfaction. For the hypothesized model tested in this thesis, this means that feedback loops may exist from the construct of relationship intention to the constructs of consumer market perceptions and relationship mediators. However, due to the research focus of this thesis and the way in which the measures were designed for the empirical study, these potential feedback loops were not investigated. This is an area that can be further explored in future research.

Second, the survey was conducted in a university setting, using a student population sample. Researchers have raised concerns about the generalizability of student-based findings across the consumer population (Burnett and Dunne, 1986; Park and Lessig, 1977; Szymanski & Henard, 2001). For example, the respondents to this survey tended to be low income, young, well educated, and highly Web proficient. In general, responses of college student subjects tend to be slightly more homogeneous than those of non-student subjects (Peterson, 2001). These sampling issues may influence how students evaluate each construct, and the relationships among constructs.

A sampling problem may also rise with the unbalanced gender population, with males significantly out-numbering females. Previous research suggests that males and females follow different decision making processes. For example, men and women have different thresholds for elaborating on message cues (Meyers-Levy & Sternthal, 1991). Sex roles, when activated, influence male and female judgments (Meyers-Levy, 1988). To test for possible gender differences, the data were divided into female (58 students) and male (119 students) groups and t-tests were conducted to verify whether the two groups share the same mean values. The *t*-statistics and *p*-values are reported in Table 5.11. All *p*-values were non-significant (i.e., we cannot reject the null hypothesis that the two groups have the same mean values), thus, no significant differences were detected in the survey responses across gender. However, it is not clear whether gender influences the links in the hypothesized model. For example, does the perceived power construct play a more important role in determining the endogenous constructs in the male group than in the female group? Does the perceived relationship investment construct play a more important role in the female group than in the male group? Due to the sample size limitation (58 female responses and 119 male responses), it was not possible to test the model for female and male groups respectively. Future research may be conducted to verify this.

Potential sampling problems may have been mitigated through the survey design by using the sample population in the selected product category. In one way, online shoppers are likely to be Web proficient since consumers need to overcome the initial technical difficulties and risk perceptions and must feel comfortable with the "virtual world" to shop online. In another way, college students are frequent book buyers and can represent more mature market behavior. In his meta-analysis, Peterson (2001) proposed that effects frequently differed from those derived from non-student subjects, both directionally and in magnitude, though no systematic pattern was observed. However, our research is not only "effects application research" (Calder et al., 1981) at the descriptive level (Farber, 1952), but also "theory application research" (Calder et al., 1981) at a "conceptual level" (Farber, 1952). Our research has a particular focus on the latter in that it is a theory application at a conceptual level. As research with a theoretical nature, the use of college students is supported (Calder et al., 1981; Peterson, 2001). However, caution must be exercised when generalizing findings from this study.

Attitudinal measures, such as enjoyment and perceived competency, can be used to capture consumer preferences. These attitudes may not translate directly into behavior due to promotions, product availability and seasonality. Therefore, attitudinal measures should be combined with behavioral measures for a more complete evaluation of consumer relational choice (Wyner, 1999).

Focusing on online consumer relationship building, this thesis did not consider the elements and impacts of the traditional channel versus the online channel. However, the traditional channel for multi-channel retailers and the traditional media for pure-play e-tailers are important for online consumer relationships. Since online consumers are exposed to both offline and online channels, integration is important (Sheehan & Doherty, 2001). It has been suggested (Balabanis & Reynolds, 2001) that attitudes towards a retailer's brand (predisposition) transfer to attitudes towards the retailer's

Construct	Measurement Items	*t*-Value	*p*-Value
Perceived relationship investment	This retailer makes efforts to increase regular customers' loyalty.	0.5388	0.5907
	This retailer makes various efforts to improve its ties with regular customers.	1.0456	0.2972
	This retailer really cares about keeping regular customers.	0.4026	0.6878
Perceived interaction	I can easily find a way to communicate with the retailer.	1.9400	0.0540
	I can easily get answers for my questions.	1.0552	0.2928
	The retailer provides me with personalized interaction.	0.4744	0.6358
Perceived consumer power	I feel that I can influence this retailer on their offerings, pricing, or services.	-0.3974	0.6916
	I think I can easily communicate with or influence other consumers in the online environment.	-0.6576	0.5117
Perceived shopping risks	It is risky to purchase from an unfamiliar online retailer.	1.2094	0.2281
	If I purchase from an unfamiliar online retailer, I am concerned about giving financial or personal information.	0.9349	0.3511
	If I purchase from an unfamiliar online retailer, I am concerned about refund and after-sale service procedures.	0.5004	0.6174
Satisfaction	I am satisfied with this purchase.	0.9825	0.3272
	Compared to other online retailers, this retailer provides good service.	0.9307	0.3533
	I made a good choice by purchasing from this retailer.	1.0953	0.2749
Perceived switching costs	I feel unhappy when shopping from another retailer.	-1.4777	0.1413
	It will be financially detrimental for me to switch to another retailer.	-0.7232	0.4705
Trust	This retailer can be trusted.	0.2140	0.8308
	This retailer is reliable.	-0.1634	0.8704
Relationship intention	I will purchase from this retailer the next time I shop online with similar needs.	0.5611	0.5755
	I would like to become a regular customer of this retailer.	-0.7345	0.4636

Table 5.11: Test Results on the Difference between Male and Female Groups

shopping site. This means that consumer relationship intentions and the three relationship mediator constructs are affected by consumer attitudes towards the offline channel and media, which was not included in the hypothesized model tested in this research.

Lastly, the survey was conducted in the product category of books, CDs, and DVDs. This may lead to some product category-related characteristics being incorporated in the data. Caution needs to be taken when generalizing the research results to other contexts, especially distinctly different product categories.

Chapter 6. Conclusions and Future Research

The research for this thesis began in 1999, when most people believed that the Web was a medium that presented very low switching costs, and loyalty was not important in the online environment. At that time, there were very few voices advocating the importance of consumer relationships in the Web market. This research represents one of those voices.

This thesis extended relationship marketing (RM) and Internet research in the retail market by investigating the factors and mechanisms of e-tailing opportunities that affect online consumer relational attitudes. Chapter 1 addressed the importance of this research and outlined three key research questions:
1). What Internet characteristics facilitate/hinder relationship marketing in online retailing?
2). Do online customers seek relationships with e-tailers?
3). What factors are important to online customers in determining their relationship intentions with e-tailers?

Compared to the price focus of early e-tailing implementations, both academic and industrial practitioners now recognize the importance of building online consumer relationships. A variety of research has been published in recent years, but most target the early stages of online consumer relationship building (Cheung et al., 2003). In general, the research findings from e-tailing and consumer RM have been poorly integrated and thus failed to provide a solid theoretical basis for online consumer RM research. Many researchers did not examine the role of mediators in consumer relationship building, or simply used constructs such as satisfaction and trust as the destination constructs. Such research cannot develop a complete understanding of consumer relational intention. Constructs such as switching costs have been studied mostly in service marketing, rather than in an e-tailing context. Furthermore, previous empirical research on online consumer behavior has been criticized for employing multiple attributes instead of developing higher level constructs (Wolfinbarger & Gilly, 2003).

This thesis addressed the foregoing shortcomings by responding to the three key research questions in a manner that draws together the e-tailing and consumer RM literature. To better understand consumer RM, Chapter 2 describes a consumer relationship continuum in which consumers were categorized as transactional, repeat, and relational shoppers. Marketing strategies and tactics for the three stages were discussed, as were the conditions and factors that facilitate consumer relationships. Conditions that facilitate consumer relationships were further examined from market, channel, marketer and consumer perspectives. In addition, three important concepts that relate to consumer relationships (satisfaction, trust, and switching costs) were identified.

Chapter 3 focused on the online perspective, and began with a discussion of online marketing research in general. Next, the impact of the Web on retailing and RM was elaborated upon according to four important aspects: markets, marketers, channels, and consumers. The information intensity and presentation limitations of the Web have a profound impact on RM. On one hand, the availability of massive online information enables comparison shopping and decreases switching costs. On another hand, the lack of tactile cues, distance shopping, and information overload make customer relationships valuable. As an interactive channel, the Web facilitates RM and has special features for interactivity, such as network externality. This extends the content of consumer RM to consumer-to-consumer relationships. The Web also enhances retailer abilities to implement RM. Online consumers are more knowledgeable and active, compared to offline shoppers, which positively affects relationship building with retailers. Since online shopping is still in a developmental stage, there may be generational differences. Additional research is needed to better understand shopping cohorts.

The discussion from this section also resulted in the inclusion of four market perception constructs: perceived risks, perceived relationship investment, perceived interaction, and perceived consumer power. With the intention of analyzing factors and mechanisms affecting online consumer intentions, the relevant research was reviewed and evaluated. Previous research was found inadequate in its understanding of online consumer relationship building, and the need for theoretical and empirical work that integrates e-tailing and consumer RM research was made clear.

Following from the discussions in Chapters 2 and 3, Chapter 4 developed a hypothesized model outlining the impacts of four market perceptions (perceived shopping risks, perceived relationship investment, perceived interaction, and perceived consumer power) on consumer relational intention. Three mediators (perceived switching costs, trust, and satisfaction) were proposed. Based on the theoretical framework developed in the preceding literature review, fourteen hypotheses were outlined.

Chapter 5 discussed a survey and confirmatory analysis conducted to test the hypothesized model. Structural equation modeling (SEM) was employed to analyze the data using LISREL software. Thirteen out of fourteen hypotheses were supported, and the model achieved a good fit. This indicates that the model reflected market data well, at least in an online retailing context for products such as books and CDs. Consequently, this chapter responded to the third key question by confirming the hypothesized model of factors and mechanism by which consumers form relationships with online retailers. Four factors (perceived consumer power, perceived relationship investment, perceived interaction, and perceived shopping risks) and three mediators (perceived switching costs, satisfaction, and trust) have been proven important in consumer relationship development.

The model also addressed the second research questions: Do online customers seek relationships with retailers? The evaluation of the relationship intention construct indicated a response of "somewhat agree", indicating a base level of interest in building a continuous relationship with e-tailers.

6.1. Contributions

This research combines work on e-tailing and consumer RM. The research provides a theoretical basis and empirical evidence that certain e-tailing practices can drive successful online consumer relationships. A model was proposed in this research that examines the factors and mechanisms of Web impacts on consumer relationship building in the retail marketplace. This model brings together many pieces of consumer analysis from e-tailing and RM and provides a structured view of how market perceptions are transferred to consumer relationship intentions.

This research developed some new constructs and employed some constructs based on previous research. For example, consumer power is a new construct developed for online consumer research. Additionally, while switching cost has been used in a service context, it has not been previously validated in a retailing context. However, it is an important construct that is especially important for understanding the satisfaction-loyalty link (Lee, Lee, & Feick, 2001). The constructs used in this research were validated through an empirical study. This provides a foundation for future research employing similar constructs.

This research provides one of the first empirical studies designed to analyze whether the Web's use in consumer shopping is contingent on consumer relational choice. Several authors have stressed that the Web may provide the opportunity to successfully implement RM in the retail marketplace (for example, Grönroos, 1996; Zineldin, 2002). Yet few empirical studies have been conducted to assess the mechanics and moderating roles of RM. This research seeks to determine the mechanics of certain consumer characteristics, and confirm their impacts on relationship building. Some consumer characteristics, such as perceived retailer relationship investments, have been explored in previous research in support of relational choice (De Wulf et al., 2001), but many others have not. Studying these mechanisms is important since it provides a basis for research on consumer characteristics and behavioral loyalty.

This research focused on the potential impact of the Web on consumer relationship building. It is known that consumers establish relationships with several retailers from whom they shop offline. Online consumers may actually reduce the number of their alternative retailers. For example, it is reported that Web customers tend to consolidate their purchases with one primary retailer, to the extent that purchasing from the retailer site becomes part of their daily routine (Reichheld & Schefter, 2000). This implies that e-tailing may be more relationship friendly than offline retailing. This research pointed out four aspects where the Web can significantly impact consumer relationship intentions. Online consumers can have better interaction with retailers, possess higher market power, perceive or receive higher retailer relationship investment, and perceive higher shopping risks. The Web can alter these four aspects. E-tailers have more means for relationship investment in that they can collect more shopper data and provide personalized offerings. The communication medium provides timely interaction.

There are more risks involved in online shopping than offline shopping, including financial risks, security risks, service related risks, product evaluation risks, and so on. However, online consumers have more opportunities for feedback than offline shoppers.

This research provides insights on online consumer relationship building that enables e-tailers to design online RM strategies and tactics. First, it indicates that perceived risks, perceived interaction, perceived relationship investment, and perceived consumer power, are critical for improving consumer relational intentions. Retailers need to address these important aspects to enhance their online consumer relationships. Retailers can design risk aversion strategies (Tan, 1999), such as using reference group appeal and specific warranties, to lower consumer risk perception. Marketer reputation and brand image can also serve as effective risk relievers for the potential Internet shoppers (Tan, 1999). E-tailers can design interactive channels such as personalized Web sites and communities (Thorbjornsen et al., 2002) to explore the benefits of the Web as an interactive media. E-tailers can demonstrate their commitment to consumer relationships through various RM programs, to address customer concerns and questions, to use all convenient channels to communicate with customers, to provide better services such as product/service recommendation through data mining. To improve consumer power, e-tailers can involve customers in product/service design and development stages, create channels for customers to express their ideas, concerns and feedback, and address these issues effectively. As an example of a current development in enhancing consumer power, Amazon lets customers send in names/descriptions of the products they would like to order, which are not currently available in the market, and notifies the customers when the products are available. However, building relationships is not quick and easy, and may take a long time to develop and to have an impact. For example, consumer power with a retailer depends on the retailer's strategy and consumer involvement. Thus, these are aspects e-tailers may utilize to build a sustainable competitive advantage. Furthermore, this study demonstrated that switching costs can play a negative role in the e-tailing satisfaction-loyalty link. E-tailers need to exercise special care when building switching barriers. Lower barriers, such as joining a shopping search database, may enhance consumer satisfaction, thus improving loyalty.

6.2 Limitations and Future Research

This thesis analyzed the impacts of e-tailing's potential, opportunities, and threats for consumer relationship building, and is rooted in previous e-tailing and consumer RM research. Thus, the hypothesized model and subsequent empirical study were of a confirmatory nature. The constructs of consumer market perceptions and relationship mediators were selected based on existing literature and following certain selection guidelines. The leading relationships among the constructs were supported by theoretical analyses, based on existing knowledge. However, online shopping and research in online consumer relationships are both developing. It is believed that the Web has caused and may continue to cause many changes in consumer behavior and shopping processes. As such, some exploratory research may be valuable in discovering the unknown and unexpected.

This research addressed four market perceptions: perceived risks, perceived relationship investment, perceived interaction, and perceived consumer power. It analyzed the Web's potential to heighten these perceptions. The empirical study showed that these perceptions lead to online consumer relational intention. However, while the Web provides opportunities to change these perceptions, it is unclear at this point how these changes occur. For example, it is worthwhile to examine the detailed strategies e-tailers can implement to enhance consumer power, interaction, consumer perceptions of relationship investment, and at the same time reduce risks. It also is unclear as to whether online consumers truly have better interactions and more enhanced power than shoppers in a traditional retailing context. We do not know how well e-tailers are implementing RM compared to their rivals in the traditional retailing environment. Further research should be conducted to compare these constructs in online and offline contexts.

Some research limitations related to the empirical study have been addressed in Chapter 5. One of these limitations is that the empirical study was conducted in an online book and CD retailing context. Product categories can influence consumer behavior and consumer RM. Testing the model in one industry limits its generalization. Will the model work for other online retailing categories? Also, will the three mediators in the model (satisfaction, trust, and switching costs) play different roles or have different weights in other contexts? Will some market perceptions become more critical and others not as important in different contexts? Future research can answer these questions.

The model tested in this research did not incorporate any feedback loops, while in reality feedback loops may exist. For example, they may link the construct of relationship intention to the constructs of consumer market perceptions and relationship mediators. Perceived switching costs, satisfaction, and trust may also increase with higher relationship intention. In addition, consumers with higher relationship intention may be more active, thus leading to better interaction and perceived relationship investment. The existence and impacts of these feedback loops should be explored.

Also, it is not clear if and how sex roles affect consumer online relationship building processes. This research did not reveal significant differences in the survey responses across gender. However, it is not clear whether gender influences the links in the hypothesized model. For example, does the perceived power construct play a more important role in determining the endogenous constructs in the male group than in the female group? Does the perceived relationship investment construct play a more important role in the female group than in the male group? Future research may be conducted to test the model for female and male groups respectively.

In this study, attitudinal measures were used to evaluate consumer relationship choices. To more fully understand consumer relationship building, both attitudinal and behavioral measures can be employed and compared. It is important to understand the drivers that cause differences between consumer attitudes and behaviors in online shopping. To further validate and generalize the model, behavioral measures can be combined with attitudinal measures to achieve a more complete evaluation of consumer relationship choices.

As identified in this research, online shoppers provided positive responses to the four market perception constructs, which implies that the Web may facilitate these constructs. To validate this implication, further research is needed to compare responses from online and offline shopping. While respondents provided positive evaluation on relationship intention constructs (shown in Table 5.2), it is still too early to conclude if online consumers are more relational than offline shoppers. More research is needed in this area.

As consumer relationship becomes important, traditional retailers, e-tailers, and brick-and-click retailers may develop different strength in retaining consumers. This research provides a starting point for comparing online and offline environments. Future research can compare consumer response on the model constructs in various shopping environments to see whether e-tailers achieve different/better consumer perceptions in terms of relationship investment, shopping risks, interaction, and consumer power, and relationship preferences. Future research can also analyze the detailed components of each model constructs to address possibly different effective attributes to enhance consumer market perception and relationship intention in online and offline environments.

This research established a consumer oriented model, which may serve as a starting point for considering an e-tailer oriented model. From this model, it is understood that from consumer point of view, four market perception constructs and three mediators are important. E-tailers need to address these important aspects in building consumer relationships. However, an e-tailer oriented model has to address issues from the e-tailer point of view. Each consumer perceptions may need to be broken down to several e-tailer implementation issues. For example, consumer trust perceptions may results from e-tailers use of a third-party trust seal and a brand name. Thus, the relationship among constructs analyzed in this model may be altered in an e-tailer model, that is, constructs in an e-tailer model corresponding to consumer market perception constructs in this model may not lead to constructs in an e-tailer model corresponding to relationship mediator constructs. In this way, different factors may be used in an e-tailer-oriented model.

From an e-tailing perspective, this research focused on online consumer relationship building. However, there are many other strategies implemented by current online retailers. For example, some retailers compete heavily on price. Since this research has an e-tailing component, it can be geared to analyze various strategies for e-tailing success. Future work can be conducted to address the role of the constructs discussed in this research (such as interactivity, consumer power, and satisfaction) across diverse e-tailing strategies.

Another important area of research is the analysis of process and evaluation method development for e-tailers. How do e-tailers evolve their RM strategies and tactics? What processes and/or roads do they take? How is the effectiveness of their strategies evaluated? With more traditional retailers going online and new e-tailers emerging, it is important to provide guidelines to avoid common mistakes and facilitate success. Certain factors or elements may be critical in the initial stages of e-tailing business or consumer relationship building processes. Traditional methods to evaluate the success of a business may not be sufficient. Appropriate evaluation methods are critical to identify potentially successful e-tailers and determine their key success factors.

As relationship marketing draws more and more attentions from both academics and industry as an important strategy in retailing, and the Web becomes an important retailing channel, this thesis is one of the efforts to understand the Web's impact and facilitation for consumer RM. This research examined the impacts of the online retailing characteristics on consumer relationship building. The results from this study can help e-tailers to design successful online consumer RM strategy.

Appendix I. A Survey on Online Shopping Experiences

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Michael G. DeGroote School of Business, McMaster University

Thank you for participating in this survey. The purpose of this survey is to understand online shoppers' attitudes toward online shopping environment and online retailers, and the impact of these attitudes on customer relationship/loyalty building process.

By participating in this survey, you are expected to complete the following tasks:
1). Read and sign the Consent Form;
2). Answer the Questionnaire.
You should be able to finish this survey in 10 minutes.

The Questionnaire and the Consent Form will be collected separately, so the data you provide will be collected anonymously. The data collected will be analyzed through statistical methods and used for research purpose only. You may request a copy of the final survey by contacting the investigator after July 2003.

Upon completion of the survey, your name will be included in a draw for Titles gift certificates. There will be eight prizes at $50 each. If you can not return the questionnaire on the survey site, please leave it at the drop box outside of *MGD 403*.

Thank you again for your participation. Have fun!

Consent Form

Please sign below if you agree with the following statements:

1. I have freely volunteered to participate in this study.
2. I have been informed in advance about the nature of the study, what my tasks will be, and what procedures will be followed.
3. I have been given the opportunity to ask questions and have had my questions answered to my satisfaction.
4. I understand that the information I provide will be treated confidentially and with anonymity. My identity will be not be revealed in the reporting of the study's results.
5. I am aware that I have the right to withdraw consent and discontinue participation at any time.

Signature: ______________________________

Printed Name: ___________________ Date: ___________________

E-mail Address (optional, but if you wish to be included in the draw for 8 Titles gift certificates ($50 each), you must include your email address.):

____

Phone (optional): __________________________________

Questionnaire

1. Your age: ___________ 2. Gender: Male ☐ Female ☐

3. Current occupation: ______________________________

4. Education (if you are a student, indicate the degree you are working towards)	High school ☐	Bachelor ☐	Master and above ☐

5. Annual income (in CAN$)	$30,000 or below ☐	$30,001-$50,000 ☐	$50,001-$70,000 ☐	$70,001-$100,000 ☐	$100,001 or above ☐

6. Average time online per week	2 hours or below ☐	Between 2 hours and 4 hours ☐	Between 4 hours and 7 hours ☐	Above 7 hours ☐

7. 2002 annual online purchase (in CAN$)	$100 or below ☐	$101-$500 ☐	$501-$2000 ☐	$2001 or above ☐

8. Have you bought any books, CDs, or DVDs online? Yes ☐ No☐

If **yes**, please answer all following questions with regards to your last purchase of a book or CD online.

If **no**, what was the last purchase you made online? ________________________

Answer all following questions with regards to your last online purchase.

9. With regards to this purchase,

Who was the Website (name and/or Web address)? ________________________

How much did you spend (in CAN$)? ________________________

How many times have you purchased from this Website (including your last purchase)? ____________________

With regards to this purchase and the online retailer, please answer the following questions in the following scale:

Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Agree	Strongly Agree
①	②	③	④	⑤	⑥	⑦

	Disagree		Neutral				Agree
1. This retailer makes efforts to increase customer loyalty.	①	②	③	④	⑤	⑥	⑦
2. This retailer makes various efforts to improve its tie with customers.	①	②	③	④	⑤	⑥	⑦
3. This retailer really cares about keeping its customers.	①	②	③	④	⑤	⑥	⑦
4. This retailer implements many marketing techniques to enhance customer relationship.	①	②	③	④	⑤	⑥	⑦
5. I can easily find a way to communicate with the retailer.	①	②	③	④	⑤	⑥	⑦
6. I can easily get answers for my questions.	①	②	③	④	⑤	⑥	⑦
7. The retailer appears to value my feedback.	①	②	③	④	⑤	⑥	⑦
8. The retailer provides me with personalized interaction.	①	②	③	④	⑤	⑥	⑦
9. I can control my online shopping process (including information searching, transaction completion, delivery, after-sale service).	①	②	③	④	⑤	⑥	⑦
10. I have many choices for products and retailers during online shopping.	①	②	③	④	⑤	⑥	⑦

11. I feel that I can influence this retailer on their offerings, pricing, or services.	① ② ③ ④ ⑤ ⑥ ⑦
12. I think I can easily communicate with or influence other consumers in the online environment.	① ② ③ ④ ⑤ ⑥ ⑦
13. I am satisfied with this purchase.	① ② ③ ④ ⑤ ⑥ ⑦
14. Compared to other online retailers, this retailer provides good service.	① ② ③ ④ ⑤ ⑥ ⑦
15. I made a good choice by purchasing from this retailer.	① ② ③ ④ ⑤ ⑥ ⑦
16. My shopping was done in an effective and efficient way.	① ② ③ ④ ⑤ ⑥ ⑦
17. Becoming a regular customer of this retailer will benefit me in future online shopping experiences.	① ② ③ ④ ⑤ ⑥ ⑦
18. I feel unhappy when shopping from a competitor retailer.	① ② ③ ④ ⑤ ⑥ ⑦
19. It will be financially detrimental for me to switch to another retailer.	① ② ③ ④ ⑤ ⑥ ⑦
20. If I purchase from another retailer, I would lose some other kinds of benefits (such as convenience or confidence).	① ② ③ ④ ⑤ ⑥ ⑦
21. This retailer can be trusted.	① ② ③ ④ ⑤ ⑥ ⑦
22. This retailer is reliable.	① ② ③ ④ ⑤ ⑥ ⑦
23. This retailer is able to consistently meet my expectations.	① ② ③ ④ ⑤ ⑥ ⑦
24. This retailer can be counted on to provide high quality products and services.	① ② ③ ④ ⑤ ⑥ ⑦
25. I will reduce my searching process the next time I shop online with similar needs.	① ② ③ ④ ⑤ ⑥ ⑦

26. I will purchase from this retailer the next time I shop online with similar needs.	①	②	③	④	⑤	⑥	⑦
27. I would like to become a regular customer of this retailer.	①	②	③	④	⑤	⑥	⑦
28. I feel loyal to this retailer.	①	②	③	④	⑤	⑥	⑦
29. It is risky to purchase from an unfamiliar online retailer.	①	②	③	④	⑤	⑥	⑦
30. If I purchase from an unfamiliar online retailer, I am concerned about giving financial or personal information.	①	②	③	④	⑤	⑥	⑦
31. If I purchase from an unfamiliar online retailer, I am concerned about refund and after-sale service procedures.	①	②	③	④	⑤	⑥	⑦
32. Shopping with an unfamiliar online retailer may pose problems for me that I just don't need.	①	②	③	④	⑤	⑥	⑦

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