

# Chapter 9

## Effects of Website Interactivity on E-Loyalty: A Social Exchange Perspective

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### **ABSTRACT**

*This study examines the impact of major considerations of commercial website design and management, website interactivity, the important performance factor, and customer loyalty. Meaningful interactions with existing and potential customers allow e-commerce firms to enhance customer loyalty by providing satisfactory customer experience. Customer loyalty is a composite construct, yet consists of multiple dimensions that do not necessarily contribute to repeat purchase in the same manner. Guided by the concept of social exchange in social psychology, this study investigates the causal effect of website interactivity on two conceptually distinctive types of website loyalty—transactional loyalty and relational loyalty. This paper finds positive effects of website loyalty on both types of loyalty, while revealing positive effects of transactional loyalty on relational loyalty and overall loyalty. Furthermore, relational loyalty is found to contribute more to overall loyalty than transactional loyalty. E-commerce firms are advised to offer attractive incentives in a systematical manner to gradually convert more temporary transactional loyalty to more long-term relational loyalty. Finally, firms must devise a portfolio of different marketing strategies to cater to the customers located on different points on transactional loyalty.*

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## **BACKGROUND**

As Internet technologies rapidly advance to become an essential element of innovative business models, website features have received much attention from both business academicians and practitioners. Driven by various supply and demand factors, the adoption of Web-enabled tools or services has been tightly tied with and even become a core work practice in carrying out daily business operations and supporting managerial decision making in today's information and knowledge-intensive organizations. Increasingly, customers in all sectors are experiencing the widespread impact of the Internet technology in most major aspects of their life, including shopping and communications. To a certain degree, this impact is reflected in the quarterly survey conducted by the U. S. Census Bureau of the Department of Commerce to track retail e-commerce sales in the U. S. market, Internet retail sales have steadily grown from \$25.8 billion in the year of 2000 to the estimated \$147.6 billion in 2008. This robust growth trend reflects many strategic advantages that Internet retailing offers over the pure brick-and-mortar business model. From the business strategy point of view, these advantages include global market outreach, broader product lines, near real-time communications with customers, and customization of products or services to satisfy customer needs. Internet retailing has appeared to be embraced by an increasing number of consumers for its convenience and flexibility in serving the life style in the knowledge economy. For individual companies that sell primarily via their websites, however, there are also significant operational challenges that must be properly addressed, for example, the lack of customer trust and loyalty.

High customer loyalty is important for a seller's profitability. Acquiring a new customer generally costs many times that of selling to an existing customer. The cost of serving a customer throughout the customer service life cycle is higher during the

early transactions than when the loyal customer returns for repeat purchase (Reichheld & Sasser, 1990). Customer loyalty to a business that sells online, or e-loyalty, is especially hard to come by since the Internet is a nearly perfect market due to convenient access to product and service information. The dramatic reduction of information asymmetry can result in fierce price competition and low brand loyalty. Enhancing customer loyalty through a superb website is, therefore, an important strategic goal of e-commerce vendors (Kumar & Shah, 2004).

A crucial design element for effective online marketing is the level of website interactivity. Website interactivity, among other design factors, contributes to the performance of commercial websites (Auger, 2005). In an economy that is characterized by collaboration both within and between business partners, website interactivity also provides the essential technological foundation for collaborative commerce (Hartono & Holsapple, 2004). For website users, a highly interactive website encourages in-depth communications with the company and other customers. Communicating directly with the company facilitates responsive customer service, and may even enable customization of the product or service they receive from the vendor. Perhaps more importantly is the conversation supported by the interactivity features of the website enable among the customers. Significant value can be created by involving customers in the product life cycle.

Given the critical role played by interactivity in commercial website design and the technologies available for online marketers (e.g., Web 2.0 technologies) to incorporate proper interactivity features in their websites, it is important for marketers to have an in-depth knowledge regarding the impact of interactivity on customers' loyalty to the website. The purpose of this empirical research is to address this issue.

In the remainder of the paper, we first review the literature in customer-facing system interactivity and customer loyalty. This is followed by a

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