

# Chapter 7.1

## A Contingency Theory for Online Consumer Retention: The Role of Online Shopping Habit

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### ABSTRACT

Customer retention, or repurchase, is one of the main factors that help to create and maintain the competitiveness and sustainability of an organization. With the proliferation of B2C electronic commerce, retention has become even more important to Internet merchants who sell online, where customers are provided with a wide variety of choices and competition is globally severe. As opposed to pageviews and click through ratios, repurchase provides a more revealing metric of the effectiveness of websites. It is therefore important to explain and identify the determinants of online customer retention. Previous IS research on online

shopping mainly focused on adoption and usage issues. Very few studies, however, examined whether customers made repurchases after they were attracted to and satisfied with the buying experience and product. In this study, we develop, operationalize and empirically test a model that explains online consumer retention as measured by repurchase. Our findings demonstrated that the direct effect of satisfaction on repurchase is positively moderated by online shopping habit. This research also highlights and identifies specific factors affecting customer retention that should help practitioners in formulating the appropriate marketing strategies.

## INTRODUCTION

Customer retention, or repurchase, is an intangible ability to keep visitors coming back over a long period of time (Maciag, 2000). It is one of the main factors that help to create and maintain the competitiveness and sustainability of an organization. IWon.com, for example, strives hard to retain customers by offering the chance to win \$1 million US dollars to its visitors every month (Crockett, 2000). From an economic perspective, it is a marketing strategy to increase the opportunity costs to prevent customers from switching to other counterparts. Customer retention is therefore one of the key strategic imperatives of customer relationship management (CRM) (Soderlund et al., 2001). Short-term retention can be achieved through a number of factors like brand equity which can be easily imitated by competitors. Long-term retention needs to grow continuously over time to create a financial hurdle that deters consumers from switching (Nemzow, 1999). With high customer retention, marketing costs can be substantially reduced, as it is always cheaper to retain a customer than to acquire a new one. It is reported that attracting new customers takes up 75% of the budgets of e-tailers while retention takes up only 25% (Crockett, 2000). With the proliferation of B2C electronic commerce, retention has become even more important to Internet merchants who sell online, where customers are provided with a wide variety of choices and competition is globally severe. Selling in cyberspace is very different from selling in physical markets, and requires a critical understanding of consumer behavior and how new technologies challenge the traditional assumptions underlying conventional theories and models. A critical understanding of repurchase behavior in cyberspace, as in the physical world, cannot be achieved without a good appreciation of the factors that drive consumers to return. If cybermarketers understand online consumer behavior, they can adjust their marketing strategies to fit this new way of selling in order

to convert their potential customers to real ones and retain them. Similarly, website designers, who are faced with the difficult question of how to design pages to make them not only popular but also effective in increasing sales, can benefit from such an understanding. It is not, however, clear what keeps customers returning. Customer retention is one of the key factors affecting the competitiveness of organizations that has become a primary concern for B2C businesses. As opposed to pageviews and click through ratios, repurchase provides a more revealing metric of the effectiveness of websites. It is therefore important to explain and identify the determinants of online customer retention.

Previous IS research on online shopping mainly focused on adoption and usage issues. Very few studies, however, examined whether customers made repurchases after they were attracted to and satisfied with the buying experience and product. Most prior research studied the cognitive aspects of behavior with emphasis on the relationship between intention and behavior. These studies focused on the application of behavioral theories, e.g., the Theory of Planned Behavior (Ajzen, 1991), to examine the determinants of the intention and behavior of online shopping. However, to our knowledge, no study examined online repeated behavior, i.e., repurchase.

The purpose of this study is to propose a theoretical model to address this void. More specifically, we develop and empirically test a conceptual model that identifies important determinants of online consumer retention, as measured by repurchase. Our research presents important theoretical and practical contributions. On the theoretical side, we operationalize and empirically test a consumer retention model that explains online consumer retention as measured by repurchase. On the practical side, this research highlights and identifies specific factors that influence repurchase. Such specific drivers can help practitioners in formulating the appropriate marketing strategies.

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