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Customer Behavior in an Online Ordering Application

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INTRODUCTION

The purpose in writing this paper is to exemplify how the online activity of customers has changed the playing field of retail sales over the years. Online retail sales have increased substantially over the past few years. For example, sales reached a staggering $14.8 billion in the November 1 to December 26, 2004 time period: a 29% increase over the same period in 2003. More importantly, online sales growth has consistently outpaced in-store sales growth—in-store sales rose only 4.5% in the same period mentioned above (Baertlein, 2004). Leading brick-and-mortar retailers such as Best Buy, Circuit City, Target, Gap, and Williams-Sonoma have greatly improved their web sites, operational fulfillment, and delivery as competition in a slow growing retail sector focuses on the internet as the main vehicle for growth.

As competition increases in the multichannel environment of internet, telephone, and in-store retailing; the pressure not just to attract new customers, but to retain existing customers, is intense. The cost of searching or switching between numerous retailers is greatly reduced on the internet (Brynjolfsson & Smith, 2000). Therefore, it is critical that retailers develop some method of locking customers in, whether through better service quality (SQ), better product quality (PQ), or easier ordering. Customer loyalty and retention are qualitative indicators of profitability in services. As little as a 5% increase in customer retention has been shown to improve bottom-line profitability by 25-95% (Heskett, Sasser, & Schlesinger, 1997).

Predicting future customer behavior is extremely useful for both marketing and operational purposes. First, retailers can offer targeted marketing to those customers sitting on the fence, such as those that may be persuaded to repurchase through a special offer. Since groceries are among the most frequently purchased and available consumer items, competition for customers
is particularly intensive in this industry (Yrjola, 2001; Boyer, Frohlich, & Hult, 2005).

LITERATURE REVIEW

A brief overview of the use of behavioral predictor tools for predicting customer behavior is provided. Behavioral predictor tools have been utilized by companies for the past 20 years to use extant customer data, such as demographic information, feedback from surveys, or purchase patterns, to predict future purchasing behavior. These predictions are typically used to adapt alternative customer-treatment approaches, depending on which group they are predicted to be in. While behavior predictor tools were pioneered in the financial services industry, they have also been applied for predicting consumer spending on hard goods. While there has been substantial application of such tools in the financial sector and traditional retailing, there has been little examination of such tools for online retailing. Given the clear benefits for managerial decision making and high financial payback, such predictor tools should be of great use to online retailers.

Understanding the impact of service-encounter constructs such as SQ, PQ, and the servicescape on behavioral intentions has been a focal point for services researchers for more than two decades (Shostack, 1977; Lovelock, 1983). In addition to the vast amount of support in the SQ literature for a link with customer loyalty and future purchases, the idea that customers prefer greater SQ is intuitive, particularly if price and other cost elements are held constant. Additionally, equity theory suggests that customers who perceive an organization's delivery of SQ in conjunction with superior products are likely to attribute greater equity to the relationship with that organization (Kelly & Davis, 1994).

Product quality is always an important aspect of a purchasing decision, but the importance generally is intensified when purchasing over the internet. Numerous researchers have advocated that online markets encourage increased competition and create relatively friction-free markets (Malone, Yates, & Benjamin, 1987; Bakos, 1997). Yet, while quality can be judged purely via information available online for intangible products and services such as travel, software, or music, tangible products require physical handling and evaluation by the consumer. Clemons, Hann, and Hitt (2002) find substantial
differences in ticket quality offered by online travel agents, yet these PQ differences can be evaluated online according to criteria such as the number of connections or the accuracy of match between requested and delivered departure/return time.

Tangible products sold in an online channel present more substantial challenges for delivery. Koch and Cebula (2002) point out four product categories for which consumer perception of PQ over the internet is likely to be quite variable:

- products that involve touch, taste, or smell
- the sale requires custom fitting
- the sale is from a catalog
- the sale is accompanied by advice or counsel

Commodity products commonly sold over the internet, such as books, consumer electronics, or toys, are evaluated based largely on brand perception and loyalty because the same products are available from numerous outlets. In contrast, products such as apparel suffer from PQ perception problems because consumers are unable to physically try on items (Vickery & Agins, 2001). Customer perceptions of Product Quality will be positively associated with future purchases and usage of the online ordering channel.

Companies must facilitate utilization of online ordering by providing a simple and understandable website and by making transactions as easy and transparent as possible. Site Ease (SE) encompasses specific aspects of ordering online, including navigation, sequence of steps to complete the order, and ease of searching for information or products. Customer perceptions of Site Ease will be positively associated with future purchases and usage of the online ordering channel.

Internet shoppers consistently cite saving time as one of the primary reasons for shopping online. The mass media repeatedly emphasize the theme that people are busy and are looking for ways to save time. This conclusion is broadly supported by Bhatnagar, Misra, and Rao (2000) and Donthu and Garcia (1999). While online ordering may seem like an attractive way to save time, many people have trouble with online orders for many items because they have a hard time visualizing groceries without handling them. Internet ordering involves a switch in activities from the customer doing their own item selection to a paid employee of the store doing it for them. While 60 min-
utes might seem like a long time to order online, this represents most of the
time to order and receive an order when the employee is picking the items
(order). In contrast, the total time to shop in a physical store includes the
time to compile a list, travel to the store, shopping in the store, check-out, and
travel home. Yrjola (2001) estimates that the value of customers' time spent
shopping represents 20% of the value of items purchased.

Previous experience with a website is likely to have an effect on
future orders. Customers become more comfortable with ordering and
decrease the time spent ordering over multiple experiences. Thus, more expe­
riences with online ordering are likely to lead to more future online orders. In
addition, more experienced customers will be more likely overall to place
more future orders than less experienced customers.

METHOD

The sample consists of customers who utilize online shopping for home
delivery. Secondary research was done utilizing numerous sources. Primary
research was done also: an online survey was completed. Initial contact was
utilized with follow-up reminders, a small incentive for completing the survey,
and a promise of anonymity in survey responses. A number of scales and
measures were used: Service Quality (SQ), Product Quality (PQ), Site Ease
(SE), Time Savings (TS), and Future Orders (FO). All the customers contact­
ed had made an online purchase at least once (Boyer, K. & Hult, G, 2005). TS
was composed of two formative items: one asking whether the time to place
an order shortens with repeat experience and the other asking customers to
rate the total time to place and receive an order online relative to traveling to
the store and back. Interesting, the customers find that online ordering was
substantially better than traditional shopping. PQ focused on measuring a
customer's view of the general brand quality of the online-ordered physical
product. For SQ, a scale was devised using 10 original dimensions of SQ: reli­
ability, understanding, responsiveness, competence, security, courtesy,
access, tangibles, credibility, and communication. In this analysis measures
were used to capture the dynamic and customized nature of the online shop­
ing experience. Then an analysis was done to determine which customers
had made repeat purchases after or during a twelve month period after the
first survey. One goal of this analysis was to develop a model that helps retail­
ers predict and manage customer retention.
DISCUSSION

The results of this study provide good support for the relationships between customer perceptions of their overall experience (SQ, PQ, SE, TS) and their continued loyalty (FO) to both the channel and the particular brand. The evidence clearly shows a longitudinal relationship between higher perceptions and increased loyalty. The application of behavioral models of this type can be generalized given that most internet retailers have some type of ongoing data-collection system for surveying customers regarding their satisfaction with various aspects of the transaction. This general approach should be easily applicable because companies typically have substantial investments in information technology of the type necessary to support such behavioral modeling (Boyer, K. & Hult, G., 2005). This type of analysis is very useful to companies that are strapped for time. While many collect this type of data routinely, they are hampered in their ability to create targeted marketing plans due to the intense pressures they face in building new business. The analysis underscores the importance of each of the underlying factors and provides a measure of the magnitude of the effect of each measure. While the results are of most benefit to the individual participants in the analysis, the results can be extended to the general population of companies delivering directly to customers. This primary research has provided an examination of customer retention for online ordering which is a major concern for online retailers (Reichheld & Schefter, 2000; Zeithaml et al., 2002). The data can be used to guide managerial practices and future research.
REFERENCES


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