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WHAT DETERMINES E-LOYALTY? AN ANALYSIS OF FACTORS AFFECTING ON-LINE CUSTOMER RETENTION

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ABSTRACT
The objective of this research was to identify, assess and rank the determinants of e-Loyalty for the benefit of online stores so that they may have a better understanding as to what factors customers consider most important when deciding whether or not to remain loyal to the online store. 13 determinants of Customer Loyalty were identified from examining previous literature in e-commerce and related fields. 137 respondents were surveyed, by means of an online web-based questionnaire, to examine their opinions on these factors and how they rate their importance in comparison with other factors. This research has shown that the most important factors that are involved in a customer’s decision to remain loyal to an online store are Security and Privacy, Convenience, Web Usability, Perceived Value, Fulfillment and Trust. It was also found that some factors such as price greatly override others as well as the fact that a customer’s loyalty is dependent upon the competitive nature of the industry and the nature of the goods in question.

KEYWORDS

1. INTRODUCTION
The seeds for the research question addressed by this paper were initially sown in an informal discussion between the researchers and some colleagues about online shopping and favourite online retailers. It became apparent from the discussion that certain online stores were mentioned by many as providing a very good service at both a front-end (online) and back-end (delivery etc). We therefore thought it would be interesting to study the factors that made these online stores popular and profitable and the reasons behind their customers’ decisions to return for repeat business. The primary objective of this research is to identify the determinants of customer loyalty in e-Commerce for the benefit of e-Retailers so that they may gain a better understanding into the level of service and mechanisms that are required to retain customers. The secondary objective of this research is to rank the determinants of e-Loyalty with the purpose of understanding the most important factors that are involved in a customer’s decision to remain loyal to an e-Retailer.

The structure of this paper is as follows: Section 2 contains the Literature Review of the research which examines other research on e-Loyalty and Customer loyalty and the factors that have been identified as impacting upon a customer’s decision to remain loyal to a particular retailer or e-Retailer. Section 3 details the design and implementation of the research method that was used in this research. Section 4 presents the findings of this research. Section 5 discusses the conclusions of this research and the impact that these conclusions could have for e-Retailers.

2. LITERATURE REVIEW
It has been proposed that the fundamental task of any modern business should be managing and maintaining high levels of Customer Loyalty (Reichheld & Schefter 2000). Indeed there are many associated benefits with regards to attaining a high customer retention percentage. Most notably, doing so can create a stable
pool of profitable customers (Reichheld & Scheffer 2000) as well as the fact that the cost to a company of
acquiring a new customer is significantly higher than that of retaining a customer (Oliver 1999).

Early Customer Loyalty research differed in its definition of the term. Keller (1993) proposed that
Customer Loyalty is attitudinally based, which means that it develops based on a psychological process over
time and is a motivational disposition where consumers will develop favourable attitudes towards particular
brands. Jacoby (1971) suggests that loyalty is a “biased behavioural purchase process”. More recently,
research has synthesised opposing views to agree that a true measure of Customer Loyalty needs to
incorporate both attitudinal and behavioural dimensions (Gremler, 1999). There are four different categories
of customer with regards to their level of loyalty (Jones & Sasser, 1995):

1. The “Loyalist” is the customer who is very satisfied with a company’s performance or offerings. They
   are likely to be very loyal to the company.
2. The “Defector” relates to customers who are moderately satisfied and are fickle. They will switch to
   competitors at the slightest indiscretion on the company’s behalf.
3. The “Mercenary” is normally highly satisfied however they have little or no loyalty towards the
   company and show no commitment towards it.
4. The “Hostage” is not usually satisfied but is loyal towards a particular company because they are
   “trapped” or unable to switch to competitors.

2.1 The notion of loyalty within electronic commerce

It could be argued that the Internet has served as a mechanism to decrease Customer Loyalty given the fact
that consumers have access to a global business market with the benefits of relatively low switching costs,
price transparency and an opportunity to compare and contrast offerings and products from one competitor to
another. However research suggests that actually the opposite is the case. Reichheld & Schefter (2000) and
Deveraj et al. (2003) suggest that most online consumers have a higher tendency towards Loyalty if service
provision remains of a high quality.

Since the advent of B2C e-Commerce and hyper-competitive markets, the importance of creating a loyal
customer base is increasingly important. Many Internet pioneers have competed in ways which violate nearly
all the traditional rules of good strategy. Rather than focus on profits, they have chased customers
indiscriminately through discounting and mass advertising. Rather than deliver value, they have pursued
indirect revenues such as advertising and click-through fees. The Internet as a technology is not as disruptive
as perceived and the traditional rules of economics and business still apply (Howcroft 2001). An Internet
strategy needs to deliver value to the customer to ensure their return given that the cost of acquiring and
retaining a customer decreases significantly with each transaction (Porter 2001).

E-Loyalty is the notion of Customer Loyalty in e-Commerce. For the purposes of this research it is
defined as follows: “the pursuit of engendering trust and value in your most valuable customers through
effective deployment of Web technologies and customer support” (Reichheld & Scheffer 2000). It is
important to note that this definition suggests focusing on a company’s “most valuable customers”; this
relates to the Pareto Principle whereby 20% of customers account for 80% of sales. It does not suggest that
low-value customers are not important, merely that a proportionate effort should be exerted in generating
sales, 80% on a company’ most valuable customers and 20% on other customers.

2.2 The distinction between traditional “loyalty” and “e-loyalty”

Schultz (2000) describes Customer Loyalty in a traditional sense as being a product-driven, marketer-
controlled concept. He contrasts e-Loyalty as being a distribution-driven, consumer-controlled and
technology-facilitated concept. Indeed there are many differences between Loyalty and e-Loyalty; naturally
most relate to the medium of the Internet. At a fundamental level, Schultz’s contrast describes the evolution
of control from the marketer to the customer.

Since the arrival of the Internet, customers have become unbound by the constraint of the lack of
information. For commodity goods, e.g. books and CDs, customers now have potential access to a multitude
of competing businesses online. For specialist goods, the structure of the industry and the prevalence of
competition determines whether customers are ‘forced’ to be loyal to a particular company or not. This relates to the “Hostage” category of a Loyal Customer as categorised by Jones & Sasser (1995). However this category is for the most part no longer applicable to the world of commodity-based e-Commerce as customers reap the benefits of choice and information transparency.

Many determinants of Customer Loyalty in an offline sense will be relevant to e-Loyalty. For example research has shown that satisfaction and customer loyalty are strongly linked (Oliver 1999). Therefore satisfaction plays a part in creating a loyal customer, however it is not sufficient to deduce that customer satisfaction is a sole determinant of Customer Loyalty. This is also applicable to e-Loyalty.

Research has shown that there are differences between Customer Loyalty and e-Loyalty, relating specifically to the medium of the Internet, where many new dynamics are at play. For example, many new metrics are needed to be measured when assessing e-Loyalty such as the number of site visits without purchases or the number of repeat visits per customer to a website. Also, the Internet affords a marketer the opportunity to customise their marketing efforts online by harnessing database technologies which are the fundamental driver of e-Commerce websites (Gommans et al 2001). However the fundamental premise of Customer Loyalty is still very much evident in e-Loyalty efforts. The traditional rules of business can and do still apply. It is the means by which these rules are applied that separates Customer Loyalty from e-Loyalty.

2.3 Conceptual frameworks of e-Loyalty

In 2001 Gommans et al proposed a conceptual framework of e-Loyalty for the purpose of understanding its underlying drivers. The suggested framework contains the following determinants: Perceived Value, Security, Trust, Offline Fulfillment, e-Service Quality and Community Building. They suggest that the e-Commerce strategy and relationship between these drivers will greatly depend upon the type of e-Business as well as their market situation. They present a framework as shown in Table 1 to summarise the proposed e-Loyalty strategies based on the dimensions of the company being a market leader or market follower. The other dimension is whether or not a business is operating as a pure e-Business or a traditional business moving into e-Business (bricks to clicks).

In a framework proposed and empirically tested by Anderson & Srinivasan (2003), they indicate the relevance of e-Satisfaction in determining e-Loyalty. However they also propose that e-Satisfaction is dependent upon moderating variables at both company and customer level. “Company Level” moderating variables include Trust and Perceived Value. These are described as being “Company Level” because they are variables that can be controlled by the company. “Customer Level” variables like Purchase Size, Inertia and Convenience Motivation, however are not. They highlight the importance for companies to continuously aim to enhance Perceived Value for customers to discourage switching to competitors. They highlight this as being the most important moderating variable that impacts upon e-Satisfaction and consequently e-Loyalty.

Carlson & Sinnappan (2003) also agree in their conceptual framework that e-Service Quality and Perceived Value are key determinants for e-Loyalty. However they also suggest that the Internet Expertise of a consumer is also very important in determining e-Loyalty. They argue that the more confident an Internet user is, the more likely they will be “adventurous” enough to look for information and potentially switch to competitors’ offerings.

Research conducted by Tsai et al (2006) concludes in agreement with other frameworks that Trust, E-Service Quality and Perceived Value are key determinants of e-Loyalty. However their research also suggests that perceived switching costs and community building exert the “greatest impact upon repurchase intentions” through switching barriers and overall satisfaction.

In an e-Loyalty framework designed and tested by Semeijn et al (2005), it is suggested in concurrence with other frameworks that Trust, Security, e-Service Quality and Perceived Value are key determinants of e-Loyalty. Two other determinants are also proposed in the framework: Customisation, and Offline Fulfillment. It is suggested that offline fulfillment is at least as important as e-Service Quality in this instance. Offline Fulfillment is broadly defined here as being “the delivery of goods or services to the customer’s doorstep”. This can relate to either physical goods, e.g. DVDs, or digital goods, e.g. e-Books. They highlight the importance of the need for the standard of Offline Fulfillment to be at least equal to the standard of e-Service Quality. They stress the importance of having an effective logistical system in place to meet the customer’s delivery and offline needs.
The only two determinants that appear steadfastly throughout all research frameworks are E-Service Quality and Perceived Value. Other determinants common to more than one framework include Trust, Security and Community Building. Determinants that appear only once in all frameworks include Customisation, Perceived Switching Costs, Internet Expertise, Inertia, Convenience Motivation and Purchase Size. Just because a determinant appears in isolation however, does not mean that it can be dismissed as being unimportant in determining e-Loyalty. For example, Tsai (2006) described Community Building and Perceived Switching Costs as being key determinants of e-Loyalty relevant to their research. Indeed this is true of all other frameworks; each determinant, relevant to the particular context in which they were studied, has been identified as relevant and important.

The importance of e-Satisfaction in determining e-Loyalty is undeniable (Oliver 1999; Anderson & Srinivasan 2003; Jones & Sasser 1995). However e-Satisfaction is a concept which has a high level of abstraction and is made up of many factors that can differ from circumstance to circumstance. Many determinants of e-Satisfaction will be the same or similar to those of e-Loyalty, for example e-Service Quality and Perceived Value. Therefore for the purposes of this research it is not included as a separate e-Loyalty determinant, as there would be significant overlap between the determinants of e-Loyalty and e-Satisfaction. However this does not decrease the understanding of the importance of e-Satisfaction and its role as a bridge between an e-Loyalty determinant and e-Loyalty.

As is evident from the above frameworks of e-Loyalty Determinants, opinion can greatly differ from one research example to another. Table 1 summarises the determinants as identified by each research framework.

### Table 1. Comparison of selected Frameworks of e-Loyalty

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### 3. RESEARCH METHOD

This research was conducted by means of a Web-based survey which asked respondents to enter the name of their favourite online store, followed by a series of questions about their experiences with this online store which aimed to evaluate the attributes of that online store as well as the level of service provided by it. The questionnaire for the most part re-used questions from previous tried-and-trusted instruments, with just a few new items added.

The survey instrument was pilot tested in advance of distribution and a number of slight modifications were accordingly made. The sample was drawn from a population of university students in Ireland. The web-based questionnaire was completed by 171 respondents, with 137 responses being usable. Of the 137 respondents 59% were male and 41% were female. 90% of respondents were aged between 18 and 34 years of age. It was important for the purposes of this research to attract respondents that were relatively skilled at using the Internet as the questions asked in the web survey required a good level of expertise and familiarity with Internet usage. It was therefore assuring to find that 92% of respondents reported that they use the Internet every day, and 93% of respondents claimed that they were confident users of the Internet and that they can find what they are looking for on the Internet most of the time.
4. DISCUSSION OF FINDINGS

Figure 1 shows the mean value for each determinant of e-Loyalty in comparison with other determinants as identified in this research. The mean value represents the average score that a determinant achieved across a number of items, each measured by a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). All items were in the same direction, so a high score (i.e. close to 5) indicates that something is regarded as very important. It emerged that the five most important factors at play are, in rank order: (1) Security & Privacy, (2) Convenience, (3) Web Usability, (4) Fulfillment, and (5) Trust.

The remainder of this section shall elaborate on findings specific to each of the various factors. To begin, as regards Web Usability, we found that the availability of an online store is critical for gaining long term, loyal customers with 88% of respondents reporting that their favourite online store is always available and 83% of respondents citing that it never crashes. Website content and navigation are also critical to ensure customers can easily search and navigate to products and services that they are possibly interested in purchasing. 85% of respondents reported that their favourite online store has information that is well organised and easy to find. It is also very important that a website is able to process a transaction quickly with 78% of respondents reporting that their favourite online store affords them the benefit of a quick transaction.

The Customer Service dimension of respondent’s favourite online store was assessed by asking nine questions that analysed the online store’s ability to handle returns and customer enquiries efficiently and promptly. 48 respondents (35%) had experience with dealing with customer service and 89 respondents (65%) had not. While it was found to be an important factor with a mean ranking value of 3.98, it was also found that many online stores did not perform adequately with this aspect. For example 50% of respondents who had experience of returning items or needing to contact a customer services representative reported that they were not compensated for having to return damaged items and that they had to make the return arrangements themselves. It was interesting to learn that this subset of respondents were still loyal to their favourite store even though they had poor experiences with returning items. Further analysis of this subset revealed that both convenience and price were two determining factors that kept their loyalty to that particular store. 24 (75%) of those respondents reported that their favourite online store was cheaper than competitors and 31 (97%) respondents reported that they enjoyed the convenience that the store offers, so even though they had experiences of substandard levels of customer service levels, they still consider themselves loyal for those reasons.

The aspect of Trust was assessed through measuring 5 key measures that involves an assessment of the customer’s perceptions with regard to the honestly, reliability and professionalism of their favourite online store. With regard to the honesty of their favourite online store 96% of respondents regard their favourite online store as being honest. Also, 121 (89%) respondents agree that the online store is reliable. Of the 16 respondents that don’t consider their favourite website reliable it was found that these websites were however for the most part secure with 83% being satisfied with the level of website security being adequate. Interestingly only 30% of respondents felt that their favourite online store ‘cared’ about them, with 45%
being neutral on the issue and 25% reporting that the online store did not care about them. We surmised that the majority of these respondents would be loyal to more commodity type online stores that sell CDs and DVDs where a low price and reliable service is more important than a ‘relationship’ between customer and seller. This was indeed supported by the statistics whereby it was found that 84% of online stores where customers reported that they were not ‘cared about’ were commodity type stores.

As regards **Security & Privacy**, 79% of respondents feel confident that their information is not being shared with other third parties, 87% feel confident that their credit card information will be kept safe while transaction with their favourite online store, 89% of respondents feel safe whilst shopping on the website, and 77% of respondents believe that the site has adequate security features. Kruskal-Wallis tests were run to check for differences between the attitudes of those with varying awareness of the risks of shopping online with regards to the importance of Security and Privacy in online shopping. Significant differences were indeed found, and we discovered that those respondents with poor awareness of security risks are shopping online without much consideration for the level of security standards that the respective website offers.

With respect to **Fulfillment**, 82% of respondents reported that that ordered goods arrive either before or on time as promised by the online store and 90% of respondents agreed that their goods arrive exactly as had been ordered. Only 56% of respondents reported that they were given the option to track the shipment and delivery of their items. When asked whether or not they felt that the shipping and handling costs of their favourite online store were reasonable, over a third (35%) of respondents did not agree. Amongst this cohort, convenience was found to be a very important determinant for their level of loyalty in their favourite online store with 84% of the respondents reporting that they enjoy the level of convenience that their online store offers. Hence convenience is seen to take priority over fulfillment.

**Perceived Value** refers to a customer’s perception of the value for money and effort that they received from shopping at that online store and also rated the cost of shopping at that store in comparison to others. The majority of respondents felt that the online store offered them good value for money (79%) and effort (68%). 70% of respondents reported that the online store was cheaper than competitors, so we must assume that the remaining 30% of respondents are not very price conscious but instead rely on other factors to determine whether or not they remain loyal to an online store. The most important factors identified by these respondents were security, reliability and honesty. 89% of these respondents identified that they felt very safe when purchasing and browsing on the website of their favourite online store. 78% of these respondents also identified that the website was reliable and 78% reported that they believe that the website operates honestly.

The importance of **Community Building** was assessed with a two-item measure which analysed the willingness of customers to be involved in a club for that particular online store and the importance of shopping with that store in terms of feeling ‘kinship’ with other shoppers. 47% of respondents disagreed that they feel kinship with other online shoppers, with 37% being neutral on the subject and only 16% agreeing that they feel kinship with other shoppers. The fact that the majority of shoppers elected online stores that sold commodity goods like CDs it could be understood that such sites do not have that much of a social aspect to it and therefore the feeling of kinship with other shoppers may not be as important a factor as with other aspects such as reliability or price. For example Amazon.co.uk has product reviews by other shoppers and favourite lists which aim to create a social aspect to the site. However, interestingly, of the 40 respondents who nominated Amazon.co.uk as their favourite online store, only 7 (17%) respondents claimed that they felt kinship with other shoppers. On the other hand, 97% of Amazon.co.uk shoppers deemed the site reliable, 90% deemed it professional, and 92% felt very safe whilst shopping online, so in this instance it seems that these issues are more important for Amazon shoppers than the feeling of kinship with others.

As regards **Customisation**, 45% of respondents reported that their favourite online store offered them the ability to have their website account customised to their personalised needs. Only 32% of respondents perceived that the online store was interested in their personal needs. These findings are interesting because they show that the majority of online shoppers are unhappy with the level of customised service provided to them by their favourite online store, but our other findings show that the majority of respondents are not interested in joining an online club, which in theory could improve the level of customised service through implementation of tools such as CRM. This may possibly be explained by privacy concerns.

Looking at **Perceived Switching Costs**, 60% of respondents feel that it would take little or no effort to switch to another competitor. These findings show that customers are quite prepared to switch to competitors if they feel that there is any benefit in doing so. This is expected given the openly competitive marketplace that the Internet enables; however, it is surprising to learn that online stores are not rewarding the loyalty of their customers. Given that long term customers online are the most profitable given the high acquisition
costs involved in acquiring new customers, more incentives should be afforded to customers to reward their long term loyalty (Reichheld & Schefter 2000).

In terms of Internet Experience, respondents who rate themselves as beginners with regards to using the Internet were far more likely to say that they believed that the store operates honestly and that they feel safe with regards to shopping online, meaning that those who are aware of the risks with regards to shopping online are far more ‘cautious’ with selecting the online store that they will shop on. Interestingly, tests also revealed that respondents who rate themselves as beginners with regards to using the Internet are also more likely to be reluctant to stop using their most favourite websites. Conversely, respondents with an intermediate or high level of Internet skill level are more likely to be less reluctant to using their favourite web sites, which relates to the concept of Inertia. This refers to the willingness of a customer to move away from an online store with which when he is accustomed and familiar with shopping on. Approximately half of respondents reported that they would prefer to stay with their current favourite online store unless they became very dissatisfied. 77% of respondents claimed that they would be very reluctant to stop using their favourite websites. These are websites which form part of their daily routine and are habit forming. These results show that inertia is indeed important in determining customer loyalty with half of customers reporting that they would have to be very dissatisfied with their current online store before they would switch to a competitor.

The importance of Convenience to respondents was analysed by using a two-item measure that principally assessed if they enjoy the convenience of online shopping at their favourite online store and on the Internet in general. The results proved that the convenience of an online store is a major factor with regards to a customer’s level of loyalty. 85% of respondents reported that they enjoyed the convenience of online shopping at their online store. Indeed among the determinants the convenience factor of shopping online is one that is steadfastly important among the considerations of customers. Convenience in this instance relates to how convenient a website makes it for online shoppers to buy online, which essentially relates to the efficiency of the web design and purchasing and delivery processes that the online store offers. Indeed respondents who rated the convenience factor as being important also reported that their favourite online store has information that is easy to find (87%), allows for a transaction to be completed quickly (83%) and that information on the website is well organised (86%). So, in other words the design of the website is an enabler for website convenience, which is a very important factor in a customer’s decision whether or not to remain loyal to an online store. 94% also reported that they like to take their time when shopping online, which has implications for online stores in terms of designing a website that facilitates a customer to have a maximum time possible for browsing and indeed buying online. Sometimes a website can time out, deleting previously entered information which can prove frustrating for customers. The time involved in making a decision whether or not to buy an item online can prove substantial depending on the Purchase Size (i.e. cost and importance of an item). Results show that 56% of customers will only buy a high-value good from an online store that they have purchased something from before, which related to how much that they trust the online store. This means that nearly half of online shoppers would make a substantially expensive purchase without having experience of purchasing from the online store before. This would require a high level of both Trust and Security on the customer’s part as they would have to be assured that their information would be safe as well as trusting the online store that they will be professional and reliable. Having analysed the findings it was confirmed that these respondents do regard these criteria as being critical to why they would choose to shop online. 88% regard their favourite online store as being reliable, 85% regard it as being professional and indeed 93% of these respondents feel secure when shopping online. 84% of respondents agreed that they spend considerable more time researching product information for more expensive goods that less expensive ones.

5. CONCLUSION

This research has confirmed many assumptions that were underlying in the literature. It showed strong support to confirm that the variables as identified do indeed impact upon customer’s level of e-Loyalty. It has highlighted that in the face of severe competition and continually rising customer expectations, e-Retailers need to become more aware of the factors that when delivered upon do indeed earn a loyal customer.
There are a number of key implications for e-Retailers. Importantly all of the factors as shown in Table 1 have been shown to be important with regards to a customers decision to remain loyal to an e-Retailer. However, some factors have been shown to be of more importance than others. For example, the three most important factors in order of importance are Security & Privacy, Convenience Motivation and Web Usability. So in other words this research has shown that customers regard a secure, usable website that is convenient and offers protection for their private information as critical in ensuring their long term loyalty. Other factors such as Internet Expertise, Perceived Value and Inertia have also been identified as being very important with regards to a customer’s decision whether or not to remain loyal to an e-Retailer. The two least important determinants as identified by respondents are Customisation and Community Building.

This research has also shown that in openly competitive marketplaces, online customers are prepared to switch to competition and would have no hesitation in doing so if they had a ‘bad experience’ with their current favourite online store and/or if they perceived that there were advantages to switching to competition. It was also discovered that even though many online companies place a great importance in attaining repeat business from their customers, the majority of customers (60%) felt that they would not loose out on any benefits if they did switch to competition. From some respondents it became clear that even though they had ‘bad experiences’ with the online store they still considered themselves loyal to it. The reasons behind this involve the level of competition in the marketplace as sometimes competition didn’t exist in more specialist industries, and also other overriding factors, such as price and convenience.

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