Journal of Business Research 92 (2018) 25–35

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

The effect of relationship and transactional characteristics on customer retention in emerging online markets

Anand K. Jaiswal[a], Rakesh Niraj[b,*], Chang Hee Park[c], Manoj K. Agarwal[c]

[a] *Indian Institute of Management Ahmedabad, Vastrapur, Ahmedabad, 380015, India*
[b] *Weatherhead School of Management, Case Western Reserve University, Cleveland, OH 44106, United States of America*
[c] *School of Management, Binghamton University, SUNY, Binghamton, NY 13902, United States of America*

ARTICLE INFO

Keywords:
Trust
Retention
Customer relationship management
Online retailing
Latent attrition model

ABSTRACT

Trust is important for maintaining customer relationships in online retailing, as customers have only a virtual connection with sellers. This is especially true in online markets of emerging economies, given their lack of trust-enhancing infrastructure and well-functioning regulatory institutions. We investigate the effect of trust and a set of other relationship and transactional characteristics—mode of customer acquisition, length of relationship, service communication, product return activity, and type of products purchased—on retention in the context of emerging online markets. We obtain data from an online retailer in India that include both survey and transaction information. Using a latent attrition model, we find that trust positively affects customer retention behavior. We also find that relationship length, service communication, product return experience, and the type of products purchased affect retention. Furthermore, we conduct split-sample analysis and suggest some managerial actions on spending efforts to enhance retention.

1. Introduction

Online retailing has experienced rapid growth globally in recent decades. While Internet penetration is over 85% in developed countries, the penetration is much lower in developing countries: for example, 52% in China and 35% in India (Internet Live Stats, 2016). The number of regular online buyers in these countries is even smaller, as payment and other e-commerce-enabling infrastructure (e.g., logistics, telecommunications, effective regulatory institutions) is not as well developed (Martinsons, 2008). Emerging markets are also characterized by the widespread use of unbranded products by consumers (Sheth, 2011). Given that brands enhance consumer trust and confidence in a purchase (Aaker, 1992), trust deficiency becomes even more salient in these markets due to a lack of branded goods. These factors influence customers' trust for online stores and consequently affect loyalty and retention (Ashraf, Thongpapanl, & Auh, 2014; Lee & Turban, 2001).

Several studies have found a positive link between trust and loyalty in both offline (Garbarino & Johnson, 1999; Stathopoulou & Balabanis, 2016) and online (Pascual-Miguel, Agudo-Peregrina, & Chaparro-Peláez, 2015) markets. One notable limitation of these studies is that they use cross-sectional survey data to measure the variables at the same point in time, resulting in bias from common method variance (Podsakoff et al., 2003) and carryover and backfire effects (Bickart, 1993). Furthermore, these studies commonly measured loyalty as customers' loyalty intentions (Kim, Ferrin, & Rao, 2009). Although this is theoretically reasonable, the predictive validity of loyalty intention measures could vary widely depending on business context, study design, and time frame (Morwitz, Steckel, & Gupta, 2007). Another limitation of the previous literature is that while there are antecedents of loyalty beyond trust, not many of them have been studied. For example, a recent meta-analysis by Pan, Sheng, & Xie (2012) suggests the importance of product- and customer-related perceptual factors in building loyalty. One problem with using perceptual factors is that firms have to collect survey data regularly to understand the drivers of loyalty. Typically, constructs such as commitment, perceived value, and reputation (Pan, Sheng, & Xie, 2012) can only be obtained through surveys. Although many firms are constantly collecting transaction and non-survey data in the process of acquiring customers, responding to their queries, selling products, and processing returns, limited research has studied the impact of these activities on loyalty and retention, and even less so in emerging markets.

In this research, we use a unique set of longitudinal transaction data, supplemented with survey data, to study the impact of trust and other relevant relationship and transactional characteristics on

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[*] Corresponding author.
E-mail addresses: akjaiswal@iima.ac.in (A.K. Jaiswal), rkn10@case.edu (R. Niraj), cpark@binghamton.edu (C.H. Park), agarwal@binghamton.edu (M.K. Agarwal).

https://doi.org/10.1016/j.jbusres.2018.07.007
Received 30 June 2017; Received in revised form 5 July 2018; Accepted 7 July 2018
0148-2963/ © 2018 Published by Elsevier Inc.

customer retention in emerging online markets. We choose characteristics that have a strong theoretical or managerial importance and for which online retailers are likely to have data in normal course of business. Specifically, in addition to trust, we examine the role of the mode of customer acquisition, relationship length, service-related communications, product return activity, and the type of products purchased. Using a latent attrition model (Fader, Hardie, & Lee, 2005; Schmittlein, Morrison, & Colombo, 1987), we probabilistically assess customer retention from individuals' transactional patterns and examine the impact of trust and the aforementioned relationship and transactional characteristics on retention.

In our analysis, we find strong effects of four such characteristics, in addition to trust, on retention behavior. Our results reveal that relationship length, service communication experience, product return activity, and the type of products purchased significantly affect customer retention. In particular, we note that, contrary to our expectations, product return experience can have a positive impact on retention. Furthermore, customers acquired through referrals do not exhibit higher retention rates. Prior studies have suggested that people exhibit varying propensity to trust depending on their demographic and behavioral characteristics (Mayer, Davis, & Schoorman, 1995). We also conduct split-sample analysis (Hitt, Hoskisson, & Kim, 1997) in which we estimate our latent attrition model separately for different levels of three variables: customer income, breadth of buying, and size of transactions. We find that the income level and transaction size moderate the impact of trust on retention behavior.

Our research makes several contributions. We propose and study the impact of a broad set of relationship and transactional characteristics on customer retention behavior, some of which are examined for the first time in this context (viz. trust, mode of customer acquisition, and type of products purchased). Our finding that return experience can actually increase retention is both novel and unique. This and our other findings suggest that researchers should include characteristics such as the type of products purchased, service communications, and product return activity—all of which can be found readily in company transaction records—as important drivers of retention. We are the first to show that trust improves retention behavior, not just loyalty intentions. We investigate the trust–retention relationship by combining survey data on consumer trust with longitudinal data of actual retention behavior. This contrasts with prior studies, which have used a cross-sectional survey design or modeled retention as loyalty intentions. We also find that customers' acquisition through referrals does not affect their retention. Furthermore, managerially, the results of our split-sample analysis provide guidelines regarding which customer segments in developing markets firms should target for their retention-enhancing activities. We also find that the role of trust in enhancing retention behavior is similar to developed markets in some respects, but different in others. This emphasizes the need for more theoretical research exploring the similarities and differences in consumer behaviors between developing and developed markets (Ashraf, Razzaque, & Thongpapanl, 2016).

In the next section, we present the conceptual background and develop our hypotheses. Thereinafter, we present our empirical methodology and describe our research site. We then present our analysis and results. The final section provides brief conclusions, study limitations, and some directions for future research.

2. Conceptual development

Extant marketing literature on customer retention has extensively examined the relationship between satisfaction and loyalty (Szymanski & Henard, 2001; Verhoef, 2003). Loyalty is believed to be composed of attitudinal (capturing intentions to rebuy and recommend) and behavioral (capturing actual retention and usage) components (Chaudhuri & Holbrook, 2001; Russell-Bennet et al., 2007). In their literature review, Kumar, Pozza, and Ganesh (2013) indicate that customer satisfaction explains only a small portion of variance in loyalty and does not significantly enhance customer retention. Several researchers have examined other potential antecedents affecting retention and loyalty, including the impact of loyalty programs (Bolton, Kannan, & Bramlett, 2000), commitment (Gustafsson, Johnson, & Roos, 2005), short-term promotions (Lewis, 2004), and service quality (Venetis & Ghauri, 2004), among others. Authors have incorporated relationship variables, including trust (Augustin & Singh, 2005; Chiou & Droge, 2006), and some have called for research to consider additional variables (Kumar, Pozza, & Ganesh, 2013).

The focus of our research is on examining the impact of trust and a broader set of other relevant characteristics on customer retention in non-contractual relationships using longitudinal data. We propose that customer retention can be affected by two broad sets of factors: relationship characteristics and transactional characteristics. Within the first set, we consider trust as an overall indicator of the strength of the customer–firm relationship (from the customer's point of view). We also record how the relationship started by looking at the mode of customer acquisition (whether the customer was acquired through a personal referral); we include this factor to study the value of referred customers to firms, as some research has suggested that referred customers have a stronger relationship with the firm in the long run (Schmitt, Skiera, & Van den Bulte, 2011). In addition, we also look at the length of the customer's relationship with the retailer (Bolton, 1998). Within the second set, we examine three transactional characteristics of relationships: customers' service communications, product return activity, and type of products purchased. For the conceptual model tested in our research, see Fig. 1. We discuss these factors in more detail next.

2.1. Trust

Among different customer relationship constructs, trust has been

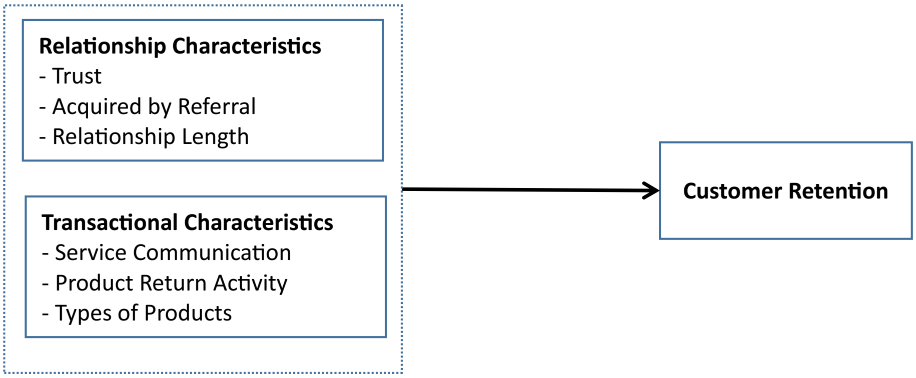

Fig. 1. Conceptual model.

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