

# CUSTOMER SATISFACTION-LOYALTY LINK IN INDIAN ONLINE RETAIL

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## ABSTRACT

The growth in Indian Online Retail presents business opportunity but the success would be for firms who develop competencies for managing this growth. There are several factors contributing to the growth of e commerce in India but firms need to understand and build on competencies that will hold the customer, which can only come through a thorough understanding of the Indian online consumer behavior. Service Quality, Customer Satisfaction and Repurchase Intention are some of the very important decision variables in the customer purchase process, but their relationship dynamics are still not explored in the Indian online retail context. This paper studies the mediating role of customer satisfaction, which is an important motivator in the online purchase process and findings reveal that customer satisfaction does not play a mediating role for the online purchase in India.

**Keywords :** Online Retail, Customer Satisfaction, Repurchase Intention

## INTRODUCTION

The Indian retail sector is expected to grow at a rate of 14-15% through 2015 (Global Retail Development Index 2013). Online shopping is still in the early stages, with e-commerce sales equal to less than 1 percent of all retail sales, but growth is expected as more people access the Internet. but growth is expected as more people access the Internet. Smart phones, electronic appliances, apparel, movies, music, and books are the fastest-growing categories. Online travel constitutes a sizable portion (87%) of this market today (Aventus Capital).

However, by the year 2015 both online travel and online retail are estimated to contribute equally. While this scenario presents business opportunity, the success would essentially be for firms who develop competencies for managing this growth. There are several factors contributing to the growth of e commerce in India, firms need to understand and build on competencies that will hold the customer. E Service Quality and Customer Satisfaction are important dimensions in this regard and needs to be researched in the Indian context.

## LITERATURE REVIEW

### E-Service Quality

Parasuraman et al. (1988) defined service quality as the measurement of effective service delivery outcome and have five attributes - SERVQUAL- tangibility, reliability, responsiveness, assurance and empathy. But with the advent of internet and popularity of online websites definition of service quality evolved as the characteristics of e-commerce system differ significantly from that of traditional retail stores due to the inclusion of virtual environment in former. Traditionally, service quality majorly pertains to store image and face to face interaction. Zeithaml et al. (2002) analyzed the major differences between the service quality that attribute to brick and mortar store and e-service quality offered by online retail websites and stated that online environment require additional parameters such as ease of navigation, flexibility, efficiency and security besides the traditional measures of retail stores such as SERVQUAL.

Parasuraman et al. (2005) defines E-Service Quality as 'the extent to which a web site facilitates

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efficient and effective shopping, purchasing and delivery'. With this perspective e-service quality includes both pre and post purchase services. The pre purchase services pertain to the product information, ease of browsing on websites, confidentiality of personal information and ease of ordering. The post purchase services cater to glitch free delivery of products, after sales support and return policy.

Previous studies (Zeithaml et al. 2002, Wolfinger and Gilly, 2003) have emphasized a lot on the website quality as the major contributor of e-service quality that has a direct impact on customer satisfaction. In this study, e-service quality is a function of ease of use, information quality, assurance, efficiency and delivery services. Ease of use dimension of e-service quality includes website designing, structure, ease of browsing and ordering. Information quality dimension is a significant contributor to the e-service quality and includes quality of information, its structure and availability of customized information to customers. Assurance offers the confidentiality of personal information and payment information such as card, net banking. Efficiency and delivery services dimension of e-service quality compares the convenience of online shopping and traditional retail store shopping. It includes shipping cost, cash on delivery, and return policies, shopping time, availability of products.

## CUSTOMER SATISFACTION

Churchill and Surprenant (1982) studied a path model for customer satisfaction. Satisfaction is an outcome of purchase and use resulting from the buyer's comparison of the rewards and costs of the purchase in relation to the anticipated consequences. They concluded that satisfaction could be increased only by increasing performance, not by minimizing negative disconfirmation.

Anderson et al. (1994) identified two different conceptualizations of customer satisfaction: transaction-specific and cumulative. Oliver (1993) from a transaction-specific perspective, customer satisfaction is viewed as a post-choice evaluative judgment of a specific purchase occasion. According to Johnson and Fornell (1991), cumulative customer satisfaction is an overall evaluation based on the total purchase and consumption experience with a good or service over time. Transaction-specific satisfaction may provide specific diagnostic

information about a particular product or service encounter, whereas cumulative satisfaction is a more fundamental indicator of the firm's past, current, and future performance. Cumulative satisfaction motivates a firm's investment in customer satisfaction. They concluded that a long run perspective is needed to improve quality and customer satisfaction.

Cronin et al. (2000) studied the effect of quality, value and customer satisfaction on consumer behavioral intentions in service environment. However, evaluation of past literature shows a myriad of conflicting results on the relative influence of these variables in the end result. Hollowell, 1996, claims that customer satisfaction is the result of customer's perceived value, where value equals perceived service quality relative to price. Szymanski et al. (2000) discussed about cognitive computing for insights into e-retail and concluded E-satisfaction is a result of perception of online convenience, site design, merchandising and financial security.

Kim et al. (2008) studied the antecedents of online loyalty development process. They hypothesized that e-tail quality, e-satisfaction and e-trust play important roles in building e-retention. Srinivasan et al. (2002) stated that e-loyalty is widely defined as customer's favorable attitude and commitment towards the online retailer that results in repeat purchase behavior.

## Repurchase Intention

Tsai, and Huang (2007) concluded that community-based drivers had greatest impact as determinants of repurchase intentions. It was followed by overall satisfaction, switching barriers and customizations. Thus consumer satisfaction has been linked as an important concept to the financial performance and as a decision parameter in consumer loyalty towards a brand and product. Consumer satisfaction links the service quality of a brand or product with the loyalty towards that product. The above discussion on literature brings out a gap which will be addressed by this study.

## Closing the Research Gap

Customer satisfaction is a motivator for repurchase intention. Literature has evolved on the relationship between service quality and customer satisfaction. However, in the online context while there have been independent researches on these two relationships, they have not been studied

together. The mediating role of satisfaction in the e service quality and repurchase intention has not been studied in the Indian electronic retail context. This paper studies the mediating role of customer satisfaction in the service quality and repurchase intention relationship in the Indian electronic retail context.

### RESEARCH OBJECTIVES

The study aims to answer the following research questions;

- Does online customer satisfaction act as a mediator in the e service quality and repurchase intention?
- If yes, what would be the strength of the mediation? and
- What will be the effect and implications of the mediation for e-retailers in India?

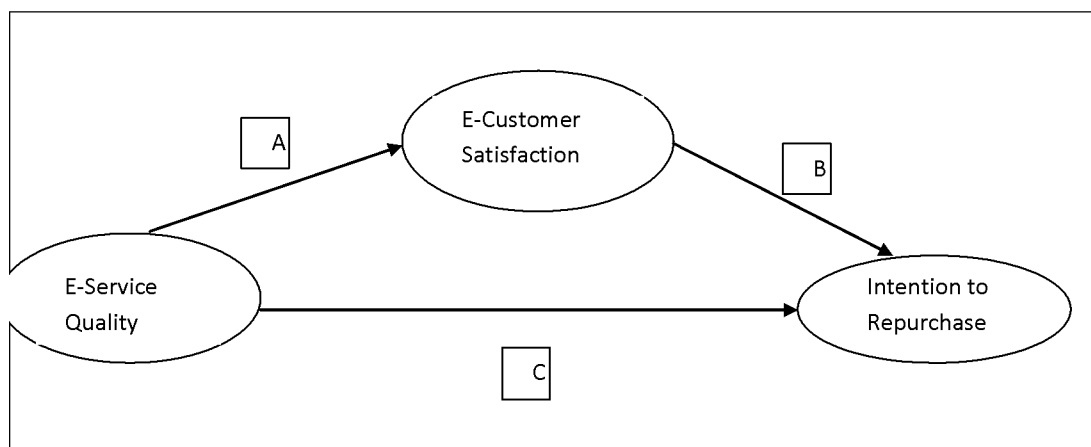
In the offline context there is substantial evidence to prove this but there are contradictions in the online context across studies. The results of the study will throw light on the inter-relationship amongst 3 variables as displayed in the Indian retail sector.

### METHODOLOGY, ANALYSIS AND OUTCOME

The data is collected through a questionnaire based survey consisting of questions related to the variables under consideration measured on a 5 point unforced and balanced Likert scale from 90 management graduate student respondents. This group is one of the most avid users of ecommerce. The survey instrument was a multiple item questionnaire developed on the Bruner, Hensel & James (2005) Marketing scale. The collected data was filtered for missing values and duplication. The responses were first subjected to factor analysis and 3 constructs; e service quality, e-customer satisfaction and e repurchase intention were extracted that accounted for 67% of the variance. Regression Analysis was done in the next step to test the following hypotheses;

H<sub>1</sub>: E-Service Quality (Independent Variable) is positively related to Repurchase Intention (Dependent Variable)

H<sub>2</sub>: E-service Quality (Independent Variable) has a significant positive influence on E-customer satisfaction (Mediating Variable)



The two hypotheses were accepted based on the results obtained from the regression analysis at a confidence level of 99%. In the next step mediation analysis was done through the path analysis, to test the following conceptual model.

#### Figure 1 Path Model for Online Service Quality, Customer Satisfaction and Repurchase Intention

In the diagram shown above, the indirect effect is the product of path coefficients "A" and "B". The direct effect is the coefficient "C". The direct effect measures the extent to which the dependent variable changes when the independent variable increases by one unit. In contrast, the indirect effect

measures the extent to which the dependent variable changes when the independent variable is held fixed and the mediator variable changes by the amount it would have changed had the independent variable increased by one unit.

The coefficients obtained through mediation analysis are;

- For direct effect in the path C the coefficient is  $\beta_1 = 0.350$ ,
- The coefficient for path A is  $\beta_2 = 0.508$ , and
- The coefficient for path B is  $\beta_3 = 0.337$

Since  $\beta_2 * \beta_3 < \beta_1$ , which indicates that the direct path between e service quality and purchase re intention is a better path and customer satisfaction is not a significant mediator variable between e-service quality and repurchase intention. The direct path between e-service quality and repurchase intention is more significant.

### Managerial Implications

- a) Customer satisfaction has been seen to play a significant mediating role in the offline context and retailers have been building their strategies to improve customer satisfaction to build on customer loyalty, but the same will not hold true in the online context in India and will involve strategy changes.
- b) Multichannel retailers will have to balance their offline and online strategies while incorporating the differences and nuance of both.
- c) It is time for retail practitioners to appreciate that online retail is a different sector and will have a different set of rules not necessarily falling in line with the brick and mortar structures.

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