Chapter I

Attracting and Retaining Online Buyers: Comparing B2B and B2C Customers

Eileen Bridges, Kent State University, USA
Ronald E. Goldsmith, Florida State University, USA
Charles F. Hofacker, Florida State University, USA

Abstract

This chapter addresses similarities and differences in e-commerce needs for customers in business-to-business (B2B) and business-to-consumer (B2C) marketplaces. We discuss how and why customers are attracted to online buying in general and to a supplier in particular for each of these types of markets. We further compare the characteristics of customers who choose to buy online with those who prefer to continue with more
traditional means of purchasing, providing some possible reasons for observed differences. The customer’s online experience may influence both satisfaction and buying behavior, so we address the antecedents of the experience, including Web site design and the nature of customer involvement with the site. We note the importance of Web site efficacy (usefulness and ease of use) as well as experiential elements of online shopping in customer satisfaction and retention and make specific recommendations for marketing managers in firms offering a Web presence.

Introduction

The emergence of e-commerce as a way of doing business has created an environment in which the needs and expectations of business customers and consumers are rapidly changing and evolving. This situation presents marketing managers with the challenge of ascertaining which elements of marketspace are new and how much continuity can be retained from the past. Some marketers apparently believe that it is enough to offer a Web site, maintaining a superficial appearance that the firm is progressive, or they ignore the Web altogether, possibly making use of digital technology to support existing business plans. Others take the opposite tack, saying that everything is changing and that nothing can remain the same (e.g., Feather, 2000; Murphy, 2000). A more balanced view proposes that people are basically the same but that new technologies are changing many of the ways customers shop and buy – thus, many businesses must overhaul their operating models to create digital strategies that meet changing needs and preserve competitiveness (Downes & Mui, 1998; Wind, Mahajan & Gunther, 2002). Our position is consistent with this balanced view. We believe that while much is changing, many fundamentals remain. Thus, we suggest ways that managers can use well-grounded concepts from consumer behavior and marketing theory, adapting them to new technologies.

We begin by considering characteristics of the most innovative online buyers and how marketers might best attract these individuals to Web sites. Quite a lot has been learned in the past few years about online customer behavior. This knowledge should benefit e-marketers in their efforts to develop successful online marketing strategies. These topics are important because now that many
investors have been burned by dot-com business failures, they are unwilling to provide funding to start-ups that do not have clear business strategies in place and excellent indicators of potential success. In addition, competition is fierce, so competitive advantage is even more important on the Web than it is for an industrial sales representative calling on a customer or for a retail store in a neighborhood shopping mall. We propose that the more managers know about customers and their expectations of, as well as reactions to, e-commerce activities, the better these online vendors will be able to attract and to retain consumers. Thus, the objectives of this chapter are to discuss aspects of buyer behavior that offer strategic insights to e-commerce managers who wish to attract new buyers, satisfy, and retain them.

Who Buys Online?

“The ultimate objective of any given marketing strategy should be to attract, satisfy, and retain customers” (Best, 2004, p. 15). Thus, a discussion of online customer behavior from the management perspective should address this objective. Attracting new customers holds dual relevance. First, for any innovative good or service, the first buyers provide revenue needed to pay for research, development, and launch costs involved in bringing a new product to the market. Marketers must generate positive revenue streams quickly to grow their businesses. Moreover, it is not possible to retain all buyers as customers, so it is necessary to acquire new customers continuously to replace those who leave. Second, new customers are important because, in addition to an initial purchase, they bring the potential for lifetime value, which is the stream of profits that accrues during a customer’s relationship with the firm. By itself, attracting new buyers is not enough; firms need to retain at least a portion of first-time purchasers to remain viable. Loyal satisfied customers have value for the firm because they may increase their spending over time, and they tend to spread positive word-of-mouth (via e-mail, etc.) about the company, attracting other buyers (Reichheld & Schefter, 2000). Finally, the earliest buyers may also provide valuable feedback regarding their experience with the Web site, facilitating site improvements.

How are companies using an online presence to reach potential and current customers? Liu et al. define online business as “the buying and selling of goods and services where part, if not all, of the commercial transaction occurs over
an electronic medium” (1997, p. 336). At the time of their article examining the Fortune 500, although 322 of the firms maintained home pages on the Web, only 131 of these provided for online business. Of course, these numbers are much higher now, but the motivations for making use of an electronic marketplace still hold. They suggest that by providing improvements in communication and information processing the Web greatly reduces the costs of market coordination and improves efficiency. Because potential buyers can compare offerings more easily, electronic markets should promote price competition as well as product differentiation. However, in the case of B2C e-commerce, research suggests that price dispersion is persistent due to differences in service offerings among e-tailers, market characteristics such as number of competitors, and possibly such factors as brand name and online trust (Pan, Ratchford & Shankar, 2002).

The results of Liu et al. (1997) indicate that presence of a home page and revenues are significantly related – this makes sense because the large majority

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**Figure 1. Overview of online buyer attraction, satisfaction, and retention**

<table>
<thead>
<tr>
<th>TYPE OF INTERACTION</th>
<th>Business-to-Business (B2B)</th>
<th>Business-to-Consumer (B2C)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Attraction</strong></td>
<td>Marketing mix</td>
<td>Marketing mix</td>
</tr>
<tr>
<td></td>
<td>Customer demographics</td>
<td>Consumer demographics</td>
</tr>
<tr>
<td></td>
<td>Convenience, efficiency</td>
<td>Consumer psychographics</td>
</tr>
<tr>
<td></td>
<td>Use of digital data transfer</td>
<td>(e.g., innovativeness)</td>
</tr>
<tr>
<td></td>
<td>Availability of specific info</td>
<td>Positive attitude toward</td>
</tr>
<tr>
<td></td>
<td>Documented quality</td>
<td>online buying</td>
</tr>
<tr>
<td></td>
<td>Support services</td>
<td>Prefer online functionality</td>
</tr>
<tr>
<td></td>
<td>Warranty</td>
<td>Prefer online experience</td>
</tr>
<tr>
<td><strong>Satisfaction</strong></td>
<td>Lower prices</td>
<td>Positive online experience</td>
</tr>
<tr>
<td></td>
<td>On time, correct delivery</td>
<td>Outcome meets expectations</td>
</tr>
<tr>
<td></td>
<td>Excellent communication</td>
<td>Reduction of functional,</td>
</tr>
<tr>
<td></td>
<td>Met expectations</td>
<td>financial, social, and</td>
</tr>
<tr>
<td></td>
<td>Lack of problems or</td>
<td>psychological risk</td>
</tr>
<tr>
<td></td>
<td>opportunistic behavior</td>
<td>Recovery in case of failure</td>
</tr>
<tr>
<td><strong>Retention</strong></td>
<td>Repeated satisfying</td>
<td>Repeated satisfying</td>
</tr>
<tr>
<td></td>
<td>experience</td>
<td>experience</td>
</tr>
<tr>
<td></td>
<td>Consistent delivery</td>
<td>Consistent delivery</td>
</tr>
<tr>
<td></td>
<td>Convenient rebuy</td>
<td>Post-sale support</td>
</tr>
<tr>
<td></td>
<td>Provide added value</td>
<td>Frequent Web site</td>
</tr>
<tr>
<td></td>
<td>Customer relationship</td>
<td>Loyalty programs and CRM</td>
</tr>
<tr>
<td></td>
<td>management (CRM)</td>
<td>Building of trust</td>
</tr>
</tbody>
</table>
of the home pages they observed were designed to introduce new products and provide overview information about the companies. While smaller sized firms are apparently more interested in direct selling and generation of revenue, larger firms’ Web sites focus on communication activities. This suggests that while larger firms are more likely to try to build awareness upon entering an electronic marketplace, smaller firms may try to move directly into selling. The latter strategy may neglect the need to communicate and assist potential customers in developing familiarity with a firm and its products – this may be part of the reason so many smaller firms failed in the dot-com bust of 2000.

Our essential topics for the chapter follow from the need for an e-marketer to attract new customers to a Web site, satisfy, and retain them. Although many of the critical issues are the same in the B2B and B2C marketplaces, customer needs and behaviors differ for each of these types of markets. Thus, we address each separately in this chapter, drawing on both theoretical and applied research that has become available in the past few years. Our observations are summarized in Figure 1 for convenient reference.

**Characteristics of B2B Online Buyers**

In their analysis of the buying process for tangible, customized products, Gattiker, Perlusz, and Bohmann (2000) suggest that potential B2B online customers gather information needed for decision making and process it, taking into account situational factors and available product attributes. Further, individual buyers’ demographic characteristics, cultural backgrounds, attitudes toward technology, and economic factors influence the decision-making process. For instance, they note that women are less likely than men to spend time on the Web and more likely to value interpersonal communication. Younger respondents are more likely than are older respondents to spend time on the Web and to have made at least one purchase online. More educated respondents are more likely to spend time on the Web than are less educated respondents. Outcomes, specifically Web beliefs and behaviors, depend on Web usage patterns, ability to test and purchase products online, type of information available, and usage situation.

While all customers might be expected to evaluate certain product attributes, particularly as their needs depend on the planned usage of the product, B2B purchasing agents differ from individual (B2C) shoppers (Gattiker et al., 2000). In particular, corporate buyers are more concerned than are B2C consumers with obtaining specific information, such as delivery conditions and pricing
options. In addition, corporate agents may require documented quality and postsale support because of company policy. Other features that may be important include presale support, availability of post sale on-site service, and terms of replacement (e.g., lead times). Gattiker et al. (2000) further suggest that some differences between online and off-line shopping may occur for both B2B and B2C customers. For instance, extrinsic product attributes, including price and brand name, recommendations from others, and warranty, may be more important online than in a brick-and-mortar retail store where other product features may be more readily evaluated.

As Web sites began to provide more of the information necessary for B2B transactions to occur, this marketplace grew at a phenomenal rate, far surpassing B2C online revenues. According to E-Stats (2002, 2003), an online publication of the U.S. Department of Commerce, B2B e-commerce in the U.S. totaled $913 billion in 1999, $997 billion in 2000, and estimates suggested it would be $995 billion in 2001. The lower figure for 2001 may be due in part to a leveling-out of B2B online trade but may also be reflective of the general economic downturn that began in 2001. The publication also notes that “e-commerce outperformed total economic activity in three of four major economic sectors measured between 2000 and 2001” (2003, p. 1). Thus, e-commerce is very healthy in sectors that sell primarily to other businesses.

Some industries are more inclined to utilize e-commerce than others. E-Stats (2003) notes that 68% of all manufacturing e-shipments occur in only five industries, including transportation equipment, beverage & tobacco, electrical equipment, appliances, and components. Merchant wholesaler e-sales were concentrated in only three industry groups with drugs and druggist sundries, motor vehicles parts and supplies, and professional and commercial equipment and supplies explaining 64% of the total. There may be greater opportunities for increasing B2B e-commerce in industries that are not yet heavily represented.

### Characteristics of B2C Online Buyers

In the early days of the Internet, the demographics of online consumers were skewed toward young well-educated male technophiles (Modahl, 2000). Today, the population of Internet users looks more like a representative national sample. In Table 1, adapted from Lenhart et al. (2003), we see a snapshot of current Internet users.
These data are consistent with information regarding B2B online shoppers in that men, more educated, and younger people are more likely to shop online. Such demographic differences are also declining in both cases. E-Stats (2002) notes that e-commerce represents a relatively small share of the B2C marketplace as compared to economic activity in the B2B sectors. Total B2C online commerce was $40 billion in 1999, $65 billion in 2000, and $71 billion in 2001 (E-Stats, 2002, 2003), including services and retail trade. Thus, although it is growing as a share of total e-commerce activity in the U.S., B2C represents only 4.2% of e-commerce in 1999, 6.1% in 2000, and 6.7% in 2001. Four industry groups account for half of e-revenues in B2C services, including travel arrangement and reservation, publishing (including software), securities and commodities contracts intermediation and brokerage, and computer systems design and services (E-Stats, 2003). The information industry is an area of services having particularly strong growth, but it is not yet well represented online. Thus, this may indicate an opportunity for e-commerce activity.

Table 1: Portions of groups that shop online

<table>
<thead>
<tr>
<th>Gender</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Male</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>56%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th></th>
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<tbody>
<tr>
<td>White</td>
<td>60%</td>
</tr>
<tr>
<td>Black</td>
<td>45%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>54%</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Education</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>High School</td>
<td>45%</td>
</tr>
<tr>
<td>Some College</td>
<td>72%</td>
</tr>
<tr>
<td>College Graduate</td>
<td>82%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$30,000</td>
<td>38%</td>
</tr>
<tr>
<td>$30,000-$50,000</td>
<td>65%</td>
</tr>
<tr>
<td>$50,000-$75,000</td>
<td>74%</td>
</tr>
<tr>
<td>&gt;$75,000</td>
<td>86%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>18-29</td>
<td>74%</td>
</tr>
<tr>
<td>30-49</td>
<td>67%</td>
</tr>
<tr>
<td>50-64</td>
<td>52%</td>
</tr>
<tr>
<td>65 and over</td>
<td>18%</td>
</tr>
</tbody>
</table>
Retail e-sales are concentrated in only two groups that account for over 90% of this marketplace; these are nonstore retailers (including brick and click, catalog, and pure play businesses) and motor vehicle and parts dealers. Retail e-sales grew 22% between 2000 and 2001 as compared to total retail sales growth of only 3% (E-Stats, 2003). Merchandise categories having the highest percentage of online sales include books and magazines and electronics and appliances. This is consistent with previous research, which suggests that books and CDs are common items for initial online purchases (Florsheim & Bridges, 1999). Other product categories are more likely to be purchased by more experienced online shoppers and thus may have greater potential for retailer entry and growth.

How do consumers begin to buy online? This question can be placed in a larger context of online consumer behavior, defined as “any Internet-related activity associated with the consumption of goods, services, and information.” Further, “Internet consumption includes (1) gathering information passively via exposure to advertising, (2) shopping, which includes both browsing and deliberate information search, and (3) the selection and buying of specific goods, services, and information” (Goldsmith & Bridges, 2000, p. 245). We can expand this definition by suggesting that online consumer behavior also includes reacting to postsale activities offered by Web merchants. Consumer loyalty may be associated with these postsale interactions. We note that for any new good, service, or idea, some B2C buyers purchase earlier than do others following the launch of an innovation. Thus, it may be appropriate to study the purchase behavior of online buyers using a model for diffusion of innovation, particularly to improve understanding of how they might be attracted to an e-commerce vendor.

**Attracting Buyers Online**

Potential customers who become aware of a new product have several possible reactions. First, they may delay action. Diffusion theory (Rogers, 1995) categorizes consumers into five adopter types based on how long they delay trying a new product: innovators, early adopters, early majority, late majority, laggards. Innovators have the quickest time-of-adoption and laggards the slowest. *Ceteris paribus*, this theory presumes that at some point all potential customers try the new product. Based on this trial, they may become active rejecters of the product. This may be because the product failed to satisfy their needs and wants, so they search for something else. If the new product is
satisfactory or superior to existing products, they may decide to adopt it and become owners/users. Subsequently, some of these adopters may remain loyal to the new product; in this instance, they will become loyal and repeat buyers. If this process occurs in the context of e-commerce, the customers become loyal purchasers from the Web site. It is also possible that they may be dissatisfied with the Web site and avoid buying there again; thus, dissatisfaction with the Web site may carry over into dissatisfaction with the product itself. Thus, the first task of an online merchant is to attract potential buyers to its Web site. Why would a customer choose to order online if alternative channels are available? For both B2B and B2C buyers, these alternatives can include retail stores or sales representatives, the telephone, other electronic media, or using a catalog to place mail orders. Online marketspace presents many advantages (Goldsmith, 1999; Hofacker, 2001; Xue, Harker & Heim, 2000), including:

- 24/7 product availability
- wider product selection, availability of niche items
- low prices
- prompt delivery
- access to customer service
- personalized treatment
- opportunities for two-way communication
- convenience of shopping at home or office
- privacy
- no pressure from salespeople
- ease of search and comparison
- low switching costs
- benefits of collaborative filtering

Nevertheless, there are also potential disadvantages:

- loss of privacy or personal information
- delayed gratification owing to slow delivery
- errors in order fulfillment


- potential for fraud
- negative interactions with online merchant
- inability to inspect or experience the product prior to purchase
- low fidelity of the online shopping experience
- cost of computer ownership and network connection
- slow modems and site loading times

Potential customers must evaluate the benefits and risks associated with online purchasing before they opt to try it. The nature of these issues differs somewhat for B2B and B2C marketspaces. As noted earlier, business customers must consider practical factors related to meeting requirements efficiently. On the other hand, researchers in online consumer behavior have studied a variety of factors that predispose consumers to try online buying, including those related to usefulness and ease of use but also those related to enjoyment of the experience. Individual attitudes and personal predispositions may influence reactions to the possibility of ordering on the Web and to the Web experience itself. For instance, Florsheim and Bridges (1999) observe that customers who are insecure and feel the need to ask questions are less likely to shop online. Such customers report that they prefer the human contact available when placing an order by phone to the anonymity of the Internet, despite its potential for improved consistency and convenience. Further, their finding that men are more willing than women to give up human contact is consistent with other studies that suggest men are also more likely to order online (Goldsmith & Bridges, 2000).

### Innovative B2B Firms: Moving Purchasing to the Web

Before discussing the motivation for B2B customers to move purchases to the Web, it will be helpful to think about some of the ways that business purchasing differs from consumer purchasing. Compared to an individual consumer, business buyers tend to purchase in larger volumes, and sellers tend to have fewer but larger customers. Promotional activities are more likely to be personal and interactive rather than impersonal and one-way as compared to mass-media advertising and large-scale promotions appropriate for consumer marketplaces. Purchasing options might include the possibility of protracted...
negotiation, reciprocity, or leasing; thus, they are more complex than typical consumer purchases. Unlike individual consumers, businesses are quite used to direct channels as B2B purchases have traditionally utilized such approaches. Thus, the Internet represents another mechanism for facilitating the supply chain, along with 800 numbers, catalogs, and direct sales forces.

Business purchasers are typically motivated to find least-cost solutions to purchasing problems, subject to meeting minimum objectives. When they place orders repeatedly for the same products and these are filled through a standard process, there is no need to interact with an order taker or sales representative to make a purchase decision. Although such personal interaction might be enjoyable for some buyers, firms face pressure to improve efficiency and are constantly looking for ways to reduce waste. Of course, a number of personal selling encounters might be required before two firms agree to engage in automatic e-commerce. But then, a routine rebuy would certainly be flagged as the type of purchase that might be completed automatically, reducing both time requirements and the potential for human error. Thus, B2B buyers tend to move online more easily for routine than nonroutine purchases. With the help of inventory management software tied to an extranet, some of these routine orders can even be placed in a fully automated way, eliminating the need for employee time to be used.

When a new type of purchase is considered, the story is different. Following the appearance of an innovation in the marketplace, potential B2B customers begin to consider their firm’s need for it. They initiate the process of search and evaluation, possibly aided by information available on one or more Web sites. However, particularly if the product requires a large investment (such as capital equipment), it may be necessary to involve purchasing agents, sales representatives, engineers, and other personnel in a rather complex purchase process. The firm’s online interaction may still be a part of the process because it can provide information, reduce search costs, and facilitate relevant communication and post-sales follow-up activities. Companies use the Web for many types of post-purchase support, ranging from reviewing technical specifications and ordering spare parts to participating in user group discussion forums. When the purchase is routine, but the timing is not systematic, B2B e-hubs or online marketplaces implementing one of the auction types described below can perform a valuable matchmaking function (Kaplan & Sawhney, 2000).

Wilson and Abel (2002) discuss e-hubs as they reflect on issues that a firm must address before it can successfully launch a B2B online business. These ideas are useful in better understanding online buyers. They suggest that B2B
customers hope to gain such benefits as improved communication with the supplier, enhanced productivity with just-in-time delivery, collaboration in product and process design, improved information at lower cost, and administrative/operational cost reductions. They also note that B2B online marketplaces may be designed in several ways. **Forward auctions**, which tend to sell excess inventory at low prices involve buyers bidding for this inventory. **Reverse auctions** work with sellers bidding to arrange long-term contracts on standardized products. In addition to the direction of the auction, e-hubs can either involve single firms and single buyers or aggregate multiple buyers, multiple sellers, or both. Buyers must evaluate these possible options in deciding which type of B2B purchasing arrangement best meets firm needs, but the returns to scale make participation in these electronic markets worthwhile for many companies (Kaplan & Sawhney, 2000).

It is instructive to consider how the adoption of just-in-time inventory management is tied to use of the Internet as a direct sales channel. Firms are motivated to keep inventory small for a number of reasons: (1) reducing the cost of the capital tied up in inventory; (2) reducing costs associated with breakage, insurance, storage; and (3) enhancing the ability to quickly adapt to changing market conditions. However, the use of frequent small deliveries requires careful coordination between buying and selling firms. The Internet and other IT facilities (such as enterprise resource planning) allow companies to automate coordination and administration, even between two independently managed companies. Careful coordination is therefore increasingly important within the supply chain—firms engaging in long term relational exchange must coordinate packaging decisions, delivery vehicle and warehouse configurations, and storage requirements right from the product design phase. But in order to substitute information for inventory, purchasing must adopt e-commerce exchange, permitting the cost benefits and improved time flexibility.

Large firms are more likely than small firms to design and implement successful B2B online commerce. This makes sense because larger firms have more to gain from such an investment, which requires installation of automated supply chain management and inventory control (such as an enterprise management system). Min and Galle (2003), in a study designed to observe differences between adopters and nonadopters of e-purchasing, find that larger firms having a greater number of purchasing employees are more likely to adopt. Further, firms in more information intensive industry sectors are more likely to purchase online than those in less information intensive sectors. Thus, firms that can best benefit from e-purchasing are those that stand to gain the most from
digital data transfer, enhanced supply chain efficiency, real-time information regarding product availability, inventory level, shipment status, and production requirements.

In short, although individual characteristics, such as personality, may be expected to drive B2C Internet adoption, structural and economic factors drive businesses to switch to B2B e-commerce. Such factors include specific inventory requirements, newness of the type of purchase, requirements for engaging in spot markets, benefits that might accrue from having a single hub that aggregates suppliers, sales volume, firm size, and competition in the marketplace.

**Innovative B2C Consumers: The Role of Attitudes and Personality**

Among the many constructs used to describe, explain, and influence online consumer behavior, attitudes take a central position. This is because attitudes have traditionally been widely used to study consumer behavior, they provide diagnostic information for marketing management, they are easy to describe and explain, and they can be influenced by marketing strategy (compare Modahl, 2000). Goldsmith and Bridges (2000) observe that positive attitudes toward buying online are associated with online purchase of textbooks. Specifically, students who have purchased textbooks online are more likely to think that the Internet is easy, quick, and safe to use than are students who have not. Further, they are more confident that orders will be filled accurately and promptly; they feel that online merchants have good return policies; and they believe that buying online offers better value than does a brick-and-mortar alternative. Goldsmith, Bridges, and Freiden (2001) confirm these findings with adult consumers and further observe that Internet innovators are more likely than other consumers to buy online.

Goldsmith (2000) measures the attitudes of innovative online buyers using the Domain Specific Innovativeness Scale or DSI (Goldsmith & Hofacker, 1991) formatted for the topic of online buying (compare Goldsmith, 2001). This six-item self-report scale uses a Likert response format to measure a consumer’s innovativeness concerning a particular product category (Goldsmith, d’Hauteville & Flynn, 1998). The results suggest that innovative online buyers are more likely to have made online purchases; further, online buying innovativeness is positively related to amount of online buying for those who had purchased this
way. Moreover, comparing the attitudes of early adopters, early and late majorities, and laggards, the more innovative consumers are more likely to view online shopping as quicker, cheaper, and more fun than traditional shopping. They also think it is safer to buy online and are more confident of their ability to buy online. Goldsmith and Lafferty (2002) replicate these findings in a later study, where they also observe that innovative online buyers purchase more online and believe themselves to be more knowledgeable about online buying. Moreover, higher levels of Internet innovativeness are associated with a greater reported likelihood of future online purchases.

Flynn and Goldsmith (2001) provide evidence suggesting that Internet knowledge leads to positive attitudes that are subsequently linked to online buying. This finding is supported by a study of online apparel buying (Goldsmith & Goldsmith, 2002). This analysis shows that online apparel buyers purchase nonapparel products online more often than do those who do not purchase apparel online. That is, those who buy apparel online also buy other products online as well, suggesting a general pattern of buying online. Consumers who buy apparel online also embrace the attitudes that buying online is safe, quick, and fun, and they are more confident in their ability to buy online than are nonbuyers. They do not buy apparel in general more than do the nononline buyers, suggesting that they tend to shift their buying from stores and catalogs to cyberspace. They are more innovative and more knowledgeable than are the nonbuyers about the Internet.

Holbrook and Hirschman (1982) point out how consumers receive two different types of benefits from shopping. There is a utilitarian benefit due to finding the product that one is looking for and receiving the functional benefits thereof. In addition, at least for some consumers, there is the benefit of the shopping experience itself. The pleasure of looking in shop windows, being greeted by and socializing with the store help, and experiencing the sensory aspects of store atmospherics can contribute to the satisfaction derived from the shopping experience itself. Analogously, studies of innovative online buying show that consumers may be motivated to shop by both utilitarian and hedonic dimensions of the retail atmosphere (Childers et al., 2001). These authors note that until recently shopping on the Internet has been viewed as providing primarily utilitarian value. However, its “immersive, hedonic aspects” are now more appreciated, creating what they term the “webmosphere” (p. 511). Childers et al. (2001) use the Technology Acceptance Model (TAM) described by Davis, Bagozzi, and Warshaw (1989) to understand how technology-based characteristics of the Web influence its adoption. Specifically,
Childers et al. (2001) consider the Web site’s utilitarian aspects, which may be described as usefulness (or outcome) and ease of use (or process), as well as its hedonic aspects. The latter provide enjoyment (also a process dimension of the shopper’s online experience), which is separate from any performance results. Although Davis et al. (1989) find that usefulness is the primary determinant of a decision to adopt technology, Childers et al. (2001) anticipate that process dimensions of the online experience and enjoyment in particular may play a greater role than previously thought in a consumer’s decision to shop online. Specifically, they postulate that context may differentiate the importance of different antecedents of technology adoption – their results indicate that usefulness is more related to shopping online when the goals are instrumental, while enjoyment is more related when the shopping is hedonic.

Chen, Gillenson, and Sherrell (2002) suggest that there are interesting similarities between the TAM, mentioned above, and innovation diffusion theory discussed earlier in the chapter (see Attracting Buyers Online). For instance, one driver of diffusion is relative advantage of the innovation, which is comparable to TAM’s usefulness construct. Similarly, complexity in diffusion theory is inversely related to ease of use in TAM. The authors also investigate compatibility of the innovation with existing systems and values – this concept comes from diffusion theory but is not included in the TAM formalization. They did not include two other drivers of innovation, trialability and observability, which are often included in diffusion research but which they did not expect to relate to adoption of online shopping. Their findings suggest that compatibility, usefulness, and ease of use are important drivers of a consumer’s decision to adopt online shopping and that they will increase sales and loyalty. They note that compatibility and usefulness are highly correlated, which is not surprising because both indicate the outcome value to the consumer. The authors recommend that Web marketers should increase consumers’ enjoyment of their sites because this is found to motivate increased use. However, their results do not indicate that this will lead to increases in purchasing.

What Web site design elements will lead to increased buying? Childers et al. (2001) demonstrate the dual importance of usefulness and enjoyment to the Web customer, but how can the site design be improved to achieve these objectives? They suggest that flexibility in navigation, convenience, and the substitutability of the Web site visit for personal examination of the product are critical characteristics. Thus, the online experience must be intrinsically enjoyable while it offers some improvement over the physical retail store. Childers et al. (2001) indicate the need to understand how elements of physical retail
store design (external architecture, interior design and layout) can be translated into more effective Web site design. They comment that “very little is known about how the design characteristics of interactive shopping sites affect online purchase behavior and other usage indicators” (p. 529). These design elements might include structural attributes (e.g., frames, graphics, text, pop-up windows, etc.), media (graphics, text, audio, etc.) and site layout (organization of product offerings).

Another aspect of the online experience that could potentially influence buying behavior is the concept of flow. Hoffman and Novak (1996) define flow as “the state occurring during network navigation which is: 1) characterized by a seamless sequence of responses facilitated by machine interactivity, 2) intrinsically enjoyable, 3) accompanied by a loss of self-consciousness, and 4) self-reinforcing” (p. 57). These same authors propose that “creating a commercially compelling website depends on facilitating a state of flow” (p. 66). This is corroborated by Goldsmith et al. (2001), who find that the reported amount of online buying is greater for Internet users that experience two key elements of flow – confidence and fun. Korzaan (2003) also tests for the impact of flow on purchase, finding that being in flow positively influences a customer’s intention to buy online.

In summary, marketers will be most successful in attracting consumers to their Web sites if they first are diligent in discovering the specific needs that their respective customers seek to satisfy. Next, they must craft products so that they will satisfy these needs. The Internet is one channel among many through which merchants can contact and interact with customers. A Web site should be integrated into existing and future channels so that they are mutually supportive. The Web site itself should be easy to use and useful to consumers who shop and want to buy. The earliest buyers, those most likely to visit the Web site, view e-commerce as a convenient, quick, and safe method of shopping. The Web site should reflect these attitudes. Moreover, some consumers buy online because they are interested in the product category and are looking for products unavailable to them via other channels; they lack the time, energy, or ability to physically shop, they seek to save money, or they enjoy the activity of online browsing and buying. Enhancing the aesthetic, hedonic, and entertaining aspects of Web sites will make them attractive to many innovative consumers. However, attracting potential buyers to a Web site and encouraging them to purchase is only the beginning of an online relationship.
Retaining Online Buyers

Attracting new buyers to online sites is only part of the job of the e-marketer. The three basic uses consumers make of the cyber-marketplace are to get information, to purchase goods and services, and to obtain postsale support; thus, communication, online sales, and customer service are necessary (Griffith & Krampf, 1998). Retaining buyers is a function of competitive activity and customer satisfaction. Intense competition and low switching costs characterize the computer-mediated environment, so consumers have ample opportunity and motivation to switch vendors (Xue et al., 2000). Consequently, customer satisfaction with a Web site is critical to maintaining loyalty. Because this issue is so important, quite a bit of research has been done on satisfaction with e-commerce Web sites.

Customer relationship management (CRM) systems have often been recommended as a means of attracting and retaining customers. Because it is very convenient to collect customer data (including demographics and buying habits) online, and it is also easy to interact and continue a relationship online, it is often assumed that adopting an e-CRM system is a good way to draw together all of the elements of marketing strategy to obtain customer satisfaction, sales, and profit. However, recent research shows that although product customization ability is important, and the presence of some e-CRM features is positively related to customer satisfaction with a Web site, e-CRM activities are unrelated to success in attracting and retaining buyers (Feinberg & Kadam, 2002).

Retaining B2B Buyers

One key to retaining B2B buyers in an online environment lies in using the Internet to facilitate collaboration between supply chain partners (Downes & Mui, 1998). Because it is difficult to build and maintain trust in the online environment, a critical success factor in online B2B relationships is the absence of opportunistic behavior by either of the firms (Williamson, 1994). Our discussion of B2B purchasing assumes the use of relationship marketing ideals, which go beyond focusing on specific transactions and seek to optimize the lifetime value of each customer.

Many of the characteristics of B2B relationships in traditional marketplaces continue to be of interest when building online relationships. For instance,
Freytag and Bridges (2003) observe that more dynamic marketplaces, characterized by changing relationship structures, require the firms involved to invest both financially and otherwise in order to obtain continuing relationships. Because online markets are so new and involve innovative players, they are inherently dynamic; thus, they would be expected to require continuing investment in order to be successful. Freytag and Bridges also find that if a marketplace is unbalanced, that is, that the relative size and strength of buyers and suppliers are unequal, this influences the best choice of marketing strategy. For instance, if suppliers have greater marketplace intensity than do buyers, sellers must invest more in order to build B2B relationships. Due to the high rate of change, there is an inherent lack of balance in online markets, consistent with this idea that suppliers must invest in the relationships.

Finally, as more firms compete in a particular marketplace, the competition is increasingly value-based (compare Porter, 1985). Thus, as the popularity of online B2B marketplaces grows, sellers may be expected to compete more strongly through differentiation that provides added value. Further, by integrating customers into its own systems and procedures, a firm may create switching costs that act as a barrier to leaving the relationship (compare Downes & Mui, 1998). The idea of customizing the product to provide added value and to lock in customers is consistent with reaping the benefits of customer lifetime value. Thus, an online relationship strategy can create bonds between companies to the benefit of all involved.

Retaining B2C Buyers

One key to retaining B2C consumers is to change the Web site continuously, so it appears fresh and alive and to utilize timely specials that appear at unpredictable intervals. In addition, the firm should strive to add value for consumers by offering product usage tips, specifications, manuals, parts lists, glossaries, histories, and so forth. For instance, Stolichnaya Vodka offers cocktail recipes on its site, while Molson Brewers at one time had contest winners wear a Web camera as they pub-hopped. In general, the opportunity to interact with other users of the product through games, chat rooms, and idea exchanges can lead to enhanced flow within the site and lead to more a more favorable attitude towards the site and the sponsoring company.

In some markets, B2C online sales grew very quickly but were unable to sustain the aggressive pace required. This may occur because service quality erodes
during a period of rapid growth, possibly due to a lack of infrastructure or experience. Thus, the firm is vulnerable to competition and may find that it needs to drop prices just when it can least afford to (Oliva, Sterman & Giese, 2003). The quality of service the consumer receives is crucial to customer retention in an online B2C setting. Thus, it is important to keep prices at a level where the Web site can attract a sufficient number of customers to make a profit while continuing to provide quality service.

Research into the failure of dot-com businesses suggests that, although timing and industry evolution are important in sustained buying, other factors may come into play as well. Specifically, Thornton and Marche (2003) observe that B2C online businesses often did not have adequate contingency planning to allow for unexpected events. Thus, consumers experienced poor quality when failures occurred in the buying process. Further, many businesses were started by individuals lacking in specific industry knowledge, who were therefore unable to foresee customer needs or make necessary changes in a timely manner. Trust may also be a critical success factor. Gefen, Karahanna, and Straub (2003) provide evidence that consumers are more likely to trade with online businesses that they trust than with those that do not earn their trust. The use of e-CRM depends on the ability to collect personal information online. All the e-CRM in the world will not win a buyer if it is perceived that the company is benefiting from the inappropriate provision of personal information, inconveniencing or harming consumers.

Conclusions

Design of the Web site can be crucial in attracting, satisfying, and retaining customers. Hopkins, Raymond, and Grove (2003) summarize the relevant issues, which include site design and navigability, information and content, reliability, and interactivity. Because the Web site is an electronic servicescape, they coin the term *e-servicescape* and suggest that physical design aspects of service facilities be applied to Web sites. Based on Bitner’s (1992) suggestions for servicescape design, they consider ambient conditions (atmospherics, context, design, entertainment value), spatial layout and functionality (site layout, navigability, and reliability), and signs, symbols, and artifacts (product information, text, and graphics). Their findings indicate that signs, symbols, and artifacts (information dimension) and ambient conditions (entertainment dimen-
sion) strongly influence customer attitude and purchase intention. Spatial layout and functionality features influence attitude but not intention to buy.

Korzaan (2003) recommends that Web site designers attempt to induce the state of flow in site visitors, in particular, those elements of flow associated with a sense of control, challenge, and stimulation. Specific ideas include eliminating error messages and dead links to allow for seamless navigation and increasing the interactive speed as far as possible. Further, information can be presented directly through comparison advertising, provided continuously in a banner or sidebar, or indirectly through graphical pop-up or floating advertisements. For the more experiential side of Web site design, Huang (2003) considers complexity (amount of information the site offers), novelty, and interactivity. Study results indicate that complex Web sites are perceived to be useful (but distracting), while interactivity is the key to creating flow, working through control, curiosity, and interest. Novelty facilitates flow by exciting curiosity but undermines hedonic Web site performance. We can add to these general recommendations three specific managerial suggestions for retaining online buyers.

First, the multidisciplinary field of human-computer interaction is the study of how people interact with computing technology (Nielsen, 2000; Olson & Olson, 2003). Experts in this field provide advice on the design and operation of Web sites to make them useful, usable, and aesthetically pleasing. While this recommendation may seem trivial, many businesses drive away customers after making an effort to attract them to Web sites by presenting them with clumsy, irritating, unhelpful, slow, and generally unfriendly places to shop. We now know that Web site design characteristics can greatly impact Web site usage (Montoya-Weiss, Voss & Grewal, 2003), and in fact, even subtle details like the choice of background graphic can influence purchasing (Mandel & Johnson, 2002). Of course, minimizing download time or providing enhancements during the waiting period are good ways to improve customer-Web site interactions (Weinberg, Berger & Hanna, 2003). A Web site that does not appear to be professional, that is, it features poor graphics, ill-chosen fonts, and sloppy and badly arranged sections, may lead potential customers to distrust it and turn to another merchant, especially if the poorly designed site is for a less well-known product. Competing with established online marketers means matching or exceeding their sites as a first step. The more involving the site through interactivity, the more positively it is perceived (Ghose & Dou, 1998). Moeller, Egol, and Martin (2003) might term an easy to use, useful, and entertaining Web site an order qualifier, that is, a characteristic that would “enable companies
to stay in the battle with competitors” (p. 5). Other marketers might call an effective Web site a *must have*.

Second, e-commerce managers must cultivate a culture of service if they are to retain customers. They must recognize that a purchase is a process that does not end with the sale. Customers often want to be able to interact with their vendors before, during, and after the sale. They want information and advice. Merchants must strive to provide these services and emphasize promptness, helpfulness, and knowledge in dealing with customers. Whether customers buy online is positively influenced by ease and convenience and highly influenced by whether this behavior fits into their lifestyle (Becker-Olsen, 2000). Moreover, marketers should focus on building trust between themselves and customers (Wilhelm, 2003). Research into online buying shows that customers’ trust in their vendors plays an important role in their continued relationships (Gefen et al., 2003). The basic principles of brand building should be applied in the online context. A strong brand based on customer satisfaction is often the means to build customer trust. One way to enhance this aspect of the online strategy is to sponsor the development of online communities in which customers provide product feedback, information to each other, and recommendations that both relieve the insecurities associated with online buying and encourage purchase (compare Hagel, 1999).

Third, e-commerce marketers should use the unique features of the Internet to customize their interactions with customers (Goldsmith, 1999). Personalization or customization is the tailoring of a business strategy to match the needs, characteristics, and behaviors of individual customers. As the online customer base grows, it is apparent that one driver of customer retention is the extent and success with which a merchant customizes each buyer’s interactions with the Web site. While this concept is well known in CRM (Peppers & Rogers, 1993), many e-marketers are less successful than they should be in personalizing interactions because they do not match the extent of their effort (the costs in money and complexity) with the level desired by their customers to maximize profitability (Moeller et al., 2003). These authors suggest that to create customer value and retain customers profitably managers should optimize the entire customer interaction process as follows:

- Add variety to offerings so that each customer receives the desired value package, and integrate these offerings into the production and delivery system in a cost-effective manner.
• Develop a deeper understanding of customer needs so that the customized offering becomes an order winner, that is, it meets a customer’s most critical needs. This is especially true in a B2B setting.
• Tailor business streams to provide value at least cost. “Smart customizers match their segmentation strategies with delivery mechanisms designed specifically to serve each segment profitably” (p. 5).

In summary, attracting and retaining customers online is much like accomplishing these tasks in other business settings. The old recommendations are still true. Know your customers, create value, and provide satisfaction. Cyberspace presents many challenges to marketers because it is a new setting with new complexities and problems. Managers can cope with these, however, by using research results to learn how customers behave, what they need and want, and how they interact with the new media. These efforts should be directed to improving three crucial aspects of the online buying experience, including the interface, the encounter, and fulfillment quality (Chang, 2000). Online marketplaces also offer substantial advantages not available in other types of markets. These include the ability to provide product information conveniently, place orders 24/7, and unobtrusively gather customer database information for use in customer relationship management. Thus, over time the Internet will assume a place alongside other types of marketplaces, customers will shop and buy successfully, and businesses will thrive by adapting to this new reality.

References


