

Customer' Loyalty Forming Mechanism of O2O E-Commerce

Jin Zhang

Graduate Student

School of Management

Shanghai University of Engineering Science

Shanghai, China

Abstract

The rise and development of O2O e-commerce has brought new opportunities for the enterprise, and also proposed the new challenge to the traditional electronic commerce. The formation process of customer loyalty of O2O e-commerce environment is a complex psychological process. This paper will combine the characteristics of O2O e-commerce, customer's consumer psychology and consumer behavior characteristics to build customer loyalty formation mechanism model which based on the theory of reasoned action model. The related factors of the model including the customer perceived value, customer satisfaction, customer trust and customer switching costs. By exploring the factors affecting customer' loyalty of O2O e-commerce can provide reference and basis for enterprises to develop e-commerce and better for O2O e-commerce enterprises to develop marketing strategy and enhance customer loyalty. At the end of this paper will also put forward some targeted suggestions for O2O e-commerce enterprises.

Key Words: O2O e-commerce; customer loyalty; the mechanism model; suggestions.

1. Introduction

With the development of Internet localization of e-commerce, business contacts between online and offline is becoming increasingly close, O2O as a new models of a local life service e-commerce also became popular. In the special consumption environment combined with the entity economy O2O the electronic commerce online virtual economy and offline, the customer's consumption psychology and consumer behavior is full of uncertainty and its performance is more complex and subtle which lead to more difficult for enterprises to grasp customer loyalty. And customer loyalty will directly affect operating results and development space for the enterprise in O2O e-commerce environment. Therefore, the study on O2O e-commerce customer loyalty is important for business to conduct O2O e-commerce.

2. Concept definition

2.1 O2O e-commerce

Online to Offline refers to a combination of offline business and online commerce. O2O mode is characterized by its information flow and cash flow on the line, and logistics and commerce flow on the offline which greatly expanded the scope of business of e-commerce. The core of the model is that by providing information , services, offers discounts and other ways to store offline messages through O2O platform pushed to online users which will bring them to the reality of the store - that is the process of consumers buy goods and services online and then go to store to enjoy service. In foreign countries, Groupon, Yelp, Storific and NoshList which has become a classic case of the application of O2O. In China, 020 are also classified information , buy , comments and other forms exist. In addition to the more successful of the dianping.com and meituan.com which are the representative of the price discount website and the reputation of website, as well as meishixing.com,yitaoshi.com,meican.com,etc.

2.2 customer loyalty

Since Copeland (1923) first mentioned the concept of customer loyalty ,the academic circles carried out extensive and in-depth study on it (Jacoby, Chestnut, 1978). The views of scholars can be roughly divided into one-dimensional school. two-dimensional school and mixed school. One-dimensional school for the understanding of customer loyalty is focus on customer behavior which namely customer whether repeat purchase products.

Two-dimensional schools for customer loyalty mainly focus on both customers' behavior and attitude loyalty. Mixed school for customer loyalty mainly focuses on different dimensions, such as cognitive loyalty, affective loyalty, intention loyalty and behavior loyalty. Based on previous studies this paper will be defined customer loyalty as customers' tendencies and behavior that repeat visits O2O commerce website and repeat purchase enterprises' products or services and high degree of trust and reliance on corporate which initiative to maintain and enhance the business interests and image.

3. Theoretical basis

TRA, the theory of reasoned action developed in 1967. Has been modified and extended by the Fishbein and Ajzen (1975) in the early 1970s, this theory is widely used to study human behavior (Ajzen, 1988). Fishbein and Ajzen (1975) pointed out that the main process of human behavior is to generate beliefs until accept the event information and then attitude to either positive or negative events which will affect the produce of the behavioral intention and finally take positive or negative behavior. In this study, customer loyalty as a behavioral intention (Zeithaml et al., 1996), and take it as the final outcome variables. Therefore, this paper will explore the influencing factors of customer loyalty and the establishment of model based on the rational action theory. The overall architecture of the theory of reasoned action is shown in Figure 1.

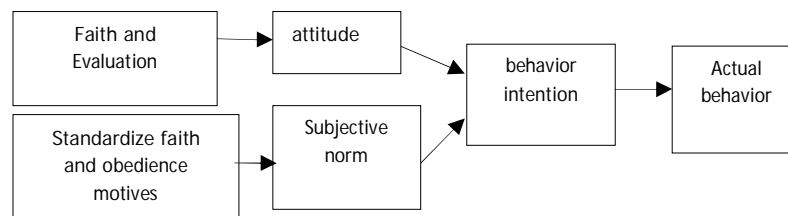


Figure 1: The theory of reasoned action

4. Model construction

4.1 Business process and basic features of O2O E-commerce

O2O electronic commerce is a new kind of consumption mode which business process mainly includes online and offline two parts. Online process including the business service information recommendation and search, online payment, the consumer feedback. Offline process mainly refers to the consumption line.

- (1) Merchant Services information recommendation and search. In the market development period, on the one hand, O2O e-commerce platform operators often cooperate with businesses to offer some discounts, free gifts and other promotions to attract customers and develop user's spending habits. On the other hand, O2O e-commerce platform operators based on the user's geographic location and setting the search scope to recommend appropriate business service information which users can search what they want to obtain service categories (such as catering, entertainment, accommodation, etc.). Information display includes two ways: Classification shows the classification of the information to support service to view (such as catering, entertainment, accommodation, etc.) while map showing the way to the actual location of the service businesses in the map display and the user can click on the icon on the map to view business details.
- (2) Online payment. When the user selects a decision to buy business services, namely online payment into links, and then automatically access third-party payment platform. After the user completes payment the third party payment platform will be sent payment information to the O2O electronic commerce platform and then O2O e-commerce platform will be sent payment voucher to the mobile terminal user.
- (3) Offline consumption. Users can rely on proof of payment to get the appropriate geographic location near the business entity to enjoy the service.
- (4) Consumer feedback. Consumer can choose to comment the dealer service in O2O e-commerce platform after the completion of offline consumption. O2O consumer e-commerce platform provide certain points as a reward when user feedback and the points can be used for the conversion of online users after payment.

O2O realize the combination of online and offline virtual economy entity economy and its core is that let online consumers to actual shop and purchase goods and services through online payment and then enjoy the service offline. For customers, first of all, they can obtain more abundant and comprehensive business information and service content. Secondly, more convenient online consultation to businesses and pre-sale. Thirdly, compared to offline to get cheaper prices for direct consumption. For businesses concerned, firstly, effects to be investigated and every transaction can be tracked. Secondly, Understood users' psychology through communicate with them. Thirdly, they can reasonable arrangement of operating cost savings through effective way of booking online. Fourthly, to pull the new products, new consumption more quickly. Fifth, to reduce offline store dependence on prime locations this can greatly reduce the rent payments. Furthermore, for O2O platform itself, first of all, it is closely related to users' Daily life and can also bring convenience, preferential, consumer protection function to users. Secondly, there are strong promotion effect to the businessman which can attract a large number of service businesses to join this pattern. What's more, several times cash flow compare to C2C, B2C. Fourthly, huge advertising revenue space and more profit model. Finally, in O2O electronic commerce, as often appear "one-off " customer, that is, they do not register a user name and do not continue use the user name and only hope that when it is convenient to shopping in O2O electronic commerce. Therefore, customer loyalty in O2O e-commerce should be improved.

4.2 Characteristics of customers' behavior

- (1) The pursuit of quick and easy. With accelerating pace of life and increasing demand of people, fast , convenient and affordable shopping patterns have become mainstream. Consumers often consume a lot of time and energy due to traditional shopping model restricted by time and space. Such as consumers usually need to arrive shopping place within the prescribed business hours and may take more time and energy to choose which product they need to buy. The whole process is very tedious, complicated and time-consuming. While online shopping on O2O e-commerce platform can make up for the defect and also can conform to modern people's consumption psychology as its fast, convenient, affordable, efficient, 24-hour service and so on.
- (2) The pursuit of high quality and inexpensive. In the buyer's market, as consumer's options for products becomes larger, price becomes one of sensitive factors for consumers. Under the Internet age consumers can easily browse merchandise and compare different sellers of goods through the website. More importantly, the O2O mode provides platform for enterprise face consumer directly which can save cost through eliminate the middlemen online direct sales model and finally reduce the price of products. Thus, O2O e-commerce model can satisfy consumers' psychological needs that they always choose cheap products.
- (3) The pursuit of personality. Nowadays, goods both in species number are extremely rich in the buyer's market, at the same time, modern consumers especially young consumers are often rich in imagination, and like display of themselves personality, and also usually hope enterprise can provide unparalleled product. This kind of psychology has put forward higher requirements for individual consumption. Consumers are no longer see the practical value of goods as only single, but more important is to see whether the goods out of ordinary, whether can fully reflect individual characteristics, all of these has become an important index for consumer spending. Personalized customers can interact with O2O web site customer service at any time to express their thoughts and desires. What's more, they can directly involved in enterprise product design, production and packaging to satisfy their own individual needs.
- (4) The pursuit of consumption experience. Today, the vast majority of goods quality qualified and functional similarity so that more and more consumers have not as urgently concerned about the quality , price and value for money , but cares more about the feeling of spending time. Consumers are more willing to spend money to buy the feeling of mood, buy some kind of experience, and beckoned for its value. Acute market consciousness enterprises are getting more and more attention to the consumption process for consumers which play a crucial role in the marketing practice.
- (5) Decline in customer loyalty. Since online shoppers can get more product information and more choices through the Internet so customer online shopping activities become more realistic. Customers can pay more attention to the utility value of their products, and constantly enhance their pursuit of new products, new fashion. With the development of search engines and other technologies ,the lower cost of search Internet, the more easier and more convenient the customer purchase, contrast and turn to other online retailers. So, the gradually reduced of the customer switching cost resulting in customer loyalty declining.

5. Influence factors of customer loyalty of O2O E-commerce

There are two reasons that the formation of customer loyalty in O2O e-commerce. One is that customers are highly satisfied with online and offline consume experience and the quality of the products and services and are willing to continue to maintain the relationship between both. The other is that probably because of the highly economic, technology and psychological obstacles. It may lead to transformation difficulty and higher costs for customers to form loyalty. Therefore the factors that influence customer loyalty in O2O e-commerce including four dimensions: customer perceived value, customer satisfaction, customer trust and customer switching costs.

(1) Customer perceived value

Customer perceived value is the essence reason of customer loyalty which leads to the occurrence of consumer behavior and the value indicates that choice and loyalty. When Customers determine to consume they will select certain kinds of products to compare and then to decided to buy the highest -value products. This article combined with the characteristics of the O2O e-commerce, the whole business process and the customer's consumption psychology to comprehensive evaluate the product or service from the functional, experience, cost value three aspects. Functional value and attributes are closely related, such as, product prices, quality, brand image, website design and operability, etc. The customer experience value throughout the entire process including the collection of information is easy or difficult, the complexity of online payment process and offline store service quality. Cost value refers to various cost paid during the whole consume process, such as time, energy, price etc.

(2) Customer satisfaction

Customer satisfaction is generally considered to be important determinants of customer repeat purchase and customer loyalty, because it can improve the profit of the enterprise by stopping customer's betrayal. A large number of studies have shown that customer satisfaction is an important influence factor of customer loyalty and has a direct influence on the formation of customer loyalty. High satisfaction of customers will be directly responsible for the customer to create positive attitude, emotion and preferences. At the same time, the positive attitude and emotions will generate repeat purchase behavior and make them become true loyal customers.

(3) Customer trust

Trust is the precondition of customer loyalty. Because of the trust, businesses can obtain customer data to establish a good relationship. When businesses have owned customers' trust, they will inform their information to each other and willing to express their true feelings. So companies can establish a close relationship with customers and make accurate strategy according to the customer's personality preferences to increasing customer trust and loyalty. If the enterprise did not get the trust of the customer, then the enterprise will not be able to maintain customer loyalty. It's mainly reflected in the following aspects: firstly, customer information security. Online customers are most concerned about is their credit card numbers and also worried about passwords leaked and stolen. Secondly, whether the timely and accurate performance of contracts. Quality of physical goods, the quality of offline consumer experience of services is a key issue. Third, as online transactions prone to fraud lead both sides of transactions difficult to maintain the relationships of trust. Therefore, the factors that further influence customer trust by the businessman reputation, network security and interaction and these secondary factors indirectly affect the formation and maintenance of customer loyalty.

(4) Customer switching costs

Customer switching costs refers to the paying customer to choose a new products and services. If social ties, personal goodwill and consumption habits have exist between the service provider and the customer for a period of time, they also can produce a kind of psychological barriers even if the customer is not satisfied with the quality of service. In other words, although the customer is not satisfied with the relationship, customers will still maintain this relationship because they believe that the conversion of psychological and economic costs (search cost, evaluation, monitoring and risk of new enterprises) is too high. In short, the higher customer switching cost, the higher customer loyalty.

6. The driving model of customer loyalty of O2O e-commerce

Through the detailed analysis of O2O e-commerce business process and the characteristics of consumer behavior as well as the impact factors of O2O e-commerce customer loyalty shows that the formation of customer loyalty is the complex individual psychological change process.

It's started at original customer perceived value forming of customer loyalty, and then affect the quality of relationship value(customer satisfaction and customer trust) through customer value, in order to establish customer loyalty. Based on the above analysis, this paper constructs the driving model of customer loyalty in O2O electronic commerce, as shown in Figure 2.

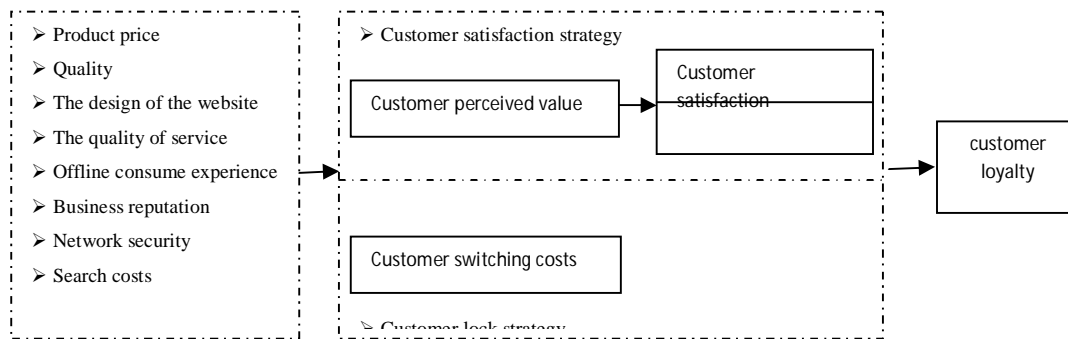


Figure 2: The driving model of customer loyalty in O2O e-commerce

From the model, the factors influence the construction of O2O e-commerce customer loyalty can be divided into primary and secondary factors. The model shows that the primary factors include customer value, customer satisfaction, customer trust and switching cost and the secondary factors include product price, quality, website design and operability, offline store service quality, business reputation, network security and interaction, search costs, and other risks in O2O e-commerce.

7. Countermeasures and Suggestions

There are two strategies that can enhance customer loyalty in O2O e-commerce. One is that customer satisfaction strategy that enterprise has improved the quality of product or service through supplied and delivered unique customer value to form customers' trust, and then build customer loyalty. Specific measures include: ① Personalized products. Both the real economy and virtual economy must be dominated by the customer and pay attention to the differences in the use of marketing strategy. ② The flexibility of price. Businesses should adopt various marketing means to develop their own consumer groups and expand the scale of marketing through its flexible price advantage to satisfy customers' psychological that they prefer to seek cheaper goods and obtain preferential. ③ The security of transaction. In O2O mode, most of customers are worried about the problem of information leakage, password theft, firm credit are not reliable. It is the necessary guarantee for customer trust in enterprise to establish perfect credit mechanism, to build excellent technology platform, to provide the legal environment for fair standard, to perfect the corresponding network supporting system. ④ The humanized service. O2O electronic commerce should focus on maintenance every customer's emotional and warm hospitality of every customer both online and offline. What's more, they should pay attention to cultivate the sense of customers' security and trust. The other Countermeasures is customer lock-in strategy. Companies use the special technical service standard to objectively create the customer high switching costs, such as investment asset specificity to enable enterprises to achieve customer lock-in and make customer to some extent passively loyal to the enterprise.

8. Conclusion and Prospect

The main contribution of this paper lies in the following three aspects. First, customer loyalty is actually a complex psychological process of change. According to customer loyalty formation process model this article will facilitate more people to understand customer loyalty formation process. Second, due to great changes have taken place in O2O mode that integrated online and offline shopping environment so this paper provides the related influencing factors of customer loyalty by summarized the results of previous studies and analyzed the Characteristics of O2O e-commerce. Third, the paper put forward some suggestions for the O2O e-commerce enterprises to further develop network marketing strategy and enhance customer loyalty.

In future study, scholars will promote O2O e-commerce customer loyalty research from two aspects. First of all, they should refine the influence factors of customer loyalty in O2O e-commerce, such as social, cultural factors, customer's personal characteristics all of these need to be consider. Secondly, through the empirical study to verify the theoretical model to identify the key factors that influence customer loyalty O2O e-commerce to provide a reference for enterprises to improve customer loyalty in carrying out O2O e-commerce.

References

- Anderson, R.E. & Srinivasan, S. S. E-satisfaction and e-loyalty: A contingency framework [J]. *Psychology and Marketing*, 2003, 20(2): 123-138
- Balabanis, G, Reynolds, N. & Simintiras, A. Bases of e-store loyalty: Perceived switching barriers and satisfaction [J]. *Journal of Business Research*, 2006(59): 214-224
- Belanger, F., Hiller, J. & Smith, W. Trustworthiness in electronic commerce: the role of privacy, security, and site attributes [J]. *Journal of Strategic Information Systems*, 2002(11): 245-270
- Berry, L. L. & Parasuraman, A. *Marketing Services* [M]. New York: The Free Press, 1991
- Bourdeau, L., Chebat, J. C. & Couturier, C. Internet consumer value of university students: E-mail-vs.-Web users [J]. *Journal of Retailing and Service*, 2002(9): 61-69
- Luarn & Lin: A customer loyalty model for E-service context [J]. *Journal of Electronic Commerce Research*, 2003, 4(4): 45-67
- Chandon, P., Wansink, B. & Laurent, G. A benefit congruency framework of sales promotion effectiveness [J]. *Journal of Marketing*, 2000, 64(4): 65-81
- Court, D., Thomas, D., French, T. I. M. & Michael, P. Marketing in 3-D [J]. *The McKinsey Quarterly*, 1999(4): 6-17
- Crosby, L. A., Evans, K. R. & Cowles, D. Relationship quality in services selling: an interpersonal influence perspective [J]. *Journal of Marketing*, 1990, 54(2): 68-82
- Dopey, P. M. & Cannon, J. P. An examination of the nature of trust in buyer-seller relationships [J]. *Journal of Marketing* 1997(61): 35-51
- Chin-Cheng Chen. Study on e-commerce customer value, satisfaction and loyalty - Taking electronics stores for example [D] Master's degree thesis, Chung Yuan Christian University, 2003.
- GaoDan. The analysis of BtoC e-commerce customer satisfaction [J]. *Chinese e-commerce*, 2004 (6) : 44 -46
- LiQi. The network marketing [M] Changchun: Changchun Publishing House, 2000
- Lu Taihong. Internet marketing tutorial [M] Guangzhou : Guangdong Economic Press, 2000
- Ma Qingguo . Management science research method and evaluation standard reference for graduate thesis [J]. *Management World* 2004 (12) : 99 -109
- Sha Zhenquan, Wang Jing. Preliminary study on online retail customer value [J]. *Commercial Economic Forum*, 2004 (3): 54-56
- Wang Suxian, Wei Sujie. Cultivate customer loyalty under the condition of network marketing [j]. *Management and administration*, 2004 (9): 14
- WenShisong. Relationship between customer value and e-commerce loyalty [d]. Master's degree thesis, National Chung Hsing University, 2002
- You Minghui. Consumer acceptability and site characteristics of cognition, intention of online shopping [D]. Master's degree thesis, Fu Jen Catholic University, 2004
- Zhang Shaoxun. E-shop relationship quality model-integration of transaction cost theory and technology acceptance model view [D]. Dr State papers, National Chengchi University, 2002