The Reward Based Online Shopping Community

WEI T. YUE AND ALOK CHATURVEDI

A b s t r a c t

Increased competition in Internet commerce is forcing E-tailers to constantly innovate. Identifying an audience through a content-specific website is one thing, however, it is more challenging to create a network of diverse online stores from different business areas and multifarious target audiences. This article advances the notion of a new type of community, the Reward Based Online Shopping Community (Re-BOSC), as a potential value-added marketing channel for E-tailers. Based on an analytical framework, we show that the ReBOSC can achieve the above task by adopting a combination of concepts – the 'E-Mall' and the 'Loyalty Program' – and, thus, overcomes the shortcomings of conventional E-commerce models. In order to survive in the mercurial world of Internet commerce, it is crucial to be able to sustain a minimum critical mass on the demand side. The ReBOSC can potentially provide effective solutions for E-tailers to increase customer loyalty and create a combined market power.

INTRODUCTION

The Internet has catalyzed the transformation of traditional business to online business (business-to-consumer (B2C) and business-to-business (B2B)). Consumers are buying more and more things online: from cosmetics to cars and from home financing to trading stocks. According to The Forrester Research and The Boston Consulting Group, web sales to consumers will surpass $108 billion in 2003, a tripling in value from just $36.6 billion in 1998 (Standard and Poor's Industry Survey – Retailing: Specialty 2000). In the early years of online business, the major objective of a typical B2C E-commerce firm was to build up traffic on their website and to acquire a critical mass of consumers. Growth, instead of profits, was the main goal of online business. Over the years, more and more brand-name stores have started to build up their online presence. En route to this goal, smaller E-tailing firms or some of the 'pure clay' online firms encounter tremendous competition from established retail stores as well as from new entrants. The recent depression in stock prices of E-tailing businesses such as eToys and CDNow indicates that investors expect E-tailers to produce sustainable profits. The major challenge for E-tailers as well as other B2C online firms is to survive in an increasingly competitive and crowded marketplace. As the industry matures, sustaining a critical mass of loyal consumers becomes a priority. While many online retailers are considering online marketing strategies such as portal partnership,[1] one new concept being practised now is the reward based online shopping community (ReBOSC). This paper indicates the operating mechanism as well as the validity of the ReBOSC as a business model.

REWARD BASED ONLINE SHOPPING COMMUNITY

A ReBOSC combines the shopping mall concept with customer loyalty program concept to form a 'third party' shopping community in which customers earn rewards for shopping with the merchants in the community. Each time a consumer shops at a particular site accessed through the ReBOSC, they are awarded credits. Once they accumulate a minimum number of credits, they may redeem them for specific rewards or gifts such as brand-name products, cash, frequent flyer miles etc. Some sites even allow rewards to be electronically donated to non-profit charities. Conventionally, the success of many businesses requires market presence and customer retention. The ReBOSC relies on the network of merchants to build this market presence

A u t h o r s

Wei T. Yue is a Ph.D. student in MIS at Purdue University. His research interests include synthetic agents and economies and electronic markets.
Alok Chaturvedi is Associate Professor of MIS at Purdue University. His research interests include artificial intelligence applications, machine-learning, and stereoscopic visualization of business data.

and a loyalty program to ascertain customer retention for the merchants. Currently, numerous websites are operated by the ReBOSC business model (Please refer to Table 1 for a list).

Jones (1997) states that the term 'virtual community' can be interpreted from two perspectives – the 'virtual community as a new form of community' and the 'virtual community as group-computer mediated communication.' Rheingold's (1993) definition, which falls into the first category, defines virtual communities as 'social aggregations that emerge from the Net when enough people carry on those public discussions long enough, with sufficient human feeling, to form webs of personal relationships in cyberspace.' Hagel and Armstrong (1997), on the other hand, explain the virtual community as a computer mediated medium concerned with 'aggregating people' to meet people's expectations regarding 'interest, relationships, transaction and fantasy'. The ReBOSC is a type of community that fulfils people's needs to transact by having a group of merchants sharing common interests with a group of consumers. Schubert and Ginsburg's (1999) virtual community of transaction appropriately describes the ReBOSC. She states that such communities 'deal with the exchange of goods and services, or more specifically the purchase transaction itself' which 'can emerge between business-to-business partners as well as between companies and private end consumers.'

THE CONCEPT OF THE E-MAIL

Conducting business in a mall produces a double effect – a 'competitive effect' and a 'network effect'. On the one hand, direct competition and rivalry with other business gives rise to the competitive effect. This may prove harmful to some businesses as potential customers can be lured away by rival stores. On the other hand, numerous stores of different business areas in a mall offer customers access to shop at many market places at the same time. This network effect counters the competitive effect borne out of rivalry.

Online malls modify the conventional shopping experience in two important ways. Distance and time become insignificant: stores are just a click away and can be visited twenty-four hours a day. As a result, the competitive and the network effect become even more critical for online stores. An online mall, therefore, becomes an attractive business model for e-Commerce – it can generate a mass of diverse potential customers for member stores just like in a conventional mall and can provide a timeless and spaceless dimension to conduct business.

Currently, many of the online websites attract customers by providing a shared-interest focus: they provide common interests that appeal to large target audiences. For example, iVillage.com attracts women by providing female-related information like health and beauty advice. While content-specific sites can sustain and maintain customer base by providing information of common interest, the criteria to sustain and maintain a shopping mall are more complex. Customers of a diverse group of online retailers have a wide range of interests. Unlike traditional malls that rely on proximity of location, restaurants and movie theatres to attract customers, online shopping malls cannot rely on environmental and physical characteristics; nor can they rely on content-specificity to attract a diverse consumer market. The major challenge for an online shopping mall is to be able to create the 'Mall Effect' that would appeal to a widely divergent consumer base.

Table 1. Summary of the ReBOSC sites

ClickRewards (www.clickrewards.com)	Earn ClickMiles[TM] for shopping at merchants in the community. Transfer ClickMiles[TM] for Frequent flyer air miles on 10 major airlines or use ClickMiles[TM] to redeem other products ranging from palm pilot to tour package. More than 70 participating sites, including bn.com, macys.com, E-Trade and The Gap Online. Currently it has over four million members. It is one of the many loyalty networks built by Netcentives, Inc.
Yahoo! Shopping (shopping.yahoo.com)	Earn points for shopping at merchants listed in Yahoo! Shopping, purchase airline tickets through Yahoo!, read Yahoo! delivered messages and use Yahoo! Visa Card. Use points to bid prize in Yahoo auctions or exchange points for gift certificates from participated merchants. Thousand of participating merchants.
Spree.com	Earn cash back for purchasing from affiliate merchants. Redeem cash once $25, ($100 for non-U.S. resident) are accumulated. More than 150 participating sites, including Apple.com, JCPenney, bn.com and Toyrus.com. Currently it has over two million members.
GreaterGoods (www.greatergoods.com)	Donate 5 to 15% rebates of every purchasing transaction to preferred non-profit charity institutions. The participating merchants include Amazon.com, eToys, OfficeMax, Dell and others.
Other similar sites are Dash (www.dash.com), Shop2Give (www.shop2give.com), Ebates (www.ebates.com), LookSmart RewardMall (www.rewardmall.com), MyPoints (www.mypoints.com).	

CUSTOMER LOYALTY PROGRAM CONCEPT

The popularity of reward based customer loyalty programs has increased manifold, ranging from frequent-moviegoer schemes to frequent-flyer programs. They award credits to customers, which can be redeemed for rewards after a certain minimum number of credits are accumulated. This scheme promotes the 'lock-in' effect because it provides continuous incentives for customers to return to the website. According to Jupiter Communications, '56% of online consumers surveyed reported that they would be likely to transact online more often with a given commerce player if loyalty points were offered' (Swerdlow et al. 1999).

Traditionally, a loyalty program system is hampered by the lack of a robust information system to track customer information. In more ways than not, the Internet has provided a unique facilitatory environment to set up a customer behaviour tracking system (by analysing patterns in surfing behaviour, purchase preferences etc). Another hurdle faced by retailers is the validity of the loyalty program. Due to economies of scale and the very nature of the business, it is economically feasible for airline companies to incorporate such a loyalty system in their business model. Small retailers may not have sufficient margin from sales to support the same. For example, if an online shoe store has to sell ten pairs of shoes in order to reward a pair of free shoes, the value of the program immediately diminishes for customers as it would take years for a person to buy that many pairs of shoes. The resulting loyalty cost for customers does not justify them to participate in such a scheme.

THE ESSENCE OF THE ReBOSC

While the online mall and online loyalty program models both have their own shortcomings, they do complement each other well to form an attractive combined business model for retailers. They can solve the 'two-sided critical mass problem' (Kollmann 1998): the need for a critical mass of suppliers and for a critical mass of demanders. In a traditional direct sales model, given the competitors in the market place, customer loyalty is not guaranteed (Figure 1). This is because consumers can easily switch to different merchants provided price and service variations are minimal. The loyalty program is a crucial component in binding together a reliable customer base. It generates a shopping community, which brings together a network of merchants and consumers to conduct transactions. The common interest of receiving awards attracts customers to return to the shopping community. In addition, merchant network reinforces the value of the community by the broad variety of products offered; in turn, allowing customers to have more purchasing options and an easier way to accumulate credits. As time progresses, more merchants would find it worth their while to join the network of increasing market power while more consumers would be attracted to it owing to greater convenience of shopping and reward options. A growing network on both the supply and the demand sides in turn boosts the reputation of the shopping community (Figure 2).

The validity of a ReBOSC stems from the nature and structure of 'cyberworld'. Unlike the physical real world, where retailers can rely on
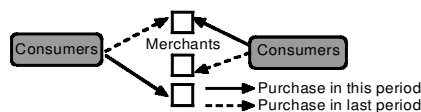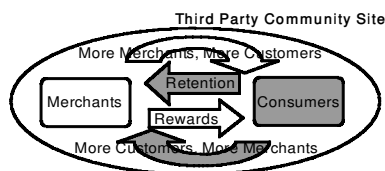
Figure 1. Direct online sales model

Figure 2. ReBOSC model

locality and other ways to attract customers, online retailers rely just on their own networks to generate a critical mass of customers in order to sustain their business. One way to generate traffic is the associate/affiliate program widely prevalent in the web today. Amazon.com pioneered the Associate Program to build its online presence on the Internet. This program awards webmasters who direct visitors from their sites to Amazon.com and if the latter purchase anything from Amazon.com. By putting their links and advertisements on other websites, Amazon.com created a pool of associates who sell merchandise for them. The rewards paid by online merchants like Amazon.com has brought incentives for third party sites, portals and Internet marketing firms to build WebPages that utilize the collective power of merchants' loyalty programs and advertisement-spending in order to build a large demand network. Moreover, acquiring valuable information such as community member demographics and members' shopping behaviours is also an incentive for creating a shopping network.

The ReBOSC can potentially put together many specialist (as well as generalist) sites to form a premier shopping community – a task that is not easily accomplished in the physical world. While single retailers contemplate on staying alone or merging, the ReBOSC puts them in a position where they can both be alone and merge with other stores. This can help smaller sites to compete against the large brick-n-click retailers that possess large established market power.

The ReBOSC also has the potential to become a 'trust-ed' community. The ReBOSC possesses more information than other 'trust-ed' domains as it can track all the transactions that occur within it. While other 'trust-ed' domains lack the right to punish deviants, the ReBOSC has the capability to punish non-compliant members and deter unacceptable behaviour. Abusive members can be disqualified or can have their reputa-

tion overtly slandered in the community.

In essence, the ReBOSC also fulfils the four important roles of market intermediaries that Bailey and Bakos (1997) adjudicate, namely, (a) aggregation of buyers and seller products, (b) institution of 'trust', (c) reduction of operating cost and (d) matching buyers and sellers.

The ReBOSC concept, though promising, faces numerous potential pitfalls. One of them is the ability to sustain traffic in the community. Even though the ReBOSC may attract customers in the short run, the challenge is to preserve the online brand name for the long run even after other similar communities are formed. As for merchants, they would be inclined to join all the ReBOSCs because the action is similar to putting banners on other websites. Hence, they may not necessarily show loyalty to one community. The consumers, on the other hand, would be inclined to move from one ReBOSC to another, as rewards become more liquid and frequent. This, in turn, defeats the primary goal of customer retention that the ReBOSC pursues. In addition, it has been tough to establish a prominent online presence since the Internet has created an environment of information deluge, which successively diminishes the marginal value of value-addition to a commercial website. According to the GartnerGroup, the cost of building an outstanding website becomes more expensive as the marketplace becomes competitive. They predict that 'the costs should increase by twenty-five percents annually during the next two years' (Standard and Poor's Industry Survey – Retailing: General 2000).

IMPORTANT FACTORS OF THE ReBOSC

The business model of the ReBOSC necessitates successful maintenance of a critical mass of merchants and consumers. One may deduce some salient features of a successful ReBOSC:

- community brand name – product evaluations, price comparisons, message boards, product-search features, charity donations and other value-added services can boost the value of the community;
- constant innovations – re-engineering business models to sustain competitive advantage of the community;
- 'liquid' rewards through increased frequency of payments – customers have higher incentive and lower loyalty cost in joining the community;
- high quality of merchants – guarantee satisfaction of the customers;
- diversity of merchant network – customers have multiple product markets to choose from. Customers enjoy 'one-stop' shopping and an easier way to accumulate credits;
- complete and robust reward-tracking system – pleasant experience for shoppers and good marketing data for merchants;
- study of customer data – utilize valuable consumer profiles and transaction information to serve customers better;
- co-ordinated and coherent promotional or marketing schemes – stores can jointly profit from economic bundling. For example, promoting complementary products like wedding products and wedding services;
- merchant and consumer size – prevents over-dependence on a few merchants and consumers;[2]
- fair and coherent merchant community guidelines – a reliable and just system to avoid potential conflict of interests and to lessen discord within the community.

CONCLUSION

The Web has enabled firms to instantly put their business on a global market. However, E-tailing firms are bounded by the nature of the E-commerce market which forces size limitations on them. Other than physical supply bottlenecks,[3] the Internet instantly puts stores in direct competition with rival competitors from around the world. Eventually, diseconomies of scale come into effect and limit the number of stores that can survive. Currently, 'as much as 75% of business-to-consumer e-Commerce is now done through five sites: Amazon, eBay, AOL, Yahoo! and Buy.com' (*The Economist* e-Commerce Survey – Shopping Around the Web 2000). As a result, it is important for retailers to form alliances to create a larger market presence and retain customers in order to survive in the 'New Digital Economy'.

The combined concepts of E-Mall and loyalty program form the heart of ReBOSC model. It has the potential to agglomerate E-tailers' market power as well as increase customer loyalty. We have looked at some determining factors of a successful ReBOSC. Though, this paper covers an overall discussion on the ReBOSC model, many issues still remain to be explored. For example, the competitive advantage of the ReBOSC model in the long run, the potential of ReBOSC being a 'trust' domain and how to build such a 'trust-ed' ReBOSC, the quantitative and qualitative effects of the various determinant factors discussed above have on the overall customer loyalty. Further examinations of those issues may shed more ideas in building more effective online community.

Notes

1. According to Jupiter Communications, 'online commerce driven directly by the primary portals will grow only slightly from 18 percent in 1999 to 20 percent in 2002' (Swerdlow *et al.* 1999). The need to develop a diversified distribution strategy is very important.
2. According to Daintry Duffy

(1999), 'the success or failure of an online community (OLC) is usually determined by only a small percentage of the site's audience'.

3. Steinfield and Klein (1999) studies present more detailed look into the issues related to local versus global focus e-commerce.

References

Bailey, J. and Bakos, Y. (1997) 'An Exploratory Study of the Emerging Role of Electronic Intermediaries', *International Journal of Electronic Commerce* 1(3): 7–20.

Duffy, D. (1999) 'It Takes an E-Village', *The CIO Enterprise Magazine* [http://www.cio.com/archive/enterprise/101599_virtent.html] accessed February 2000.

The Economist (2000) 'The Economist E-Commerce Survey – Shopping Around the Web', February 26: 27.

Hagel, J. and Armstrong, A. (1997) *Net Gain: Expanding markets through virtual communities*, Boston, MA: Harvard Business School Press.

Jones, Q. (1997) 'Virtual-Communities, Virtual Settlements & Cyber-Archaeology: A Theoretical Outline', *Journal of Computer-Mediated Communication* 3(3) [http://www.ascusc.org/jcmc/vol3/issue3/jones.html] accessed June 2000.

Kollmann, T. (1998) 'Marketing for Electronic Market Places – The Relevance of Two "Critical Points of Success"', *Electronic Markets*, 8(3): 36–9.

Rheingold, H. (1993) *The Virtual Community: Homesteading on the Electronic Frontier*, Reading, Massachusetts: Addison-Wesley Publishing Company.

Schubert, P. and Ginsburg, M. (1999) 'Virtual Communities of Transaction: The Role of Personalization in Electronic Commerce', *Proceedings of the 12th International Bled Electronic Commerce Conference, Bled, Slovenia*: 646–63.

Steinfield, C. and Klein, S. (1999) 'Local vs. Global Issues in Electronic Commerce', *Electronic Markets*, 9(2): 1–6.

Swerdlow, N. *et al.* (1999) 'Portals: Limited Commerce Revenue Drives Diversified Distribution', Jupiter Communication (online) [http://www.jup.com] accessed March 2000.

Standard and Poor's Industry Survey (2000) 'Retailing Specialty': 3.

Standard and Poor's Industry Survey (2000) 'Retailing: General': 6.