

The Internet and the price–value–loyalty chain

Dhruv Grewal^{a,*},¹ Gopalkrishnan R. Iyer^b, R. Krishnan^c,
Arun Sharma^d

^a*Babson College, Babson Park, MA 02457, USA*

^b*Florida Atlantic University, Boca Raton, FL, USA*

^c*California Polytechnic State University, San Luis Obispo, CA 93407, USA*

^d*University of Miami, USA*

Abstract

The Internet and associated technology (including the World Wide Web (WWW)) are fast changing the conceptualization and determinants of value to the customer. One primary reason behind the change is that the transparency of price information over the Internet enables closure of the traditional information asymmetry that exists between the buyer and the seller and brings down the ability of marketers to differentiate solely on the basis of price. Marketers would, thus, have to explore what constitutes value for the consumer and determine newer ways to create and deliver such value to the customer. We develop a series of propositions to demonstrate how the Internet affects price and nonprice factors contributing to value. Given certain key behavioral characteristics of consumer online shopping, we then note the challenges that marketers would face in attracting and retaining loyal customers.

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Keywords: Price; Internet; Value; Loyalty

1. Introduction

The characteristic ubiquity of the Internet, including the World Wide Web (WWW) and other related technologies, has brought about a veritable revolution in the ways in which firms conduct business. Fostered by these technologies, the growth of electronic markets is continuing to have a dramatic impact on the nature of competition, forms of organizing business, and the behaviors of buyers and sellers in both consumer and business markets. Although the future diffusion and adoption of the Internet and related technologies can only be estimated, it is clear that conventional models of business and consumer behavior from even a decade ago, as well as traditional organizational structures of firms and industry, are no longer sustainable in the electronic age.

One profound impact of the Internet is the rapid decline in the costs of information, as well as the technology needed to acquire, store, and transmit such information. Given the peculiar economics of the information industry

(high fixed costs and extremely low variable costs), competition has the effect of bringing down the marginal costs of information to near-zero levels (Shapiro and Varian, 1998). For generic information and for information for which proprietary rights are difficult to establish or ascertain, such marginal costs are zero. Thus, finding a variety of free information over the Internet is unsurprising — information that only a few years ago would have cost hundreds of dollars or more.

An immediate impact of such declining costs of information through use of the Internet is the reduction of the information asymmetry that exists between buyers and sellers in traditional markets. With decreasing search costs and with the facilitation of relevant buyer and seller information in electronic markets, such information asymmetry is reduced to the extent that even market failures may be prevented (Bakos, 1997). Note that according to standard economic theory, markets may fail to form due to high transaction costs or high information asymmetry. However, by reducing both transaction costs and information asymmetry, as shall be noted later in this study, the Internet reduces the possibilities of market failure.

With the declining costs of information and the consequent reductions in information asymmetry, and with

* Corresponding author. Tel.: +1-781-239-3902.

E-mail address: dgrewal@babson.edu (D. Grewal).

¹ The authors' names are in alphabetical order.

the increase in cost transparency, it would appear that the Internet would render all markets into commodity markets (Bakos, 1997; Sinha, 2000). However, reduction in buyer search costs also drive down sellers' margins (Bakos, 1997). Consequently, savvy marketers will attempt to compete on the basis of other price and nonprice variables that contribute to consumer value and, thus, seek consumer loyalty. We contend that understanding the mechanics of the price–value–loyalty chain will allow e-marketers to develop better strategies in attracting and retaining customers.

The primary goal of this paper is to develop a conceptual organizing framework and to offer key propositions that shed light on the specifics of the price–value–loyalty chain in business-to-consumer (B2C) electronic markets. Whereas several of the insights on the Internet's impact on markets, competition, and buyer–seller relationships may be applicable to other markets, such as the business-to-business (B2B) electronic market, our focus here is primarily on markets in which contractual forms of commitment to repeated exchanges are rarely used. Thus, the challenges to creating loyalty may be more complex in B2C electronic markets.

The paper is organized as follows. First, an introduction to the price–value–loyalty chain and an elaboration on its importance are provided. The next section offers key propositions linking these three concepts in Internet markets. Managerial implications for e-marketers can also be readily noted from the succeeding sections.

2. Internet and the price–value–loyalty chain

Past marketing studies have elaborated on the linkages between price factors and perceived value (e.g., Dodds et al., 1991; Grewal et al., 1998), as well as between price and customer loyalty (e.g., Voss et al., 1998). In addition, literature supports the general notion that pricing factors affect perceived value, which, in turn, contributes to customer loyalty (Reichheld, 1996). In the Internet age, the price–value–loyalty chain is even more important due to a range of factors involving pricing, competition, technology, marketing strategies, and positioning.

2.1. Declining market prices

Since, in general, price information can be conveyed quite easily and unambiguously, such information is a crucial comparison variable in competitive markets. Internet and the WWW enable most consumers to comparison shop more efficiently by allowing price information to be conveyed in a less costly manner across the market. In order to remain competitive, sellers would, thus, have to lower their prices (Lee, 1998). At the same time, costless reductions in information asymmetry greatly reduce the seller's ability to capitalize on the buyer's high search costs and, thus, to

charge higher prices whenever such search costs are high. Lower prices and hence, lower margins, force marketers to pay more attention to the price–value–loyalty chain and to seek ways in which they could regain margins by providing superior value to consumers and, thereby, to encourage their loyalty.

2.2. Increasing competitive intensity

Rapid and continuing reductions in the costs of enabling technology for marketing through the Internet, as well as the removal of the business form from the constraints of a fixed geographical location, have resulted in an increase in competition in almost all product-markets (Sheth et al., 2000). Such competition is now not only domestic in scope, but with the expansion of the Internet infrastructure into most nations, has the potential for increased global development. In part, this is a result of the lower costs of setting up business on the Internet, attracting even smaller entrepreneurs to a competitive field that was earlier restricted by significant entry barriers. For example, even a garage-based business can now compete in similar products in a wider trading area, as compared to a department store located strategically in the local town mall. With hypercompetitive Internet markets, attention and emphasis is once again placed on ways in which the price–value–loyalty chain would contribute to customer acquisition (Hof, 1999).

2.3. Advanced technology enablers

Rapid advances in the technology for buyer–seller interface not only increase the communication flows between buyers and sellers, but also provide each with the ability to obtain more information on the other (Bakos, 1997; Sheth et al., 2000; Sinha, 2000). For example, several e-marketers routinely track, monitor, record, and analyze visits to their websites. At the same time, the Internet provides more sources of information, including search agents, shopping portals, and shopping dots (such as *mysimon.com*, *Yahoo! shopping*, and *pricescan.com*) that buyers can use to evaluate vendors. Further advances in technology promise greater potential for mutual gains from the price–value–loyalty chain, including product and service customization, preferred customer discounts, and other loyalty-enhancing programs.

2.4. Reverse marketing strategies

Traditional strategies are product-focused — the business process flow is from R&D and sourcing to manufacturing, sales, and service. However, market-focused organizations practice reverse marketing — they start with customer needs and the customer becomes the focus of their business marketing strategies (Sheth et al., 2000). Coupled with the impacts of advanced technology noted above, firms may

now be able to develop newer sources of value for the customer. Such enhancements in perceived value may have reward in premium prices. Once again, the focus will be on making the price–value–loyalty relationship sustainable over the long run.

2.5. Strategic positioning

In contrast to the traditional retail chain-store model, Internet sites enable firms to collect tremendous information on interested consumers (including those who simply browse the website). Information from cookies and online profiling could be used to better segment and target specific consumers and to improve positioning of the firm's offerings (Patton, 1999). Much of the initial customer recruitment initiatives may be in the form of price positioning, while customer development efforts will call attention to building and offering greater perceived value and, thus, facilitating enhanced loyalty.

In summary, the major impacts of the Internet have been: (i) a reduction in buyer search costs and, thus, seller margins; (ii) lowered costs of market entry and, thus, increased competition in various product-markets; (iii) reduced information asymmetry between buyers and sellers; (iv) a renewed emphasis on customer needs and an increased attention on the alignment between customer needs and perceived value; and (v) an increased emphasis on individual information and on customized marketing.

Given such changes created by the Internet, we contend that marketers need to understand the various antecedents to customer value in Internet shopping. In the next section, we offer a conceptual model of the price–value–loyalty chain applicable to most B2C markets and we develop a series of propositions to better understand the impacts of consumer Internet shopping behaviors on the price–value–loyalty chain.

3. Conceptual model and propositions

Following Parasuraman and Grewal (2000), Fig. 1 represents a framework of how price and nonprice factors contribute to perceived value and, hence, to loyalty. We use this parsimonious model as the basis for conceptualizing consumer value and loyalty in contexts where the Internet technology enables product and price information to be communicated with little cost and information asymmetry.

When customers evaluate and purchase products in the marketplace, they are exposed to a number of pricing factors, some of which may be monetary, while others may be nonmonetary (Zeithaml, 1988). Whereas some monetary prices are intuitive, such as the advertised sale price, the advertised reference price, and the price of shipping and handling, nonmonetary prices include the time, effort, and actual costs involved in search, evaluation of products, and decision making (Zeithaml, 1988). In general, since customers value their time, the higher their perceptions of nonmonetary price, the higher their perceptions of price (or monetary sacrifice).

Past value-based models (e.g., Dodds et al., 1991; Zeithaml 1988) have defined perceived value as the perceived net gains associated with the products or services acquired. Four value dimensions have been identified in the literature. *Acquisition value* is associated with the benefits customers think they are going to receive by acquiring the product and/or service relative to the money given up to acquire the product, i.e., the selling price. *Transaction value* is the pleasure of getting a good deal (Thaler, 1985), and the term *in-use value* represents the utility associated with the actual usage. Finally, *redemption value* is the price of the product at the time of trade-in or end-of-life (Grewal et al., 1998; Parasuraman and Grewal, 2000).

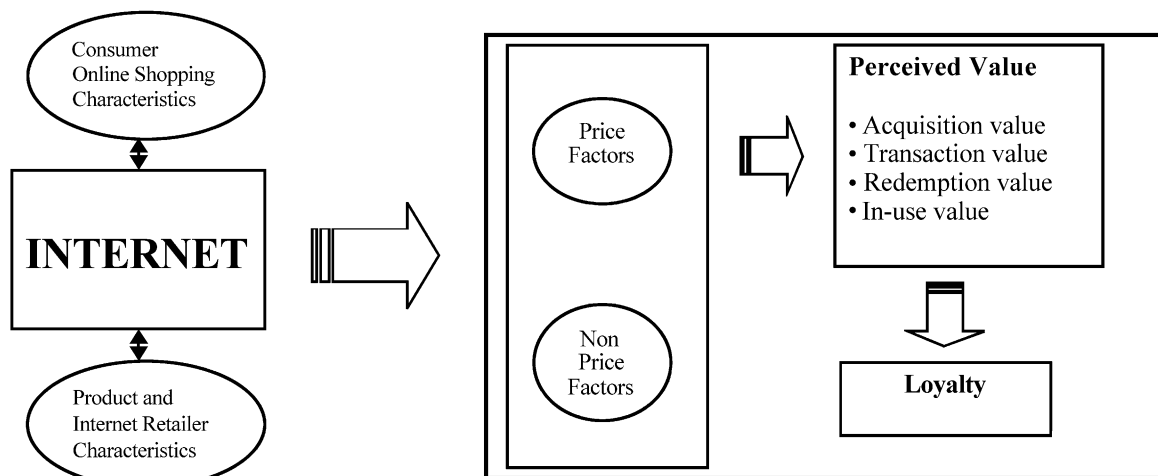


Fig. 1. Internet and the price–value–loyalty chain.

Creating high expectations of quality (product and/or service) relative to the price is likely to enhance value perceptions of the acquisition. Such enhanced acquisition value perceptions are likely to result in greater initial trial of the product or service under deliberation. However, after trial, if the performance of the product and/or service falls short of these expectations, lessened in-use value results, leading to dissatisfaction, reduction in repeat purchase, and negative word-of-mouth (in short, less likelihood of loyalty). Thus, past research has tried to link prepurchase and postpurchase contexts (Voss et al., 1998) in order to better link these initial expectations with repeat purchase and loyalty (Oliver, 1980).

Bitner et al. (2000) and Parasuraman and Grewal (2000) recently called for research to examine the role of web-based technology on interactions of sellers and buyers. Given that Internet technology is likely to be a major force, if not the only force, in shaping buyer–seller interactions in the future, it would be instructive to examine how it is likely to affect the price–value–loyalty paradigm. The impacts of the Internet, including web-based technologies, on the price–value–loyalty paradigm are elaborated in a propositional framework that follows.

3.1. Internet and monetary prices

As noted before, the Internet is reducing information asymmetry and is likely to lead to a dramatic reduction in the use of differential pricing by marketers. Several research studies and trade publications have focused on the ready availability of price information over the Internet and have called attention to the cost transparency created by the WWW (Bakos, 1997; Economist, 2000; Hof, 1999; Shapiro and Varian, 1998; Sinha, 2000). Sinha (2000) argued that the ability of the Internet to make costs transparent stems from: (1) the easy availability of product information, and, therefore, the erosion of “risk premiums” charged by sellers; (2) lower search costs and, hence, more efficient buyer search; (3) ability of buyers to detect the price floor through buyer-led pricing and reverse auctions; (4) the dispassionate comparison of prices and features over the Internet as opposed to conventional shopping; (5) the inability of sellers to practice selective pricing; and (6) seller emphasis on building a customer base through lower prices and “give-aways.”

Buyers can search efficiently and without cost over the Internet to obtain the lowest prices (Singh, 2000). However, while costs are, so to speak, transparent, even a cursory search through such portals as *mysimon.com*, *Yahoo!*, or *bizrate.com* reveals a much greater range of product prices across various merchants than predicted by recent theories and expectations. On the other hand, there is also evidence to suggest that costs of several categories of products transacted over the Internet exhibit a smaller range of price deviations (Smith et al., 1999). In fact, past research has revealed that prices on the Internet, as compared to conven-

tional sources, depend on the product category, as well as the pricing mechanism used (Lee, 1998; Smith et al., 1999). For example, Lee (1998) compared prices for used cars sold in electronic and conventional auctions from 1986 to 1995 and found that prices were higher in electronic auctions and increased over time during that period. On the other hand, Brynjolfsson and Smith (2000) compared a matched set of books and CDs sold through conventional and Internet retailers from 1998 to 1999 and found that Internet retailers offered lower prices. However, the dispersion of prices, i.e., the spread between the highest and lowest prices, was no different than that found in conventional markets. The authors conclude that this anomaly may be due to the evolutionary nature of Internet markets, as well as to differences in consumer trust and awareness of Internet retailers.

Given the increasing numbers of Internet retailers, one could alternatively propose that market price variation is likely to increase as these Internet retailers differentiate themselves from one another. The reasons may be geographical dispersion, value dispersion, and reverse marketing strategies (Sheth et al., 2000). Examining market price data on portals such as *bizrate.com* would seem to validate such conjectures. For example, shopping bots often bring up a wider range of prices for the same product than otherwise expected (Hof, 1999). Further empirical research is needed to explore whether:

Proposition 1a: Market price variation is likely to be reduced in product categories carried by Internet retailers as compared to categories predominantly sold by traditional retailers.

or

Proposition 1b: Market price variation is likely to increase in product categories carried by Internet retailers as compared to categories predominantly sold by traditional retailers.

In their comprehensive review of digital markets, Smith et al. (1999) suggest that one of the reasons for price dispersion in electronic markets may be due to product heterogeneity. Examining closely, it is evident that products with identical features, including brand name and model, can be more readily compared across Internet and conventional markets. For example, a new hardcover book bearing a specific title by a specific author and published by a specific publisher will be invariant across markets in terms of its features. For such product categories, price emerges as the most important and almost exclusive comparison tool, even though consumer willingness to buy over the Internet may depend on a variety of factors, including urgency of need and, hence, shipping time, shipping costs, perceived security, and extent to which the retailer can be trusted. Such may be the case, in general, for products that are more standardized and that can be described easily (Benjamin and Wigand, 1995). Thus, commodity-like products are easier to compare and evaluate using price cues as opposed to

noncommodity products. Such commodity-like products are likely to be tangible and branded and to have product quality that is similar across markets. Thus, we offer the following proposition:

Proposition 2: Consumers will use the monetary price information provided by Internet retailers to a greater extent for commodity-like products as opposed to noncommodity products.

Further, we can extend the above arguments to the corollary case of products that could be said to be heterogeneous either due to real or perceived differences, as well as to those for which quality is difficult to evaluate (Smith et al., 1999). For example, even though wines and airline tickets are now extensively transacted over the Internet, both product categories exhibit tremendous heterogeneity and quality uncertainty, albeit in airline travel less so than in wines. In such cases, monetary price information alone cannot be used for comparing various offerings, even within a single medium. In fact, comparisons of monetary prices, if made, may be restricted only to a narrow band of otherwise dissimilar offerings, with the consumer quite dispassionate or indifferent as to any specific choice. Thus, we offer the following proposition:

Proposition 3: Consumers are less likely to compare monetary prices for products that are perceived or marketed as highly differentiated, even though the actual differences may be nominal.

3.2. Internet and nonmonetary prices

The Internet manifests characteristics that will change pricing practices. First, it has the capability of addressing individual customers and being responsive to their needs (Deighton, 1997), thereby offering the advantages of mass customization. Second, the Internet can store vast amounts of information, can be interactive, and can consummate transactions (Peterson et al., 1997). Therefore, the Internet allows customers to seek, and marketers to provide, unique solutions (e.g., optimum price-value levels) to customers' specific needs.

The ability of the Internet to provide detailed product information, as well as customized information has several consequences (Peterson et al., 1997). First, compared to traditional comparison shopping and information search processes, Internet information is less costly, requires less effort, and is often complete. Second, information could be obtained from a variety of sources varying in credibility (Hamilton, 2000; Hansell, 1999; Tedeschi, 1999). For example, rather than relying on manufacturer- or retailer-provided information, the consumer has easy access to various personal and organizational websites that offer product and merchant information, reviews, and personal evaluations. Third, using a variety of evolving technologies (cookies being the most basic), marketers could specifically cater to an individual's requirements by matching his/her

personal information with behavioral profiles in their databases (Green, 1999; Patton, 1999). Finally, a variety of design and transaction-specific innovations enable marketers to enhance easy accessibility, navigation through a website, convenience in ordering, and ease of payment processing for the consumer (Tedeschi, 2000).

Such factors have significant impact/import in reducing the nonmonetary costs of product purchases for the consumer, and enable simplification, rationalization, and cost-less information in the consumer decision-making process. Indeed, the impact of the Internet is greatest in the information search and the evaluation of alternatives stages of the standard consumer decision-making process (Butler and Peppard, 1998; Engel et al., 1994). As noted before, such gains in information are likely to be highest for products that are more standardized and could be described and compared more easily, but at the same time, considerable product category learning is also facilitated for more complex products. Such information greatly reduces the various transaction costs of exchange for the consumer, including search costs, comparison costs, and payment costs. This is true, at the least, for products that do not require detailed examination prior to purchase, such as standardized computer parts and books (Liang and Huang, 1998). Therefore, the following proposition may be offered:

Proposition 4: Consumers are more likely to engage in online shopping when they perceive significant reductions in information search costs.

Although the Internet has the potential to reduce the perceived risk for the consumer for a variety of product categories, there are still a number of categories for which the medium of the Internet may not be an effective substitute, at least for first-time purchases. Product categories, such as clothing, perfumes, homes, and cars, are less likely to be bought over the Internet by first-time consumers, especially those who have never previously bought within the particular product category or brand, or from that specific merchant (Kaufman, 1999). These are all products for which consumers need to examine the product or otherwise experience it (in terms of trial), to obtain independent and credible evaluations, or to use judgmental criteria that cannot be rationally expressed. Thus, we offer the following proposition:

Proposition 5: Consumers are less likely to purchase products over the Internet that require experience, trial, inspection or judgment, especially when engaging in such product/brand/website transactions for the first time.

Internet transactions still have to rely on traditional methods of shipping, which adds to the time between the transaction and the receipt of the product by the consumer. Except in the case of some products, such as pure information products (e.g., full text of an article from a source such as ABI/Inform) and software, such delays may increase the inconvenience and, hence, the nonmonetary price of the

transaction for the consumer (cf. Zeithaml, 1988). The problem is even more acute in cases where the consumer requires immediate gratification and/or is making a seasonal purchase, and/or has less time to wait before possessing the product (Kirby, 1999). However, while several e-merchants do offer next-day delivery, the resulting decrease in non-monetary price is accompanied by real increases in monetary prices for the consumer. Therefore, we contend that:

Proposition 6: Consumers desiring immediate possession of the product will be less likely to transact over the Internet.

Among the most important consumer concerns regarding online shopping are security and privacy issues. For example, a *Business Week* poll showed that a significant number of consumers making online purchases were somewhat or very concerned about company use of personal information for sending unsolicited information, and about lapses in security with respect to personal information (Business Week, 2000). Moreover, the same poll showed that consumers who went online but had not yet purchased anything over the Internet were quite concerned about issues relating to privacy, such as collection and use of personal information, and fraud, especially with respect to credit card information (Business Week, 2000).

From the standpoint of pricing theories, privacy and security concerns raise the nonmonetary prices of transactions over the Internet. The present value of future anticipated losses, in terms of time and annoyance of sifting through junk mail, loss of identity, and other security threats, as well as disclosures and guarantees on the use/nonuse of information collected, may far exceed other monetary and nonmonetary benefits of the transaction. In this context, a variety of privacy-protection information, secure technologies, and company guarantees may reduce the anticipated future transaction losses. Thus, we propose that:

Proposition 7: Consumers offered appropriate privacy protection and guarantees with respect to the use of personal information would perceive a reduction in their non-monetary prices, and, therefore, a decrease in their costs of transacting over the Internet.

3.3. Internet and perceived value

In Fig. 1, perceived value is conceptualized to consist of different value components: acquisition value, transaction value, in-use value, and redemption value. The Internet is capable of having deep effects on all these value components.

Acquisition value is enhanced by the Internet's ability to provide greater reach and access, ease of comparison shopping through the provision of detailed product and price information, and superior technical and multimedia sources of service and support. On the other hand, acquisition value may be decreased due to greater perceived risk

and actual dissatisfactions in products that may require prior experience, value judgements, and trial. At the same time, some degree of trial can indeed be facilitated over the Internet, especially for information goods, such as software and news and retrieval services. For such products, the Internet provides a strong source of free and trial (or restricted) versions (Shapiro and Varian, 1998). Consumers using such trial versions can evaluate the performance of the software and decide on its purchase, thereby reducing any prepurchase perceived risks. This option of trial or sampling could be possible even in various other product categories, such as books and music. Therefore, we contend that:

Proposition 8: Consumers would view the offerings of Internet retailers real-time trial (in terms of downloads, read/listen on the web) as greater in terms of perceived value, and, therefore, are more likely to be repeat consumers as compared to other Internet retailers who do not offer such trials.

Transaction value is enhanced by the Internet's ability to search out the best deals, as well as enabling the formation of reference prices that are closer to reality. As a result, the consumer's ability to obtain the best possible prices is greatly enhanced and the satisfaction from obtaining such deals is also greater. On the other hand, transaction value is decreased by the Internet's ability to safeguard consumers against current and future losses in privacy and security.

Now intuitive to almost all Internet retailers, consumer willingness to buy is greatly affected by their perceptions of privacy and security. Concerns about privacy and/or security greatly affect the perceived value of the Internet site's offerings, and some sites already provide full disclosure on their privacy policies, use the latest secure technologies for personal and high-risk information (such as personal data and credit card information), and also solicit customer approval/disapproval on the ways that such data is to be used (Business Week, 2000). Complementing proposition Proposition 7, we contend that:

Proposition 9: Internet retailers providing detailed assurances to the consumer on their privacy and security policies will be perceived as providing greater value as compared to those not providing such assurances.

Consumers may be hesitant to purchase goods that they need to experience or try prior to purchase. For tangible goods, the transaction value is greatly enhanced by the Internet retailer's return and refund policies. Although several retailers do offer such policies, the "hassle" factor is greater with retailers requiring return merchandise authorization and/or detailed explanations (cf. Hart, 1988). It is quite intuitive that Internet retailers allowing unconditional and no-cost return and refund (within specific parameters, such as return in original packaging) will be perceived as offering greater transaction value as compared to those who accept such returns and provide refunds/exchanges only with prior approval, return merchandise authorization

(RMA) codes, and/or customer payment of return shipping charges.

In-use value is greatly enhanced by the Internet's ability to provide extensive support for use of the product. Such support may take the form of product manuals and other technical information, interactive technical and service help, and information on future versions/models of the product-in-use. For example, Dell provides periodical newsletters, catalogs, and other information to consumers who have bought their system, as well as providing detailed technical information, FAQs, and the opportunity to correspond with technical support personnel on its website. Moreover, the company offers free in-home technical and repair support for the first year, with additional years of support are available at a cost far lower than the total price of the computer system purchased. The provision of such no-cost or low-cost after-sales support greatly enhances the in-use value of the product for the consumer and, therefore, contributes to greater satisfaction in use. The potential of the Internet to provide almost costless information and support vastly enhances in-use value for the consumer as compared to conventional retail outlets, where the emphasis is more on sales and, in some limited instances, on maintenance, repair, and replacement services as part of product warranties and/or prepaid extended warranties. Therefore, we propose that:

Proposition 10: Internet retailers offering no-cost or relatively low-cost after-sales support and service will be perceived to offering greater value as compared with retailers who do not offer such support or offer such support only at a relatively high cost compared to the original price of the product.

Redemption value is greatly enhanced by the Internet's ability to provide outlets for exchanging the product when there is less perceived benefit from using the product. Forums such as *ebay.com*, as well as other auction sites, including *Yahoo! auctions* and *amazon.com auctions* provide outlets for consumers to obtain the best prices for their products. At the same time, some manufacturers offer trade-in options to the consumer, a practice much more common in the automobile retail industry. *Amazon.com* has linked its auctions page to its main site so that consumer search requests are returned with an option to search for the products at the auctions page. Thus, consumers can decide if they wish to buy a new product or a used one. For the selling consumer, such an option provides greater redemption opportunities from a clearly targeted consumer base and, possibly, a better salvage price.

3.4. Internet and consumer loyalty

Given the intense competition and lower entry and exit barriers fostered by the Internet, it may be argued that the Internet does not support the development of a loyal

customer base. However, when considered in the price–value–loyalty framework, the preceding discussion and propositions offer support for building loyalty through enhancements in perceived value. Moreover, mere satisfaction may not be the perfect precursor to loyalty; in fact, differences in loyalty may be due to differences in the product/market structure (e.g., industries with regulated monopolies may show higher loyalty levels despite low satisfaction levels), as well as being due to differences in perceptions of satisfaction and difficulties in benchmarking satisfaction (Jones and Sasser, 1995). On other hand, perceived value may be a more stable construct to be used as a precursor to repeat buying and loyalty.

The Internet and Internet-based retailers have a tremendous opportunity to create customer loyalty. Firms such as *Garden.com* regularly send their customers alerts pertaining to their plants (e.g., plant-pruning reminders). Such enhanced services, while maintaining lower monetary and nonmonetary prices are likely to result in greater value and, ultimately, in greater customer retention and loyalty. However, just as with traditional retailers, such loyalty will need to be earned, and is not simply a benefit of being an Internet retailer. More importantly, the Internet enables the provision and transmission of greater amounts and quality of information, as in the case of Fed Ex and Fidelity Investments, as well as a greater standardization of the firm–customer interaction. Finally, the Internet provides an ideal environment for mass customization. Such innovations are likely to have positive impacts on customer price–value–loyalty chain. Thus, we propose that:

Proposition 11: Internet retailers customizing their offerings to their customers are likely to create greater loyalty.

Bitner et al. (2000) discuss how Internet technology is altering service relationships/service encounters or “moments of truth” that customers are experiencing. They suggest that the latest advances in Internet technology, including greater access to customer data and speed of service, are providing firms with the ability to resolve specific problems more quickly and thoroughly and, thus, with better service recovery.

The Internet and recent technologies, especially those that enhance security and privacy for the consumer, as well as those that can offer customized information, are providing customers greater control over their service encounters. Coupled with trials and online demonstrations, as well as real-time interactions with employees, consumer prepurchase risks could be vastly reduced (Greataorex and Mitchell, 1994). Various supplementary services, as well as greater levels of customer service and recovery provided on-line, have a greater potential to increase satisfaction and retention as compared with rebates, bonuses, and giveaways that may serve to attract, but are less successful in retaining customers (cf. Anderson and Narus, 1995).

4. Conclusion

A vast majority of the discussions on marketing and the Internet have focused primarily on the economic sense of lower costs for the consumer, as well as the reduction in seller margins. A focus on the various psychological dimensions of price and their impact on perceived value and loyalty, as in this paper, provides crucial insights necessary to move Internet marketing to its next era of evolution, i.e., one where the benefits and value of Internet shopping vastly exceed the concerns and nonmonetary costs for the consumer. Once the competitive scenario becomes more stable, expect firms to build and convey very distinct value propositions to consumers and, thereby, to develop consumer loyalty despite lower entry and exit barriers of conducting business over the Internet. The provision of superior value and customer loyalty may serve to be the best entry barriers that a firm could erect to keep competition at bay in an age where the physical presence and high capital costs of traditional retailing no longer matter.

Acknowledgements

The authors acknowledge the feedback provided by the guest editors of this special issue. Dhruv Grewal thanks Babson College and University of Miami for the support of summer grants.

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