

CHAPTER II

LITERATURE REVIEW

1.1.1 Theoretical Study

Currently, more and more consumers are embracing the internet and spending more time searching for information or making online purchases. In 2007, the percentage of Indonesians who purchases goods and services online in a month in 2017 reached 41% of the total population – an increase of 15% compared to 2016 which was only 26% (Kama, 2018). This indicates that the transaction trend has shifted from brick-and-mortar shops to online shops. This trend has offered a huge market and numerous business opportunities, as the internet has been the primary means for potential consumers to evaluate products and services. From here, it undeniably influences their purchase decisions. Thus, many businesses, both large and small ones, attempt to build and develop their online platforms, as the online path provides more advantages, one of which is building direct customer relationships.

One of the online platforms that most companies use is social media. The use of social media is considered easier and more effective because its technology is highly accessible and scalable. As such, it presents marketing opportunities for marketers. Therefore, the strategy of social media marketing is used by marketers has been a popular and effective marketing and communication tool. Moreover, it is employed to identify customers' preferences by tracking their activities on social

media. As a result, the company can understand what kind of product that the customers want or need. It creates an opportunity to online sellers for market their products only to the right customers.

Compared to physical stores, online stores have many advantages. First, it provides convenience, efficiency, and requires no physical presence, such as no need to queue or traveling (Javadi, Dolatabadi, Nourbakhsh, Poursaeedi, & Asadollahi, 2012). It is well known that online shops differ from a brick and mortar shops that have fixed the operational schedule. Online shops mostly open all the time and accessible regardless of time and location. This makes it easy for busy customers to do shopping. In addition, online stores provide consumers with free and rich information about products and services, which in turn assist consumers compare and make purchase decisions among various products and services in an efficient way.

2.1.1 Online Customization

According to Srinivasan, Anderson, & Ponnayolu, (2002), customization in e-retailing is defined as “the ability of an e-retailer to tailor products, services, and the transactional environment to individual customers”. One of the of customization features is focusing on offering personalized products based on individuals’ needs and wants. E-retailers currently provide customization for a variety of product categories, such as electronic product, home decorations, and apparel. Customization is a strategic tool to provide additional benefits to customers (Cho & Fiorito, 2009). According to Blecker, Friedrich, Kaluza, Abdelkafi, & Kreutler (2005), “product

customization is relevant to include the product perspective which can be physical goods or services. Thus, product customization can be defined as producing physical goods or services that are tailored to a particular customer's requirements". In other word, customer involvement is an important role, because the product is based on the preference of the customer.

Satisfaction, according to Oliver (1997) is "the summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with a consumer's prior feelings about the consumer experience." In online transactions, e-satisfaction is also known as the counterpart, which mean the pleasure of the customer to his or her prior purchasing experience with a given electronic commerce firm (e.g Nike website that provides customizing product capability). According to the previous research, Customization offers are likely to satisfy a customer more than standardized offers would, because they facilitate a real match between customer and product (Ostrom & Iacobucci, 1995). From the result of the previous study, it can be concluded that consumers who experience customization experience will be more satisfied with the product than those who get the standardize product. A hypothesis is purposed as follows.

H1: Online customization has a positive impact on e-satisfaction.

Hwang & Kim (2007) stated that "e-commerce trust (e-trust) is the central dimension of e-commerce systems adoption, which is one of the most important aspects of e-commerce customer relationship management (e-CRM)." It means that

trust is one of the most important aspects that need to take into account by a e-commerce as a crucial strategy that directly touches the customers. Also, an e-trust may affect purchasing decisions whether in a short-time or long-term purchasing decisions. From the previous research conducted by Koufaris & Hampton-Sosa (2004) Yen, Wang, & Horng (2011) found that the perception of supplier willingness to customize for a buyer has a positive influence on the buyer's trust. It shows a positive and significant influence on the buyer's trust.

H2: Online customization has a positive impact on e-trust.

According to Srinivasan, Anderson, & Ponnabolu (2002), there are multiple reasons why customization is expected to affect e-loyalty. It is well known that a large product selection can irritate consumers and drive them to use simplistic decision rules to narrow down the alternatives (Huffman & Kahn, 1998). By customization, e-retailers can reduce this frustration. Customization enables a quick focus on what customers want. In this case, if a company can accurately tailor or narrow down choices for individual customers, it can minimize the time customers spend browsing through an entire product assortment. Besides, customization can signal high quality and lead to a better real match between customers' needs and products/services. Thus, efficiency and matching are most likely to cause e-satisfaction. These advantages that make customization appealing to customers, that they may visit the site again in the future and this is called, e-loyalty.

H3: Online customization has a positive impact on e-loyalty.

2.1.2 E-Satisfaction

According to Oliver (1997), satisfaction is “a fulfillment, and hence a satisfaction judgment involves at the minimum two stimulant outcomes and a comparison referent.” Meanwhile, its counterparts, e-Satisfaction is the consumer’s judgment of their Internet retail experience as compared to their experiences with traditional retail store (Evanschitzky, 2004).

The previous studies found that consumers are more likely to be loyal to an e-tailer if they perceive the online storefronts provide high levels of interactivity, foster community, offer opportunities for customization. Christodoulides & Michaelidou (2011) examine two antecedents of e-loyalty, e-satisfaction, and perceived switching barriers, including economic (e.g. ‘prices of other stores are higher’), emotional (e.g. ‘if I change Internet store I am afraid that I will lose the benefits I enjoy of being a loyal customer’), and speed (e.g. ‘delivery times of other stores are longer’), means that as long as the customer is satisfied with the product or service, they tend to be loyal to the company because they are afraid to lose the benefit that they get from the company. From the previous study by Ghane, Fathian, & Gholamian (2011) it indicates that e-satisfaction, such as e-trust, has direct and indirect effects on e-loyalty. Christodoulides & Michaelidou (2011) also found that e-satisfaction has a positive impact on e-loyalty.

H4: E-satisfaction has a positive impact on e-loyalty.

2.1.3 E-Trust

Rahimnia & Hassanzadeh (2013) stated that trust refers to the depth and assurance of feeling based on inconclusive evidence. Uncertainty and risk are the necessary conditions that reveal the value of trust. When a person believes in another person's honesty and trustworthiness in a transaction, trust can be formed. Therefore, trust is an important factor for the creation, development and protection of long-term relationships between customers and sellers. Trust is a vital factor in company performance and profitability. Although trust is a cornerstone of strategic relationship development, it plays a central and original role in company performance development as well. In particular, with attention to risks in transactions increasing, e-trust has come to play an important role in loyalty and relationship development between customers and organizations. According to Ribbink, Riel, Liljander, & Streukens (2004) e-trust directly affecting loyalty, but much less than satisfactory, which implies that trust is not the anticipated major contributor to loyalty in an online environment.

H5: E-trust has a positive impact on e-loyalty.

2.1.4 E-Loyalty

Engel, Blackwell, & Miniard (1990) defined brand loyalty as “the preferential, attitudinal and behavioral response toward one or more brands in a product category expressed over a period of time by a consumer.” According to Srinivasan, Anderson, & Ponnawolu (2002), e-loyalty is “a customer's favorable attitude toward the e-

retailer that results in repeat buying behavior.” People who are satisfied with the product and/or service from a specific company tend to come back and buy more products from the company. E-loyalty may positively affect the long-term profitability and it is vital for companies that provide products/services online. Maintaining and building a loyal customer base is a good and reliable strategy for an e-commerce company.

2.5 Theoretical Framework

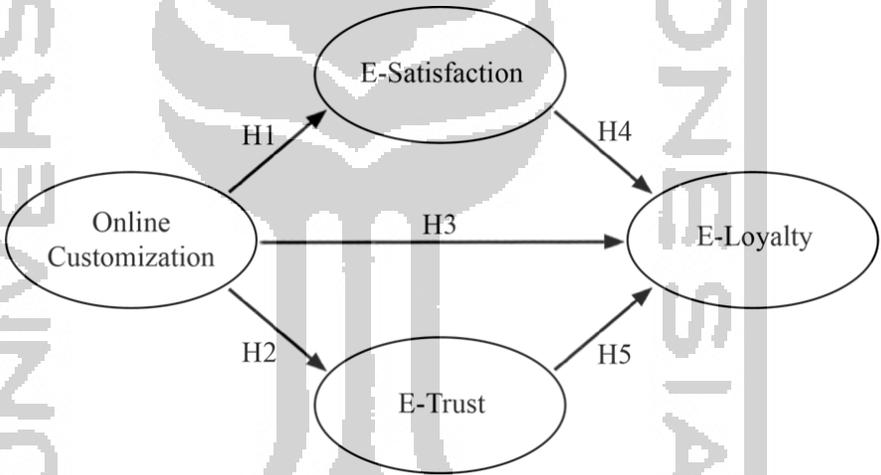


Figure 2.1. Theoretical Framework
Source: Coelho & Henseler (2012)