

B Development of Hypotheses

1 The Role of Perceived Service Quality Online

In a multichannel context, customers are very likely to be experienced and proficient in multiple channels. They choose between different channels depending on situational factors and their specific preferences in each stage of the purchase process. Each purchase channel excels in specific characteristics that make it especially suitable for certain purchase situations and product categories. Especially customers who use multiple channel formats combine the different channels according to their needs arising from a certain purchase task and their situational preferences (Montoya-Weiss et al. 2003). Thus, previous research suggests that customer service satisfaction is inherently different across online and offline channels, but not necessarily always lower online (Shankar et al. 2003).

The online channel has traditionally been perceived as useful in the early stages of the purchase cycle. Due to its comparably low search costs and easy provision of access to information, it is especially suitable for the search of products and to obtain an overview of the available options (Alba et al. 1997; Bakos 1997; Lynch Jr and Ariely 2000). Several studies have also confirmed that the Internet can perform well in terms of purchase convenience. Online shops are not restricted to specific store opening hours. Consumers can shop from their homes without having to travel to the store. This is especially relevant if the next offline store is relatively far away or inconvenient to reach. Furthermore, online shops usually have a higher assortment since they are not restricted to physical space constraints. Hence, the online channel has specific advantages that make it preferable to the physical store in many aspects.

Despite these important positive features of the online channel, it also has some important drawbacks compared to its physical counterparts. Especially in the case of search goods, when product features and characteristics cannot be easily evaluated before purchase, or if the purchase decision involves a considerable monetary risk due to a high price, the Internet may not provide the necessary services for the final purchase decision. It is also possible that service satisfaction is initially lower online due to lower responsiveness of the online channel: The availability of human contact is usually not provided, and qualified sales personnel is usually not accessible on the Internet (e.g., Meuter et al. 2000). Despite the generally lower empathy and

responsiveness of the online channel, previous research suggests that both are important factors for online customer satisfaction (Ahn et al. 2005; Bauer et al. 2006). Even though timely and reliable service might not play a role for customers during the information search phase, it becomes highly relevant when customers are making purchase transactions online (Cai and Jun 2003). Peck and Childers (2003) show that the confidence in product judgments is affected positively when customers can touch a product during evaluation. Consequently, the authors argue that purchase environments that do not provide the possibility of physical examination may create frustration and lead to non-touch channel (i.e., Internet) avoidance in certain customer segments. Furthermore, multichannel customers tend to have poorly defined prior online service expectations and thus use the alternative channels as reference points to form online service performance evaluations (Mick and Fournier 1998; Montoya-Weiss et al. 2003; Zeithaml et al. 2002). If online channel service is compared relative to the offline benchmark, customers might experience negative disconfirmation and become dissatisfied.

Even though service quality perceptions between online and offline channels highly depend on situational factors and customer characteristics, it is reasonable to expect that, overall, customers perceive lower service quality in the online channel with respect to the context of this research. The analysis focuses on search goods (outdoor and dress jackets) of relatively high priced brands. Clothing can only be fully assessed if it is tried on before the purchase. Furthermore, the products are highly functional and state of the art which makes the assistance of an expert sales person more desirable. Hence, it is expected that customers will perceive the physical stores as more suitable for this type of purchase. It is therefore hypothesized that

H₁: The perceived service quality is lower in the online channel than in physical stores.

2 The Role of Perceived Online Purchase Risk

The concept of perceived risk – the consumer's "*subjectively determined estimation of loss*" (Mitchell 1999, p. 168) has been used to explain online shopping behavior. In this respect, several studies show that risk perceptions play an important part of online purchase decisions. Likewise, the level of transaction security strongly influences

customers' propensity and willingness to buy from the Internet channel (Jarvenpaa et al. 1999; Jarvenpaa et al. 2000; Swaminathan et al. 1999). Verhoef, Neslin, and Vroomen (2005) show that risk in terms of privacy concerns plays a higher role for the purchase decision in online stores compared to physical shops.

Extant research results indicate that shopping via the Internet is perceived to be riskier than in-store shopping (Donthu N 1999; Tan and Teo 2000). Lack of website trust is one of the most important barriers to shop online (Urban et al. 2009). One important disadvantage of the Internet channel over traditional channels is its lack of tangibility. Just as in any in-home shopping format it is impossible for customers to test and examine products and services prior to a purchase. In addition to the lack of physical examination capabilities, customers seem to expect higher difficulties in returning defective products or false deliveries, as well as a generally lower after sales service performance in online channels (Jiang and Rosenbloom 2005; Verhoef et al. 2007a).

While shoppers do not have to disclose any personal information in a physical store, purchases on the Internet require customers to provide at least their credit card information and mailing addresses. Privacy concerns such as personal data protection and the reluctance of sharing their credit card information has been one important reason for customers not to shop online (Maignan and Lukas 1997). Hence, the high importance of security and trust have been emphasized in early studies of customer online shopping behavior (e.g. Miyazaki and Fernandez 2001; Park and Kim 2003; Szymanski and Hise 2000; Yoon 2002). Urban et al. argue that building online trust should be a central concept for building a successful e-commerce strategy and to generate a competitive advantage online (Urban et al. 2000).

In this context, the findings of Forsythe and Shi (2003) also suggest that perceived risk is a useful and relevant context to explain barriers to online shopping that must not be neglected. In particular they show that the following three types of perceived risk are important determinants for the decision to purchase online: (1) financial risk that comes from the potential misuse of credit card data, (2) product performance risk that arises from poor product choices due to the inability of prior physical examination, and (3) time/convenience risks that are associated with (technical) difficulties of using the website and longer waiting times due to product shipping. The findings of Biswas and Biswas (2004) reveal that perceived risk perceptions are initially higher in online compared to in-store settings. Interestingly, they find that this difference especially holds for non-digital physical products such as clothes and apparel that are associated

with high involvement. Several other studies investigate the crucial role of trust for customer usage and advocacy of the online channel (e.g. Bart et al. 2005; Büttner and Göritz 2008). In the light of these prior research findings, I hypothesize that

H₂: The perceived purchase risk is higher in the online channel than in physical stores.

3 The Effects of Online Integration on Perceived Purchase Risk and Service Quality Online

The positive transference of attitudes and trust from a multichannel retailer's physical to its online stores has been suggested by previous research results (Badrinarayanan et al. 2010). Likewise, Stewart (2003) shows that online shops increase customers' trusting beliefs when they signal their association with a physical store. Firms can provide references to other customer touch points in their channels and hereby increase trust towards that channel. Wang (2009) find that existing attitudes towards a retailer's offline stores play a crucial role in forming the customers' attitudes towards a firm's online shop. Thus, the presence of such cues may be crucial to the formation of trust and positive behavioral intentions for the online store. Online integration activities provide these cues to the offline channel. By increasing the connection and the ease of transfer between a firm's online and offline channels, it is therefore likely that this positive image transfer becomes more salient for the consumers. More specifically, in online integration the primary goal lies in equaling out the perceived deficits that are inherent to the online store: service provision, risk of making a wrong purchase, and after sales performance. This can be achieved by increasing the perceived service level and brand/product experience for the customer in the online shop, by reducing perceived purchase risk online, or by increasing perceived online after sales service. The goal of enhancing the functions of the Internet channel is to directly increase trust and functionality of the online store. Hence, integrated online channels are likely to be of higher use for customers. With respect to the integration activities defined for this study, Facilitating Research Shopping and Increasing After Sales Service Online, customers may favorably realize these additional integration efforts. By offering assortment information for physical stores and making it possible to collect or return products ordered on the Internet, firms provide an easy and safe transfer from online search to offline purchase, as well as increased after sales performance. Both factors

may eventually lead to higher perceived service in the online channel and reduced purchase risk.

Consumers may evaluate a firm's channel system in a holistic way. Schramm-Klein (2010) suggests that customers also perceive a firm's distribution channels as an overall package from which they pick the appropriate channel for a given shopping situation. Actions to improve the integrated functioning of a firm's distribution channels may therefore positively affect how consumers evaluate the combined use of the alternative channels and how they evaluate the integrated functioning of the channel system as a whole (Schramm-Klein 2010; Sousa and Voss 2006). Thus, measures to increase the complementarity between distribution channels will in turn lead to a higher rating of perceived integration of the channel system. Furthermore, it may be inferred from hypotheses 1 and 2 that perceived channel integration acts as a mediator between a firm's channel integration activities and the perceived service quality and purchase risk. Thus, it is hypothesized that:

H₃: Online integration in terms of (a) perceived integration, (b) Facilitating Research Shopping, and (c) increasing after sales service will lead to higher perceived service quality of the online channel.

H₄: Online integration in terms of (a) perceived integration, (b) Facilitating Research Shopping, and (c) increasing after sales service will lead to lower perceived purchase risk in the online channel.

4 Online Integration and Willingness to Pay across Channel Formats

The main argument that the Internet has intensified price competition lies in the notion that the online medium significantly reduces customer search costs (Bakos 1997; Clemons et al. 2002). In addition to higher transparency in online markets, Internet retailers realize cost economies over their physical competitors due to savings on lower inventory levels and sales personnel (Ratchford 2009). These effects suggest lower overall prices on the Internet compared to physical stores. Even though results are somewhat ambiguous and there are exceptions for certain product categories and

market types (Bailey 1998; Clay et al. 2002; Erevelles et al. 2001), previous research largely supports this expectation. Several studies show that the prices are on average lower online than in physical stores for a multitude of products and services. Brown and Golsbee (2002) show that customers who searched for information on the Internet paid 8-15% lower insurance prices between 1995 and 1997. Brynjolfsson and Smith find that the same products generally sell for less online (2000) Zettelmeyer et al. (2006) assess the reasons how the Internet lowers prices in the automotive industry. They find that referrals and price data on the Internet help customers make better informed choices, and consumers who used the Internet prior to the purchase decision eventually pay 1.5% lower transaction prices for the same car. Shankar et al. (1999) find that even though price importance for customers is not significantly different across the online and offline media, the online medium increases the proclivity to search for prices.

The online and offline channels are inherently different in the services they provide for shoppers (Neslin et al. 2006; Ratchford 2009). However, there is ample evidence that the offline store still outperforms the online store in several purchase related attributes such as perceived physical inspection of the products (Kacen et al. 2002), service quality (Montoya-Weiss et al. 2003), after sales service (Verhoef et al. 2005), and risk (Forsythe and Shi 2003). On the other hand, the online channel is perceived to be advantageous mainly in attributes related to purchase convenience and information search (Ratchford et al. 2003). The latter being an attribute that is likely to lead to higher market transparency and ultimately lower prices, as stated in the previous paragraph. Price sensitivity tends to be higher online due to the relative ease with which consumers can compare prices (Anderson et al. 2010a). Kuswaha and Shankar (2008) show that for the customers of an apparel and shoe accessories firm the store customer segment shows the largest margin and the multichannel and online customers are more price sensitive and that the average returns are highest for the multichannel customer and lowest for the online-only segment.

To date, only little research has been conducted on the direct differences in customer WTP in these channels. To the best of the author's knowledge, lower willingness to pay online has only been hypothesized (Ratchford 2009; Zhang et al. 2010). One exception being the working paper of Kacen et al. (2002) who show that unless prices are 8-22% lower, online customers prefer to shop offline. In the light of the previous research findings and the overall strong indications that the Internet has lowered

reference prices in the online channel. In line with these expectations it is hypothesized that:

H₅: WTP is lower in a firm's online store than in its offline store.

If an online channel is integrated with a firm's physical stores, it essentially offers better service, more flexibility, and more functionality to the consumers. This increase in service provision works in two ways: First, online integration adds specific advantages to an online store that traditional online shops do not provide. Second, by referring customers to the offline channel during the search and purchase process, integrated online channels create a mental connection between a firm's online and physical store. When the physical channels are more salient for Internet customers, a positive image transfer from the physical store to the electronic channel is easier and more likely to happen. Given that initial WTP is higher for an offline store, customers might thus be more willing to acknowledge higher prices in the online shop as well. Especially, if the integrated online channel encourages channel switching and research shopping, customers are more likely to expect the same price levels online and offline. As a result, online integration may lead to increase WTP in a firm's online channel relative to the offline price expectations and thus may help close the gap between WTP online and offline.

H₆: Online integration measures will increase a customer's online WTP.

For the physical stores, it is not directly apparent if online integration measures lead to offline synergies or dis-synergies in terms of WTP at the offline stores. Even though online integration measures make it easier for customers to e.g. find the nearest store or check availabilities, once the customer arrives at the physical store the provided service on-site does not change. Therefore, there is no direct reason for customers to have higher offline WTP when they have searched and prepared their store visit at an integrated online store. However, the integrated online shop may contribute to the overall shopping experience and increase overall service satisfaction with a firm and its channel system. In this context, online integration may indirectly increase perceived service quality and WTP in the traditional store.

On the other hand, by bringing online and offline channels closer together, the image transfer that is created by online integration may be negative for the physical store since the customers could mentally connect their lower price expectation online with a

firm's offline channel. Furthermore, by improving the online channel, the physical stores lose their specific advantages over the online shop. As a consequence, the relative advantages concerning purchase risk and service quality decrease. In this case online integration measures may create channel dis-synergies and WTP offline could be even smaller if customers prepare their offline visit in an integrated online shop. To the best of the author's knowledge, no previous research exists that suggests which mechanism prevails. In the light of these contradicting results, it is unclear if an integrated online store influences WTP in the offline touch points in a particular direction. However, the direct influences concerning overall service satisfaction and negative image transfer may cancel each other out and be weaker compared to the fact that service content stays unchanged in the physical store. Based on the above, it is proposed that online integration has a neutral effect on offline WTP:

H₇: Online integration measures do not change WTP in the physical store.

For integration measures that are designed to reduce purchase risk on the Internet and to improve the customer service within an online store it may be inferred from hypotheses 4, 5, and 6 that increased service quality and reduced risk act as moderators for the hypothesized positive influence of online integration on online WTP. Previous research has shown that satisfied customers (Homburg et al., 2002) are willing to pay more, while higher perceived purchase risk (Huang 1993; Savage 1993; Weber and Hsee 1998) significantly reduces WTP. Therefore, the following mediation mechanism is proposed: Online integration will reduce perceived online purchase risk and increase service quality, which in turn will lead to a higher WTP in the online shop. The expected mediation is further backed by the results of Fassnacht and Köse who find that online service quality and trust in online shops increases willingness to pay more (Fassnacht and Köse 2007). Thus, it is hypothesized that:

H₈: The positive effect of online integration on online WTP is mediated by a) perceived online service quality and b) perceived online purchase risk.

5 Loyalty and Purchase Intention in the Online Store

In online integration, the goal not only lies in further improving the online channel's specific strengths, but also in equaling out the perceived deficits compared to the other

channels. As shown previously, these are specifically: service level, risk of making a wrong purchase, and after sales service. Online channel integration may be implemented with the goal to reduce perceived purchase risk online and increase after sales service by e.g. making it possible to collect or return products ordered on the Internet. However, a firm's offline presence may also directly reduce uncertainty about buying through a direct online channel if a firm promotes its physical stores in the online shop. Perceived risk may be lower in an integrated online store because customers know that there is a physical place to go if problems occur. Previous research has shown that customers are more cautious about purchasing online and that their concerns can be reduced when a firm is physically present in their local market (Tang and Xing 2001). Hence, integrated online channels are likely to be of higher use for customers. Additionally, the positive transference of attitudes and trust from a multichannel retailer's physical to its online stores has been suggested by previous research results (Badrinarayanan et al. 2010). Positive brand connotation attributed by the physical store may transfer to a firm's other channels (Jacoby and Mazursky 1984; Keller 1993), and valuable prior experiences, knowledge, or patronage of an offline store can create a halo effect for the online channel (Kwon and Lennon 2009). By increasing the connection and the ease of transfer between a firm's online and offline channels, it is therefore likely that this positive image transfer becomes more salient for the consumers. It is therefore expected that:

H₉: Online integration in terms of (a) perceived online integration, (b) Facilitating Research Shopping, and c) Increasing After Sales Service Online will increase online loyalty.

H₁₀: Online integration in terms of (a) perceived online integration, (b) Facilitating Research Shopping, and c) Increasing After Sales Service Online will increase online purchase intention.

Previous research has established service quality as an antecedent of purchase intention and customer loyalty. Carrillat et al. (2009) conduct a meta-analysis of 86 previous studies and find large effects of service quality on customer loyalty and purchase intention. Concerning the online domain, traditional technology adoption literature has provided strong empirical support that perceived usefulness constitutes an important positive factor for an individual's intention to use an electronic distribution channel (Featherman and Pavlou 2003; Schepers and Wetzels 2007). In

this context, previous research suggests that perceived usefulness is closely related to service evaluations and that perceived service quality itself is an important driver for online purchase intention (Kim et al. 2012; Verhoef et al. 2007a).

Research has confirmed the long-term effect of service quality for building a lasting relationship with the firm (Kwon and Lennon 2009). The positive association between service quality and customer loyalty has recently been verified in a more general context (Fernández-Sabiote and Román 2012; Verhoef and Donkers 2005) and also specifically for online distribution channels (Bauer et al. 2006; Cai and Jun 2003; Kim et al. 2012). Following these previous findings it is hypothesized that

H₁₁: Online service quality increases (a) online loyalty and (b) purchase intention in the online channel.

Previous research suggests that a customer's decision to change, avoid, or postpone a purchase decision is strongly influenced by the perceived risk associated with the purchase (Taylor 1974). Perceived risk not only plays a role for the purchase decision itself. Consumers' risk perceptions are also considered to negatively influence the store loyalty and shopping modes (Ross 1975). In a similar vein, factors of perceived risk have been shown to constitute an important barrier to adopt a technology-based distribution channel (Dowling and Staelin 1994) and reduce the motivation to use such a customer touch point (Meuter et al. 2005). Thus, customers will not choose to use the online shop when they associate an unacceptable amount of risk with the channel format. In analyzing consumer switching behavior from offline to online channels, Gupta et al. (2004) identify channel risk perceptions of the online channel as a major driving factor not to switch to purchase via the Internet.

Apart from single online purchase decisions, previous research suggests that perceived risk is also negatively related to consumers' loyalty towards electronic distribution channels (Anderson and Srinivasan 2003). Forsythe and Shi (2003) found empirical evidence that perceived risk has a negative influence on the frequency of Internet searches with the intention to buy, the frequency of purchasing online, and the frequency of the amount consumers had spent in shopping online within the last six months. In the light of these previous findings, it is hypothesized that:

H₁₂: Online purchase risk decreases (a) online loyalty and (b) purchase intention in the online store.

Online Channel Integration

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