

THE EFFECT OF SHIPPING FEE ON CUSTOMER RETENTION ON THE ONLINE SHOP IN MANADO

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ABSTRACT

Nowadays, online shops are becoming the most popular shopping style. In contrast with walk-in stores, online shops enthusiasts can shops throughout different cities and countries. With cheaper prices than walk-in stores, the online shop reach, the top of the world trade in a short time. Many buyers do not look at the price of the products but the shipping fees make them cancel to order. The reason is if the product is cheap then the shipping fee makes it expensive. Customers only buy once or twice then stop buying because the shipping fee makes them uncomfortable to buy from the online shop. The specific objective of this research is to examine the significant difference in customer retention between online shops with shipping fee and online shops without shipping fee. Theories supporting this research such as consumer motivation in shopping, customer retention, and shipping fee. The population of this research is shopper either shopping in-physical store or shopping in online store with sample as many as 100 respondents and sampling design is convenience sampling. Result and conclusion is there is a significant difference in customer retention between online shop without shipping fee and online shop with shipping fee.

Keywords: *customer retention, shipping fee*

INTRODUCTION

Research Background

Nowadays, online shops are becoming the most popular shopping style. In contrast with walk-in stores, online shops enthusiasts can shops throughout different cities and countries. With cheaper prices than walk-in stores, the online shop reach, the top of the world trade in a short time. As people know, shopping online on the internet has become the lifestyle of people in big towns. In addition to the websites, online shop sellers are facilitated by their smartphones with a way to talk to each other directly using smart messenger application. The interesting thing is people do not use transportation if there are items they want to purchase outside the city, outside the island, or even abroad. When people want to buy some stuff from the online shop, they do not need to face-to-face transaction. They just tell what they want to buy using e-mail, comment on the website or chat via smartphone messenger. After agreeing with the price, customers have to pay the shipping fee. Some people are still interested to buy but there are also some people discouraged to buy because the shipping fee makes the price of goods more expensive. Many customers are complaining about the shipping fee.

In Indonesia, there are a lot of online shops. Most of them use the website to promote their products, also the smartphone messenger application and other useful applications, which still applies the shipping fee to send the products to their customers. Most of them in several cities like Jakarta, Bandung, Surabaya and Batam become a second hand for imported products and first hand for domestic goods. In Manado, there are a lot of online shop, which are also as the third hand. They are bags, shoes, beauty cares, cosmetics, toys, dress and food. Some still use shipping fees for their products but some do not anymore. Sometimes many online shops as third hand will order the products to their supplier as a second hand that when their customers have ordered first by putting the shipping cost beyond the price of products, even so a few online shops do not apply the shipping cost because they do not need to wait for their customer to order first. Their already stock the goods in large

amounts. This is the strategy of some online shops not to apply the shipping cost outside the price of goods but does not remove it too because most of customers are in the same city. Customers can take the orders by themselves so there is no need to ship to each home.

Many buyers do not look at the price of the products but the shipping fees make them cancel to order. The reason is if the product is cheap then the shipping fee makes it expensive. Customers only buy once or twice then stop buying because the shipping fee makes them uncomfortable to buy from the online shop.

Research Problem

Based on the research background above, the problem statement can be formulated as follow: “is there any significant difference in customer retention between online shop with shipping fee and online shops without shipping fee?”

Research Objective

The general research objective is to compare customer retention between online shops with shipping fee and online shops without shipping fee. The specific objective of this research is to examine the significant difference in customer retention between online shops with shipping fee and online shops without shipping fee.

Research Usefulness

1. To give contribution and can be used as scientific work about perceptual mapping of design elements of online shop.
2. This study can be used as a reference and information for online shop customers in order to get information about shipping fee on online shop, in particular online shop in Manado.
3. The research can be used as references and information to online shop itself in order to attract and grasp customers' needs and wants.
4. To fulfill the partial requirement for the degree of Sarjana Ekonomi and to find consumer behavior learning is importantly beneficial things in addition to knowledge.

THEORETICAL FRAMEWORK

Theoretical Framework

Consumer Motivation in Shopping

According to Tauber (1972) in Jamal et al. (2006), there are five personal motives in shopping: (1) the role-playing motive is refers to the activity which it's become routine activity for several people, such as housewife, (2) diversion highlights shopping's ability to present opportunities to the shopper to escape from the routines of daily life, (3) self-gratification underlines the shopping's potential to alleviate depression as shoppers can spend money and buy something nice when they are in a down mood, (4) physical activity focuses on consumers' need for engaging in physical exercise by walking in spacious and appealing retail centres, particularly when they are living in urban and congested environments, and (5) sensory stimulation emphasizes the ability of the retail institutions to provide many sensory benefits to consumers as they can enjoy the physical sensation of handling merchandise, the pleasant background music and the scents. Another motivation in shopping found in Budisantosa and Mizerski (2010) such as adventure motivation - shopping is viewed as adventure, social shopping - shoppers see the main purpose of shopping as an opportunity to socialize, gratification shopping - shopping is used as reward, idea shopping - this shopping is undertaken to provide the shopper with up-to date information on products and trends, role shopping - shopping motive relates to the shopper's role in society, value shopping - the purpose of this activity is to find a bargain, and anticipated utility - the aim of the shopping is to obtain the product. Shoppers expect to gain the utility offered by the product purchased.

Customer Retention

According to Kotler (1994) in Hennig-Thurau and Klee (1997), the key of customer retention is customer satisfaction. Farquahar (2003) in Sarwar et al. (2012) defined customer retention as a serious business intention because it requires more finance as cost to sell the products or services to fresh customers rather than selling

these products or services to the existing customers. King (2005) in Ghavami and Olyaei (2006) stated that customer retention is important to most companies because the cost of acquiring a new customer is far greater than the most maintaining a relationship with current customers.

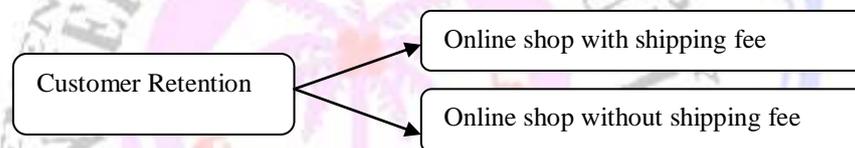
Shipping Fee

According to Rosen and Howard (2000) and Sawhney (1999) in Lewis (2006), shipping fee is the existence of a physical separation between customers and products creates order assembly and transportation costs that are not present in traditional retailing. Moreover, according to Jupiter (2000) and Ernst and Young (1999) in Lewis (2006), survey evidence indicates that shipping fees are the main complaint of more than 50 percent of online shoppers and that more than 60 percent of shoppers have abandoned an order when shipping fees are added. Hsieh et al. (2005) and Srinivasan et al. (2002) in Lewis (2006) noted that shipping fees are, therefore, relevant to the larger issue of how marketing tactics impact repeat buying

Previous Research

Lewis (2006) examined the effects of shipping fees and marketing activities on customer acquisition, customer retention, average expenditures using data from an online grocer, and found that shipping fees greatly influence order incidence rates and graduated shipping fees significantly affect average expenditures. Yang, et al. (2005) explained how free shipping fee is very good for build up a success business and that free shipping is considered the most effective marketing tactic in e-tailing. Chu et al. (2010) studied differences behavior across online and offline shoppers and concluded that consumers are more brand loyal and more size loyal in the online channel, but their price sensitivity seems to depend on product categories.

Figure 1 Conceptual Framework



Hypothesis

- Ho : There is no significant difference in customer retention between online shop with shipping fee and online shop without shipping fee.
- H1 : There is significant difference in customer retention between online shop with shipping fee and online shop without shipping fee.

RESEARCH METHOD

Sources of Data

All of the data sources on this research are gathered from primary data and secondary data. Sources of evidence to obtain data necessary to answer the research questions are questionnaires (as primary data) and documents (as secondary data). Primary data is data originated by the researcher for the specific purpose of addressing the research problem. The primary data are collected from questionnaire and face-to-face interview. Secondary data are gathered through such existing sources called secondary data.

Population and Sample

According to Malhotra (2009), population is the aggregate of all elements, sharing some common set of characteristics that comprise the universe for the purpose of the marketing research problem. The population of this research is shopper either shopping in-physical store or shopping in online store. According to Malhotra (2009), sample is a subgroup of the element of the population selected for participation in the study. The sample of this research is shopper in Manado as many as 100 respondents that already shopping in physical store shopping and online shopping. The sampling design is convenience sampling that is considered as the best way of getting some basic information quickly and efficient.

Operational Definition and Measurement of Research Variables

This research will determine consumer retention by several measurements regarding the online shop with shipping fee and without shipping fee. Those indicators of online shop with shipping fee are the information of shipping fee is ease, price of shipping fee related to delivering quality, shipping fee is affordable, price low with shipping fee, shipping fee makes faster delivering a product. Those indicators the online shop without shipping fee are price high without shipping fee, customer are agree with shipping fee as long as the product accepted without disabilities or dysfunctions, shipping fee help customer receiving a product right in home or any point pointed by them, shipping fee may increase customer trust, and shipping fee makes customer cancel to purchase or buy back morbidly.

Measurement of research variables is Likert Scale as an Interval scale that specifically uses the five response categories ranging from 'strongly disagree' to 'strongly agree' which requires the respondents to indicate a degree of agreement or disagreement with a series of statements related to the stimulus. In this kind of scale, variables will be measured on five points of scale (1, 2, 3, 4, and 5).

Data Analysis Technique

Reliability and Validity Test

The questionnaire design is conducted to perform validity and reliability test and to prove the truth of hypothesis and to know the relation rate between variable Y and variable X. The usefulness of this reliability test is to ensure that the questionnaire is consistent. To make sure that all questions in the questionnaire is reliable, the measurement of internal consistency must be made, which will define the correlation between questions items that is evaluated the same factor. This can be seen by the Alpha Cronbach Parameter, with ideal score above 0.6. The validity test is a test procedure to measures what it was designed to measure. Validity test used to measure whether a questionnaire is valid or not. The Pearson Correlation will form groups that accumulate represent factors that are measured. Each type of validity would highlight a different aspect of the relationship between our treatment and our observed outcome.

Independent Sample t-Test

Independent t-Test involves examination of the significant differences on one factor or dimension (dependent variable) between means of two independent groups (e.g., male vs. female, with disability vs. without disability) or two experimental groups (control group vs. treatment group). For example, you might want to know whether there is a significant difference on the level of social activity between individuals with disabilities and individuals without disabilities.

RESULT AND DISCUSSION

Result

The value of Cronbach's Alpha Value of Customer Retention = 0,747 bigger than 0,60 means that this research instrument is stated reliable. Normality test data shows that significant column (Asymp. Sig (2-tailed)) for all variables are more than 0.05 then the probability of Ho received a population mean of all variables normally distributed.

Table 1 Group Statistics

| Fee | N | Mean | Std. Deviation | Std. Error Mean |
|----------------------------|----|---------|----------------|-----------------|
| Total Without Shipping Fee | 50 | 38.1000 | 3.18318 | .45017 |
| With Shipping Fee | 50 | 26.7400 | 3.45708 | .48891 |

Source: SPSS 19, Year 2012

From the table above, it can be seen that the differences between the independent sample based on group of gender 1 and 2 which is defined as without shipping fee and with shipping fee. Mean of this table calculates from total respondent's answers of customer retention ($X_1 - X_{10}$). Without shipping fee is 38.1 and with shipping fee is 26.74. This means that customer retention of without shipping fee generally based on the mean parametric better than with shipping fee. In other words, customer retention in online shop without shipping fee, in average, higher than customer retention with shipping fee.

Table 2 Independent Samples Test

| | | t-test for Equality of Means | | | | | | |
|-------|-----------------------------|------------------------------|--------|-----------------|-----------------|-----------------------|---|----------|
| | | t | df | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference | |
| | | | | | | | Lower | Upper |
| Total | Equal variances assumed | 17.093 | 98 | .000 | 11.36000 | .66459 | 10.04114 | 12.67886 |
| | Equal variances not assumed | 17.093 | 97.340 | .000 | 11.36000 | .66459 | 10.04103 | 12.67897 |

Source: SPSS 19, Year 2012

Table 2 shows information about the difference between without shipping fee and with shipping fee of customer retention by total of ten indicators. It shows that there are differences in the average perception of a significant, means more positive perception of customer retention of without shipping fee than with shipping fee. In the Table above can be seen that the value $t = 17.093$ with a significance of $p = 0.000$ ($p > 0.05$) indicates that the H_A , is acceptable. This means there is a significant difference between without shipping fee and with shipping fee of customer retention.

Discussion

The data analysis shows the independent t-test between the group test which are without shipping fee and with shipping fee. This research analyzes about the compare means with independent sample t-test of customer retention between without shipping fee and with shipping fee. The result shows that there are a mean different between without shipping fee and with shipping fee and it is supported by level of significant. Means that without shipping fee and with shipping fee have a significantly different and based on the compare mean and t value is positive means that group 1 which is without shipping fee is better than with shipping fee.

The relationship between shipping fees and shipping costs can also significantly impact profitability. It has anglicized the customers acquisition indicated that more sensitive to order size incentives while retention is more influenced by base shipping fee levels. Online shop with shipping fee is easier to get acquisition than to keep customer retention. Customer retention in online shops without shipping fee is higher than customer retention with shipping fee. By keeping customer retention, it will keep the existence of the business. Also, Yang, Essegai, and Bell (2005) arguing the same thing about free shipping and repeat buying on the Internet. The theory and evidence of free shipping and repeat buying are showing in this research. Based on the internet-based shopping in US what is the fastest growing sector in US retailing. This research explain how free shipping fee is very good for building up a customer retention for a successful online shop business.

CONCLUSION AND RECOMMENDATION

Conclusion

1. There is a significant difference in customer retention between online shop without shipping fee and with shipping fee.
2. Customer retention on online shop without shipping fee is higher than online shop with shipping fee.

Recommendation

1. Company should care about customer retention toward shipping fee, especially to put shipping fee on products as additional cost since there is a significant difference in customer retention of without shipping fee and with shipping fee
2. Future replications of this model might consider investigating the mediating effect of differences customer retention of without shipping fee and with shipping fee

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