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A Theoretical Application of Exchange Theory to Online Purchase Decisions

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Abstract

Recent discussion within the marketing literature has accentuated the overlap and
interrelationships between relationship marketing and e-commerce. However, as discussion is
yet to focus on relationship marketing’s theoretical antecedent of exchange theory, this paper
considers the evolution of e-commerce in terms of the exchange continuum. It is proposed
that insight can be derived from the application of the concepts of extrinsic and intrinsic value
(Houston and Gassenheimer, 1987) to online exchange. A theoretical model of extrinsic and
intrinsic evaluation is developed, based on online consumers’ valuation of the object of
exchange (i.e., the product). Possible empirical measures, to test the model, are suggested,
derived from the relationship and services marketing literature.

Introduction

Exchange Theory has provided a substantive basis upon which the core concept of marketing
(and that of relationship marketing) can and does operate (Alderson, 1957; Bagozzi, 1975;
Houston and Gassenheimer, 1987; Houston, Gassenheimer, and Maskulka, 1992; Hunt, 1976;
Kotler, 1984). The focus towards, and growth of, the Relationship Marketing literature over
the last 20 years has led to the suggestion of a new, relationship based paradigm (Aijo, 1996;
Gronroos, 1994a; Gronroos, 1994b; Gronroos, 1989; Gummesson, 1997; Jevons and Gabbott,
2000, Lehtinen, 1996, Pels, 1999; Zineldin, 2000). A similar shift in the literature has been
noted in the emergence of another new paradigm in the form of electronic commerce
(Hoffman and Novak, 1996; Hoffman, Novak, and Chatterjee, 1995; Jevons and Gabbott,
2000). More recently, investigation of the overlap and interrelationships between these two
emerging paradigms has begun to develop (Gilbert, Powell-Perry, and Widijoso, 1999; Hagel
and Armstrong, 1997, Page and Lepkowska-White, 2002; Wang, Head, and Archer, 2000;
Zineldin, 2000). To date, however, discussion is yet to develop in regard to the more
fundamental antecedent of relationship marketing, Exchange Theory.

The growth of e-commerce and online retailing has been substantial. Online retail sales
worldwide, estimated at $US36 billion in 1999 (Boston Consulting Group, 1999), have grown
to an estimated $US550 billion in 2001 (eMarketer, 2001). If such growth is to be maintained,
a better and more detailed understanding of the online exchange process is needed if the
potential of the online retail experience is to be fully realised. Online retailers would be
advised to consider past failures and develop strategies that provide both economic and, more
importantly, consumer value (Mandel and Hof, 2001; Page and Lepkowska-White, 2002;
Porter, 2001).

This paper proposes that insights into the process of online exchange can be derived from the
literature of exchange theory, particularly the concept of the Value of exchange (Bagozzi,
1979) and more specifically the Intrinsic and Extrinsic Value of the object of exchange (i.e.,
the product) (Houston and Gassenheimer, 1987). What may be perceived as difficulties in
testing the dimensions of value in the traditional marketplace (Zeithaml, 1988) may be
overcome through focused attention towards understanding online exchange.
The Evolution of e-Commerce through the Exchange Continuum

Within the past decade, the World-Wide Web component of the Internet has evolved from being essentially a means of connecting to a worldwide repository of information, to becoming an alternative to the traditional marketplace.

Exchange can be classified into varying forms according to a continuum ranging from the discrete exchange transactions to enduring (relational or collaborative) exchange (Day, 2000; Houston, Gassenheimer, and Maskulka, 1992; Lambe, Speckman, and Hunt, 2000; Pels, 1999) (see Figure 1).

Figure 1. The Exchange Continuum

The exchange continuum was developed and has been primarily used in relationship marketing to illustrate and classify exchange transactions according to the role the relationship plays in facilitating continuing exchange behaviour (repeat purchase) (Day, 2000; Houston, Gassenheimer, and Maskulka, 1992; Lambe, Speckman, and Hunt, 2000). In focusing on the study of e-commerce and online exchange, its evolution along the continuum is apparent. More specifically (at the consumer level) e-commerce has evolved as a market environment through which discrete transactional exchanges occur, and it is developing in its capacity to facilitate repeated and value added exchanges (see Figure 1, earlier).

Exchange Theory, Marketing and Online Purchasing

Alderson (1957) first formalised exchange as the basis of marketing activity and as the process of exchange that takes place between consuming and supplying groups. Bagozzi (1975) defined marketing as a discipline of exchange behaviour, in that it deals with problems related to exchange behaviour (Houston and Gassenheimer, 1987; Houston, Gassenheimer, and Maskulka, 1992). Kotler highlighted and clarified the importance of exchange in marketing, defining it as a process of “...creating and exchanging products and value with others” (Kotler, 1984, p. 4).

The basic concept of exchange is relatively simple; it is merely “a transfer of something tangible or intangible, actual or symbolic, between two or more social actors” (Bagozzi, 1979, p. 434). A central and important concept associated with exchange is that of potency. Potency describes the bundle of exchangeable items possessed by the individual, usually referred to as assortment (Alderson, 1965; Hunt, Muncy, and Ray, 1981). An individual’s assortment can comprise many forms: tangible objects, services, ideas/concepts, personalities, places, organisations (social or otherwise), and media of exchange (Lancaster, 1966). The behaviour of exchange is the act of increasing one’s potency of assortment by exchanging items of assortment with another party (Bagozzi, 1975). Obviously, for this to occur, the items of the exchanging parties must possess some form of value. Whilst Bagozzi (1975, 1979) refers to
value within the context of exchange, its relevance is applied more to the potency of the parties to exchange, rather than the focus of the object of exchange (i.e., the product). Where clarification is made (Bagozzi, 1975), value is described as either utilitarian or symbolic.

Houston and Gassenheimer (1987) expanded on Bagozzi’s (1975) description of value and classified value as being both extrinsic and intrinsic in its derivation. Extrinsic value is tangible value derived from the marketplace, and intrinsic value is value derived from somewhere other than the marketplace, for example, sentimental value (Houston et al., 1992; and Houston and Gassenheimer 1987). Houston and Gassenheimer (1987) rejected Bagozzi’s dyadic approach to value (that it relates to, and is derived from, the parties to exchange) and postulated that the role of value in exchange relates more directly to a “product type taxonomy” (Houston and Gassenheimer, 1987, pp. 6-7). This perspective towards value in exchange was restated and developed (slightly) further in Houston, Gassenheimer and Maskulka (1992), however, further operationalisation and empirical testing is not evident in the exchange nor relationship literature. This paper suggests that this constitutes a substantial gap in the literature to date.

Extrinsic and intrinsic value, as determinants of exchange, appear to be inversely proportional to each other as exchange progresses through the continuum (see Figure 2). Discrete exchange transactions are based more on a consumer’s extrinsic valuation of the object of exchange, whereas at the opposing end of the continuum, where interpersonal relationships are a high priority, the intrinsic valuation is predominant. In order for consumer-level e-commerce to maintain growth and continue in evolution, a greater understanding of extrinsic and intrinsic value is needed in order to develop deliberate value added strategies that attract consumers towards continuing and repeated exchanges.

Figure 2. Extrinsic and Intrinsic Value in Relation to the Exchange Continuum

Towards a Conceptual Model of Intrinsic and Extrinsic Value

Insight into how consumers might assess the intrinsic and extrinsic value of the object of exchange can be derived from the literature of consumer behaviour and the study of alternative evaluation within the context of the consumer decision-making process (Neal, Quester, and Hawkins, 2002). In undertaking alternative evaluation, it is generally accepted that consumers apply heuristics or decision rules based on the (extrinsic) attributes of the products under evaluation (Neal, Quester, and Hawkins, 2002). This paper presents the view that measures of intrinsic and extrinsic value may be achieved through: deconstruction of the object of exchange to the attribute level; identification of attributes in terms of intrinsic and/or extrinsic value perceived by the consumer; and the application of appropriate measures developed or adapted from existing literature.
Kotler et al. (1994, p. 261) provided a useful basis for the deconstruction of the object of exchange in the form of their Levels of Product framework. The approach used in classifying each attribute into “Core”, “Actual” and “Augmented” levels, provides insight into assessing how each attribute might contribute to a consumer’s assessment of value.

Links between the levels of product and intrinsic/extrinsic value are apparent (see Figure 3). In varying degrees, all levels are likely to contribute to both the intrinsic and extrinsic value assessment made by an online consumer. At face value, however, actual product level attributes appear to contribute more directly to extrinsic value, and augmented product level attributes more directly to the intrinsic value.

Figure 3. A Possible Model of Intrinsic and Extrinsic Value

As the model (above) suggests, in terms of exchange, when consumers consider online purchase, they engage in an assessment of the extrinsic and intrinsic value of the object of exchange by way of its associated attributes. The consumer then uses this intrinsic/extrinsic evaluation as an indicator of the total value of the object and the possible risk associated with the proposed exchange. Four broad outcomes of the extrinsic/intrinsic evaluation are evident (starting at the lower left quadrant and proceeding anticlockwise): (A.) Low levels of both extrinsic and intrinsic value, purchase is unlikely, and the consumer may consider an off-line alternative offering equal or greater value; (B.) High extrinsic value and low intrinsic value, indicative of discrete exchange transactions where extrinsic value is a priority for purchase; (C.) High levels of both extrinsic and intrinsic value, indicative of repeated, value added exchange transactions at the midpoint of the continuum; and (D.) Low extrinsic value and high intrinsic value, is indicative of enduring and collaborative exchange relationships where intrinsic value is a priority for purchase.

Potential Measures to test the Model Empirically

In order to operationalise the conceptual model and test it empirically, appropriate measures can be derived and adapted from existing literature. Extrinsic value, defined as tangible value...
derived from the marketplace (Houston, Gassenheimer, and Maskulka, 1992), may be measured by way of the consumer's estimation of the proportion of financial value (dollars), if any, ascribed to each attribute of the product. Whilst dyadic in its approach, the relationship marketing literature offers many potential measures of intrinsic value. Research focused at the collaborative end of the exchange continuum has demonstrated the overarching importance of the relationship in determining continuance (Gundlach, Achrol, and Mentzer, 1995; Kim and Frazier, 1997, Siguaw, Simpson, and Baker, 1998). Adaptation of relationship measures such as Trust (Cowles, 1997, Sirdeshmukh, Singh, and Sabol, 2002; Wilson and Vlosky, 1998), Commitment (Hocutt, 1998, Wilson, 1995), Bonding (Callaghan, McPhail, and Yau, 1995), Empathy (Palmer, 2000, Whitener et al., 1998) and Reciprocity (Palmer, 2000, Parasuraman, Zeithaml, and Berry, 1988) will enable the empirical demonstration of the role of intrinsic value in online exchange.

Recent research by Sirdeshmukh, Singh and Sabol (2002) has demonstrated the links between the concepts of value, trust and loyalty in retail relationships. This research was based on Zeithaml's (1988) concept of value as intrinsic and extrinsic utility, and acknowledgment is made to Houston and Gassenheimer's (1987) intrinsic/extrinsic description of value.

The concept of consumer satisfaction (Bitner, 1990, Bolton and Drew, 1991; Parasuraman, Zeithaml, and Berry, 1988) from the services literature is also relevant. It is likely that many consumers derive intrinsic value (in the form of satisfaction) from the object of exchange as well as the act of the exchange (Houston, Gassenheimer, and Maskulka, 1992). In cases of online exchange, the act of purchasing on the Internet, in and of itself, may provide intrinsic value (and satisfaction) to the consumer.

### Potential Value of the Model for Marketing Academics and Practitioners

Successful operationalisation through empirical testing of the conceptual model will provide valuable insight to both marketing academics and practitioners.

Marketing academics will benefit through an enhanced understanding of the evolution of online exchange markets and the roles which intrinsic and extrinsic value play in this evolution. In the broader (offline) context of marketing in general, the model may contribute to a more unified view of marketing and exchange as it integrates and expands on the areas of Kotler's (1994) marketing concept, exchange theory, relationship marketing, consumer behaviour, and e-commerce.

The empirical demonstration of the evolution of the exchange continuum, from extrinsic value dominance to intrinsic value dominance, may also result in a lowering of the paradigmatic barriers (Pels, 1999) that have developed within the "schools" of relationship marketing.

The model will also benefit online practitioners as it will emphasise the need to provide not only extrinsic value, but also intrinsic value to consumers, in order to facilitate repeat purchase and maintain the growth and evolution of the online marketplace.
References


