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Investigating Customer Loyalty to Apparel and Beauty Subscription Box Retailers

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Introduction: At present, there are many subscription retail boxes (e.g., Birchbox, Epsy) available for everything from apparel, to beauty products, to groceries. Subscription box retailers charge customers a subscription fee to receive box of products on a regular basis, per their preferences (Hayes, 2014). Although, the exact market size of subscription box businesses is difficult to measure, there were approximately 2,000 subscription box retailers in the marketplace that generated $5 billion revenue in 2014 in the U.S. market (Pike, 2016). More importantly, gigantic retailers, such as Amazon, Target, Sephora, and Walmart, have started to implement subscription box models for some product categories very recently. Although subscription box has rapidly emerged as one of the fastest growing retail market segments, there is hardly any academic research that investigates this growing market to explain customer loyalty and business growth. Therefore, the purpose of this study was to explore key retail attributes that may influence customer loyalty to subscription box retailers.

Literature Review and Hypothesis Development: Stimulus-Organism-Response (S-O-R) model (Mehrabian & Russell, 1974) was used as a framework for examining the relationships among variables, such as product-related attributes (Stimuli), attitude toward subscription box retailers (Organism), Word of Mouth (WOM), re-purchase intention, and loyalty (Response). Several studies (e.g., Dhar, Hoch, & Kumar, 2001) have suggested that consumers rely on the product-related attributes, such as price, quality, assortment, product uniqueness, and surprise element, while they make a purchase decision. Attitude plays a significant role in consumption studies and is a significant predictor of purchase intentions (e.g., Marcketti & Shelley, 2009). Furthermore, previous studies measured consumers' response behaviors in terms of WOM and retail patronage intentions (Carpenter, 2008). Based on extant literature in consumer behavior area, this study proposed following hypotheses:

H1: Product-related attributes such as (a) price, (b) quality, (c) assortment, (d) uniqueness, and (e) surprise will positively influence customers' attitude toward subscription box retailers.

H2: Customers' attitude toward subscription box retailers will positively influence (a) WOM, and (b) re-purchase intention.

H3: (a) WOM and (b) re-purchase intention will positively influence customer loyalty toward subscription box retailers.

Methods and Data Analysis: Amazon Mechanical Turk (AMT) panel was used for collecting the data through an online survey. The survey included 7-point Likert type scales with items adapted from existing scales to measure each research variable. Demographic questions were also included. SPSS was used to run descriptive statistics and reliability analysis and MPlus was used to run confirmatory factor analysis (CFA) and structural equation modeling (SEM).

Results: A total of 357 useable responses were collected representing U.S. national sample, which consisted of male (46%) and female (54%) with an average age of 32. All participants were currently a member of some subscription box retailer. Over half of respondents (53%) reported that they pay $10-$24.99 subscription fee to a retailer. All the scales used for measuring the research variables demonstrated internal consistency with Cronbach's α of .70 or greater. CFA demonstrated that measurement model had an acceptable model fit. Structural model fit indices suggested that the hypothesized structural relationships fit the data well (χ^2= 1153.24, *df* = 356, CFI = .91, TLI =. 90, RMSEA = .08, SRMR = .06). Findings suggested that product quality (β = .68, *p* < .001) and product uniqueness (β = .16, *p* < .001) were significant predictors of customers' attitude toward subscription box retailers. Whereas, price (β = .12, *p* = .14), assortment (β = .07, *p* = .16), and product surprise (β= -.02, *p* = .59) were not significant determinants of attitude toward subscription box retailers. Furthermore, customer attitude toward subscription box retailers positively influenced WOM (β = .79, *p* < .001) and repurchase intention (β= .86, *p* < .001). Finally, results showed that the positive WOM (β = .33, *p* < .001) and repurchase intention (β = .71, *p* < .001) significantly influenced customer loyalty for subscription box retailers. In total, the hypothesized model explained 94% of variance in customer loyalty. Secondary analysis revealed that customers' need for uniqueness was a significant moderator of the relationship between product quality and attitude as well as product uniqueness and attitude toward the subscription box retailers.

Conclusion and Implications: This is one of the earliest studies that explored the concept of customer loyalty towards subscription-based services. The present study has some practical implications as well as limitations. For instance, need for uniqueness enhances customer loyalty [via positive attitude moderation] towards subscription-based services, which is consistent with the new perspective put forth by He, Li, and Harris (2012). Per He et al. (2012) social perspective (e.g., self-expression, self-enhancement) should also be considered in a brand loyalty framework. Our findings are consistent with He et al.'s (2012) proposition. On the other hand, some limitations include: sample size, survey methodology, and geographical limitations among others. Future studies should also explore other factors such as gender, varied research methods, and cross-cultural studies to name a few.

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