



# Retail & E-Commerce

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## Chapter 1: INTRODUCTION

### 1.1 Background of the Study

The global business environment of the twenty-first century is undergoing a radical transformation driven by a shift in how companies interact with their customers. In this digital era, firms are no longer judged solely on the quality of their physical products or financial performance. Instead, the modern consumer evaluates a brand based on its accessibility, responsiveness, and the seamlessness of its digital support ecosystem.

As societal expectations evolve, traditional human-led customer service is being augmented, and in many cases replaced, by Artificial Intelligence (AI). Chatbots and AI-based support systems have emerged as the primary framework for implementing and assessing this new standard of corporate accountability and service delivery.

In the Indian market, this transition is particularly significant. With a consumer base of over 1.4 billion people, a rapidly growing middle class, and increasing digital access, India has become one of the most vital hubs for AI adoption in the global economy. Indian consumers are becoming more tech-savvy, socially aware, and empowered by digital media to evaluate corporate behavior in real-time.

The rise of AI in customer support is driven by several key factors:

- **24/7 Availability:** Unlike human agents, AI chatbots provide round-the-clock assistance, meeting the "always-on" expectations of modern users.
- **Cost Efficiency:** Automated systems allow companies to handle thousands of queries simultaneously, significantly reducing operational costs.



- **Instant Gratification:** Digital-native consumers prioritize speed, and AI offers near-instantaneous response times compared to traditional call centers.

However, the effectiveness of these tools depends heavily on cultural and contextual factors. While global studies suggest that consumers generally respond positively to efficient technology, the unique mix of India's diverse consumer base—spanning urban and rural areas, multiple languages, and varying income levels—requires a more focused exploration.

A critical question for this research is whether the deployment of AI chatbots leads to measurable improvements in customer satisfaction, or if the lack of "human touch" creates a barrier to long-term brand loyalty. By understanding these dynamics, Indian firms can better align their AI strategies with actual consumer needs rather than just focusing on technical compliance.

## 1.2 Statement of the problem

Despite the rapid integration of AI-driven support in India, there is still a significant gap in understanding how Indian consumers perceive and respond to these automated interactions. While global research suggests a connection between technology and satisfaction, several critical questions remain unanswered in the Indian context:

- **Authenticity vs. Cost-Cutting:** The shift toward chatbots raises the question of whether consumers see AI as a genuine tool for better service or simply as a way for companies to reduce human labor costs. This perception directly affects their satisfaction and brand loyalty.
- **Demographic and Regional Diversity:** India's vast diversity suggests that the relationship between AI support and customer loyalty may vary significantly across different age groups, sectors (like Banking vs. E-commerce), and regions. A one-size-fits-all analysis might fail to capture these important nuances.
- **The "Human Touch" Gap:** While AI provides speed, the strength of the emotional connection—which is vital for loyalty in the Indian market—has not been thoroughly tested when human agents are replaced by bots.
- **Focus on Corporate Gains:** Existing research has mainly focused on corporate outcomes, such as reduced operational costs and employee workload, rather than the actual consumer experience and behavioral changes.

These gaps create a significant problem for businesses. Without an evidence-based understanding of how AI chatbots impact satisfaction, companies risk misusing technology, providing poor customer experiences, and losing the loyalty-building potential of effective support. This research aims to address this issue by developing a model to test the influence of AI-based support on customer loyalty in India.

## 1.3 Objective of the study

The main objectives of this research are:

- **Objective 1:** To examine the direct influence of Chatbot performance (speed and accuracy) on customer satisfaction among Indian consumers.
- **Objective 2:** To investigate the direct effect of AI-based customer support quality on brand loyalty in the Indian market.
- **Objective 3:** To find out if customer satisfaction mediates the relationship between AI support perception and customer loyalty, and to measure the extent of this mediation.
- **Objective 4:** To identify and rank the contribution of key AI dimensions—human-like interaction, 24/7 availability, problem-solving efficiency, and ease of use—to customer satisfaction.

## 1.4 Research Questions

This study is guided by the following research questions:

- **RQ1:** Does the overall perception of AI Chatbots among Indian consumers significantly influence their satisfaction with a brand?
- **RQ2:** Does the use of AI-based customer support directly and significantly influence customer loyalty?
- **RQ3:** Does customer satisfaction act as a bridge (mediator) between the experience with AI support and final



brand loyalty in the Indian market?

## Chapter 2: REVIEW OF LITERATURE

The understanding of customer service has changed significantly with the arrival of Artificial Intelligence (AI). Traditional models of customer support, which relied heavily on human-to-human interaction, are now being integrated with automated systems.

**Theoretical Framework** Several key theories help explain how AI-based customer support affects consumer behavior:

- **Technology Acceptance Model (TAM):** This is the most influential theory in this field. It suggests that a consumer's satisfaction with a chatbot depends on two main factors: "Perceived Usefulness" (how much the bot helps solve the problem) and "Perceived Ease of Use" (how easy it is to interact with the bot).
- **Attribution Theory:** This theory suggests that consumers respond positively when they believe the AI chatbot is a genuine tool for better service rather than just a cost-cutting measure. Authentic AI interactions build trust, while robotic or unhelpful responses lead to frustration.
- **Social Identity Theory:** In the context of AI, consumers tend to favor brands whose digital tools reflect their personal values and needs. When a chatbot can handle local nuances or specific community interests, it strengthens brand loyalty.
- **The Halo Effect:** Positive experiences with a fast and efficient chatbot can improve the overall perception of the brand's product quality and reliability.

### Customer Satisfaction

Customer satisfaction in the digital age is no longer just about the final product; it includes the "emotional" and "value-driven" aspects of the service journey.

- **Expectancy-Disconfirmation Theory:** Satisfaction happens when the AI's performance exceeds what the customer expected (e.g., getting an answer in 5 seconds instead of waiting 10 minutes for a human).
- **"Warm Glow" Effect:** When consumers feel that a company is using advanced technology to respect their time and provide 24/7 support, they experience a boost in overall satisfaction.

### The Link to Brand Loyalty

Customer loyalty involves both repeat purchases (behavioral) and an emotional attachment to the brand (attitudinal).

- **Trust and Reliability:** In competitive markets like India, trust developed through consistent and reliable AI support is a major driver of loyalty.
- **Mediating Role of Satisfaction:** Previous global research indicates that AI support does not always lead to loyalty directly. Instead, it usually works through a "bridge"—the customer must first be satisfied with the AI interaction before they become loyal to the brand.

## Chapter 3: RESEARCH METHODOLOGY

### 3.1 Research Design

This study uses a positivist, quantitative, cross-sectional research design. This approach is ideal for testing theoretically derived hypotheses about the relationships between AI-based support, customer satisfaction, and loyalty. The cross-sectional design collects data at one point in time to provide a snapshot of current AI perceptions in the Indian market.

The study utilizes **Structural Equation Modelling (SEM)** as the primary analytical method. SEM is effective for this research as it estimates measurement models—showing how latent constructs (like AI perception) relate to observed indicators—while controlling for measurement error. The Analysis of Moment Structures (AMOS) software is used for SEM estimation.



### 3.2 Sampling

The target population includes adult Indian consumers aged 18 and older who regularly interact with digital platforms in key sectors: FMCG, banking, e-commerce, and telecommunications. These sectors are chosen because they are the most active in deploying AI-driven customer support.

- **Sampling Method:** Purposive stratified random sampling is used to ensure representation across four geographical regions (North, South, East, and West India).
- **Sample Size:** A target sample of 450 is set, consistent with recommended minimums for SEM applications involving multiple constructs.
- **Data Collection:** Data is collected through online surveys and structured interviews in major urban hubs like Delhi NCR, Mumbai, and Bengaluru.

### 3.3 Data Analysis Approach

The analysis is conducted in three distinct stages:

1. **Descriptive Analysis:** Characterizing the sample and evaluating the distribution of variables.
2. **Confirmatory Factor Analysis (CFA):** Assessing the measurement model and checking construct validity through factor loadings and Composite Reliability (CR).
3. **Structural Model:** Testing the hypotheses using bootstrapping (5,000 resamples) to measure the mediation effect of customer satisfaction.

## Chapter 4: SCOPE AND LIMITATIONS OF THE STUDY

### 4.1 Limitations

This study, while comprehensive in its approach to analyzing AI-driven customer support, has certain inherent limitations that must be acknowledged to provide a balanced perspective on the findings:

- **Cross-Sectional Constraints:** Similar to most academic research in this field, this study utilizes a cross-sectional design, which captures consumer sentiment at a single point in time. This makes it challenging to establish a definitive long-term cause-and-effect relationship. While the model suggests that AI perception leads to satisfaction, it is also possible that already loyal customers view a brand's AI tools more favorably simply due to their existing positive bias.
- **Urban and Semi-Urban Focus:** Due to the nature of online data collection and the digital literacy required to interact with AI chatbots, the study primarily focuses on urban and semi-urban populations. This leaves out India's vast rural population (approx. 65%), whose awareness of AI and reasons for brand loyalty might differ significantly.
- **Sector-Specific Generalization:** While the research covers four major sectors (FMCG, Banking, Retail/E-commerce, and Telecom), it does not account for the unique dynamics of healthcare, education, or real estate. The expectations for "empathy" in an AI chatbot for a hospital, for instance, would be much higher than for a mobile recharge bot.
- **Perception vs. Objective Data:** The study relies on "perceived" performance—what the user *feels* about the bot—rather than objective data such as actual API response times, the number of successful query resolutions, or the specific AI model (e.g., GPT-4 vs. Basic Rule-based bots) being used by the company.
- **Demographic and Cultural Nuances:** India is a multi-linguistic and culturally diverse nation. This study does not fully explore how regional languages in AI support or cultural attitudes toward technology might moderate the relationship between satisfaction and loyalty.

### 4.2 Scope for Future Research

This research opens up several avenues for further academic and practical exploration:

- **Longitudinal Analysis:** Future studies could employ a longitudinal panel design, tracking the same group of consumers over 12–24 months. This would help understand how loyalty evolves as AI becomes more "human-



like" or how a single major AI failure (hallucination or data leak) impacts brand trust.

- **Comparative Emerging Economy Studies:** A comparative study between India and other emerging markets like China or Brazil would reveal if the Indian consumer's preference for AI support is unique or part of a broader global South trend.
- **The "AI-Washing" Effect:** Just as "Green-washing" exists in CSR, future research should investigate "AI-washing"—where companies claim to use advanced AI but deliver poor, rule-based experiences—and how this cynicism affects customer satisfaction.
- **Impact of Social Commerce:** With the rise of AI-driven shopping on platforms like WhatsApp and Instagram, future research should specifically target "Digital-Native" consumers (Gen Z) to see how social media AI integration shapes their loyalty habits.
- **Qualitative Deep-Dives:** Using focus groups and in-depth interviews could provide "thick description" of the emotional drivers behind why some consumers feel "heard" by a bot while others feel "ignored"

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