Perceived Risk for Multiple Services in the Consumer Buying Cycle

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ABSTRACT

This study compares consumer perceived risk between five e-service delivery systems and their traditional (non-Internet) counterparts over each stage of the buying cycle. Using a survey methodology, the authors find that in general consumers perceive e-services as riskier than traditional services. The difference in perceived risk, which the authors define as the Internet risk premium, is significant for each service and each stage of the buying cycle. There is a spike in perceived risk at the purchase stage in the buying cycle for each of the five services. This pattern is also evident in the four services with traditional delivery systems. Perceived risk affects the consumer throughout the buying cycle and is not alleviated in the information search stage. Different risk factors drive perceived risk at various stages in the buying cycle. The authors provide both research and managerial implications of these findings.

Keywords: Consumer Behavior, Perceived Risk, Services

INTRODUCTION

In 2007, annual e-commerce U.S. sales reached $136.4 billion, accounting for 3.4% of all retail activity (U.S. Department of Commerce, 2008). The slow adoption in online retail sales is perplexing given the early reports on the many advantages of and favorable consumer attitudes towards Internet shopping (Lohse, Bellman & Johnson, 2000). Of the many possible reasons that explain the slow growth of Internet retailing, consumer perceptions of risk for Internet shopping is one of the primary issues (e.g. Cases, 2002; Forsythe & Shi, 2003; Jarvenpaa & Todd, 1997; Lieberman & Stashevsky, 2002; Tan, 1999; Vijayaraghavan & Jones, 2000).

DOI: 10.4018/jisss.2009062903
Marketing academics have traditionally focused on perceived risk in the information search stage of the consumer buying process (e.g., Cox 1967; Dowling & Staelin 1994; Murray 1991). Typically, perceived risk declines during the information search stage because of consumer information seeking behavior from formal and informal sources (Zeithaml & Bitner 2003). However, researchers devote little effort to understanding the role of perceived risk in the consumer buying process subsequent to information search (e.g., Chen & Dubinsky 2003; Moriarty & Spekman 1984; Teo & Yeong, 2003; Erdem & Swait, 2004; Mitchell, 1998).

There are two important and notable exceptions; Cunningham, Gerlach, Harper and Young (2005) demonstrate the importance of measuring perceived risk by stage. Using a survey research approach, the study finds that perceived risk levels for Internet airline reservation services are greater for the Internet option than for the traditional service delivery system. They define this as an Internet risk premium. This study also indicates that perceived risk levels for Internet airline reservation services show more radical fluctuations across the stages of the consumer buying process. Second, Cunningham, Gerlach, and Harper (2005) examine the issue of risk and e-banking services over the consumer buying process. Like Internet airline reservation services, e-banking services show more radical changes in risk levels than traditional banking services over the consumer buying process.

This research continues the investigation into the nature of Internet shopping by examining the dynamics of perceived risk throughout the various stages of the consumer buying process in multiple services. Unlike most previous studies on perceived risk that typically examine the role of perceived risk at one or two stages, this study examines perceived risk levels and risk factors across all stages. The objective is to learn if this phenomenon is limited to airline reservations and e-banking, or if it is pervasive in Internet services in general.

This article reports on a survey of consumers that measures perceived risk for Internet delivered services as opposed to services distributed in a more traditional fashion. Within the context of airline reservations, banking, gifts, catalog, and library services, the study examines the presence and intensity of perceived risk at each stage of the consumer buying process.

This research focuses on a wide range of services rather than a single service to investigate the dynamics of perceived risk. By utilizing a wide range of services, this research attempts to understand perceived risk in the consumer buying process.

The first section of this article provides a review of literature regarding the perceived risk of Internet shopping. The second section presents several hypotheses regarding perceived risk and risk perception between Internet consumers and traditional shoppers. The third section presents the research methodology. The fourth section deals with data analysis and results and the last sections present a summary of the findings and an in-depth discussion of their research and managerial implications.

LITERATURE REVIEW

Perceived Risk and the Consumer Buying Process

A substantial body of past research shows that consumer perceptions of risk are known to influence purchase decisions to varying degrees, and in doing so influence consumer behavior (e.g., Bauer, 1960; Bettman, 1973; Chaudhuri, 1997; Cunningham, 1967; Mitchell, 1992, 1999). Risk exists when the consequences connected to a decision are uncertain and some are less desirable than others (Kogan & Wallach, 1964, 1967; MacCrimmon & Wehrung, 1986; Pollatseck & Tversky, 1970; Rapoport & Wallsten, 1972). Kogan & Wallach (1964) describe the concept of
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