The Ranking of Perceived Risks and Risk Reduction Strategies in Online Shopping

Research Paper, English Composition III

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The Ranking of Perceived Risks and Risk Reduction Strategies in Online Shopping

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In Taiwan, the population of online shopping has grown rapidly due to technology advancement. According to Nielsen’s report, 87% of Taiwanese people consider to shop online. In other words, only 23% of people do not have the intention to purchase online. This number is much lower than the global average number, 23%. Moreover, the yearly growth rate of Taiwanese e-commerce is 22%. E-commerce is predicted to be optimistic for companies to expand business. Among all the ages, college students are seen as the potential buying group of E-commerce because they adopt technology much more quickly which means they are more likely to shop online. However, when retailers attempt to engage more consumers, they must notice the differences between offline and online shopping and not to use the same method as they do in traditional market to attract consumers. For instance, perceived risk, which is considered to be “powerful at explaining consumers’ behavior” because “consumers are more often motivated to avoid mistakes than to maximize utility in purchasing,” is one of the apparent differences that e-marketers should noticed (qtd in Rahman 10). In addition, scholars have mentioned that consumers have higher perceived risks when purchasing online. Thus, investigating consumers’ perceived risks of online shopping becomes significant. Before conducting the research on perceived risks, it’s necessary to firstly know what the previous studies have achieved.

Perceived risk refers to consumer’s subjective perception of uncertainty, loss, or adverse consequences of a buying decision (Rahman 10). Studies indicate that compared to shopping offline, consumers would have higher perceived risks when shopping online (Gabriel 46). In addition, women have higher perceived risks than
men do. Most importantly, perceived risks negatively correlate to online purchasing intention. In the context of traditional shopping, Jacoby and Kaplan proposed five types of perceived risks: financial risks, performance risks, physical risk, psychological risk and social risk. Another scholar, Tarpey, added the sixth risk, time risk. However, when it comes to online shopping, another researcher, Almousa, replaces physical risk with privacy risk in his research (25). For one thing, one of the major concerns of online shopping is privacy problem. Thus, in the context of online shopping, privacy risk should be taken into consideration (Cheng 22). For another thing, Zheng thinks that physical risk is less significant in online apparel shopping because clothes “are less innocuous products” (257). Thus, physical risk is removed from the risk perception dimensions of this paper.

The six perceived risks adopted by this paper are financial, performance, psychological, time, privacy and social risk. Financial risk refers to the loss of money, which is derived from the poor product choice (Gabriel 765). Performance risk relates to the functional performance of the products. Psychological risk reflects consumers’ disappointment or frustration of the product or shopping experience. Time risk associates with the loss of time in the whole purchasing process including delay in receiving products or replacing the products that don’t perform as expected. Privacy risk means the exposure or misuse of personal information when doing the online transaction via credit card or visa card. Social risk refers to the perception that a product purchased might cause the disapproval of family or friends (Almousa 25).

Although E-consumers might have some concerns before purchasing, studies have also found that consumers would naturally use various methods to relieve those
perceived risks, which are known as risk reduction strategies. Studies have shown that risk reduction strategies strongly associate with the increase of purchase intention (Zheng et al., 213). This paper will also examine seven risk strategies based on the results of previous studies. The seven strategies include endorsement, previous shopping experience, word of mouth, information, payment security, money-back guarantee and good reputation of the retailers or brands.

Although the prior studies clearly categorize the perceived risks and risk reduction strategies, there are few studies investigating the ranking of those dimensions, which can point out what the most concerned risks are in consumers’ mind. One study is conducted by Selvaraj who investigated 50 women of a company in India. The results of the study show that quality, financial and product are the highest ranking of perceived risks. The other study which examines the Chinese consumers’ ranking indicates that performance, privacy, and source risks are most concerned. These different results of ranking might be caused by cross-cultural differences. That is, different countries would have different situations. In addition, both studies have limitations. As for the Indian study, it did not specify product type whereas the Chinese study did not limit on gender and age. These factors might influence the research results.

As previously mentioned, the studies in ranking of perceived risks are limited in the context of Taiwan where online shopping is predicted to grow optimistically and rapidly. Therefore, this paper aims to firstly identify Taiwanese consumers’ most concerned risks, and secondly examine the related risk strategies. The ranking of perceived risks can be significant clues for marketers to know about consumers’
concerns so they can choose right and effective methods to increase purchasing intention. Through ranking, this paper tries to prove that perceived risk dimensions are not equally influential in consumers’ decision making process. In the context of Taiwan, performance, time and privacy risks are more influential whereas psychological, financial and social risks are less influential.

The subject of this research is targeted on female college students in Taiwan. Many researches have indicated that women would have higher perceived risks than men when shopping online (Garbarino 768). Hence, this paper will only focus on female consumers. As for college students, they are seen as potential buying marketing in online shopping (Seock). According to Zheng, different types of products evoke different risk reduction strategies. To make the result more concrete, this study will focus on apparel instead of general products.

To investigate the female college students’ ranking of perceived risks and their preference of risk reduction strategies, this research was conducted through a survey and interviews. The questionnaire includes two sections. The questions of first section require participants’ personal information and online shopping frequency of apparel. The second section includes six parts. Each part examines one perceived risk and the related risk reduction strategies. The five-scale measure is used for the levels of perceived risk whereas the multiple options method is adopted to measure the usefulness of risk reduction strategies. Overall, 105 valid responses were collected. Moreover, in order to receive more detailed and specific answers, this research includes five interviewees.

In the following, there are three key findings.
Fig. 1 Do you have the experience of buying clothes online?

Fig. 1 points out that most of the female college students had the experience of buying apparel online. This proves that the popularity of purchasing apparel online among female college students.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Type of Risk</th>
<th>score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Performance risk</td>
<td>3.62</td>
</tr>
<tr>
<td>2</td>
<td>Time risk</td>
<td>3.61</td>
</tr>
<tr>
<td>3</td>
<td>Privacy risk</td>
<td>3.58</td>
</tr>
<tr>
<td>4</td>
<td>Psychological risk</td>
<td>3.45</td>
</tr>
<tr>
<td>5</td>
<td>Financial risk</td>
<td>3.15</td>
</tr>
<tr>
<td>6</td>
<td>Social risk</td>
<td>2.6</td>
</tr>
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</table>

Fig.2 The ranking and scores of six types of perceived risks

Fig.2 shows the ranking of six dimensions of perceived risks. The scores of the top three are very close to one another. However, the score drops apparently from the fourth one, psychological risk. It appears that performance, time and privacy risk are ranked as more concerned factors whereas psychological, financial and social risks are regarded as less influential in female college students’ decision making process.
According to the survey result, performance risk is ranked as the first one. This result is in line with the previous study which shows that performance risk is most influential in consumers’ decision making process (Zheng et al., 263). This might result from the nature of online shopping that consumers are unable to physically touch or see the products themselves. Especially for apparel shopping, size appears to be very important. Consumers’ inability to try on the clothes cause their uncertainty of consequences of purchased clothes. One interviewee said that few retailers offer complete try report which includes the sizes that different people might wear as references for consumers to look at so they can choose the accurate size more easily.

In addition, five interviewees all complained that the clothes they received are sometimes very different from that shown in website. Consumers said the photos were airbrushed by the retailers so it is difficult to see how the real clothes look like.

The other highest ranking risk is time risk. This result is not consistent with the prior studies whose results suggest that time risk is less influential in consumers’ mind (Cheng 22). To further investigate the reasons of the higher score of time risk, this paper includes five interviewees to understand the current situation of apparel online shopping in Taiwan. Four interviewees all said that sometimes, they need to wait for more than seven days or even to a month to receive the clothes they purchased, which means the overall waiting time to receive the clothes is rather long. Usually, if the clothes are in stock, consumers can receive them within three days. However, according to interviewees, many clothes are not in stock. These clothes can only be purchased in advance. That means consumers need to wait for a long time to receive the clothes. According to the retailers, the waiting time will be seven days to a
month. Two of the interviewees said they would avoid buying clothes that are out of stock in order to save time. One interviewee said if she waited for more than two weeks, she would directly cancel the order. Another interviewee said sometimes she even forgot what she bought because the waiting time was too long. In addition to the long waiting time, complicated process of returning and exchanging clothes is a concern for consumers. Because of consumers’ inability to touch the clothes before purchasing, whenever they find that the clothes do not meet their expectations or there are some defects, they need to undergo a complicated process, which they regard as waste of time. Three interviewees claimed that returning clothes is rather time consuming. They need to firstly send out the application form to the consumer service. Then, consumers should package the clothes carefully by themselves. Thirdly, consumers would need to go to convenient stores to send back the clothes or wait for delivery service companies would collect the clothes. To simplify the process, some retailers only accept returning clothes instead of exchanging, which means that if consumers want to change the size or color, they need to return the clothes and make a new order to get a correct one. In short, in the context of Taiwan, female college students would have higher time risk in online apparel shopping because the time of waiting for pre-ordered clothes is long and returning and exchanging systems are complicated.

The third ranking is privacy risk. Three interviewees said that they are concerned about online transaction that requires credit card information. Credit card fraud that happens frequently arouses their anxiety and uncertainty to use online transaction. Moreover, one interviewee said although she has a secondary card, she dares not to
use that in case the money loss which her parents would be very angry with. Other interviewees declare that they would not buy the clothes if the only method of payment is online transaction. Their responses indicate that female college students who are not financially independent are very concerned about the security of using credit card online. When it comes to the other aspect that whether consumers think the websites would collect their personal information and expose them, female college students seem to be less concerned. Three interviewees claim that when buying clothes online, they don’t need to give many detailed personal information. Hence, they are more relieved in this aspect. However, one interviewee said that she is concerned about the exposure and misuse of personal information because she had an experience that an unknown person who claimed to be the seller contacted her and asked her to do online transaction. This case was later claimed by the retailers to be an Internet fraud.

The fourth ranking is psychological risk. Over 50% of college female students chose no opinions when the question asks whether they would be afraid of having negative emotion such as disappointment because the purchased clothes do not meet their desire and expectations. Five interviewees all said that they do not feel stronger negative emotion if the purchased clothes do not perform as they expected. Because their negative emotions are not very strong, the ranking of psychological risk appears to be less influential in decision making process.

The other two risks, financial and social are seen as less influential for female college students. As for financial risk, it refers to the anxiety of potential money loss. Female college students are less concerned about this risk because they only buy
cheap clothes online. Besides, if female students do not like the clothes, they can simply return them and receive refunds. Thus, they will not lose money which caused by buying the clothes that do not meet their needs. Lastly, the lowest score is social risk. It seems that college students are mature enough to make their own purchasing decisions without the influences or approval from family or friends. Two interviewees said their parents do not interfere their purchasing behaviors. They can decide by themselves how to use their pocket money or the money earned from part-time jobs. Therefore, they do not have concerns about social risk when shopping online.
<table>
<thead>
<tr>
<th>Ranking</th>
<th>Type of Risk</th>
<th>Preferable Risk Reduction Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Performance risk</td>
<td>1. Information 70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Experience 57%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Exchange 55%</td>
</tr>
<tr>
<td>2</td>
<td>Time risk</td>
<td>1. Exchange 61%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Information 57%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Experience 57%</td>
</tr>
<tr>
<td>3</td>
<td>Privacy risk</td>
<td>1. Payment security 63%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Experience 50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Reputation 47%</td>
</tr>
<tr>
<td>4</td>
<td>Psychological risk</td>
<td>1. Information 82%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Experience 73%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Exchange 68%</td>
</tr>
<tr>
<td>5</td>
<td>Financial risk</td>
<td>1. Payment security 86%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Experience 79%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Reputation 77%</td>
</tr>
<tr>
<td>6</td>
<td>Social risk</td>
<td>1. Reputation 50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1. Word of Mouth 50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Experience 46%</td>
</tr>
</tbody>
</table>

Fig.3 The preferable risk reduction strategies of each risk
After investigating the reasons why performance, time and privacy risks are influential while psychological, financial, and social risks are less influential, it’s crucial for marketers to know the effective and relevant strategies to reduce those influential risks. Among all the seven risk reduction strategies, information, experience, money-back guarantee are strongly effective while reputation is effective. Clear information, according to the survey result, can reduce performance and time risks which are the most two influential risks. Nowadays, the information of the size provided by retailers becomes much more clear than that in the past. Three interviewees say that some online stores even provide try report which shows the clear sizes that different shapes of people wear. This report can be good references for consumers to accurately choose the right sizes. According to the interviewees, more and more retailers are aware of size problem and willing to provide clear try report. However, the materials and colors of the clothes are indeed their concerns. Consumers find it very difficult to judge the materials and colors of the clothes from the websites. Therefore, this paper suggests retailers put on some closer pictures without airbrushing so consumers may be able to see the details of clothes including its materials and colors. By providing various try report and closer pictures, the overall information of clothes would be much clear and successfully lower consumers’ risk perception.

Another risk reliever, experience, is strongly positive in reducing consumers’ performance, time, privacy and psychological risks. It is understandable that if consumers buy clothes from the brands or retailers that they had positive experience with, they can surely save much time searching for the other consumers’ reviews and
rating of the shops. Their trust toward the brand or retailers also leads to trust in the clothes themselves. As previous studies mentioned, experience is proved to be useful in increasing consumers’ purchase intention. Experience positively associates with consumers’ ease and relief of buying clothes that they couldn’t touch or see before purchasing.

The third significant risk reduction strategy is money-back guarantee. The risks that can be reduced by this reliever are performance, time and psychological risk. According to the survey, many female college students concern about the waste of time in the complicated process of exchanging or returning the clothes. The flexibility and easiness of exchanging of the products would be helpful to lower consumers’ doubt and anxiety of waste of time. Similarly, consumers won’t be too worried when purchasing the clothes online because they can easily exchange the products if the size is wrong or even return the products and receive refunds. Moreover, the possible disappointment can be decreased if consumers can easily replace those clothes they don’t like.

These three relievers, information, experience, and money back guarantee are strongly effective in decreasing consumers’ higher ranking perceived risks such as time, performance, privacy and psychological. The following risk reliever, reputation, is proved to be positively in lowering consumers’ main concerns but not as strong as the three strategies that previously discussed. The good reputation of the retailers or brand helps consumers save much time searching for other consumers’ comments and to make their purchase decisions more quickly. Consistent with the prior researches, reputation lowers consumers’ concerns and anxiety of the performance of products.
For E-consumers, good reputation leads to the perception of well-protection of private information and less likelihood of Internet fraud. The good reputation can overall make consumers less anxious about the possible disappoint of their online purchasing. The two least preferable risk relievers are endorsement and word of mouth. Some of the online retailers like to invite famous bloggers or celebrities to promote their clothes by posting pictures on blogs, Facebook or Instagram. Nevertheless, the effectiveness, as proved in this paper, turns out to be very limited. In the survey, less than 20% of female college students think this strategy can reduce their risk perception. The other method word of mouth mostly ranked as the fifth or sixth among all the seven risk reduction. According to previous studies, word of mouth positively relates to decrease consumers’ overall risk perception but it might not strong enough to reduce female college students’ risk perception, compared with the top three risk reduction strategies.

In conclusion, this paper proves that the six risk dimensions are not equally influential in consumers’ decision making process. For the online retailers in Taiwan, they need to know that performance, time and privacy risks are more influential than psychological, financial and social risks. As the research shows, the effective strategies to reduce the top three risks are clear information, experience, money-back guarantee and reputation. By knowing consumers’ concerns and adopting the effective strategies, retailers can engage more consumers to generate profits.

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Works Cited


