

The factors
contributing to risk
perception
management essay



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This part of the study will discuss on the several factors of perception of risks, the various elements that affect purchase intention, how to reduce perceived risks and methods to improve the purchase of a product. However, before elaborating on these issues, it is important to understand what perception is and how it is affected.

Definition of Perception

Perception, broadly speaking, is a biological and cognitive function (Esperanza, 2001). However, this definition is vague. A clearer definition could be that perception is concerned with the process by which our five senses are organized and interpreted (Solomon & Rabolt, 2004). This definition is supported by other authors. Perception can be defined as the process by which an individual selects, organizes and interprets stimuli into a meaningful and coherent picture of the world (Schiffman and Kanuk, 2000) People can form different perceptions of the same stimulus because of 3 perceptual processes: selective attention, selective distortion, and selective retention (Kotler, 2004). Perception is concerned with how individual see and make sense of their environment (Fill, 2002). Perception also leads to decision making and the decisions to act or not to act depends on how you develop motivation (Kotler, 2003).

Factors affecting perception

Individual factors

Perception is affected by individual factors namely taste, odor, information, health belief, nutritional product, familiarity and brand loyalty (Kronl et al, 1982).

Country of origin(COO)

A research by Sanyal and Datta (2011 cited Lusk 2006, pp 132) stated that country of origin is frequently associated with product quality. The various effect of country of origin affects product beliefs and perception for brands with different levels of equity (Hui and Zhou, 2003). Based on these researches, it is expected that COO information will have a great impact on brand image perception (Kouba, 2008).

Sales person Behavior

The quality of sales interaction with customers is also a strong element influencing consumer perception of value and the ability to attract customers and build upon a good experience which lead to loyalty is highly affected by sales person's behavior (Kapoor & Kulshreshta, 2009).

Emotions.

Several studies have stated the outcome and variables pertaining to emotions and how it affects perception of products. Several studies have stated the outcome and variables pertaining to emotions and how it affects perception of products. Regret is one among the outcome (Bui et al, 2011). The study of Dube and Menon (2000 cited Mano, Oliver, 1993; Oliver, 1993; Richins, 1997 pp 288) revealed that consumption emotions are the affective responses to one's perception of the set of attributes that constitute a product or service performance. A positive perception about performances will lead to positive emotions and vice versa (Dube & Menon, 2000).

Price promotion

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Price perception influence perception for quality leading to a positive perceived value, but product price has a cost also which can impact negatively on the perceived value (Xia et al, 2009). The research made by Gamliel and Herstein (2012 cited Sinha and Smith 2000 pp 1217) explained that the promotional message and the way the price information is presented influence consumer perceptions of prices and their intention to purchase.

2. 2 Definition of perceived risks

In a research by Kesharwani and bisht (2012 cited Bauer 1960 pp 307) denoted that perception of risk was firstly defined as unexpected and uncertain consequences of an unpleasant nature resulting from the product purchase. Perceived risks concerned the uncertainty of a proposed purchase and the outcomes that will result from a decision to purchase a product (Jill, 2009). In a study Snøj et al (2004 cited Sweeny et al 1999 pp 159) Perceived risk is associated with some degree of loss. Perceived risk occurs as the result of a choice decision which can only be known in the future, the consumer is obliged to deal with uncertainty and to the extent that they realize they may not attain all buying goals (Mitchell, 1998). Perceived risk is concerned with the purchase of different products having different levels of risks (Bayon & Wangenheim, 2004).

Concept of perceived risks

There are usually five components of perception of risks and they are physical, performance, financial, time and psychological (Mitchell, 1998a). However other researchers found other components of risks. One prominent

risk also is the social risk which might be present although the other types of risks absent (Mitchell, 1999). These are discussed in details below:

Financial risk

Financial risk is concerned with the potential monetary expenditure related to the purchase price and the cost of maintaining the product (Akturan & Tezcan, 2012). It has also been held that financial risk can be explained as the probability of losing money from buying unfamiliar brand (Beneke et al, 2012). This type of risk implies that the price of the product is not worth the product's quality (Schiffman and Kanuk, 2004).

Performance risk

Performance risk is the consequences related with a product that does not meet the expectations of customers (Hornibrook et al, 2005). It also shows that consumers are afraid that a product will not perform well based on its benefits promised. (Beneke et al, 2012). Performance risk can also be the case due the taste and the dangerous contents of the product (Yeung & Morris, 2001).

Time risk

Time risk is the perception that it will take too much time to adopt and get used to a product (Hirunyawipada & Paswan, 2006). In short time risk refers to the time taken in terms of travelling and waiting to buy a product. (Mitchell, 1998).

Social risk

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Social risk is concerned about the possibility that a product or service in use will affect the way others think about a person (Tan, 2002). It occurs due to fear of being out of fashion when using or wearing a particular product (Burgess, 2003). Social risk results in losing social status from using a product. (Dean, 2011).

Psychological risk.

Psychological risk is defined as the experience of worry or mental discomfort arising from the purchase of a product (Perugini & Bagozzi, 1999). Yi Lin and Wen Chen (2009) define psychological risk as “ the chances of the specific purchase being inconsistent with the personal or self image of the traveler”. Psychological risk is linked to social risk and it suggests the consequences of making a wrong purchase which can impact on the feeling and psychology of the consumer (Beneke et al, 2012).

Physical/Health risk.

This is concerned with the adverse health consequences that consumers believe can encounter in the purchase of a product. (Yeung & Morris, 2001b). The impact of this is absenteeism from work which is thought by customers (Yeung & Morris, 2001a).

Factors contributing to risk perception

Product involvement

Quester and Lim (2003) define “ product involvement reflects the perceived relevance of the product category to the individual on an ongoing process”.

Perception of risk is a type of product involvement and has been determined as a consequence of product involvement (Dholakia, 2001).

Trust

There is a negative relationship between trust and perceived risk (D'Alessandro et al, 2012). That is, the lower the trust in a product, the higher the perceived risks (Yen, 2010). There are four types of relationship between trust and perceived risk; the first is that perceived risk reduce the relationship between consumers' trust and intent to purchase; secondly, perceived risk go before consumers' trust; thirdly, trust go before perceived risk and finally the relationship between these two are reciprocal (Chang & Wen, 2008).

Personal factors

In the study of Becker (2011 cited Armas 2006 pp 424) is that one cause is gender, whereby women are more likely to be constraints to risks compared to men who are more risk takers This author also ruggested in his study that There are also other important factors like income level (Johnson, 2004 pp 3); education (Sjoberg, 2000 pp 3), age (Sjoberg, 1998 pp 3) and personality traits (Chauvin et al, 2007 pp 3) which affect perception to risk.

Brand familiarity

When consumers are not familiar with a brand, their perceived risks rise (Park & Stoel, 2005).

Knowledge

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Low knowledge increase perceived risk of consumers and vice versa (Tuu & Olsen, 2012).

Store brands and national brands

Store brands are perceived as inferior when making a purchasing leading to rise in risk perception (Mieres et al, 2006).

Packaging

When perceived risk is high, the consumer always focuses on packaging (Celhay & Passbois, 2011).

Price

In the study of Xu and Shao (2010 cited Lim 2003 pp 515) stated that price is one element that affect perception of risk.

Buying decision process

Any consumers will go through a set of stages concerning the purchase of a product. This has been explained by Kotler who suggest five steps to consumer buying process such as follow:

Problem recognition

Information search

Evaluation of alternatives

Purchase decision

Post purchase decision

(Source: Kotler & Keller, 2008, marketing management)

The process is explained as follows:

Problem Recognition

The first stage implies that consumers have identified perceived risk when they recognize the need for a product (Cunningham et al, 2005).

Information search

After recognizing the need to buy a product, consumers start to look for information from personal (friends and family and public (doctors, web logs and travel agencies) sources to decide which brands to buy as they have many choices (Kotler & Keller, 2009). Information is important to customers to prevent negative impacts related to a poor choice from the purchase of a product (Mullins & Walker, 2012).

Evaluation of alternatives

After searching for information about various brands, customers still find it hard to compare them as some brands may appear better than the others and as such consider comparing the most familiar brands based on product attributes to ease their choice (Mullins & Walker, 2012).

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Purchase decision

At this level, to the customers' perspectives, questions such as " Is acquiring a product stressful and what does the purchase say about the customer? And from a marketing perspective question like " how do situational factors like time pressure affect consumer purchase decision? (Solomon & Robolt, 2004). Purchase decisions are influenced by perceived risks (Kotler & Keller, 2008). It has also been found that when customers perceive negative potential results from the purchase of a product, the level of perceived risk rise (Delvecchio & Smith, 2005). Purchase decision is also affected by situational factors like physical area, people's surroundings, moral states of the person and time condition (Zhuang et al, 2006).

Post purchase decision

This last stage is concerned with the level of customer satisfaction and dissatisfaction after the purchase of a product (Moliner et al, 2007). A research by Lin and Chen (2009 cited Pieres et al 2004 pp 34) denoted that perceived risks are likely to increase depending on whether actual purchase differs from buying goals. The study of Tuu and Olsen (2012 cited Grewal et al, 2007 pp 82) revealed that post purchase perceived risk affect the intention to purchase a product. A research by Tuu et al (2011 cited wu & Chang 2007 pp 366) revealed that satisfaction has a great impact on consumer loyalty, especially those with higher confidence level and (cited Nijssen et al., 2003; Pritchard et al, 1999 pp 367) added that loyalty can result in repurchase behavior and intention to purchase.

Theory of planned behavior (TPB).

The TPB (Ajzen, 1991) is a model which encompasses three main factors namely attitudes, Social norms and perceived behavioral control. Several factors affect intention to purchase a product. The proposed model is shown below:

Attitude

Intention to purchase

Risk reducing strategies

Perceived risk

(Source: Based on Ajzen, 1991)

Intention to purchase

Chen and lin (2009) defines this as “ purchase intention represent what we think we will buy”.

Attitude

Attitude is concerned with the positive and negative feeling of performing a behavior (Jin & Kan, 2011). Attitude is the most powerful factor that influence purchase intent according to the TPB (Hernan et al, 2012). It is also seen to be having a positive relationship with the intention to purchase a product (Alam & Sayuti, 2011). That is, a negative attitude would lead to rejection of a purchase while a positive attitude a purchase behavior. This is also

supported by other authors. They stated that there is a strong relationship between attitudes and intention to purchase (Thompson et al, 1994).

Perceived risk

The research of Tuu and Olsen (2012 cited Grewal et al, 2007 pp 82) also stated that perceived risks have negative consequences on (re)purchase intention. It also affects the behavior of strategies to reduce risk perception (Xu et al, 2010).

Risk reducing strategies

When there are high levels of perceived risks, consumers are likely to reduce these risks (Yeung & Yee, 2003). The research of Stoel and Ha (2004 cited Kim and Lenon 2000 pp 383) denoted that there is an inverse relationship between information available and perceived risks. In order to ensure their purchase, consumers should try to eliminate the risks that are likely to occur (Zhang & Lu, 2001). A study by Bao et al (2011 cited Gurnan et al 2004 pp 449) stated that when consumers face high risk situation, they will look for various forms of information. Several risk reducing strategies exist and these are discussed below:

Word of mouth

Word of mouth helps to increase the knowledge about a product (Harmancioglu et al, 2009). However, the impact on word of mouth on consumer intention to purchase a product can be both negative and positive, but still consumers are relying on this phenomenon to evaluate products to make a purchase (Lin and Lu, 2010). In the research of Wangenheim and <https://assignbuster.com/the-factors-contributing-to-risk-perception-management-essay/>

Bayon (2004 cited Murray 1991 pp 1173) suggested that word of mouth in the decision making process reduce risks related to the decisions to make a purchase.

Packaging and labeling

Through its written information, packaging helps consumers in making their decisions as they are able to know about the product characteristics (Silayo & Speece, 2004). In the study of Tuu and Olsen (2012 cited Pienak et al 2007 pp 83) denoted that product labeling can help consumers to gain more information about a product and as such influence their purchase intention.

Free trial/ Free sample.

Free tasting is an original promotional strategy to get customers to try the product without having to be forced to buy the goods (Lockshin & Knott, 2009).

Experience

Experience has to do with consumers who little by little acquire confidence about a product through direct touch which in turn can improve the consumers' understanding about it (Zhang & Liu, 2011). There is a decrease in level of perceived risks when someone's experience increases concerning usage of a product (Dean, 2010). In the study of Dean (2010 cited Morgan & Steven 2008 pp 215) implied that there is a negative relationship between experience and risk perception.

Store image

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