



Discussion paper

Consumers' perceived post purchase risk in luxury services



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ABSTRACT

The objectives of this study are to: (1) define the concept of perceived post purchase (3P) luxury risk and (2) develop and validate a psychometrically sound 3P Luxury Risk Scale. A qualitative study and two field studies were conducted to develop and test the scale, and to examine the predictive validity of 3P luxury risk in a nomological network of word-of-mouth (WOM). The survey data is gathered from 333 actual customers of five golf clubs. Integrating structural equation modeling with propensity score analysis, the results of Study 1 reveal that 12 items adequately capture the dimensions of 3P luxury risk. After controlling for framing effects, the results of Study 2 indicate that all of the dimensions of 3P luxury risk negatively influence WOM. This article attempts to shed a new light on the realm of luxury risk studies incorporating normative and behavioral decision-making approaches.

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1. Introduction

A luxury-spending boom trend is currently emerging in the contemporary service industry market. In the United States, the growth rate of consumers' luxury spending is four times faster than that of their overall spending (Luxury Institute, 2015). Indeed, the value of the current luxury hospitality market has reached US \$100 billion (Bain Luxury Study, 2014).

Luxury services tend to deliver unique benefits primarily in the forms of experiential enjoyment and symbolic value. For example, consumers in a private golf club actively seek to develop their social capital by categorizing themselves as part of a special group membership characterized by exclusive benefits and high-end service quality (Yang and Mattila, 2013). However, the nature of luxury services make it complicated for consumers to evaluate and quantify the benefits and undesirable consequences of consuming luxuries. Thus, it is difficult to construct consumption justification for luxury consumers (Shafir et al., 1993).

Considering the industry phenomenon of luxury fever and unique characteristics associated with luxury consumption, it is important to develop an in-depth understanding of luxury consumers' perceived risk. Akada (2005) found that consumers perceive higher risk for a hedonic product like luxuries than for

a utilitarian product, although their estimated total utilities are equivalent. This result contradicts the basic tenet of normative choice models assuming that people often choose the option with the highest weighted utility among alternatives under uncertainty (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992).

Going further, understanding perceived post-purchase (3P) risk is critical to luxury services consumption because service products often require repeated interactions. Unpredicted negative outcomes associated with the service consumption may not be fully resolved by the initial service encounter (Grewal et al., 2007), but may remain in subsequent consumption judgments (Mitchell and Boustani, 1994). In addition, marketers of luxury services often target a niche market. In this case, minimizing negative post-purchase risk is very important in maintaining and satisfying consumers' luxury desire (Chiu et al., 2014; Grewal et al., 2007; Han and Ryu, 2012; Wilson et al., 2012; Yadav et al., 2013).

Luxury consumers often actively engage in word-of-mouth (WOM) behaviors and express their wealth and sumptuous spending to enhance their social status (Yang and Mattila, 2013). Understanding WOM associated with risk perception is especially important because both satisfied and unsatisfied consumers actively share their consumption experiences (Lang, 2011). As of now, little is known about how 3P luxury risk influences WOM in the customer-to-customer sector of luxury services. Additionally, management scholars suggest that perceived risk is a multi-dimensional construct (e.g., Boshoff, 2002; Chang and Tseng, 2011; Chen, 2013; Tsiros and Heilman, 2005). However, little research has

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been done to explore the nature and dimensionality of 3P risk in the luxury literature.

Accordingly, the objectives of this study are to: (1) define the concept of 3P risk with regard to luxury services and (2) develop and validate a psychometrically sound 3P Luxury Risk Scale. For the purposes of this study, we reviewed the theoretical background on post-purchase risk from both behavioral economics and management perspectives. To establish predictive validity of the 3P luxury risk scale, the researchers examined the influence of 3P risk upon consumers' WOM recommendation intention. The current study makes theoretical contributions to the luxury services literature by offering an expanded view of 3P luxury risk and suggesting a reliable and valid measurement tool for future systematic research. The results also benefit industry leaders by clarifying luxury consumers' post-purchase risk perceptions with regard to their consumption experiences.

2. Theoretical background

2.1. Understanding 3P risk from a behavioral economics perspective

Perceived post-purchase (3P) risk refers to the probability distribution of uncertain outcomes after a purchase (Grewal et al., 2007). To clearly understand the concept of 3P risk, it is necessary to explore the difference between the terms "risk" and "uncertainty" since the two terms are often used interchangeably in the service management and consumer behavior literature (Mitchell, 1999). Risk researchers in behavioral economics assume uncertainty includes both negative and positive outcomes. For example, cumulative prospect theory (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992) suggests that in a given choice situation, people do not interpret outcomes (or utilities) as final states; rather, they treat specific aspects of alternatives as either gains (benefits) or losses (risks) depending on their reference point (or status quo or adaptation level). Once people have framed specific aspects of the alternatives as either benefits or risks, they estimate the utility of each attribute in the alternative; this can be described as the sum of the individually weighted utilities. Therefore, in contrast to the risk approach that highlights the end-state of a decision in management (Boshoff, 2002; Stone and Gronhaug, 1993), the uncertainty approach emphasizes the process involved in reaching a final decision from a behavioral economic perspective.

Another critical difference between the two approaches (i.e., risk vs. uncertainty) is whether they explain risk-taking (and risk-aversion) behavior. Quite simply, risk-taking refers to the implementation of a selection decision that could lead to negative consequences (Byrnes et al., 1999). For example, Kahneman and Tversky (1979) compared a decision task between two alternatives: (A) 80% chance of a \$1000 penalty and (B) 100% chance of a \$500 penalty. Although the potential amount of loss is greater in option A than in option B, a majority of subjects preferred option A, thus displaying a risk-taking tendency. This finding is contradictory to the traditional assumption of risk-based normative choice models, which claim that consumers act to minimize any expected negative utility associated with repurchase behavior (i.e., option B is preferred; Kahneman and Tversky, 1984).

Similarly, Akada (2005) showed that consumers rated the hedonic alternative higher when hedonic and utilitarian alternatives were presented separately. On the other hand, the utilitarian alternative was preferred over the hedonic alternative when the two options were presented jointly. Therefore, although the overall utilities of each alternative were equivalent across two choice situations, consumers displayed different consumption patterns. In other words, consumers showed risk-taking behavior in the sep-

arate choice situation, as they preferred hedonic products to the utilitarian ones, but they exhibited risk-aversion for the joint situations as they had less preference for the hedonic ones.

By adopting and modifying existing definitions of risk and uncertainty in the fields of service management, consumer behavior, and behavioral economics (Dowling and Staelin, 1994; Grewal et al., 2007; Kahneman and Tversky, 1979; Mitchell and Boustani, 1994; Tversky and Kahneman, 1992; Witte et al., 2008) in the current study, we define perceived post-purchase (3P) as *consumers' perceived uncertainty regarding negative consequences after consuming a product*. Minimizing 3P risk has been suggested as one of the primary factors in developing repeat consumer patronage as well as long-term service business success. In service contexts where repeated interactions are required, it may not be possible to dispel pre-purchase risk completely during the initial service encounter, thus the remaining risk associated with the product tends to loom larger in subsequent consumption judgments (Grewal et al., 2007). In other words, consumers often make subsequent consumption decisions in a way that minimizes any unresolved uncertainty regarding negative consequences created in previous consumption occasions.

2.2. 3P risk in luxury services

In the fields of service management and consumer behavior, the concept of luxury has not been thoroughly examined. Sekora (1977) conceptualized luxury products as any objects that the consumer does not need. The Oxford Latin Dictionary (1992) defines luxury as extravagant living, over-indulgence, sumptuousness, and opulence. However, these simple definitions lack an explanation of the assumptions of nonlinear preference constructions suggested by Tversky and Kahneman (1992). For example, variations in the framing of alternatives in a repurchasing situation may yield different preferences as well as different levels of luxury conception. Thus, depending on the consumer's current assets (or a certain reference point), the same level of luxury services may be perceived as an extreme luxury for one person and a non-luxury for another.

To address this phenomenon, Tynan et al. (2010) suggested that the concepts of luxury and non-luxury exist on the same continuum, so the place where the ordinary ends and luxury begins is dependent upon the consumer's judgment. They also identified key attributes that help differentiate luxuries from non-luxuries. Following the authors' approach, luxuries can be characterized as high quality, expensive and non-essential products that appear to be rare, exclusive, prestigious, and authentic, offering high levels of symbolic, emotional, and hedonic values to the customer. Similarly, Alleres (1990) suggests the concept of luxury continuum existing in consumers' mind. More specifically, according to consumers' subjective accessibility perception toward a product, luxuries can be categorized into (a) inaccessible (high-end luxury products) targeted to a niche market, and (b) accessible luxuries targeted to a mass market. Taken together, it is hypothesized that the extent to which a product displays the aforementioned attributes determines the levels of luxury (Tynan et al., 2010).

Given the definition of 3P risk, a systematic understanding of this concept in the luxury service context becomes critical for three main reasons. First, luxuries are mostly consumed to satisfy symbolic and hedonic desire (Kastanakis and Balabanis, 2012). Therefore, it is difficult to find a consistent and rational justification for their consumption (Shafir et al., 1993); this difficulty, in turn, creates a large amount of uncertainty (Shafir et al., 1993). Second, even though luxuries are mainly symbolic and hedonic in nature, they could also exhibit utilitarian aspects to some degree (e.g., craftsmanship; Tynan et al., 2010). This engenders uncertainties due to the increased variability and dimensionality of perceived risks. Lastly, luxury services (e.g., premium seating options at a

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