



Identifying the determinants of online retail patronage: A perceived-risk perspective



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ABSTRACT

The literature has examined the determinants of retail patronage from various perspectives, however, its online counterpart has received less attention. This study adapts a perceived-risk perspective to identify the antecedents of online retailers' service quality and subsequent online patronage behavior. In addition, the contextual role of security concerns is also examined. Data were collected from online shoppers, and PLS-SEM was used for analysis. The results indicate that product quality, price transparency, and website convenience are positively associated with service quality. In addition, security concerns negatively moderate the relationship between service quality and online retail patronage. Implications for research and managers are discussed.

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1. Introduction

Retail patronage and its possible determinants have been widely discussed in the literature (Grewal et al., 1998; Lee and Yang, 2013; Pan and Zinkhan, 2006; Sirgy et al., 2000). Online retail patronage, on the other hand, has been examined to lesser degree in the literature (Cho, 2015; Emrich and Verhoef, 2015; Ganesh et al., 2010). Previous literature examining the determinants of online retail patronage have looked at hedonic and utilitarian motives (Childers et al., 2002; Kim et al., 2007), product assortment and variety (Ganesh et al., 2010), aesthetics (Wang et al., 2011), store perceptions (Ganesh et al., 2010), involvement (Kim et al., 2007), and service related issues (Cho, 2015; Lee and Yang, 2013). Despite the importance of customer perceived risks related with online shopping (privacy, security, financial, and even product-related concerns), few papers look at the risks and contextual factors that affect online retail patronage behaviors (Chang and Tseng, 2013; Cho, 2015).

The importance of examining the risks and contextual factors driving online retail patronage is highlighted by the differences between online and brick-and-mortar retailers such as firm-consumer interactions, technological considerations, shopping experience, etc. These differences lead to higher levels of uncertainty

for customers and subsequently may affect their intentions to re-purchase from those online platforms. In addition, several offline/brick-and-mortar retailers are enhancing their online presence, i.e., multi-channel retailing (Lee and Yang, 2013; Yadav and Pavlou, 2014), which further necessitates the need to understand the impact of these factors in driving online retail patronage. While online retailing is growing at about 15% across various product categories (Enright, 2015), the risks and contextual factors driving online retail patronage may be the deciding factors in sustaining this growth.

Thus, understanding these drivers of patronage intentions provides retail managers with insights to identify and target customers who are likely to purchase products from a given store (Pan and Zinkhan, 2006). The key to a store's success lies in examining the factors leading to customer patronage behavior and designing their marketing and communication strategies accordingly to better serve customers. However, online retailers are currently in a situation where almost two third of the customers in the United States have difficulty in trusting them (Davis, 2015). Around 90% customers are abandoning shopping carts because they are skeptical of online retailers (Leggatt, 2016). Meanwhile, the fact that online retailing encompasses different platforms – such as cell phones, tablets, and smart watches, in addition to computers/laptops – necessitates understanding the drivers of online retail patronage.

As discussed, customers' perceived risks (especially financial and psychological) pose a serious threat to online retailing. While

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online retailers seek to enhance service quality (Lee and Yang, 2013; Parasuraman et al., 1988) to improve patronage intentions, the contextual factors such as security concerns may weaken this relationship. These contextual factors represent the psychological risks that are faced by customers when shopping online (Dowling and Staelin, 1994). Thus, to understand the role of contextual factors in determining online retail patronage, this study first looks at the determinants of service quality perceptions. Next, the impact of the psychological risks that may enhance or weaken the relationship between service quality and online retail patronage is investigated.

Towards this end, the authors develop a conceptual model and hypotheses using the theory of perceived risk (Dowling and Staelin, 1994; Forsythe et al., 2006; Forsythe and Shi, 2003) to examine the role of various risks including product, financial, convenience, and psychological concerns in customers' perceptions of service quality and patronage behavior. Based on previous literature (Forsythe and Shi, 2003; Grewal et al., 2003), we use product assortment and product quality to represent product-related risks, price transparency to represent financial risks, website convenience to capture convenience-related risks, and security concerns to assess psychological risks. While the first three risks are considered direct determinants of service quality which subsequently leads to online retail patronage, the security concerns construct is considered the contextual factor that strengthens or weakens the relationship between perceptions of service quality and patronage behavior.

The importance of this study is highlighted in the fact that several security concerns have diminished the store image (Aghekyan-Simonian et al., 2012), patronage intentions (Vladlena et al., 2015), and shareholders' confidence (Modi et al., 2015). Specifically, the importance of privacy and trust-related factors in online shopping is increasing with the recent security breaches and unscrupulous pricing by several fashion retailers (Toufaily et al., 2013). There have been several concerns raised about the security of shopping online, which may ultimately lead to lower purchase intentions in the future. From a theoretical standpoint, literature has overlooked the role of security concerns in influencing online retail patronage. As contextual factors evolve, it is important to understand the role of these factors in determining customers' online retail patronage behavior. The following section discusses the development of the research model and hypotheses.

2. Theory and hypotheses development

The scope of retail patronage is a debated issue in the literature. However, most authors agree that retail patronage measures the aspect of customers' repurchase intentions (Jones and Reynolds, 2006; Lee and Yang, 2013; Sirgy et al., 2000). While some authors consider loyalty to represent online retail patronage (Cole and Clow, 2011; Hozier and Robles, 1985), we consider repurchase intentions to represent online retail patronage, since it captures the customer willingness to visit the store again. Loyalty, on the other hand, is a complex phenomenon that develops over a period of time through multiple interactions between the customer and retailer, and essentially measures the resilience of the relationship between the two parties (Oliver, 1999).

The literature covering offline retail patronage is quite comprehensive, and three overarching factors – product relevant factors, market relevant factors, and personal factors are seen to play a role in determining retail patronage (Pan and Zinkhan, 2006). Product relevant factors include various product attributes such as quality, assortment and price. Market relevant factors include the extent of service provided by retailers, and finally personal factors include the customer characteristics such as demographics.

However, there exist differences between brick-and-mortar stores and online retailers. Park and Kim (2003) categorize the online store attributes into four areas: merchandise (which is akin to the product level features in online stores), customer service (which continues to remain similar to service level factors), navigation and convenience, and security. Among these factors, navigation and convenience, and security are much more complex in the context of online retailing (Holloway and Beatty, 2003; Kim et al., 2009).

The authors use the theory of perceived risk (Dowling and Staelin, 1994; Forsythe and Shi, 2003) to explain online retail patronage behavior. Perceived risk includes the type and amount of uncertainty perceived by a customer while contemplating a purchase (Cox and Rich, 1964; Dowling and Staelin, 1994; Forsythe et al., 2006; Forsythe and Shi, 2003). Online shopping is considered more risky as compared to shopping offline because of the fear of mismatch (not getting what was wanted), lack of opportunities to examine product prior to purchase, difficulties in return, and frequent suspicion of business practices (Forsythe et al., 2006; Forsythe and Shi, 2003). Today, the risks that are associated with online shopping are the ones revolving around transparency in pricing, and privacy (security of one's information) (Aghekyan-Simonian et al., 2012; Akhter, 2014; Morgan-Thomas and Veloutsou, 2013).

There are four kinds of risks associated with online shopping which include product, financial, time/convenience, and psychological (Grewal et al., 2003). Product performance risk often results from poor product/service choice due to customers' inability to judge the quality of the product/service online (Grewal et al., 2003). Product performance risk refers to the degree to which a product does not perform as expected (Grewal et al., 2003). Barriers such as a customer not being able to touch, feel, and experience the product or service increase the product risk. Financial risk refers to the "net loss of money to a customer" (Forsythe and Shi, 2003, p. 869) while purchasing a product/service online. Although Forsythe and Shi (2003) consider the financial risk to encompass the lack of security of financial information, we believe that it is subsumed into the psychological risk. Therefore, in this study, the financial risk is assumed to capture only the risks related to the price-related concerns (i.e., customers' fear of paying extra) (Nguyen and Klaus, 2013). Time/convenience risk refers to the loss of time and inconvenience incurred due to the difficulty of finding the website, speed of checkout, time involved in receiving the order, and finally confusing interfaces (Forsythe and Shi, 2003). Psychological risk refers to the degree of shame and disappointment/lack of control over the disclosure of information that takes place while shopping online. The recent emphasis on privacy has enhanced customers' psychological risk while purchasing online (Akhter, 2014). This study examines the impact of the aforementioned four risks with a specific focus on financial and psychological risks in determining online retail patronage.

2.1. Product-related concerns

Although literature has discussed several dimensions of the product-related risks (see Pan and Zinkhan, 2006), the most commonly used dimensions are product assortment and product quality. Product assortment is viewed as the variety or number of items that are stored by online retailers (Levy and Weitz, 1995; Pan and Zinkhan, 2006). Recently, online retailers have created the perceptions of having a broader variety of products available to customers as compared to their brick-and-mortar counterparts (Bhatnagar and Syam, 2014; Dukes et al., 2009). Brick-and-mortar stores have started limiting their assortment in order to reduce the inventory carrying costs (Bhatnagar and Syam, 2014; Dukes et al., 2009; Noble et al., 2005). Online retailers, on the other hand, have

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