Risk awareness from the consumer’s side in luxury e-commerce: an empirical study

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The luxury e-business is in the launching phase and not much is known about the risk concerns from the consumer’s side in this field. Are luxury consumers concerned about the same risks treated in the classic risk management literature for e-commerce? Investigation about risk perception of luxury e-commerce is made through an empirical survey of 163 luxury e-shopper. Risk perception is analyzed through its safety, financial, pre- and after-sales dimensions. They show clearly, that luxury consumers do avoid buying online, even if guarantees are offered by a luxury brand. Some potential ways to decrease risk perception are explored.

1. Introduction

Nowadays we still do not know whether luxury jewel and watch brands in general, will integrate their independent physical wholesaler distribution network in their distribution strategy for e-commerce or not. Luxury groups, like LVMH have their own physical and virtual distribution network. Therefore they do not have to face the same risk awareness issues like luxury watch and jewels brands do.

The first ventures of luxury watch brands in e-commerce were launched officially by Montblanc and Cartier in 2008, mostly in the United States. The Chinese market is in a development phase, representing 20 % of the global luxury market (Linker, 2008). More than 60 % of top 10% Chinese earners are under 35 years (Bowman, 2008) and since younger luxury consumers intend to buy more via internet (Besler, 2007) in the United States, risk awareness issues are getting more and more important. Selling results coming from the professional fair SIHH (Salon International de la Haute Horlogerie) in Switzerland, where important watch and jewel brands are selling directly to their physical distribution network, were positive. During the economic crisis, the selling results of January 2009 were satisfied (SIHH, 2009). They have been even optimistic with an increase of professionals’ visitors up 10 % for the edition from January 2010.

As the luxury e-commerce is still very inexperienced in regard to risk awareness and perception in literature, we wanted to contribute with this paper. The perception of risk from the customer's side in luxury e-commerce was targeted and financial and safety awareness analyzed.

After the opinion of luxury bloggers, we do know that there is a need for luxury service offer which comes with luxury e-commerce in general and specifically for pre- and after-sales services (Broillet; Dubosson, 2008, 1880). So, is the risk perception of a buying transaction higher from the luxury consumer's side, in comparison to a physical one? Would a transaction guarantee from a luxury brand decrease the risk perception of the consumer's side? And finally, is the risk perceived as lower if the buying transaction will be realized directly by the luxury brand and not by a physical seller or other independent distribution selling channel?

2. Luxury risk awareness context for luxury e-commerce

Risk awareness was treated in general in connection with consumer attitude toward virtual stores (Lee, 2007). The probability of negatives consequences in case of a problem with a product of a specific brand is even multiplied in comparison to the simple choice of a brand itself (Peter, Ryan, 1976). Therefore, a luxury company should try to avoid those negative likelihoods and consider a risk awareness management as proper duty. Especially, negative experiences from the consumer's side may carry some damage to the brand image. We do know from professionals that luxury brands do take a perfect brand image as a fix component of their business into account. After them, it is a part of their culture values. In general, each complaint of a customer is treated seriously. So-called "exceptions" are considered as "lessons learned". They are integrated in the luxury service process by luxury brands from the field. Batra and Sinha (2000) are underling the impact of a mistake from a company with the discussion about the level of inconvenience of making one for private label brands.

In general appraisal of risk (Conchar, Zinkhan and al., 2004) is to be realized. But most of the luxury watches and jewel brands do not have any experiences in direct selling, because of the independent wholesaler network. Therefore, their risk evaluations are only in an exploratory phase.

It is known that risk awareness has a multidimensional nature of perceived consumer risk (Lee, 2007): performance, financial, safety, social, psychological and time/opportunity dimensions. All those risks do influence the different stages of a consumer decision process (Mitchel, 1992) in general. This is also applicable for the decision process of buying luxury goods on-line.

Social and psychological dimensions risks might be avoided by a direct online presence of a luxury brand. A brand image can be perceived as a sufficient guarantee to prevent fear risks in regard to an ambiguous selling platform for example. Time and opportunity risks can be anticipated through a high performed technology offer, suggesting a real-time service with multiples Web 2.0 solutions (Broillet, Dubosson, Trabichet, 2008) to the luxury consumer for instance.

E-commerce creates especially economic and privacy risks for consumers (Pavlou, 2003). Perceived risks in BtoC e-commerce (Lim, 2003) involve technology, vendor and product issues. Those risk issues are especially important for e-luxury commerce. How do luxury watch and jewel brands, without much direct selling experiences to their final consumers do avoid those types of risks? Might a luxury brand which is selling directly to their final customers online, be perceived as a sufficient guarantee in regard to avoid e-commerce risks? What are the e-consumers needs to be aware of e-commerce risks in regard to luxury virtual purchases?

So, risk aversion is about to avoid inconvenient situations for customers (Hofstede, 1991). Some researches have shown that risk averseness does influence the attitude of a consumer and impact therefore the purchase intention (Lee, 2007) Risk perception seems to influence directly the attitude and the purchase intention of luxury e-consumers.

First of all, we wanted to know whether the risk perception of a luxury consumer is higher or lower in realizing his or her on-line purchases in comparison to the physical shopping opportunities. We do remind that most of the watch and jewel brands do depend on an independent distribution wholesaler network for selling their goods. But do luxury consumers have the same risk perception while buying in physical shops? Therefore, we treated the risk perception in regard to risk awareness concerning complaints with a seller in the shop, bad product presentations and negative pre-and after-sales services experiences in general.

H1: The risk is perceived as higher by realizing luxury purchases via internet than in a physical shop by the buyer.

2.1. Luxury financial risk issues

Payment transaction which has to be realized before e-consumers have received their delivery and transaction process of payment by credit card on itself (Lee, 2007), are part of classic financial risk issues discussion in literature. We didn't find anything about the relation of the level of financial risk perception and the purchase value. Luxury goods are often high level price products, meaning that the risk perception of the consumer's side might even be higher in comparison to usual purchase values via internet. Due to the value problem, luxury brands may decrease the financial risk dimensions through visible transaction guarantees. For example, payment transaction might be secured by specific security labels during the payment by credit card. Some delivery services which are realized by external or internal logistic services might be secured by an official delivery guarantee from the luxury brands side, for instance.

Consumers who do search information about the product before their online purchase decisions and the lack of physical consulting of the product (Lee, 2007, 182), are part of financial risk discussion in e-commerce literature too. Luxury brands can avoid this risk in suggesting his consumers to consult their products through their physical wholesaler network, or suggest direct technologic solutions during their virtual purchase process. The luxury watch brand Hublot is suggesting a real time consulting camera during their virtual purchase process which is shooting the product in a physical shop, for instance. So, luxury consumers can consult their Hublot watch in "real" through this technical opportunity. With this technologic tool, the brand tries to avoid the risk of a product deception from the consumer's side. Product knowledge consulting can be done through Web 2.0 solutions (Broillet, Dubosson, Trabichet, 2008), by means of virtual selling persons, live chat solutions, or others. The luxury jewel brand Chaumet is offering a live chat service to his customers, for example.

Secondly, in case of financial risk issues, a visible transaction guarantee may decrease or even avoid the financial risk perception dimension for the luxury e-consumer. The risk of deception of the luxury product which is also a part of financial risk in literature was treated separately.

H2: Visible transaction guarantees do decrease or even cancel a perceived financial risk.

2.2. Luxury pre- and after-sales risk issues

As already mentioned, most of the luxury watches and jewels brands do distribute their products through an independent wholesaler network. After luxury blogger discourses analysis, a real need of Web-services in the luxury sector (Broillet, Dubosson, Trabichet, 2008) does exist, from the beginning of the virtual purchase process to the after-sales service needs. There is a big gap between the pre- and after-sales service offer from the luxury brand and luxury e-consumers needs.

Especially, the risk in regard to information service needs about the product itself, but also about the after-sales process services, is increasing with a non-existing offer from the luxury brand. After professionals, it is the wholesaler who is answering directly to pre- and after-sales service needs from the luxury consumer in most cases. So, do luxury consumers who are already used to explain their pre- and after-sales issues in a physical shop, prefer to find the same distribution contacts for their virtual pre- and after-sales needs to avoid pre- and after-sales risks?

From professionals we know that luxury consumers are in general used to their direct selling contacts. Therefore, they may decrease the pre- and after-sales risk issues in purchasing directly from an official selling platform which they already know.

H3: The perceived risk of a luxury buying process via internet is lower by purchasing directly from an official distribution platform (like Bergdorf, Goodman, Harrod's, Bloodmingdale's…) than directly from a luxury brand.

2.3. Luxury risk awareness dimensions for e-commerce

The main research question analyzed in this article is risk awareness from the consumer's side in luxury e-commerce. We compare online shopping with physical purchases, always from the consumers' point of view. That's why we have chosen to focus on five different dimensions to study risk perception of luxury purchases via internet: 1) Financial transactions risk 2) Product deception risk 3) Price risk 4) Delivery risk and 5) Pre and after-sales risk.

Financial transaction risk concerns the risk involved in payment by credit card. The following statement was submitted to consumers: *"I do not like to buy luxury products from the internet because I am frightened paying with my credit card"*. The risk of paying with a credit card is supposed to be perceived as higher than that of a transaction in a physical shop.

Product deception risk deals with the risk of the product itself. The following statement was submitted: *"I prefer buying in a luxury shop because I fear that the ordered product do not correspond to what I expected and imagined."* This means that luxury consumers have to consult the product in reality, for getting an idea about their purchase intentions. Consequently, they consider it more risky to buy their luxury goods online. Being able to touch and feel them physically before buying, is supposed to cancel this risk perception.

Price risk is related with the believed difficulty of getting online the total price of the luxury product. In many cases, delivery costs and duties are difficult to anticipate for the luxury e-consumer. Therefore luxury consumers could not be able to compute the final price. As a consequence, it could be perceived more risky to buy online, in comparison with physical shopping opportunities.

Delivery risk is a consequence of a possible dysfunction in the e-shopping platform. Luxury consumers may fear not to receive their products after having ordered and paid it via internet. They could find too risky to get their luxury products based on internet transactions, instead of getting them delivered by a physical shop.

Pre- and after-sales risk is due to the assumption that luxury consumers cannot explain their pre- and after-sale issue to a physical person.

3. Research method

The methodology used to address the research question is based on a questionnaire survey. We conducted this survey from August 2008 to January 2009, with an online questionnaire including 19 main questions, varying between closed and open ones. We wrote it in English and in French. First, the questionnaire went through a pre-test phase, in both languages, in order to identify issues poorly formulated or poorly understood. The final questionnaire asks about fifteen minutes to complete and can be found at http://campus.hesge.ch/luxe/sondages.

We opted for the "snow ball technique" (Ganzaroli; Tezza, 2009), meaning that we used our social and professional network to get it circulated. We tried to get the spread up of our questionnaire independent. Our questionnaire was specific to luxury issues; therefore mostly consumers in luxury goods and active in e-shopping returned it completely filled in.

We got 163 valid questionnaires for this research, whose data has been analyzed with the SPSS statistical software. We have integrated in our results not only luxury consumers who have already realized online luxury purchases, but also luxury consumers who didn't, but already bought in physical shops. The aim is to analyze attitude toward risk from all luxury consumers.

We setted up a 5% significance level for type 1 error. Variables associated with our research questions are expressed as a Likert scale, i.e. respondents specify a given level of agreement to statements. The Likert scale (Likert; Rensis, 1932) is intentionally composed of an odd number of levels: "Disagree", "Rather disagree", "Rather agree" and "Fully agree", to avoid the no-decision problem, in which respondents choose mainly the no preference level. During the analysis process, auxiliary binary variables have been created, grouping the two first levels together and the two last levels together, so that proportions are available. Statistical tests ~~,~~ and confidence intervals computation have been conducted on those auxiliary variables.

4. Discussion of major results

Our sample is composed of 41% male and 59% female, from 20 different countries, 79% city dweller and 21% rural, earning per year "less than 50 K $" (29%), "50'000-100'000 $" (31%), "100-200 K $" (24%), "more than 200 K $" (16%). The proportion of respondent by age is the following: "below 20 years" (12%), "21 and 30 years" (42%), "31and 40 years" (25%), "41 and 50" (14%), "51 and 65" (8%). Preliminary results have shown no significant correlations with sex or country variables.

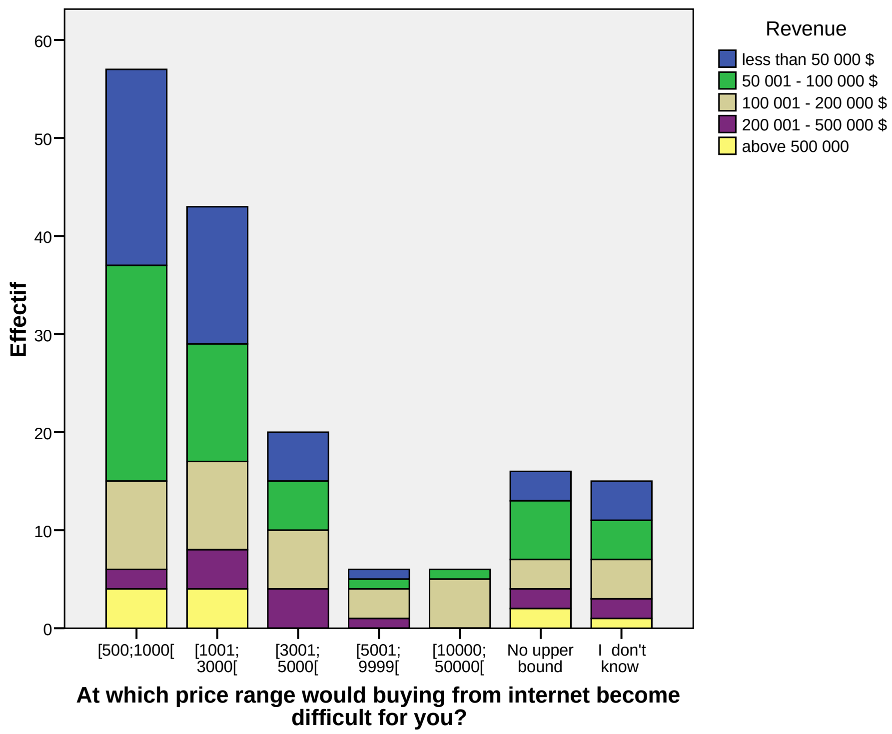

Fig. 1: E-buying intentions from luxury consumers and linked price limits

Financial transaction risk. About one third, 95% confidence interval is [0.27; 0.39], of our sample does not like to buy via internet because of security reasons. It is also interesting to note that even if there is an explicit transaction guarantee, this financial transaction risk does not significantly decrease (i.e. the 95% confidence interval is similar: [0.24;0.35]). The result is significant (p-value < 0.001).

Product deception risk. Product deception risk concerns about 70% of the sample (95% confidence interval [0.65; 0.77]), which is a very high percentage. This fact could mean that luxury consumers need a touch and feel process before buying. The result is significant (p-value < 0.001). *Price risk.* Four luxury buyers out of ten prefer to buy in a physical shop because of the difficulty of total price knowledge (95% confidence interval is [0.35; 0.48]). Therefore we suggest the seller to either specify within the buying process the total amount of price or at least give an upper bound on the total price. The result is significant (p-value = 0.034).

Delivery risk. About 44% of respondents are concerned with this risk (95% confidence interval is [0.37; 0.5]). But this result is not significant, since p-value = 0.1.

Pre- and after-sales risk. More than half of luxury buyers are skeptical about an inline after-sales concept (95% confidence interval is [0.52; 0.65]). They are afraid that this could be too complicated. The result is significant (p-value < 0.001).

It is also interesting to compare the risk perception toward brand and wholesaler. 70% of buyers (95% confidence interval [0.24;0.36]) have the feeling that an internet buying process made by a wholesaler is not more risky than an internet buying process made by a brand (like Bergdorf Goodman, or Gallery Lafayette). The result is significant (p-value < 0.001).

Therefore, the risk is perceived as higher by realizing luxury purchases via internet than in a physical shop by the buyer (H1). Visible transaction guarantees do not decrease or even cancel a perceived financial risk (H2). And finally, the perceived risk of a luxury buying process via internet is not lower by purchasing directly from an official distribution platform (like Bergdorf, Goodman, Harrod's, Bloodmingdale's…) than directly from a luxury brand (H3).

5. Practical implications

In our survey there is a lack of exclusively online luxury buyers. Therefore it is not possible to profile that category. Further qualitative research has to be made to get the dimensions of risk awareness of a luxury consumer who wants to buy his products exclusively online.

More research should be done in regard of the impact of technology solutions which may decrease certain risk dimensions. Especially, some applications of specific Web 2.0 techniques which do permit to anticipate the risk awareness of luxury con-sumers for e-commerce issues have to be tested.

Luxury watches and jewel brands which do still function with an independent wholesaler network, can integrate our results in their e-strategy planning. Our results showed clearly that luxury consumers do need at some time a physical shopping experience during his purchase process. So, either luxury brands do suggest a completely different way of shopping for their virtual buying opportunities, or focus on a completely different customer segment who is not frequenting their physical shopping opportunities.

The luxury brand Hermès, which is part of the LVMH group, is suggesting a different online purchase offer in comparison to their physical shopping network. They are allowed to sell their products directly to their final customers because LVMH do not depend on an independent wholesaler network. Consequently, the brand has launched in e-business. The look of their commercial website represents a younger, fresher and modern brand image (see details on http://www.hermes.com/index-ch-fr.html?xtor=EPR-2003) in comparison to a more classic and historical one which a consumer does find in physical Hermès shops. Thus, risk awareness might not be the same because of the presence of different consumer communities. The impact of these specific luxury e-communities is still unknown and has to be studied.

6. CONCLUSION

Even if luxury brands may offer visible guarantees for financial, price, delivery, pre- and after-sales and product deception risks, this will not change the risk perception from luxury consumers.

Some risks may be decreased in offering all the needed information to luxury customers, for example the final price of a luxury good online. This can be done in giving total prices, including duties and delivery costs. Technical solutions should enable an adaptation of the information in regard to the country of the e-consumer. For instance, a Chinese customer who would like to buy a luxury watch from an American website should be able to see directly his final price. This price should include the selling price, the delivery price and duties, from the United States to China.Luxury consumers are more concerned in risk awareness for virtual purchase process in comparison to physical ones.

This is independent whether it is an independent wholesaler or directly the luxury brand who is offering the e-business.

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