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Assessing Consumer Risk in an Internet Driven Industry – Low Cost Airlines in Thailand

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Abstract

This research measures perceived risks of consumers when using internet-based operations in Asian low-cost airlines operating in Thailand. A risk profile measure is used to illustrate the risk exposure from the customer's perspective when flying with low-cost airlines. The paper reports a survey the analysis of which highlights the top ten risks (factors) important to customers. The paper also reports that in terms of the probability of risk, the ratings show that consumers perceived legal, operational, and environmental risks as being the most likely to affect their decisions. The reliance on the Internet for customer service and management was perceived to pose less significant risk.

Keywords: Internet-driven business, risk, consumer risk, risk profiling, South East Asia, low cost airlines.

Introduction

This paper focuses on an internet-driven industry, the emerging South East Asian low-cost airlines industry operating in Thailand, to understand the factors affecting consumer risk and to use measures of risks to profile what consumers perceive they might face when flying with them. Levin and Schneider (1997, p. 38) defined risk as "...events that, if they occur, represent a material threat to an entity's fortune". Boehm (1991) defines risk as the "possibility of loss or injury". For the purpose of the research, risk is defined as the possibility of loss or injury that leads either directly to negative outcomes or contributes to factors that lead to the negative outcomes.

In the past decade the airline industry has gone through a significant shift in its structure. Traditionally, the industry was dominated with large, traditional carriers only e.g. Thai International, British Airlines, NorthWestern, Singapore Airlines, Qantas, KLM, Lufthansa etc. However, with recent moves by many countries to reduce protection in their commercial airline industries, many low-cost airlines have emerged in competition with the larger ones, "Deregulation in the late 1980s made it easier for new airlines to enter the market, with low prices their unique, some would say only, selling point" (Morrison 2003, p.10), in fact, "low cost airlines have revolutionized air travel and created a new generation of frequent flyers".

Low-cost airlines are taking away a big share of the market from the traditional carriers. According to Morrison (2003), five years ago, BA carried 35.6 per cent of the 105 million passengers who went through British Airports Authority airports, and none of the

budget airlines featured in the top ten. For the 12 months to March 2005, BA had 28 per cent of the 127 million passengers, followed by EasyJet with 8.8 per cent and Ryanair with 7.3 per cent. In the USA, low-cost airlines helped Americans save \$6 billion on airfares in 1995 and no less than 39 new airlines have started up in the last few years (Tulsa World 1996). The low-cost airlines, according to Management Decision (1996), are now estimated to hold 15 per cent of total air traffic in the USA. Low-cost systems, combined with high customer satisfaction, have produced exceptional profit margins and growth compared with traditional carriers.

In South East Asia, since 2003, ten low-cost airlines have started up. These airlines are making tough competition against traditional carrier with fares slashed by up to 80% of those of the traditional carriers on the same routes, according to Vietnam Net (2005). The South East Asian low-cost airlines operating in Thailand include Valuair: based in Singapore, Tiger Airways: also based in Singapore, Orient Thai & One Two Go: based in Bangkok, Thailand, Thai AirAsia and Nok Air, both based in Bangkok, Thailand. Low-cost airlines in Thailand have been marketing low-cost air services in Thailand for only 12 months, using the Internet as a direct selling channel.

This paper is concerned with addressing two research questions: What are the types of risks and the levels of risk customers perceive they have when flying with low-cost airlines in Thailand? Secondly, what levels of risk are involved with the use of the Internet, eg with online ticketing systems? The first issue relates to competition. "The increasing competitive intensity for growth, market share, and profits, signals the likelihood of increasing risk in the future" (Shah and LaPlaca, 1981). Competitors bring about risks since customers have more choices of product/service and become more demanding. Companies that do not meet the requirements of these demanding customers are risking their existence. Risk assessment and risk mitigation are becoming central to any companies' existence.

Secondly, there is risk on the basis of their reliance for operations on the Internet. "There is little doubt that the Internet provides enormous potential benefits for consumers worldwide. Wider choice ranges, lower prices, and entirely new products have become available in many product categories such as books, CDs, and travel packages, to consumers who are physically far away from the world's centers of traditional commerce" (Economist, 1997). Amazon.com sells 20% of its books to foreign destinations (Hamel & Sampler, 1998). However, to improve competitiveness many companies started to use the Internet as a direct marketing channel, for example Dell Computers, Gateway, Amazon.com etc., to sell their products/services in order to reduce their operational costs. The low cost airlines have adopted the same strategy as a means of dealing with costs, but at what risk?

Consumer perception of risk and risk reduction strategies

Significant research effort has been devoted to an understanding of consumer perception of risk and risk reduction (Clow, Baack & Fogliasso, 1998; Dholakia, 2001; Laroche, Bergeron & Goutaland, 2003; Mitra, Reiss & Capella, 1999; Murray & Schlacter, 1990). According to Roselius (1971), people often feel reluctant before making a purchase of a

product or service online since they cannot be confident that their buying goals will be fulfilled after the purchase. In other words, people perceive a certain level of risk in most purchase situations (Cox and Rich, 1967). In trying to understand perceived risk, research has focused on consumer risk perception on almost all of the new types of products launched into the marketplace (Tan, 1999), for example telephone shopping and perceived risk (Cox and Rich, 1967), the selection of tangible products (Cunningham, 1967), services and perceived risks (Garner, 1986), direct marketing and perceived risks (Akaah and Korgaonkar, 1988), and perceived risks of online shopping (Tan, 1999).

These studies suggest that the types of risk that are usually associated with buying of products and services are: financial, performance, physical, psychological, social, and time risks (Garner, 1986; Jacoby and Kaplan, 1972; Kaplan et al., 1974; Kim and Lennon, 2000; Shimp and Bearden, 1982). Social risk is the perception that buying a particular product may result in negative opinions from friends and family (Dowling and Staelin, 1994). Financial risk refers to the perception that money may be lost in buying the product (Garner, 1986). Physical risk is the perception that using a product or service may be harmful to one's health (Roselius, 1971). Performance risk is perceived as the situation in which the product or service does not function properly (Kim and Lennon, 2000). Time risk refers to the perception that one's time may be wasted once the product purchased must be repaired or replaced (Bauer, 1967). Psychological risk results in negative effects on a consumer's peace of mind because of a defective product (Jacoby and Kaplan, 1972).

A number of factors are believed to reduce consumers' risk perception. These are: money-back guarantee, the manufacturer's name, product cost, distributor's reputation, free sample/trial offer, endorsement by a trusted friend, brand experience, product newness (Akaah and Korgaonkar, 1998), brand reputation (Taylor and Rao, 1982), and brand loyalty (Mitchell and Greatorex, 1990). Yeung and Yee (2003) argue that using brand can be an important strategy for reducing consumer risk perception. They claim that consumers are able to assess the uncertainty and the negative consequence of a perceived hazardous risk, and take action to reduce their exposure to the perceived risk. Quality assurance schemes, useful information, product origin are the other important strategies for reducing risk perception.

Mitchell and Greatorex (1990) and Kanwar (1993) suggest a different perspective with relation to the generalization of a risk perception model across countries and cultures. They argue that in general, non-nationals perceived more risk in product purchase and considerably more psychosocial loss than nationals; they also rated all risk relievers as significantly more useful than nationals. They suggest that marketers should consider the difference between home-consumers and foreign visitors in their perception of purchase risk when targeting the latter. Mitchell and Greatorex and Kanwar, however, agree that brand loyalty is the most useful risk reliever while saying celebrity endorsement is the least useful strategy.

Murray and Schlacter (1990) argue that services evoke heightened risk and product variability perception. They suggest that it is necessary to have a prolonged adoption and

diffusion process for services and point to a need for marketing activities specifically carried out to reduce risk and that the “marketing mix strategy for services” should focus on increasing product uniformity. Clow, Baack, and Fogliasso (1998) also support the idea that service quality reduces consumers’ perception of purchase risk. With the use of the Internet these risks are perceived to be greater.

Internet buying and risk perception

Numerous empirical studies have associated Internet shopping with higher consumer perceived risk than in-store shopping (Akaah & Korgaonkar, 1998; Liebermann & Stashevsky, 2002; Tan, 1999; Teo & Yeong, 2003). Although the Internet is considered, according to Samiee (2001, p. 284) to be “one of the most significant, and perhaps the greatest, marketing tools for the global marketplace,” high risk is still frequently associated with this kind of shopping alternative and, in fact, several recent industry and government-related studies (Culnan 1999; Federal Trade Commission (FTC) 1998b, 1998d, 2000) have deemed consumer risk perceptions to be a primary obstacle to the future growth of online commerce (Miyazaki & Fernandez 2001).

There are numerous factors that make consumers uncertain about online shopping. Since online shopping incorporates many characteristics of non-store shopping, it is natural that online shopping shares some of the perceived risks of non-store shopping (Tan, 1999). For instance, the Internet, just like any type of non-store shopping, makes it difficult to examine physical goods; consumers must rely upon somewhat limited information and pictures shown on the computer screen (Jarvenpaa and Tractinsky, 1999). Moreover, there is bound to be much uncertainty regarding system security, reliability, standards, and some communication protocols (Turban et al., 1999). All these factors increase the perceived risk of online shopping so that more than half of Internet users still have not made an online purchase (Teichgraeber, 2001). Previous research shows that consumers associate higher levels of risk buying online than buying from a “brick and mortar” store (Akaah and Korgaonkar 1988, Tan 1999). This occurs because consumers have few chances to physically inspect products prior to a purchase (Cox and Rich, 1967); because it is more difficult for consumers to return faulty products with non-store shopping (Spence et al., 1970); and because people are much more familiar with off line shopping, having done it very often, and worry about the unfamiliarity of on-line shopping; and consumers may feel uneasy about dealing with a “faceless” retailer in considering potential deception (Darian, 1987).

The majority of research on risk has been at the level of the individual (McDaniels and Gregory, 1991). This body of research has contributed to an understanding of how consumers perceive the risks they face in using a particular service/product. What past research projects have not done is suggest a way to help companies visualize all the risk dimensions that consumers perceive they face so that these companies have a better view of the risks and subsequently make strategies to focus on reducing the impact of risk on the dimensions they see appropriate. In other words, how do companies evaluate the level of risk consumers/customers perceive to exist using a new product/service? This paper, therefore, aimed not only to identify and measure consumer risk in an internet-based business, but to also visualize that risk through a risk profile.

Research Methodology

The research was carried out using a questionnaire survey. Since this research was to employ the risk visualization tool that proposed to capture risk dimensions at one point in time, survey research was deemed to be the best fit for because the research was to explore the factors affecting risk perceptions as suggested by Leedy and Ormrod (2001). In line with the objective of the project, the following question was addressed: What types of risks and the levels of risk do customers perceive they have when flying with low-cost airlines in Thailand?

The sampling approach employed in the research was a combination of a convenience sampling and purposive sampling (Leedy and Ormrod 2001). It was convenience sampling because the respondents were chosen on an accidental basis. The sampling was purposive in that only people who spoke English were chosen. This was due to the fact that the researchers were both foreigners and could understand limited Thai. A questionnaire in English was considered best to facilitate the research.

Data collection was done in the form of a survey questionnaire. The questionnaire consisted of two sections. Section A asked the subjects to give information about themselves including demographic information and the number of low-cost air tickets that they ever bought. This information, however, is secondary in importance than the risk-related questions. These were placed at the end of the questionnaire to ensure the most important part having a better chance of being filled out. Section B contained the risk-related questions in two parts. The first part asks respondents to rate the probability of the risks happening. These were divided into 8 categories or dimensions, they perceived they might face as customers of low-cost airlines. This was done using a 6-point Likert scale using descriptors 'impossible to happen' through to 'very much likely to happen'. The second part of the questionnaire asks the respondents to rank the top ten risks among the risks identified, in their order of importance. The first part of section B was designed to determine the likelihood that certain risks would happen, while the second part was designed to determine the weighting of the risks or the influence that the identified risks have on consumers. The total number of respondents who gave answers was 103. Among these, 87 questionnaires, in which respondents gave responses to the ranking section of the questionnaire, were valid and included in the analysis.

Principal components analysis was used to determine the underlying factors that affect consumer perception of risk when flying with low-cost airlines. According to Tabachnick and Fidell (1996, p.664), there are two sets of techniques in factor analysis: principal components analysis and factor analysis and if the interest is in a theoretical solution uncontaminated by unique and error variability, factor analysis is appropriate. If on the other hand an empirical summary of the data set is required, then principal components analysis is the better choice. Thus principal components analysis was chosen in this research.

Risk profile construction was done by applying the Risk Dimension Signature model for risk evaluation (Tho 2005). According to Tho, the various kinds of risk can be grouped to

form categories or dimensions of risks with similar characteristics. These dimensions of risk will then be used to construct a risk exposure profile for an organization at any one point in time (i.e., at the time when the risk values were obtained). Accordingly, the risk profile for an organization can be constructed from eight (8) dimensions of risk i.e. Strategic, Technical, Financial, Legal, Operational, Business, Environmental, and Information. The area shaped by connecting the dimensions of risk is the risk profile or Risk Dimension Signature. In order to construct a risk profile, data from part 1 of section B of the questionnaire was used. Each of these dimensions contains several specific risks. Mean scores of these eight dimensions were derived and each of these scores represents the level of risk perception along each one of the risk dimensions. These scores were then used to produce the Risk Dimension Signature profile.

Data Analysis

More than one-third of the respondents (36%) had purchased tickets from low-cost airlines. Almost two-thirds (64%) had never purchased tickets from low-cost airlines. Since the number of tickets bought by the respondents varied widely from 1- 10, the researchers have recoded the variable so as to collapse the data into 3 groups of 1-3 tickets, 4-6, and 7-10 for easy analysis. Among the respondents who have purchased tickets from low-cost airlines, the majority (67%) have purchased 1-3 tickets, one-fifth (22%) have purchased 4-6 tickets, only one-tenth (11%) have purchased more than 7 tickets. Half of the respondents (55%) were in the age range of 20-29. Almost one-third of them (30%) aged 30 to 39 years. More than one-tenth (15%) of respondents were over the age of 40.

The top ten most important risks (or the most risky), as perceived by the respondents, when they flew with low-cost airlines were: (1) flight delays, (2) the airline isn't responsible for losses or damages, (3) bad service, (4) reservation problems due to airline's system confusion, (5) the airline isn't responsible for delays, (6) flight cancellations, (7) plane problems or crash, (8) account overcharged, (9) risky because consumers cannot change the flying date, and (10) loss of money due to disclosure of credit card information (Table 1).

The results show that among the risks that the respondents perceived as the most risky, one belongs to the *technical risk dimension* ((4) reservation problems due to airline's system confusion); two belong to the *financial risk dimension* ((10) loss of money due to disclosure of credit card information, (8) account overcharged); two belong to the *legal risk dimension* ((2) the airline isn't responsible for losses or damages, (5) the airline isn't responsible for delays); four belong to the *operational risk dimension* ((3) bad service, (1) flight delays, (6) flight cancellations, (7) plane problems or crash); and one belongs to the *business risk dimension* ((9) risky because consumers cannot change the flying date).

The 21 items of the risk dimensions scale were then subjected to principal components analysis (PCA). Prior to performing the PCA the suitability of data for factor analysis was assessed. Inspection of the correlation matrix revealed the presence of many coefficients of .3 and above. The Kaiser-Meyer-Olkin value was .734, exceeding the recommended value of .6 (Kaiser, 1974) and the Bartlett's Test of Sphericity (Bartlett,

Table 1 Ranking of Risks

Risk	Score	Rank
#14 Flight Delays	398	1
#10 The airline isn't responsible for losses or damages	346	2
#13 Bad service	340	3
#3 Reservation problems due to airline's system confusion	332	4
#11 The airline isn't responsible for delays	307	5
#15 Flight Cancels	292	6
#16 Plane problems or crash	290	7
#7 Account overcharged	240	8
#19 Risky because consumers cannot change the flying date	239	9
#6 Loss of money due to disclosure of credit card information	230	10

1954) reached statistical significance, with Cronbach Alpha overall at .885 and above .71 for all items, supporting the factorability of the correlation matrix. Principal components analysis revealed the presence of six components with eigenvalues exceeding 1, explaining 15.1 percent, 12.5 percent, 11.6 percent, 11.4 percent, 10 percent and 7.7 percent of the variance respectively. To aid in the interpretation of the six components, Varimax rotation was performed (Table 2).

Table 2: Varimax Rotation of Six Factors Solution for Risk Items

	Component					
	1	2	3	4	5	6
Delays	.773					
Bad service	.682					
Flight canceled due to bad weather	.657	.306	-.311			
Consumers must reserve ticket long in advance	.611		.506			
Flight cancels	.601				.349	
Plane problems or crash	.501	.490				
Lack of Internet access in Thailand		.772				
Unable to make payment due to banking breakdown		.684				
Unable to buy ticket due to Internet breakdown		.553		.362		
Consumers cannot change the flying date			.868			
Consumers can only buy one-way tickets		.428	.739			
Misunderstanding due to the lack of human communications			.542			
Hacker issue				.755		
Reservation problems due to airline's system confusion				.683		
Payment made but no service rendered due to the online nature of reservation		.420		.656		
Loss of money due to disclosure of credit card information				.521	.455	
Account overcharged	.376	.415	-.341	.451		
Security risks relating to credit card information					.889	
Privacy risks					.793	
The airlines isn't responsible for losses or damages						.827
The airline isn't responsible for delays	.452					.751

The six factor solution explained a total of 68.3 percent of the variance, with component 1 contributing one-third of the variance (31%), components 2 and 3 contributing one-tenth each (10% and 9.5% respectively), components 4, 5, and 6 contributing for 7%, 5.5% and 5% respectively. Thus the results from factor analysis show that the main loadings on components are: delays, bad service, flight canceled due to bad weather, consumers must reserve tickets long in advance, flight cancels, lack of Internet access in Thailand, unable to make payment due to banking breakdown, consumers cannot change the flying date, consumers can only buy one-way tickets, hacker issue, reservation problems due to airline's system confusion, payment made but no service rendered due to the online nature of reservation, security risks relating to credit card information, privacy risks, the airlines isn't responsible for losses or damages, and the airline isn't responsible for delays. These components identify the risks that consumers perceive they face when flying with low-cost airlines. The result is in line with the data from the consumer's ranking of the ten most important risks (factors) for them (Table 1).

Table 3 below shows the average levels of risk along eight dimensions. The table was obtained by averaging the average scores of specific risk items within a risk dimension into that dimension's score. These average scores show that the respondents perceived the risk levels along these 8 dimensions as quite acceptable (lower than "likely"). Among these, the legal dimension was perceived as the most likely risk dimension with score of 3.64 over the total scale of 6.0. The respondents perceived that the most likely risk that they would face is the airlines not being responsible for the damage or losses occurred to them. Delays or cancellations due to the airlines' inefficient operations and due to bad weather were perceived as the next most likely risks. In contrast, respondents perceived that the financial, technical, and strategic risks were the least likely risks, suggesting that they didn't think that they were likely to lose money, that they would have problems with online dealing, or that they would not be able to get access to the airlines' service due to the lack of Internet access in Thailand.

Table 3 Average Risk Levels along the 8 Risk Dimensions

Risk Dimensions	Average Scores
Legal average	3.64
Operational average	3.40
Environment average	3.39
Business average	3.33
Informational average	3.20
Financial average	3.00
Technical average	2.94
Strategic average	2.86

In anticipation that there might be some differences between the people who were already customers and those who were not yet customers of low-cost airlines, a comparison of the two groups of respondents was undertaken (see Table 4). The results show that there are some differences between the two groups. The respondents who were not yet customers of low-cost airlines found that the risks were less likely to happen compared to the group who had already flown with the low-cost airlines. One possible reason for this difference might be because the people who were not customers didn't have experience with this type of airline and underestimated the likelihood of the risks that they might face. On the other hand, the people who were customers had experienced these risks thus having higher level of perception about the likelihood of these risks happening.

Table 4: Average Risk Levels: Purchased Tickets versus Not Yet

Risk Dimensions	Average Scores (customers)	Average Scores (not yet customers)	Risk Dimensions
Environmental	3.8	3.5	Legal
Legal	3.8	3.4	Business
Operational	3.6	3.3	Operational
Informational	3.4	3.2	Environmental
Business	3.2	3.1	Informational
Financial	3.1	3	Financial
Technical	3.0	2.9	Technical
Strategic	2.9	2.8	Strategic

The results show that the overall risk probability was quite acceptable. However, the results show only the probabilities of the risk dimensions which are the averages of a number of risks. This ignores the fact that specific items have higher happening probabilities. For example, the mean of the risk "The airline isn't responsible for delays" was 4.0 indicating a "likely" probability and was the highest level of risk perceived by the respondents.

These scores were used to project a Risk Dimension Signature (See Figure 1). The Risk Dimension Signature (RDS) shows the acceptable risk profile and the respondents' perception of risk as customers to Asian low-cost airlines. The acceptable risk is arbitrarily decided (Waring and Glendon, 2001) using the scale of 3 from the questionnaire meaning risks are "unlikely" to happen. The RDS shows that three dimensions of risk are equal or lower than the acceptable level on three dimensions namely Strategic, Technical, and Financial implying low risk exposure in these categories for customers when they fly with Asian low-cost airlines hence indicating low risk exposure for these airlines.

On the other hand, customers' exposure of risk was higher than the acceptable level on 5 other dimensions namely legal, operational, business, environment, and information. The implication for Asian low-cost airlines is to make efforts to reduce the level of customers' perceived risk level on these dimensions.

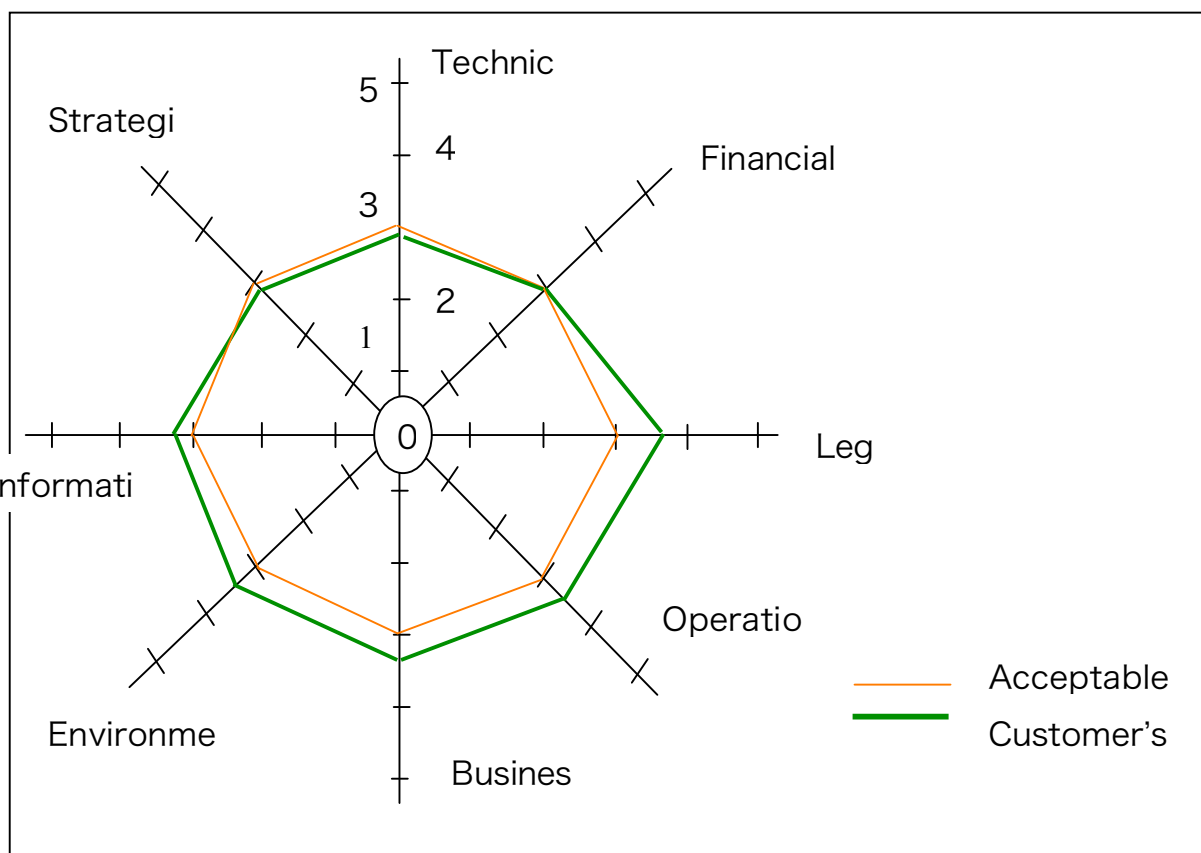


Figure 1: Risk Dimension Signature for Respondents' Risk Perception of Asian Low-cost Airlines

DISCUSSION

The study reveals a number of important findings for low cost airlines and their reliance on the Internet. In terms of the probability of risk happening, the overall ratings show that respondents perceived that legal, operational, and environmental risks were the most likely risks with values of 3.64, 3.40 and 3.39 respectively meaning almost “likely”. Issues related to technology, eg the Internet, were perceived to be less significant. However problems with reservations systems on the internet was ranked as the 4th most significant. While there is little the low cost airlines can do in terms of environment risk, they can take actions to reduce other risks. Respondents think that it is most likely that low-cost airlines will not be responsible for damages or losses that occur to customers, it shows that customers worry that low-cost airlines won't take responsibility for their property; “just because I pay little, they'll give little” is the perception. The implication for this finding is that low-cost airlines will need to reduce customers perception about this risk. They may assure customers that their properties will be taken care of, or the losses will be fully compensated through PR programs or on their websites to encourage

confidence from customers or prospects. Since, the analysis shows that existing customers have a higher perceived risk than non-customers, the strategy that low-cost airlines should take in dealing with customers is to mitigate the risk, by for example limiting the damage or losses on their flights. In order to do this, low-cost airlines will have to take preventative programs by improving their logistics efficiency. They may also implement a transfer strategy, buying insurance for flights.

The high value for operation risk shows that poor operation quality is an inherent problem for low-cost airlines due to their low-cost structure. This suggests that they should improve their operation efficiency by giving better training to their staff. While airlines need to improve on the risk dimensions that customers perceive as having high probability of happening, it's more important that they take actions to reduce risks (factors) that customers consider most important since these factors will leave more damage to them than the others. These are: (1) flight delays, (2) the airline isn't responsible for losses or damages, (3) bad service, (4) reservation problems due to airline's system confusion, (5) the airline isn't responsible for delays, (6) flight cancellations, (7) plane problems or crashes, (8) account overcharged, (9) risky because consumers cannot change the flying date, and (10) loss of money due to disclosure of credit card information. Three specific issues worried customers about these low-cost airlines and their use of the Internet: reservations problems, and two problems with Internet financial arrangements, overcharging and disclosure of information. However, the results also show that there are differences between younger people and older people in their perception of risk. Younger people tend to worry more about financial security matters than older people. Older people, on the other hand, worry more about not being able to change their flying date.

CONCLUSION

This research project aimed firstly to understand the factors affecting consumer risk in the emerging South East Asian low-cost airlines industry operating in Thailand, and secondly to measure the risks that consumers perceive they might face using the Internet.

The research found that among the top ten important factors affecting perceived risk to customers there were three issue related to the use of the Internet, ranked at 4, 8 and 10. Other risks were considered to be more important. The research also found that in terms of the probability of risk happening, the overall ratings show that respondents perceived that legal, operational, and environmental risks as being the most likely risks. The results show that there are differences between younger people and older people in their perception of risk. Younger people tend to worry more about financial security matters than older people. Older people, on the other hand, worry more about not being able to change their flying date.

In terms of an Internet-driven industry, this preliminary study has shown that whilst certain consumer risk issues related to the Internet in the low cost airline industry are important, they are not the most significant. However, their existence means that the strategy of these low cost airlines to rely on the Internet for their business is itself risky

and that these risks must be addressed to provide alternative means when catastrophic conditions exist on the Internet.

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