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DIRECT SELLING: THE ROLE OF RISK IN CONSUMER'S ACCEPTANCE AND SATISFACTION

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Track: Consumer Behaviour

Direct selling: The role of risk in consumer's acceptance and satisfaction

Abstract

This paper considers the role of perceived risk in consumer's satisfaction and acceptance of direct selling. Direct selling has been exhibiting in the last decade substantial growth in sales revenues and number of salespeople involved. Also the acceptance on the part of the consumers has been increasing; in spite of they show more and more demanding and informed. The literature reveals that the relationship between customer satisfaction and direct selling has not been sufficiently studied, yet. This paper, applying a quantitative approach attempts to provide some data on this relation. Results indicate that there is a negative correlation between perceived risk and direct selling acceptance and also a positive correlation between direct selling acceptance and satisfaction.

Keywords

Direct selling, Customer satisfaction, Consumer behaviour, Risk

Introduction

Direct Selling is a marketing method defined as "face-to-face selling away from fixed retail location" (May 1979; Peterson & Wotruba 1996; Brodie et al 2002b). Direct Selling typically includes home selling situations such as door-to-door solicitations, appointments, referrals and product parties, as well as catalogues and the Internet to disseminate information (Alturas 2003). According to the Direct Selling Association US, direct selling organizations (DSO's) in the USA grew in sales volume from \$14,98 billion in 1993 to \$28,69 billion in 2002, and the number of salespeople participating in this activity in the USA grew from 5,7 million in 1993 to 13,0 million in 2002 (Direct Selling Association US 2003). Worldwide sales by direct selling organizations reached \$85,58 billion from the efforts of over 47 million salespeople in 51 countries (World Federation of Direct Selling Associations 2003).

By design, direct selling organizations (DSO's) rely more on the selling skills of their sales force than on indirect communications such as advertising (Vander Nat & Keep 2002). Direct salespeople "are usually independent contractors, not company employees, and opportunities with direct selling companies are open to persons from all backgrounds, experience levels, and personal characteristics. Clearly, direct selling is a business activity of significant importance both in financial and human terms" (Brodie et al 2002b, p.67). DSO's can be characterized by the organizational structure: multilevel (companies like Amway, Herbalife, Mary Kay, Oriflame), and single level (companies like AMC, Avon, Tupperware, Vorwerk).

A growing body of literature proposes models for consumer satisfaction (Oliver 1980; Woodruff et al 1983; Oliver & DeSarbo 1988; Bolton & Drew 1991; Schlesinger & Heskett 1991; Anderson & Sullivan 1993; Woodruff & Gardial 1996), and many of these studies have tried to identify factors that lead to consumer satisfaction. But in the literature that was studied we didn't find all the factors, that determine the relationship between customer satisfaction and direct selling, therefore we propose to identify the role of perceived risk in a context of a consumer intention to buy a product via direct selling.

A view of direct selling

Despite being the oldest method of commercial distribution known to mankind, direct selling is not well understood (Albaum 1992; Peterson & Wotruba 1996). At times, direct selling is improperly equated with undesirable manifestations like the pyramid scheme (Ella 1973; Vander Nat & Keep 2002), and frequently direct selling is confused with direct marketing (Bauer & Miglantsch 1992). Direct marketing is defined as "Relational marketing process of prospecting, conversion, and maintenance that involves information feedback and control at the individual level by using direct response advertising with tracking codes" (Bauer & Miglantsch 1992). So we can find several methods of commercial distribution that are direct marketing but not direct selling, as teleshopping, mail order, etc. Almost all DSO's use self-employed independent contractors who undertake the selling function, typically on a part-time basis. Usually the salespersons begin with high expectations but in many cases the work is harder than they think, leading to high sellers' turnover (Wotruba & Tyagi 1991; Brodie et al 2002a).

DSO's can use personal selling or group selling. Major modes of direct selling include one-on-one selling at home, one-on-one selling at a workplace, a sales party at a consumer's home, and a sales party at a workplace, church, or other location (Peterson et al 1989). The products that are successfully marketed through direct selling should (ideally) possess some form of distinctiveness, require some demonstration, and generate repeated sales (Peterson & Wotruba 1996). Several types of products can be sold by direct selling. The products can be "big ticket" or "low ticket" products. We say "big ticket" when a direct sold consumer transaction for a single item is in excess of 125 €, and "low ticket" in less of 125 €. Apart from big ticket direct sales such as vacuum cleaners, where DSO's tend to use well-trained, full-time direct sellers, most DSO's rely on those whom direct selling is a part-time occupation (Berry 1997).

DSO's can use two types of organization structures, identified as multilevel and single level (Biggart 1989; Peterson & Wotruba 1996; Berry 1997; Brodie et al 2002a, 2002b). "In a multilevel (ML) organization (also called network marketing organization); direct salespeople recruit, train, and supervise other direct salespeople who become part of the recruiter's organization. In return, the recruiting salesperson receives compensation on the sales of organization members as well as on his or her sales. In a single level (SL) organization, the salespeople do not build their own organizations via recruiting and training, but rather focus their efforts on selling and achieving compensation based on their own sales" (Brodie et al 2002b, p.67).

Several authors have undertaken research on direct selling, either on the DSO's side (Crawford & Garland 1988; Wotruba 1990; Wotruba & Tyagi 1991), or on the consumer side (Peters & Ford 1972; Cunningham & Cunningham 1973; Gillett 1976; Taylor 1978; Darian 1987; Frenzen & Davis 1990; Sargeant & Msweli 1999); some studies found advantages and disadvantages of direct selling for the consumers (Peterson et al 1989; Barnowe & McNabb 1992; Kustin & Jones 1995; Wotruba & Pribova 1996), but in the literature reviewed we don't find any research that presents a model for the determinants of consumer's satisfaction and acceptance of direct selling.

The concept of satisfaction

Satisfaction is considered a post choice evaluative judgment concerning a specific purchase selection (Oliver 1980; Soscia 2002), however there is no common definition of customer satisfaction, but most researchers agree that satisfaction (and dissatisfaction, respectively) is the result of a complex psychological comparison between expected and received product performance levels. The concept of customer satisfaction describes the emotional reaction to the degree in which a product meets a buyer's expectations (Oliver 1980; Swan & Trawick 1981; Helm & Höser 1995). A customer is satisfied if perceived performance clearly exceeds his expectations. He is dissatisfied if perceived performance clearly does not come up to his expectations. Within a "zone of indifference", where the gap between expectations and perceived performance is too small to arouse an emotional reaction, neither satisfaction nor dissatisfaction arise (Churchill & Surprenant 1982; Woodruff et al 1983; Helm & Höser 1995).

We can find two kinds of expectations: normative expectations that define with precision how the product should behave, and predictive expectations that indicate the way that we think the product will behave (Wotruba & Duncan 1975). Some idealized advertising images increase consumer's expectations (Richins 1995), and the disconfirmation of expectations affects perceived quality, and the perceived quality affects satisfaction and behavioural intentions (Gotlieb et al 1994). However the expectation is not the only factor that influences satisfaction towards a product, also the effort taken to buy the product influences satisfaction that could be bigger when the consumer made a considerable effort to get the product, and lower when the consumer made a modest effort (Cardozo 1965). Also the consumer preferences change depending on the degree to which anticipated satisfaction is evoked. This shift in preferences arises because, compared to choice, anticipated satisfaction elicits a mental-imaging processing strategy that is both more effort intensive and qualitatively different (Shiv & Huber 2000).

A growing body of literature proposes models for consumer satisfaction (Oliver 1980; Woodruff et al 1983; Oliver & DeSarbo 1988; Bolton & Drew 1991; Schlesinger & Heskett 1991; Anderson & Sullivan 1993; Woodruff & Gardial 1996). But once again in the literature that was been studied we didn't find the factors that determine the relationship between satisfaction and direct selling.

The role of risk

Research has shown that the willingness to purchase products is inversely related to the amount of perceived risk associated with a purchase decision (Sharma et al 1983). The perceived risk theory allows the examination of consumer information acquisition and usage, as well as other strategies such as brand and channel loyalty, by setting the information in a context of risk reduction, thus giving a focus and purpose for consumers' activities (Mitchell & Prince 1993). Meanwhile, we found multiple definitions of the concept and a universally agreed theoretical or operational definition still eludes marketing academics in the field (Mitchell 1999).

Perceived risk has been applied by a number of authors to the study of consumption of consumer goods and services. Studies of innovative channels of retailing such as telephone shopping (Cox & Rich 1964) and catalogue shopping (Jasper & Ouellette 1994) found that consumers perceive higher risks in new channels. Research undertaken in the United States, shows that buying from direct selling is perceived as less risky than other non-store shopping modes such as telephone shopping (Peterson et al 1989).

Prior research also suggests that consumer patronage decisions are influenced by the type and level of risk associated with the purchase of a product (Korgaonkar 1982). Choice situations involve two aspects of risk: uncertainty about the outcome and uncertainty about the consequences. Acquiring and processing information can reduce uncertainty about the outcome. Uncertainty about the consequences can be dealt with by reducing the consequences through reducing the amount at stake or putting off the choice (Taylor 1974). A number of risk dimensions have been identified as potential inhibitors to purchase. These dimensions include performance, social, psychological, convenience, physical, and financial risks (Peter & Ryan 1976). On a conceptual level, these dimensions can be considered functionally independent so that as one risk variety increases, the other risk varieties can either, increase, decrease, or remain unaffected (Jacoby & Kaplan 1972). It was found that these six dimensions capture almost 90% of overall risk (Stone & Gronhaug 1993).

The ways different determinants of perceived risk help explain variations in purchasing preferences was already examined. Supporting theory-based expectation, a recent study has shown that purchases increase when consumers perceive reduced consequences of making a mistake in brand choice (Batra & Sinha 2000). Also the mediating impact of perceived risk on the quality-value relationship was examined. Other study confirmed that not only do perceived product and service quality lead to perceived value for money in a service encounter but that those quality components reduce perceived risk. Perceived risk was found to play an important role in the perceived product and service quality – value for money relationship and was found to be a significant mediator of this relationship (Sweeney et al 1999). Also shopping motives are linked to perceived risk dimensions and lead to satisfaction (Mitchell 2001).

Research question and hypotheses

We derive our basic research question: does the perceived risk influence the acceptance of accomplishing a purchase for direct selling and the subsequent satisfaction?

The set of hypotheses related to this research question was built after the literature research:

H1: Buying from direct selling is perceived as less risky than other non-store shopping modes

H2: Perceived risk will be negatively related to direct selling acceptance and to satisfaction

H3: Direct selling acceptance will be positively related to satisfaction

Figure 1 shows our graphic model in which the circles represent the variables.

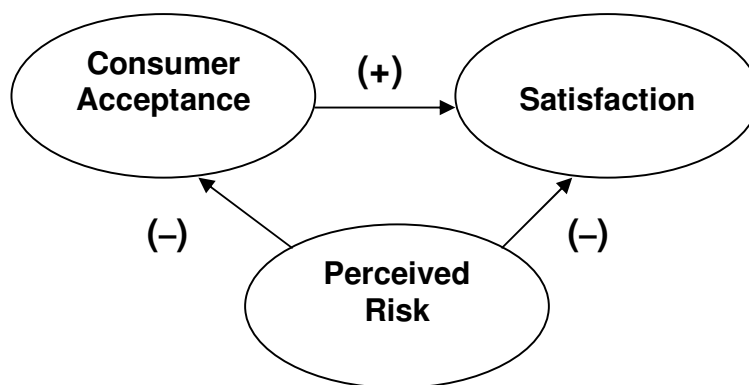


Figure 1 – Relationship between direct selling acceptance, customer satisfaction and perceived risk

The empiric research that we proposed was built after the literature research, followed by the exploratory phase. Our construct assumes a direct relationship (i.e. not mediated by any effects) between the consumer acceptance to buy a product by direct selling and the satisfaction, and also between the perceived risk and the acceptance and with the satisfaction. Those three variables are in fact dimensions because each one is actually made by several variables, once that this model is based on the assumption that many different variables are intervening in the supposed causal relations.

Methodological considerations

In order to test our hypotheses, we designed a two-phase research methodology:

Exploratory phase, including in-depth interviews with a sample of 11 managers of DSO's (from the 36 that we found operating in Portugal), and interviews with salespersons and costumers of the same DSO's.

Empiric phase, based on a questionnaire developed through the contribution of the literature review and the interviews of the previous phase. In this questionnaire we made questions to verify our hypotheses and also we include some questions to compare direct selling with other forms of non-store retailing. It is not inappropriate that this study was based on convenience samples, allowing that the unit of analysis was the Portuguese consumer. The theoretical universe for this research is the adult Portuguese consumer from the urban metropolitan area of Lisbon. To collect data we use two different ways: cooperation was obtained from high school students in Lisbon that surveyed their families and neighbours, as well as from our colleague professors at our University. We obtained a sample of 378 responses to the questionnaire from a total of 1200 potential respondents (response rate of 31.5%).

In order to evaluate the perceived risk, respondents were asked to rate a set of 8 non store purchasing methods (4 direct selling modes: One-on-one at home, Sales party at home, One-on-one at workplace, Sales party in other place than home. And 4 not direct selling modes: TV shopping, Telephone shopping, Mail order and catalogue shopping, Internet shopping) in a 5-point Likert scale anchored by 1 (not risky at all) to 5 (extremely risky). Also a 5-point Likert scale it was used for the intention to buy (from 1 "absolutely yes" to 5 "absolutely no") and for the satisfaction (from 1 "not satisfied at all" to 5 "extremely satisfied").

Findings

The preliminary results show that 13.5% of the respondents will for sure (absolutely yes) buy some product by direct selling in the next 12 months, and 19.3% will most probably buy some product. Also 38.6% will probably buy some product, 20.4% will not most probably buy any product and finally 7.7% will not buy any product.

After the data collection we found the mean value of the perceived risk for each one of the modes, and the results were the following: One-on-one at home (2.60), Sales party at home (2.61), One-on-one at workplace (2.76), Sales party in an other place than home (2.87), TV shopping (3.49), Telephone shopping (3.89), Mail order and catalogue shopping (3.07) and Internet shopping (3.36). With those results H1 is supported by the data, like in other previous studies (Gillett 1976, Peterson et al 1989).

Then we computed a principal components factor analysis to reduce our data and we found two composites of perceived risk: Risk with direct selling (Cronbach Alpha of 0.92) and Risk with other non-store shopping modes (Cronbach Alpha of 0.89). We also found two composites of satisfaction: Satisfaction with direct selling (Cronbach Alpha of 0.81) and Satisfaction with other non-store shopping modes (Cronbach Alpha of 0.76). Table 1 reports the observed Pearson correlations among the constructs that we computed in order to support H2 and H3.

Correlations	1	2	3	4	5
1 Buying intention	1,00				
2 Satisfaction with direct selling	0,24 (**) (0,00)	1,00			
3 Satisfaction with other modes	0,20 (**) (0,00)	0,33 (**) (0,00)	1,00		
4 Risk with direct selling	-0,29 (**) (0,00)	-0,11 (0,07)	-0,07 (0,24)	1,00	
5 Risk with other modes	-0,21 (**) (0,00)	-0,09 (0,14)	-0,20 (**) (0,00)	0,59 (**) (0,00)	1,00

**Correlation is significant at the 0.01 level (2-tailed).

Significance levels are noted in parentheses.

Table 1: Correlations among constructs

Results indicate that there is a negative correlation between perceived risk and direct selling acceptance. However, there is not an empirical evidence that the perceived risk will be negatively related to satisfaction. Therefore, H2 is only partially supported. Finally we can say that H3 is supported by the results because there is a positive correlation between direct selling acceptance and satisfaction.

Marketing implications

Despite its history, relatively little public knowledge exists about the direct selling industry, DSO's, direct sellers, and consumers who purchase through direct selling. The above results represent a first step towards the study of the relationship between customer satisfaction and direct selling, and could show the possibility and the utility of incorporating the past research in customer satisfaction and the past research in direct selling into a broader model that shows that relationship.

Some of the findings reported above serve to reinforce previous research about direct selling, but given the pervasiveness of purchasing from DSO's, more attention should be devoted to both the seller and the buyer side of the industry. Little is known about the attitudes of direct sales buyers toward traditional in-store retailing, or the attitudes of consumers who do not buy from DSO's toward direct selling.

Besides, these empirical evidences could be relevant for DSO's who seek better understanding and predict post consumption behaviours, because one challenge for direct selling industry is to develop more and better ways to capitalize consumer satisfaction, while reducing the perceived risk of direct selling experiences.

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