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How to Increase Your Business By Reducing Consumer Perceived Risk

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Word of mouth from happy customers will reap rewards.

Visualize the following: while a businessman is making a presentation to a large group of people, the audiovisual equipment malfunctions. The equipment - a no name PC which was supposed to project a series of charts and graphs onto a large screen. The presenter, red from embarrassment, fidgets unsuccessfully with the PC. The audience becomes impatient and is noticeably unimpressed. The businessman is overcome with a feeling of hopelessness. A second later a message flashes across the television screen, "Nobody ever got fired for buying an IBM."

This was another well designed and expertly executed IBM commercial. What was IBM's strategy? Answer - to exploit a well known marketing fact that consumers are risk averse. Specifically, consumers will purchase the product or service which they perceive to involve the least amount of risk.

Where's the Risk?

Boze (1985) defines risk as, "the psychological risk that a consumer experiences when making a decision regardless of the actual risk involved." Boze's definition underscores two important points. First, from a marketing perspective, it is the consumer's perception of risk that is important, not the professional's. Second, risk is subjective and relative to each individual.

Like the product industry, the professional service industries are laden with risk factors that drive away business. Garner and Thompson (1985) have identified six types of consumer perceived risk.

1 Financial Risk

Financial risk involves uncertainty about potential and hidden costs associated with the purchase of a service. Open-ended cost commitments, not knowing how to terminate a contract once it has begun, and the influence of the profit motive all add to the consumer's anxiety and perception of financial risk.

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2 Social Risk
Social risk involves others perceiving the consumer in a negative way as a result of purchasing the service. A consumer who uses a lawyer only because he is a friend of the family, is avoiding the social risk of being shunned by other family members.

3 Performance Risk
Professional services are frequently customized based on the professional's assessment of what the consumer needs or wants. Sometimes the service delivered is different from what the consumer expected. Professional services often lack guarantees and warranties which consumers can fall back on. This rejection of liability adds to the consumer's perception of performance risk. Performance risk becomes increasingly important when a professional is dealing with a consumer's personal assets such as ones body, health and money.

4 Physical Risk
Physical risk involves possible harm to one's body and health. An architect who develops a building which is not structurally sound, a physician who prescribes a treatment based on an inaccurate diagnosis, or a lawyer whose client goes to jail because of poor representation, all create a potential risk to a person's body and health.

5 Time Risk
Time risk is perceived when a consumer feels the service provider may not deliver the service on time or in the most expeditious manner. Time risk can contribute to increased costs (financial risk). What's more is that if a consumer has to be present to have the service delivered there is an associated opportunity cost. Lost opportunity could be in the form of having to trade personal or income earning time with the professionals time.

6 Psychological Risk
Psychological risk is a culmination of the uncertainties and anxieties associated with the previously mentioned risk dimensions. Giarini and Stahel (1989) state that the anxieties and perceptions of risk that consumers experience are directly related to the adequacy or inadequacy of information they have.

Managing Perceived Risk

Fortunately, many professional services begin with an interview process. This interview provides an excellent opportunity to ask, clarify and shape consumer perceptions of risk. Risk issues can also be managed indirectly through well - designed promotional materials such as brochures and advertisements.

Managing risk is not an easy task. It will take time to collect consumer information relative to risk and, time to develop approaches to managing it. The rewards however will exceed the effort. The professional who invests the time will develop more satisfied customers who will in turn, tell many others of the superior service they received.

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