

REDUCING PURCHASING RISK WITH DEMONSTRATIONS AND MONEY-BACK GUARANTEES¹

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Businesses frequently use demonstrations and money-back guarantees (MBGs) as tools to reduce consumer risk from purchasing a product. MBGs are generally more costly and require a greater commitment from the customer. Demonstrations cost less but also generally provide less information.

This paper provides a theoretical framework and market examples for understanding how and when businesses will provide, and customers will utilize, demonstrations and MBGs. We discuss when these tools will be used together, alone, or not at all, and show how firms use these marketing tools to reduce consumer uncertainty or misconceptions, provide product know-how, and increase impulse sales.

INTRODUCTION

Businesses frequently use demonstrations and money-back guarantees (MBGs) as tools to reduce the risk to consumers of purchasing a product. Product demonstrations reduce risks to prospective consumers by giving them additional information about the characteristics of the product before they purchase. MBGs reduce consumer risk by giving the consumers the opportunity to return the product after purchase if they are not satisfied.

This paper provides a theoretical framework and market examples for understanding how and when businesses will provide, and consumers will utilize, demonstrations and MBGs. This framework provides strategic guidelines to help managers employ these tools efficiently.

We begin in the next section by describing pre-purchase risk and uncertainty, demonstrations, and MBGs. Then we examine the factors that determine whether consumers use demonstrations and MBGs. We then discuss how firms decide to provide

demonstrations and MBGs. That section forms the bulk of the paper and is broken into four subsections that analyze: 1) whether retailers or manufacturers will provide demonstrations and MBGs; 2) the product categories for which retailers provide demonstrations and MBGs; 3) how brand or product characteristics affect the provision of demonstrations and MBGs; and 4) how firms can target markets using demonstrations and MBGs. We conclude by summarizing the main points of the paper.

CHARACTERISTICS OF DEMONSTRATIONS AND MBGs

Pre-Purchase Risk

The main role of demonstrations and MBGs is to reduce pre-purchase risks. Pre-purchase risks are associated with four types of consumer uncertainty (Wells and Prensky 1996): 1) Performance Uncertainty – how well the product performs in different environments (e.g., how well a car drives in the mountains); 2) Personal Matching Uncertainty – how well the product fits the consumer's idiosyncratic needs (e.g., a technically perfect software may be too difficult to use and the learning costs too high); 3) Acceptance Uncertainty – how well the consumer's reference group (family,

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friends, co-workers, neighbors) likes the product (e.g., will my friends and co-workers like my new clothes?); and 4) Technical Uncertainty - product durability, failure rate, and upkeep costs.

While there are other means to reduce performance, fit and acceptance uncertainties (e.g., *Consumer Reports*, word of mouth, advertising), demonstrations and MBGs are unique in their capacity to provide first-hand information to address these uncertainties. Technical uncertainty cannot be resolved with MBGs or demonstrations since the uncertainty relates to the long-term characteristics of the product. Manufacturer warranties, brand reputation, or word-of-mouth reports may help resolve this uncertainty.

Demonstrations

Demonstrations are defined as tools that enable a consumer to learn about a product through experimentation before purchase. Thus, test-driving a car, spraying perfume on your wrist before purchase, or tasting a free sample of a food product in a grocery store are all demonstrations.

Demonstrations can vary in length, site, restrictions, training and degree of flexibility. Long demonstrations reveal more information about the product characteristics. If the product has qualities that take time to appreciate, longer demonstrations will increase the likelihood of purchase and build consumer confidence. However, long demonstrations are more costly, both for the firm and for the consumer who must commit time. Moreover, if a product has negative qualities that are not easily discovered, short demonstrations may effectively reveal positive qualities that the consumer is searching for without exposing the negative ones (see Heiman and Muller 1996 for a detailed discussion).

Demonstrations are typically held at the store where the product is sold. However, demonstrations may be done in a more convenient environment for the consumer. For example, many software makers who distribute their products via the Internet provide a free trial period during which the product can be tested at home. Demonstrations may be restricted to prevent misuse or to maintain curiosity about the full product (e.g., computer games that restrict access to

some features). However, excessive restrictions may lose customers who are interested in the advanced features they cannot observe.

Training may be necessary if there is a possibility of product misuse or if minimal training is required to effectively use the product (e.g., technical software). This can be done with pre-designed systems (e.g., a computer program that guides the user through the process) or by a salesperson. Training increases demonstration costs to both the seller and buyer.

Demonstrations may be standardized or customized to meet the specific needs of a consumer. In car demonstrations, the salesperson may allow a consumer an extended test-drive, depending on the consumer's interest level and the availability of a car. Designing an adaptable demonstration program generally requires better-trained salespeople, since their increased participation is required.

The appropriate design of a demonstration depends on both the product being sold as well as the targeted customer. Firms must weigh the benefits and costs of each of the above characteristics in designing a demonstration that fits their particular needs.

Money-Back Guarantees

A money-back guarantee is an option that enables the consumer to receive some or all of their money back if the product is returned within a given period of time. MBGs reduce the risk to the consumer after the purchase has been made. As with demonstrations, they reduce the uncertainty of the buyer ex-ante since she knows she will be able to return the product if she is not satisfied.

MBGs have also been modeled as signals for product quality or retailer service (Heal 1977; Moorthy and Srinivasan 1995). When retailers are better informed than consumers about the quality of the products they carry, providing MBGs can act as a signal to the consumer that the retailer is relatively confident about the product quality. Since MBGs reduce consumer uncertainty, they increase demand (Davis, Gerstner and Hagarty 1995) and are of value to the consumer (Phillips 1993). Consequently, the

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probability of purchase is increased and/or the retailer can charge the consumer a price premium for providing the MBG (Geistfeld and Key 1991).

MBGs can vary in the duration of the return period, the return costs to the consumer, and the return costs to the MBG provider. As with demonstrations, a longer return period allows the consumer more time to learn about the product and determine whether it fits their needs. A longer trial period may make the consumer more comfortable with the product and less likely to return it. On the other hand, a long MBG duration means that there is a greater likelihood the product may be broken or mishandled by the consumer, thus reducing the value of the product if it is returned.

The return costs to the consumer, both in terms of time and financial burden, are affected by several factors. First, there is the inconvenience of returning a product. If the dealer is nearby, the return is easier. Waiting in line or other service features also affect the effort required to return products. Second, there may be penalties or restrictions, such as refunding only a portion of the total amount or providing credit that can only be used within the store. The more convenient it is for the consumer to return a product and get a full cash refund, the better the value of the MBG, allowing the retailer to charge a premium for this service. Alternatively, retailers may choose to increase return costs to the consumer (e.g., long waiting lines or more distant locations for returned products) in order to reduce consumer incentives to return products.

The seller also absorbs return costs if it provides MBGs. The return costs are the fixed costs of providing a location and staff so that customers can return products, and any possible loss in product value from depreciation or damage from consumer use. If product depreciation or likelihood of damage is high, the seller is less likely to provide MBGs. If MBGs sufficiently increase sales, or if the seller can charge adequate price premiums for providing MBGs, the benefits from MBGs will more than offset the losses from handling returned products.

Because MBGs can last a long time (often 30 days for US retailers), some consumers may purchase a

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product with the intention of using it only for the MBG duration and returning it for a full refund. For example, if a man needs a tuxedo for a special event, purchasing it with an MBG would allow him to use the tuxedo once, and then return it for a refund. One way of reducing this moral hazard is to reimburse only a portion of the purchase price or to otherwise make the return difficult, thereby reducing the motivation to free ride (Mann and Wissink 1980). Demonstrations and MBGs can be complements or substitutes in their use. As will be seen in later sections, their use will depend on the characteristics of the product, firm (or brand name), and consumer.

CONSUMER CHOICE OF MBGS AND DEMONSTRATIONS

A customer may face a wide range of demonstration and MBG opportunities, but her choice of these tools will be sequential. First, the customer will decide whether she wants to test a product with a demonstration. This decision depends on the consumer's information and confidence in the product (or brand). If the consumer tests the product, she will use this information to update her assessment of this product. Then she must decide whether to continue to test other products or whether she has enough information to make a purchasing decision. Finally, when making the purchasing decision, the consumer must decide whether to buy the product from a retailer that provides an MBG. If demonstrations have sufficiently reduced her uncertainty, the consumer may purchase the product without an MBG.

The consumer's decision to use a demonstration or an MBG depends on a comparison of the consumer's expected benefits versus the costs of doing so. The benefits depend on the consumer's uncertainty about the product, what the costs of a mistaken decision would be, and the effectiveness of either tool in reducing the likelihood of her making a bad decision. The effectiveness of MBGs and demonstrations depends on a number of features. These include the product trial environment (e.g., home vs. store), duration of consumer learning time, extent of training provided, consumer's education, experience with and knowledge of the product

TABLE 1
Comparison of Learning and Cost Features for Demonstrations and MBGs

Learning Tool	Learning Features			
	Product trial Environment	Learning Time	Training	Consumer Characteristics
Demonstration	Usually limited to store	Short	May be included	Effectiveness of demonstration is more sensitive to consumer learning ability
MBG	Normal (home or business)	Long	Not included	MBG effectiveness is less sensitive to learning ability
Learning Tool	Cost of Tools			Cost of rejecting product after trial
	Time Costs	Product Price		
Demonstration	Time spent testing the product	No price premium		None
MBG	Time spent returning the product	Includes price premium		Return penalty

category, need for feedback from others, and time costs. For example, the cost of using a demonstration depends on how much the consumer spends time testing the product (and how she values her time doing this), while MBG costs include a price premium and the time cost of returning the product if necessary. Table 1 compares the features that contribute to the risk reducing effectiveness and cost of MBG and demonstrations.

Because MBGs are usually longer and allow the buyer to use the product in a more natural environment (home or office), they provide the buyer a better opportunity to learn about the product. However, MBGs are likely to cost the consumer more than a demonstration. First, there is the premium that a consumer must pay the seller to provide a MBG, and second, there is the cost of returning the product if the consumer decides it was not suitable. The less certain the consumer is of the product, the greater the expected cost of return of a MBG, since the consumer is more likely to return the product. This final point implies that if the expected likelihood of a fit between the product and consumer is very small, a consumer may not want to purchase the product, even if a MBG were offered. Nevertheless, if the customer were to purchase an expensive product that has a high likelihood of not matching her needs, she would do so with a MBG,

since the anticipated costs of a non-fit will be high. By contrast, since the costs of testing products with demonstrations are typically relatively small, a consumer may utilize a demonstration even when the likelihood of fit is very small. This implies that a consumer may use a demonstration even she is not seriously considering purchasing the product, and will require a higher likelihood of fit before considering purchasing the product with a MBG. A consumer may even use a demonstration when she anticipates a high probability of fit, since the costs of doing so are small.

SELLER CONSIDERATIONS FOR OFFERING MBGs AND DEMONSTRATIONS

MBGs and demonstrations are provided under a variety of circumstances. In this section we address the following questions:

- Do retailers or manufacturers provide demonstrations and MBGs?
- In which product categories do retailers provide demonstrations and MBGs?
- How do firm or brand characteristics affect the manufacturer's provision of demonstrations and MBGs?
- How do firms use demonstrations and MBGs to target markets?

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Do Retailers or Manufacturers Provide Demonstrations and MBGs?

Heiman, McWilliams and Zilberman (2001) argued that stores generally provide MBGs, while manufacturers will often offer demonstrations. Retailers are more likely to provide MBGs because they signal store quality, increase in-store patronage, and reduce transaction costs for purchasers. MBGs are typically tied to the store at which the product was purchased. Manufacturers may support MBGs by providing back-to-back return policies to the retailers.

Demonstrations are often provided by manufacturers that are interested in promoting their own brands. This strategy increases brand sales, but does not necessarily increase total sales of that product within a store because consumers may substitute the purchase of the demonstrated brand for another brand, and because the demonstration at one store may result in increased purchases at a different store. Nevertheless, it is recognized that retailers often benefit from demonstrations because of increased consumer traffic which boosts overall sales. For example, in 1998 HP integrated promotions and product demonstrations in 400 stores for its HP PhotoSmart PC photography system. Participating retailers reported that 63% of visitors during the demonstration day came to the store specifically for the demonstration (DeWolf 1998). As a result, retailers often provide free store space and other promotional support if a manufacturer wants to demonstrate their product. In a J. Brain Inc. (1998) summary of its marketing efforts in Japan, the writer analyzes the large increase in sales during in-store demonstrations: "the factors for these big increases, before and after demos, are that the retail store was highly motivated to promote Jaffa Sweetie when they were offered promotional support and so they would expand the sales space... during and after demos."

Retailer size can affect the provision of MBGs. Large, retail chains will be more likely to provide generous MBGs because of returns to scale in handling returns, greater bargaining power with manufacturers which leads to obtaining better return conditions, and greater value of the MBG to the consumer because the return option can be exercised

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in many stores. The last point is particularly important when purchasing gifts for others. The likelihood of the recipient returning the product may be high and the recipient may live far from the outlet where the product was purchased.

To better understand the use of MBGs among retailers, we examined the MBG terms offered for various products by 13 large retailing chain stores located in the San Francisco Bay area. We then focused on the differences between the MBG contracts offered for computer products in large and small retail outlets. We classify various major retail chains following Stern, El-Ansary and Coughlan (1996), and show their provision of MBGs in Table 2.

The norm among these large retailers is to provide 30-day MBGs. Nordstrom and the Gap allow unlimited MBGs and can be considered as a separate class of high-service retailers. Retailers support their MBGs through a returns department where products can be returned for any reason whatsoever. In most cases, for returns without a receipt, the customer is given an exchange voucher refunded by check.

Note that national retailers offer generous MBGs. Generally, smaller independent retailers do not offer such generous return policies. In Table 3 we present 11 observations of MBGs offered by smaller computer retailer stores.

Small computer stores tend to offer restricted MBG options such as short return periods (typically 7-10 days), and return penalties (often 10-20% penalty on returned funds). However, they either offer more personalized service, such as one-on-one demonstrations, or sell at lower prices than the larger chains. Personalized demonstrations help consumers better identify whether or not the product meets their individual needs, and thus reduces the likelihood of their return option. Lower prices provide a trade-off to reducing risk through MBGs. We may consider the difference in price between stores that do and do not provide MBGs as reflecting a price premium that consumers must pay for obtaining the MBG option. Further studies should test product categories other than computer

TABLE 2
Money-Back Guarantee Conditions for National Retail Chains

Category	Retailer	MBG Duration	Terms
Specialty Apparel	The Gap	Unlimited with receipt	Full refund
Consumer Electronics	Circuit City, The Good Guys	30 Days	Full refund, software excluded
Home Office	Office Depot	30 days	Full refund, software excluded
Department Stores	Emporium Macys Nordstrom	30 days 30 days unlimited	Full refund Full refund Full refund
Discount Mass Merchandisers	Target Kmart	30 days 30 days	Full refund, software and CDs excluded
Mass Merchandisers	Sears	30 days	Full refund, software and CDs excluded
Warehouse	Costco	30 days	Full refund

products to see if the provision of MBGs is similarly lower for smaller independent retailers, and how the provision and quality of the MBG is reflected in prices.

The above discussion suggests that retailers are generally the providers of MBGs. On the other hand, retailers or manufacturers may offer demonstrations. Manufacturers will provide demonstrations in order to increase consumer awareness of their own brand. For example, in 1996 Apple demonstrated its computers at the Good Guys, and HP demonstrated its printers at Circuit City, providing personnel themselves rather than utilizing personnel from the retailer.

If retailers provide demonstrations, they generally provide them for all brands within a specific product category. By providing demonstrations and/or MBGs across the board, retailers help consumers compare different brands so that they can identify the one that best fits their personal needs. Providing mechanisms to match the product to personal needs reduces consumer uncertainty and increases retailer sales.

In Which Product Categories Do Retailers Provide Demonstrations and MBGs?

Retailers provide different combinations of demonstrations and MBGs for different product categories. Table 4 identifies commonly observed

examples of products in the four demonstration-MBG combinations: demonstrations only, MBGs only, MBGs and demonstrations, and neither MBGs nor demonstrations. Characteristics of the products in each category are discussed below.

Products With Demonstrations Only. Products that are demonstrated but typically do not have MBGs include automobiles, computer software, perfume and cosmetics, and business-to-business transactions. The important characteristic of products in this category is that demonstrations are effective tools for increasing product knowledge while MBGs may be costly for the retailer or buyer.

Demonstrations are an important component of automobile sales since consumer perception is strongly influenced by the experience of test-driving a car model. The consumer is willing to spend time testing the product since cars are a large investment. On the other hand, MBGs are not provided because cars depreciate rapidly in value the moment they leave the seller's lot. Moreover, if they were to offer MBGs, car dealers would face the moral hazard of some customers purchasing the car as an alternative to renting, with the intention of returning the car for a refund at the end of the MBG period.

Retailers in the software business try to help their undecided consumers in the difficult task of choosing between similar products with different qualities by providing demonstrations that allow

TABLE 3
Money-Back Guarantee for Independent Computer Retailers

Product	Retailer	No. of stores	MBG Duration	Terms
Monitors	Top Data	1	0	No MBG given
Monitors	Budget computers	1	15 days	Full refund
CD ROMs	Miracle Microsystem	3	7 - 30 days	Full refund within 7 days; 15% penalty thereafter
CD ROMs	Paramount Computers	1	10 days	20% penalty
CD ROMs, Laptop	Human Ingenuity	1	10 days	15% penalty
Laptops	Laptop Superstore	4	0	No MBG given
Laptops, printers	Bay Area Computers	1	30 days	20% penalty
Laptops, PCs	SF Computers	1	7 days	10% penalty
PCs	Symphony Computers	1	7 days	15% penalty
PCs	ACNET	1	7 days	Full refund
PCs	ACORN Computers	1	30 days	Full refund

TABLE 4
Classification of Select Products into Use and Non-Use of Demos and MBGs

Demonstrations	MBGs	Both MBGs and Demonstrations	Neither MBGs nor Demonstrations
Automobiles Computer software Perfume Cosmetics Business-to-business transactions	Telephones Home appliances Catalog sales Mail orders Internet sales	Clothes Televisions Stereo Systems Printers	Well-known foods and beverages Car tires Services (hair cuts, massages, doctors and lawyers)

them to observe the difference between products. For example, Ingram Micro prepared a demonstration CD for various software programs (Longwell 1994), Test-drive sold a demo disk of 50 different software programs for \$9.95 to potential customers, and IBM offered demonstrations on 15 different interactive multimedia applications (Mace 1993). MBGs are not offered on software because of the possibility that the software will be installed and then returned even if the product fits the consumer's needs and continues to be used.

Perfumes and cosmetics typically can only be tested through demonstrations. MBGs are not offered for these products if they are returned opened since the retailer not only loses the sale of the product, but also loses the value of a product that cannot be resold.

For business-to-business transactions, the buying firm will usually have a knowledgeable expert making purchasing decisions. This purchaser can gain sufficient information from a demonstration and will not require an MBG to further reduce their

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uncertainty. Cost minimization is a critical factor in operating businesses, so eliminating the need for MBGs can reduce the cost of the product to the purchaser.

Products With MBGs Only. Products that typically have MBGs but do not come with demonstrations include telephones, home appliances and mail order sales. Characteristic of these products is that demonstrations are usually not considered very informative or are difficult to do, whereas MBGs are effective mechanisms for reducing consumer uncertainty with consumer moral hazard less likely.

Telephones, as with most other home appliances, usually are sold with MBGs and are displayed, but not demonstrated. Two reasons they are not demonstrated are: (1) their characteristics are standardized and can be revealed by looking at the product design or by reading information about them (e.g., telephone memory capacity, food processor capabilities, vacuum cleaner power); and (2) training is unnecessary since these products generally do not require special know-how.

By their nature, catalog, mail order, and Internet sales do not allow for demonstrations. Sales of these products dramatically increase pre-purchase uncertainty and consumer risk. The importance of an MBG increases in retailing channels where the product can not be tested before purchase (Bult and Wansbeek 1995; Voss, Parasuraman and Grewal 1998; Van den Poel and Leunis 1999). For example, Dell sells directly to its customers and offers no-hassle, full refund MBGs on its entire line of products as part of its service product mixture. Some experts attribute the success of Dell to these generous MBGs (Pitta 1992; Weixel 1992).

Products With Demonstrations and MBGs. Clothes, televisions, stereo systems and printers are products that typically come with both MBGs and demonstrations. Both demonstrations and MBGs provide important information to the customer.

When a customer tries on a piece of clothing she is engaging in a form of demonstration. The demonstration is somewhat limited since it does not take place in the person's everyday environment,

may not allow feedback from others and does not allow the customer to observe how the product fits with the rest of her wardrobe. Nevertheless, the demonstration allows the consumer to screen clothes and select a few items among the many products available. MBGs allow the consumer to take the clothes home, get social feedback, and assess how the clothing fits with the rest of their wardrobe.

In contrast to other household appliances, televisions and stereo systems (and to a lesser extent printers) are almost always demonstrated by the retailer since consumers strongly value the opportunity to examine how these products function (quality of television reception, stereo sound or printer output). Because there is usually greater uncertainty associated with purchasing these products than with household appliances, MBGs can be an effective tool for reducing the remaining uncertainty and thus, increasing sales. Moreover, this greater uncertainty provides an additional incentive to the seller to offer demonstrations, since improving the consumer-product match before purchase will reduce the number of returns.

Products With Neither Demonstrations Nor MBGs. Reasons vary greatly as to why products in this category are marketed with neither demonstrations nor MBGs. Well-known beverage or food products are rarely demonstrated in supermarkets or food outlets since people are already familiar with the product and as a result not much information is to be gained. Other promotional activities such as advertising, that are generally less costly (on a per-person reached basis), and promote image rather than provide product experience, may be more effective in increasing sales. Moreover, food products do not come with MBGs, since if a consumer decides she does not want a product after testing it, it will be of zero value to the store if it were to allow the customer to return the product.

Car tires are an example of a product for which demonstrations and MBGs provide very little information to the consumer. It is difficult to assess the effectiveness of tires from a short trial. Moreover, once a tire is purchased it loses much of its value to the seller who cannot sell a tire that is partially used. One of the most important

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characteristics of a car tire is how long it will last. Consequently, rather than provide MBGs, the seller will reduce consumer uncertainty by providing performance guarantees ensuring drivers that the tires will last for at least a certain number of miles.

Most services, such as haircuts, massages, medical and legal services do not provide demonstrations or MBGs because they are inefficient mechanisms to reduce risk. Demonstrations for such services would be costly to the service provider, while refunding unsatisfied customers with MBGs would mean a full loss of the service provider's time and effort. Moreover, the potential for moral hazard arises where a satisfied client demands a refund for unsatisfactory service after extracting its full benefits. For these reasons, reputation is an important element of the service industry, particularly for services in which the client returns repeatedly (e.g., haircuts and massages). Over time, the client is able to identify a provider she feels confident about and prefers.

How Do Firm or Brand Characteristics Affect the Manufacturer's Provision of Demonstrations and MBGs?

There are various cases in which the manufacturer takes a particular interest in providing demonstrations, and, to a lesser extent MBGs. The producer's decision to invest in providing these services can arise from three characteristics related to consumer knowledge about the product or firm: (1) uncertainty gap – the firm or model is new, so there is greater consumer uncertainty about product quality; (2) quality perception gap – the product is perceived to be of a lower quality than it actually is; and (3) product-specific human capital development – the product requires know-how to operate. A fourth reason for a manufacturer to provide demonstrations or MBGs is to increase impulse purchases or product awareness (goodwill). In fact, manufacturers rely more on demonstrations than on MBGs to achieve these goals since there is greater scope for changing the level of demonstrations provided and targeting particular audiences. We will discuss these four reasons in detail, and give examples of how manufacturers provided demonstrations and MBGs to address them.

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Uncertainty Gap. When a new or little-known manufacturer or model enters the market, consumers have a great deal of uncertainty as to the effectiveness and reliability of the product being sold, and may therefore be reluctant to purchase it even when they believe that the benefits from it may be great. In these cases, demonstrations and MBGs can be effective tools for reducing product uncertainty by revealing product characteristics or assuring the consumer that she can change her mind and return the product if she is not satisfied.

Introducing a car that is totally new in concept also creates a high level of consumer uncertainty that can be reduced with demonstrations. For example, when Isuzu introduced its new Tropper in 1993, it allowed potential customers to keep the car for three days as a free-of-charge test-drive after first reviewing a video cassette of the car demonstrating its performance (Warner 1994). In this case, the extensive test-drive, combined with the promotional video, allowed potential consumers to seriously evaluate the product and gain confidence in their assessment of the car.

It is uncommon for software firms to offer MBGs on their products since there is a strong likelihood that the software will be installed and then returned for the MBG even if the product fits the consumer's needs and is used in the future. However there are exceptions, such as when Approach Software offered an MBG on its data base program in 1993 (Greco 1993). The combination of a small firm, new product, and heavy market competition led the firm to offer a 30-day MBG as well as to pursue aggressive pricing. The same logic guided Venta Press to offer MBGs on its Mosaic Internet guide book in 1995. Demonstrations of the Mosaic software could also be downloaded via the Internet.

Product sampling is a method of demonstration that involves giving away a free sample of the product to potential customers in the hope that they will become regular users. Jain, Mahajan and Muller's (1995) model utilized sampling as an activity undertaken to introduce new products. For example, Frito-Lay distributed over six million packs of its Nacho Cheese Flavored Doritos in one day at 100 special public events, as well as in 10,000

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supermarkets, spending over \$3 million to launch its new snack (Brandweek 1995). Procter and Gamble spent over \$40 million on sampling for its new toothpaste "Multicare" and toothbrush "Multiclear", targeting potential consumers and professionals.

Sampling can also occur on a much smaller scale. In an effort to familiarize European consumers with persimmons, exporters provided samples in which free pieces of the fruit were distributed to potential buyers. During the sampling period, which lasted two weeks per season, sales increased by 300 to 400 percent, relative to sales without sampling, and after two years, the proportion of consumers aware of the fruit increased from 10 percent to 50 percent.

Quality Perception Gap. When a quality perception gap exists, the problem is neither the product nor the manufacturer being new, but instead, negative perceptions associated with either the company or product that make the consumer under-rate the quality of the product being sold. Demonstrations or MBGs may be necessary to help create a new public image about the product, reflecting the new standards to which the manufacturer aspires.

Consider the case of Ford Motor Company in 1992. In the early 1970s, U.S. car manufacturers lost significant market share to those of Japan as consumer preferences shifted toward inexpensive and fuel efficient cars. Japanese cars had brand loyalty, especially in California, where many consumers preferred imported cars over domestic models. By 1992, Ford responded by making improvements in car designs, confident that these changes closed the quality gap between their models and those of Japanese companies. However, consumers needed convincing. In Southern California, where a high market share of 42% was held by Japanese car makers (as opposed to outside of California, where the share of Japanese cars was 22%), Ford adopted an extensive demonstration program. The demonstration consisted of a 24-hour test drive with their Taurus model (Kerwin 1992). Success in this program led to a nationwide increase in sales.

Firms are reluctant to provide MBGs for products that have a high likelihood of return because the

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handling of returns is costly. Therefore, providing an MBG can serve as a signal of the producer's confidence in the product, and may positively influence the consumer's perception of the product quality. For example, in 1993, IBM offered a MBG on its OS/2 operating systems. The reason for this extraordinary step was a large wave of consumers complaining about the incompatibility of the OS/2 to their clones (Scannell 1993). Although IBM insisted that the OS/2 was not the source of the problem, retailers faced critical customers. The only way to convince the retailers to keep on selling the product was to offer an MBG on each product. Similarly, although MBGs are not typically offered for tires, Bridgestone offered a 30-day MBG in addition to increasing the warranty program in order to regain consumer confidence after their tires were suspected of causing accidents, mainly on Ford Explorers (Miller 2000).

Product-Specific Human Capital Development. Certain products require know-how to operate, and this know-how may either be general to all brands in the product category or specific to the brand. For consumers unfamiliar with the products, demonstrations can provide training that will increase consumer comfort and effective use of the product before purchase. Moreover, MBGs allow the consumer to learn about and operate the product during the return period. If learning from demonstrations or MBGs is brand-specific, the learning is not transferable to other brands, and consumer commitment to the specific brand increases, since testing a different brand will require additional brand-specific time investment to learn to use it.

In 1985, Apple introduced its new and radical Macintosh with an introductory demonstration focusing on its new capabilities. Apple demonstrated 200,000 units during the Christmas sales period, allowing customers to take the computer home for several days (Robinson and Brown 1985). Even if the time invested is small, committing oneself to learning part of a program can reduce the desire to learn another computer system (a PC). Apple reported that 40 percent of the customers purchased the product after the demonstration, suggesting that the strategy was

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successful. It is possible that once a customer purchases an Apple computer she will become a captive consumer of future Apple products, purchasing the next generations of Apple computers rather than PCs. In this case, the benefits of providing demonstrations are greater than their impact on short term sales.

When Cabletron Systems Inc. introduced its Spectra software program, it offered a 30 days free-of-charge demonstration, followed by free training and a generous 50 percent discount for future training (over the next half year), if the product was purchased (McConnell 1995; Slofstra 1995). In contrast, Word Perfect demonstrated its Group Wise 4.1 over four days at a show held in Las Vegas, allowing thousands of participants to send messages by the electronic mail system (Lawler 1994). These examples demonstrate the range of training that may be necessary for effective product adoption.

Sampling can also provide an opportunity to train potential customers. For example, a study done by Agrexco on avocado purchases in Italy found that many consumers had little knowledge about avocados. If not properly trained, customers did not wait until the fruit was ripe and ate them without proper flavoring, thus reducing their likelihood of repurchase in the future. Providing free samples to consumers in stores provided training that allowed consumers to recognize when an avocado is ripe and how to flavor it properly, leading to repeat sales.

Impulse Purchases and Building Goodwill

In all of the previous examples, the manufacturer provided demonstrations and MBGs when there were perceived shortcomings in the consumers' knowledge about the product. However, demonstrations and MBGs can also be used to increase impulse sales and long-term product awareness even when there is little consumer uncertainty, including well-known products with strong images.

Heiman et al.'s (2001) model illustrated sampling as having an effect on immediate sales as well as building future product goodwill. For example, when cookie or chocolate shops provide free samples

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to passers-by, they generally do so to remind consumers of the products and to entice them to purchase immediately. Lammers (1991) provided free samples of chocolates in a shop located in a well-known mall and found that 84 percent of the people receiving samples purchased the product versus 59 percent when samples were not offered. Moreover, sampling increased purchases of all chocolate varieties, not only the varieties sampled.

Sampling is frequently used as a mechanism to re-introduce customers to seasonal food products. By virtue of not being available for much of the year, consumers get used to not having seasonal products as part of their regular diet. In these cases, stores may provide free samples to remind consumers about the product characteristics. This may be achieved, for example, simply by cutting an in-season melon into bite-sized pieces that the consumer can test.

MBGs can also be used to increase the sales of established products. In 1992, Hutchison Telecom, UK's biggest cellular phone business, offered a 14-day MBG on its product to motivate marginal consumers to purchase their product (Toor 1992).

How Do Firms Use Demonstrations and MBGs to Target Markets?

Firms can design and utilize demonstrations and MBGs to target specific markets. Once a firm has identified the market niche within which the product is best suited, or has the best potential for increasing sales, it must design an appropriate mix of demonstrations and MBGs (in conjunction with other marketing mechanisms) that can attract this market.

If the targeted group is a well-informed group with extensive experience with the product category, a demonstration may be a sufficient tool for informing consumers, since they are likely to have the capacity to quickly and effectively assess the product and its qualities. However, if the targeted market is unfamiliar with the product category, demonstrations may be less effective in reducing consumer uncertainty, unless accompanied by training. MBGs, which provide a longer trial

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period, may be necessary to get customers to buy the product.

An example of targeting an informed group is the Allison Transmission demonstration. Allison Transmission demonstrated its automatic transmission in 1995, in various cars (more than 10 models), allowing 1,300 business customers to test the transmission in tough driving conditions (Fleet Equipment 1995). Because these business customers were knowledgeable about the product, test-driving with this transmission was an effective way of allowing them to assess product quality.

The income group the firm is marketing is also important. Providing demonstrations is often expensive and the higher the income group being targeted (or the more expensive the brand), the greater the likelihood that demonstrations will be provided. If the opportunity cost of time is high, the customer will be more willing to learn from a demonstration since the possible return costs of MBGs will also be high. If opportunity costs of time are low, the customer will be more willing to return to the store and wait in line to get a refund. Therefore, MBGs may be the chosen method for reducing uncertainty for cheaper products and brands.

Sometimes rather than simply offering demonstrations to all customers, sellers may develop more complex strategies for identifying serious customers that merit the use of demonstrations. As part of the demonstration for its NT server 3.5, Microsoft responded to the issue of lack of know-how by allowing potential business customers to use the product during a 60-day trial period, but only on the condition that these customers purchase six training hours prior to the demonstration (Johnston 1994). This requirement not only ensures that users will be able to effectively test the product and reduces the potential for product misuse, but also acts as a screening mechanism for identifying real interest in the product. Moreover, once a client firm has made an initial investment in training, it has effectively made a partial commitment to the product and is more likely to seriously test it during the trial period.

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The firm may often combine demonstrations with entertainment (such as a lunch, gift or event) to entice customers to participate. Writers give readings of their books at better-known bookstores, giving readers a sense of what the book is about, and enticing them to purchase it. When the target market is small and easily identified, and the product is expensive, the entertainment can be more elaborate. For example, when Lamborghini demonstrated its Diablo (with its \$240,000 price tag), it invited a dozen potential customers, most of them Ferrari owners and car collectors, to participate in a Saturday meeting with company executives, engineers and marketers, and take a two hour test drive prior to receiving lunch (Stanley 1995).

CONCLUSION

Both demonstrations and money-back guarantees are mechanisms to reduce pre-purchase risk. MBGs are generally more costly and require a greater commitment from the customer (i.e., she must buy the product). However, both may often be used together. Demonstrations reduce the initial uncertainty of consumers and provide a basic comparison between products, while MBGs reduce the remaining uncertainty at the time of purchase and allow consumers to further test the product by offering them the option to return the product if not satisfied.

The greatest impediments to providing MBGs are the cost of return and the potential for moral hazard when a consumer can return a product for reimbursement after garnering large benefits from the use of the product during the MBG (e.g., copying or using CDs or computer games). On the other hand, MBGs have a relatively long duration, which allow the consumer to gather more information about the product. Moreover, MBGs allow the consumer to try the product in her own home, or wherever the product is used. This enables the consumer to receive feedback from others regarding the product, perhaps impacting their decision to keep it or not. However, if the consumer decides she does not want the product, she must invest the time to return it to the store.

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Impediments to providing demonstrations are that they are often costly to provide and require time from the customer. On the other hand, demonstrations require less investment by the customer and can be designed to target various audiences. Though retailers generally provide MBGs as a storewide policy (while manufacturers often provide demonstrations to promote their specific brands) we often observe cooperative efforts where manufacturers subsidize and encourage MBGs by providing back-to-back return policies to retailers. In turn, retailers help subsidize demonstrations by providing free space or prime location for the demonstrated products.

Determination of who provides demonstrations depends, to some extent, on the type of product being considered. When demonstrations are fairly easy to provide and informative, in the sense that they allow the customer to qualitatively assess the primary product qualities of the product being considered, demonstrations will be offered by retailers for all the brands and styles in the product category. For products where demonstrations are more costly, demonstrations will be more infrequent and are likely to be provided by the manufacturer promoting their specific brand. In particular, the manufacturer may provide demonstrations when: 1) the company or product is new and the public has little information about it; 2) there is a gap between the consumer's perception of the product quality and its real quality; 3) there is brand-specific know-how that can be transferred to the consumer; or 4) the manufacturer wants to increase impulse purchases. Demonstrations can also be an effective mechanism for transferring information to professional customers who have extensive product knowledge and are able to quickly and effectively assess product quality and recognize how the product meets their company needs.

While this paper provides a basic analysis of who provides demonstrations and MBGs, the relationships and agreements between retailers and manufacturers in providing these risk-reduction tools is complex. While demonstrations of a specific brand greatly benefits the manufacturer, a store can also benefit from increased traffic and product interest if the demonstrations are done in the store. However,

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it does not benefit to the full extent that the manufacturer does, since an increase in one brand may reduce sales in competing brands within the store, and the increased brand sales may occur in a store other than the one in which the demonstration occurred. In the same way, although stores tend to offer similar MBGs on all products in their stores, manufacturers benefit from retailers providing these services and often provide back-to-back support that reduces the retailers' costs of returned products. The relationship between retailers and manufacturers needs to be studied further to better understand to what degree the two cooperate and support the provision of these services.

In this paper we provided examples of how demonstrations and MBGs have been used to promote a variety of products in various environments. However, while firms may be aware of the success or failure of their specific strategies, there is little published empirical research identifying the effectiveness of these various strategies. For example, how effective are demonstrations in changing consumer perceptions of a new or changed product? What is the implicit premium charged by retailers for providing different levels of MBG services, including the duration of the MBG, the ease of returning the product, and financial penalties for return? Empirical analyses that estimate the cost and value of demonstrations and MBGs in various environments will contribute greatly to our understanding of these tools.

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