

***Using the Elaboration Likelihood Model (ELM) to Investigate Consumers'
Purchase Intention: Usana as an Example***

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Abstract

According to the Fair Trade Commission survey, the personnel participate in the Multi-Level Marketing (MLM) accounted for 17 percent of Taiwan's population of 23 million until 2012. This industry output value has reached \$ 22 billion USD, the data show that this industry continues vigorous development. This study explores the impact that two independent variables, which are argument quality (central path) and source expertise (peripheral path), have on dependent variable purchase intention by using questionnaire survey within the framework of Elaboration Likelihood Model (ELM). It also uses initial trust as its mediator variable. Both argument quality and source expertise contain four variables in total: information quality, service quality, reputation, and structural assurance. This study tries to verify the association of how argument quality and source expertise correlate with initial trust, which in turn results in the changes of consumers' purchase intention. The authors of this work intend to verify whether there are positive correlations between (a) information quality of direct selling products and initial trust; (b) the service quality of direct salespersons and initial trust; (c) the reputation of direct selling company and initial trust; (d) structural assurance of direct selling company and initial trust. In addition, this study may help direct selling company establish consumers' initial trust in purchasing direct selling products based on their various paths, and develop a better marketing strategy.

Keywords: Initial Trust, Direct Selling, Multi-Level Marketing, Elaboration Likelihood Model

1. Introduction

The concept of Multi-Level Marketing (MLM) has been increasingly popular in business around the world. According to a report issued by Fair Trade Commission, the number of MLM operators in Taiwan has exceeded 3.8 million (Fair Trade Commission, 2012). From 2007 to 2012, legal MLM companies increased dramatically from 127 to 363 (Fair Trade Commission, 2012). New MLM companies are keeping entering. Therefore, how to attract customers is the top issue for MLM operators. To satisfy the customers' need, good information quality and service quality has become an essential tool to influence initial trust of customer, particularly in MLM industry. Nowadays, due to pyramid schemes and various frauds customers expect more guarantee such as reputation and structure assurance when they choose the MLM company. In addition, the MLM operators need to keep up with the growing expectation of customers about the overall MLM experiences. Thus, it is important for MLM operators to fully recognize the needs of customers and build their initial trust. Researchers also acknowledged there's a positively influence between initial trust and purchase intention (Everard & Galletta, 2006; Korgaonkar, 1982; Wakefield *et al.*, 2004).

Drawing on the elaboration likelihood model (ELM), this research examined users' initial trust in MLM industry. The research indicated that initial trust develops along a dual route including the central route and peripheral route. Central cues include information quality and service quality, whereas peripheral cues include structural assurance and reputation. These two dimensions determine the level of customer initial trust, and ultimately enhance customer purchase intention. Despite there are indications that central cues, peripheral cues, and initial trust are essential components in explaining the formation of purchase intention. But there are surprisingly few researches for MLM industry, has examined the roles of these variables in forming purchase intention. Thus, the effect of the elements that make up purchase intention in the MLM industry should be empirically tested to create an overall research model.

The rest of this paper is organized as follows. We review related literature on direct selling, MLM customer adoption and ELM in the next section. Section 3 develops research model and hypotheses. Section 4 describes instrument development and data collection. Section 5 presents results, followed by a discussion of these results in section 6. Section 7 presents theoretical and managerial implications. We conclude the paper in Section 8.

2. Literature review

2.1 Direct Selling

Direct selling is a marketing method defined as “face-to-face selling away from fixed retail location” (Peterson & Wotruba, 1996; Wotruba *et al.*, 2005). 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 (Vander & Keep, 2002), and frequently direct selling is confused with direct marketing (Bauer & Miglautsch, 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 & Miglautsch, 1992).

2.2 Multi-Level Marketing

Multi-Level Marketing (MLM) is a marketing strategy in which the sales force is compensated not only for sales they personally generate, but also for the sales of others they recruit, creating a downline of distributors and a hierarchy of multiple levels of compensation (Hossan *et al.*, 2012). Most commonly, the salespeople are expected to sell products directly to consumers by means of relationship referrals and word of mouth marketing (Hossan *et al.*, 2012). Some people equate MLM with direct selling, although MLM is only one type of direct selling (Hossan *et al.*, 2012; Vander Nat &, 2002).

MLM companies have been a frequent subject of criticism. Criticism has focused on their similarity to illegal pyramid schemes, price-fixing of products, high initial start-up costs, emphasis on recruitment of lower-tiered salespeople over actual sales, encouraging if not requiring salespeople to purchase and use the company's products, potential exploitation of personal relationships which are used as new sales and recruiting targets, complex and sometimes exaggerated compensation schemes, and cult-like techniques which some groups use to enhance their members' enthusiasm and devotion (Carroll, 2011). In contrast to MLM is single-level marketing. In single-level marketing, the salesperson is rewarded for selling the product, but not for recruiting or sponsoring other salespeople.

2.3 Elaboration Likelihood Model

Based on previous social psychological research on attitude change, Petty and Cacioppo (1986) propose the elaboration likelihood model (ELM) in order to explicate how an individual deals with various persuasive appeals, suggesting that the cognitive effort a person devotes to processing an argument depends on his or her likelihood of elaboration. Based on elaboration likelihood, the ELM supposes there are two different routes to persuasion: central and peripheral. On the premise that individuals have the time or opportunity to process the incoming messages, attitude

changes will be induced via central route when the individuals are highly involved with the arguments and when they have a high level of ability to process the arguments (Petty & Cacioppo, 1986). In the instance of lower involvement or processing ability, the peripheral route to persuasion occurs.

2.4 Initial trust

According to the degree of increased mutual trust, trust can be divided into two kinds of trust, initial trust and continuing trust, when users get more direct experience, the initial trust will be converted to continuous trust (Zhou, 2012). Trust is an interactive conduct between the customer and the service provider, ability to maintain long-term relationships are depends on whether each other can mutual trust or not, so trust is the key to maintaining relationships when the transactions is going (Chaudhuri & Holbrook, 2001, 2002). The service providers and their customers will establish a long-term benefit relationship instead of the short-term one, only when the level of trust between them is high. The long-term relationship will also help to increase competitive advantage and reduce the transaction costs (Zeithaml *et al.*, 1996). Therefore, trust plays an important role in the development of high-quality relationships (Morgan & Hunt, 1994).

Through the review of the above mentioned literatures, we have understood some aspects of the ELM and MLM industry. ELM provides a useful theoretical lens to understand MLM customer behavior. ELM argued that individual customer changes their attitudes via both central route and peripheral route. Thus, we draw on ELM to examine MLM customer trust and expect to reveal initial trust development processes.

3. Research framework and hypotheses

3.1 Relationship between central cues and initial trust

Information quality reflects information relevancy, sufficiency, accuracy and currency (Zhou, 2012). Customers use online shopping platform to get the information on their account balance and payment. If this information is irrelevant, insufficient, inaccurate or out-of-date, users may doubt whether the service providers have enough ability, integrity and benevolence to provide quality information to them. This may decrease their initial trust in online shopping platform. Yang *et al.* (2006) has reported the effect of information quality as central cues on initial trust in online stores. Information quality are also found to be a significant determinant of users trust (Nicolaou & McKnight, 2006; Zahedi & Song, 2008), Thus, we suppose:

H1.Information quality could positively influence initial trust.

Service quality reflects the service reliability, promptness, assurance and personalization (Gefen, 2002). If the consumers cannot get proper assurance and trustful services, real-time service, personalized service, they will opinion that the

company is not able to provide the service they need. This may lead to their lack of trust in MLM companies. Customers may also compare the service between other companies. This behavior requires additional investment in consumer themselves as consumers need to invest more time and effort on searching information which about MLM products, then the service quality may take a central path way to affect the initial trust. Thus, we suppose:

H2. Service quality could positively influence initial trust.

3.2 Relationship between peripheral cues and initial trust

Reputation has been identified to be a significant determinant of initial trust (Beldad *et al.*, 2010). Chang and Chen (2008) has also disclosure the reputation affects online initial trust which is similar to initial trust. Then some extant research has noted that source credibility which is similar to reputation affects user attitude via the peripheral path (Bhattacharjee & Sanford, 2006). Thus, we propose:

H3. Reputation could positively influence initial trust.

Structural assurance reflects on exist technological and legal structures to ensure security (McKnight *et al.*, 2002a, 2002b). According to trust transference (Pavlou & Gefen, 2004), users may transfer their trust in these third-parties to online shopping platform. Thus, structural assurance may affect initial trust. Structural assurance may also act via the peripheral route to effect on initial trust as it represents information cues and does not require much effort investment from users. Thus, we propose:

H4. Structural assurance could positively influence initial trust.

3.3 Relationship between initial trust and purchase intention

The unique nature of internet environments is relevant to the acceptance of e-commerce and consumers' purchase intentions (Pavlou, 2003). Consumers evaluate a web store through online trust positively influencing their attitude toward conducting online purchases at the site; moreover, their attitude affects their purchase intentions (Wang, 2003). Moreover, The previous studies on e-commerce have revealed the importance of trust in affecting consumers' behavior (Everard & Galletta, 2006; Gefen *et al.*, 2003). Thus, we suppose:

H5. Initial trust could positively influence purchase intention.

Figure 1 presents the research framework. Central cues include information quality and service quality, whereas peripheral cues include reputation and structural assurance. Initial trust moderates the effects of central cues and peripheral cues on purchase intention.

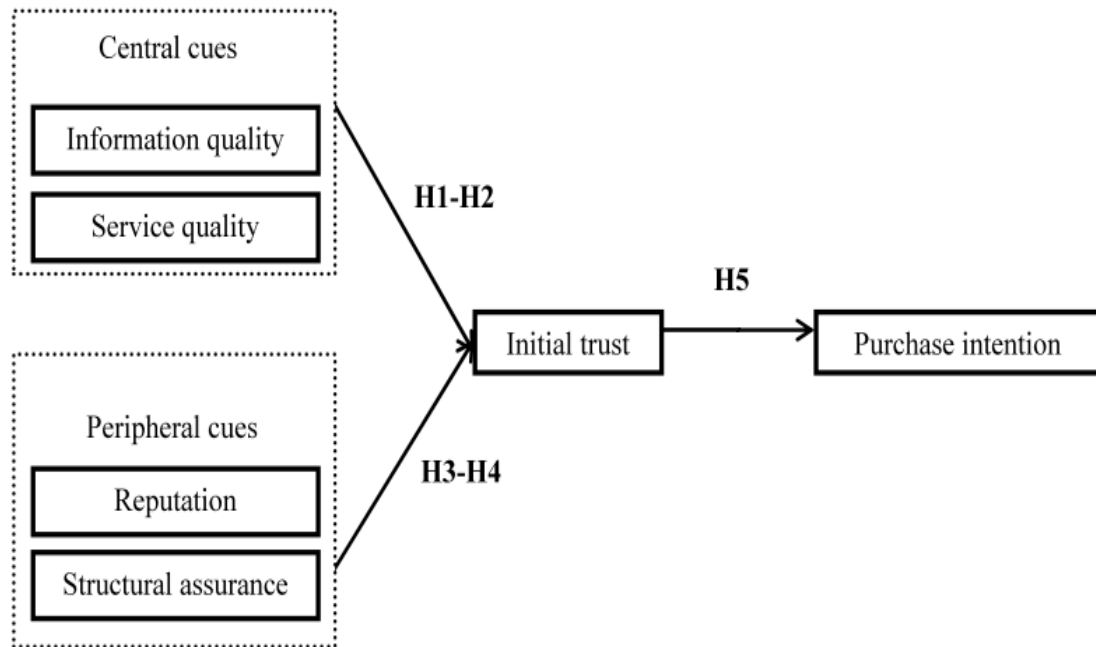


Figure 1. Research Framework

4. Method

Measures employed in this research are derived from several existing literatures the items are translated from English to Chinese and adjusted necessarily to suit the research subject in this thesis. The questionnaire was completed after pretested by 30 customers. In order to improve the readability and relevancy some ambiguous items are rephrased while some items are added extra. Besides, the items definition of each variable will be shed light on following sections, along with measures and their sources.

The questionnaire was distributed to randomly selected customers who share their experience after buying products at USANA. The each total number of collected questionnaires was 165. The number of effective samples was 157 after discarding 8 which has not previously bought or repeats responses. A total of 165 respondents from a survey were used to assess overall fit of the proposed model and test hypotheses using structural equation modeling. After deleting incomplete responses, 157 respondents were coded for data analysis, representing an effective responses rate of 95%. The proportion of the sample gender is a big gap, for which female are 32% and male are 68%. This kind of proportion is almost same as the annual report by gender report from Taiwan Fair Trade Commission website (male: 30%, female: 70%). For the range of sample age, most of them are between 31 to 40 years old (41%). Followed up is between 41 to 50 years old (15%). In this research, the population is

defined as MLM customer in Taiwan. The formal questionnaire was collected based on social media. According to Gorsuch (1983), the least sample size is equal to five times of the items and should higher than 100. There were totally 157 usable questionnaires collected after two weeks of fieldwork (February 1th to 14th in 2014).

We propose a Confirmatory Factor Analysis (CFA) with partial least squares (PLS) estimation to assess the relationships between the constructs. PLS was proposed by Wold (1985) as an analytical alternative for situations where the theory is weak and the available variables or measures would be unlikely to conform to a rigorously-specified measurement model. The correlation analysis is performed to check the reciprocal relationship between variables and to avoid the linear dependencies among them. Finally, the proposed model and hypothesis testing was conducted using SmartPLS software to analysis the data (Ringle *et al.*, 2005). We analyze and interpret our PLS model in two stages: the assessment of the reliability and validity of the measurement model, and the assessment of the structural model. The stability of the estimates was tested via a bootstrap re-sampling procedure involving 1000 sub-samples (Hair *et al.*, 2011). The core variables and dimensions adapted from existing literature about information quality, service quality, reputation, structure assurance, initial trust and purchase intention are defined in Table 1 below.

Table 1. Development of Items

Information quality (INF): [Source: Kim <i>et al.</i> (2004)] INF1: USANA provides me with information relevant to my needs. INF2: USANA provides me with sufficient information. INF3: USANA provides me with accurate information. INF4: USANA provides me with up-to-date information.
Service quality (SEV): [Source: Kim <i>et al.</i> (2004)] SEV1: USANA provides prompt services. SEV2: USANA provides professional services. SEV3: USANA provides personalized services.
Reputation (REP) : [Source: Koufaris and Hampton-Sosa (2004)] REP 1: USANA has a good reputation. REP 2: USANA has a reputation for being honest.
Structural assurance (SA) : [Source: McKnight <i>et al.</i> (2002a)] SA1: I feel confident that encryption and other technological advances on the Internet make it safe for me to use USANA's shopping platform. SA2: I feel assured that USANA provides for payment mechanism is credible and reliable SA3: I feel comfortable that on the internet shopping environment from USANA
Purchase Intention (PI) : [Source: Agarwal and Prasad (1998)] PI1: will buy USANA's products PI2: I am willing to purchase USANA's products PI3: I believe that experience of buying goods at USANA is good PI4: When I want to buy direct selling product, USANA will be my first choice PI5: Even other direct selling company has cheaper price, I will buy goods at USANA.

5. Results

Reliability analysis (Cronbach's Alpha) was conducted to test the reliability of gathered data with the selection criteria questionnaire. As shown in Table 2, because all values of Cronbach's alpha estimates were between .74 and .90, that is considered acceptable as an indication of reliability for basic research (Nunnally, 1967). All composite reliabilities were above the recommended value of .70, ranging from .87 to .93 (Nunnally, 1994). The results indicated a strong reliability of measures. A construct validity test was conducted using the factor loading within the constructs, average variance extracted (AVE), and the correlation between constructs. As shown in Table 2, all standardized factor loadings emerged fairly high, ranging from .73 to .91. This showed that the measurement had convergent validity (Anderson & Gerbing, 1988). As shown in table 2, convergent validity was also indicated because all AVE values exceeded Fornell and Larcker (1981) suggested cutoff of .50 to assess the discriminant validity, the square root of the AVE measure on each construct must exceed the estimated correlations shared between the construct and other constructs in the model (Fornell & Larcker, 1981). As shown in Table 3, the discriminant validity for the constructs used in our study was acceptable, since the square root of AVE on each construct (i.e., the diagonal elements shown in bold italic font in Table 3) was greater than the correlations of the construct with other constructs (i.e., those related off-diagonal elements in Table 3).

Table 2. Confirmatory Factor Analysis

Construct	Item	Standardized item loading	AVE	Composite Reliability	Cronbachs Alpha
Information quality (INF)	INF1	0.72	0.64>0.5	0.87>0.7	0.81
	INF2	0.85			
	INF3	0.84			
	INF4	0.76			
Service quality (SEV)	SEV1	0.83	0.73>0.5	0.89>0.7	0.82
	SEV2	0.89			
	SEV3	0.83			
Reputation (REP)	REP1	0.91	0.82>0.5	0.90>0.7	0.78
	REP2	0.89			
Structural assurance (SA)	SA1	0.77	0.65>0.5	0.85>0.7	0.74
	SA2	0.76			
	SA3	0.88			
Initial trust (TRU)	TRU1	0.87	0.74>0.5	0.92>0.7	0.88
	TRU2	0.88			
	TRU3	0.83			
	TRU4	0.85			
Purchase intention (PI)	PI1	0.86	0.72>0.5	0.93>0.7	0.90
	PI2	0.85			
	PI3	0.79			
	PI4	0.88			
	PI5	0.84			

As mentioned above, the bootstrap re-sampling procedure (1000 sub-samples) is used to generate the standard errors and the t-value, which will allow the β coefficients to be made statistically significant. The path coefficients for the endogenous latent variables and R-square statistics were derived. The structure model results are presented in Figure 2. As indicated, information quality and service quality has significant impacts on initial trust, with path coefficients of .17 ($t = 2.114$, $p < 0.05$) and .26 ($t = 2.61$, $p < 0.001$), supporting H1 and H2. (See Figure 2). Reputation also has a significant effect on initial trust ($\beta = 0.452$; $t = 20.155$, $p < 0.001$), supporting H3. H4 was not supported by our empirical results; therefore, structural assurance does not have a direct and significant effect on MLM customers' initial trust. Then initial trust has a significant effect on purchase intention ($\beta = .80$; $t = 21.1$, $p < 0.001$), supporting H5. The result of the structural model test is shown in Table 4 and Figure 2.

Table 3. Inter-construct Correlations and the Square Root of AVE Measures

Latent variable	INF	SEV	REP	SA	TRU	PI
INF	0.80					
SEV	0.71	0.85				
REP	0.47	0.53	0.91			
SA	0.61	0.61	0.55	0.81		
TRU	0.60	0.66	0.70	0.57	0.86	
PI	0.56	0.65	0.74	0.54	0.79	0.85

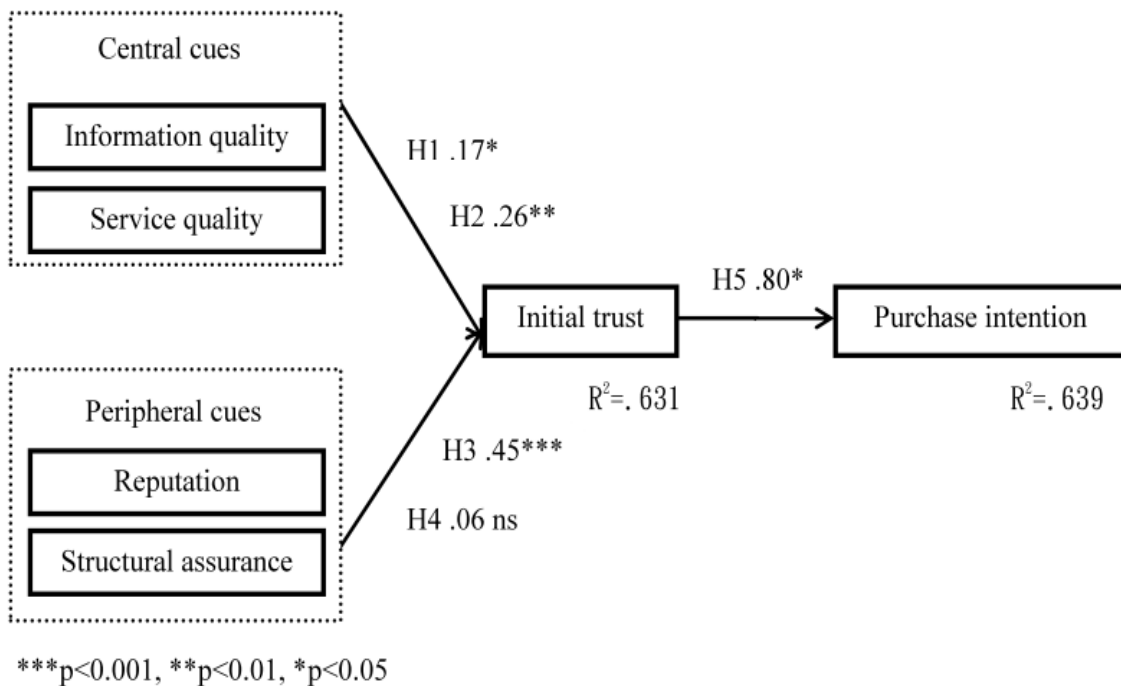


Figure 2. Result of PLS analysis

Table 4. Summary of the Results

H1. Information quality could positively influence initial trust.	Supported
H2. Service quality could positively influence initial trust.	Supported
H3. Reputation could positively influence initial trust.	Supported
H4. Structural assurance could positively influence initial trust.	None supported
H5. Initial trust could positively influence purchase intention.	Supported

6. Discussion

The structural assurance is none supported in this study. Because of the dimension structure assurance is confirmed to be positive correlation with initial trust in researches about technology acceptance and network usage. And these research industries are mostly those who emphasis on information safety, such as network information sectors and banking sectors. To use in MLM industry, due to the differences in industries, consumers will more emphasis on the quality of product information, the impact on service quality, and the level of reputation; Consumers spend more effort to concern about the connection of the products and them. Thus the service, brand awareness and reputation of the company become the source to assess the pros and cons of the company. Therefore, we believed the reason why the structure assurance and initial trust is not significant in this study, might be the differences of the industries.

7. Theoretical and managerial implications

From a theoretical perspective, this research examined MLM customers' initial trust from the perspective of ELM. In the related research of MLM industry has seldom considered using ELM examined hypothesis. We know that trust is the very important variable in the direct selling industry to customer. Previous studies for the MLM were more focused on motivation. This research tries based on the viewpoint of ELM to fill the gap and discloses initial trust development process. The results indicated that initial trust develops through a dual route including the central route and peripheral route. Information quality and service quality act as central cues, whereas reputation and structural assurance act as peripheral cues.

From a managerial perspective, the results imply that service providers need to adopt differentiated strategies to build customers' initial trust in MLM companies. When the target customers have relatively high initial trust, such as housewife, MLM operators need to highlight the well reputation and convey the image of honesty and integrity to them as these users mainly build their initial trust via the peripheral route. On the

other hand, when the target customers have low initial trust, MLM operators need to present quality of information and quality of service, such as high level of education people, MLM operators need to present quality of information to them as these users mainly build their initial trust via the central route. Then, users may build their initial trust in MLM products and increase their purchase intention.

8. Conclusion

Aim of this study is to understand factors that affect customers' initial trust, and then results in the changes of their purchase intention when choosing MLM companies. That also helps MLM operators to know how to increase their initial trust and purchase intention. This study also suggests MLM operators to consider central cues as a main factor to satisfy their customers. For example, the information relevant to customers' needs of the MLM company, the sufficient information of the MLM company, the accurate information of the MLM company, the up-to-date information of the MLM company. Also, the dependable services of the MLM company, the prompt services of the MLM company, the professional services of the MLM company, the personalized services of the MLM company. Our study shows that if MLM operators could take all this suggestions in mind, they can attract more customers to purchase their products.

There are several limitations considering this research design. First, our subjects are focused on USANA. Although they represent potential MLM customers, future research needs to generalize our results to other samples, such as the other MLM companies. Second, the research model in this thesis is combined with central cues and peripheral cues using in MLM industry. However, there might be other potential variables influencing customer's initial trust and purchase intention to direct selling industry, for example age, or gender differences might result in different opinions. Third, we only considered the mediator effect of an elaboration likelihood– initial trust on purchase intention. Besides, we can put some moderation factors to examine the effect of the model, for example perceived ability, user motivations such as personal involvement may also affect initial trust building. Future research can examine their possible effects.

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