

ASIA E UNIVERSITY

FACTORS AFFECTING CONSUMER PURCHASING
DECISIONS IN MALAYSIA AUTOMOTIVE INDUSTRY

BY

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MASTER OF BUSINESS ADMINISTRATION
SCHOOL OF MANAGEMENT

2016

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2016

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A project paper submitted to Asia e University in
fulfillment of the requirements for the Master of
Business Administration

2016

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ABSTRACT

The Malaysian automobile market has been booming drastically for the past decades. The number of vehicles registered for the year 2005 was 16,440 units and this has increased to 40,753 units in the year 2013 (Road Transport Department Malaysia, 2015). Various automotive manufacturers have entered the market since the Proton monopoly was lifted have opened up numerous vehicle segments that now provide a wide-range of options to the consumers. And this phenomenon has increased keen competitions among each vehicle segment, thus creating a highly competitive automotive market. The purpose of this project paper is to identify factors that influence the consumer car-purchase decisions in Malaysia.

The focus of this study is to determine and analyse the influence of economic, psychological, socio-cultural and demographic factors that affect the purchasing decisions of Malaysian automotive users. The research question seeks answers to how consumer purchasing decisions, based on different influencing factors, affect the automotive market in Malaysia.

The research method is based on descriptive research design. The target population is 200 adults within the working age bracket (18 to 60 years) who are legally entitled to purchase a car in Malaysia, with a valid driver's license. Simple random sampling technique was used to procure responses from a questionnaire survey. Through various online forums, data collected were processed and recoded into inputs format recognised by the Statistical Package for Social Sciences (SPSS), and analysed using descriptive and inferential statistics of the SPSS program. The results were presented in tables and figures.

The study concludes that consumer car-purchasing decisions were not influenced by a solitary factor but a combination of multiple attributes from the four factors, namely, economic, psychological, socio-cultural and demographic factors. A recommended action of this study, in such a complex context, suggest that future researchers develop products with specific features according to user preferences, and marketers formulate explicit marketing strategies to capture potential target consumers.

ACKNOWLEDGEMENTS

This study is dedicated first and foremost to God for seeing me through. I would like to express my heartfelt gratitude to my parents, whose love and guidance are with me in whatever I pursue. I wish to thank my loving and supportive wife, Ching, and my wonderful baby, Kah Mern, who provide unendingly inspiration. I would especially like express my sincere appreciation to Dr. Oo Yu Hock, my supervisor for his guidance throughout my research and taught me more than I could ever give him credit for here. Also, I would like to thank all lecturers and staffs of Asia e University, especially those with whom I have had the pleasure to study during this project paper.

APPROVAL PAGE

This is to certify that the research entitled “Factors Affecting Consumer Purchasing Decisions in Malaysia Automotive Industry” submitted by Chan Chor Yarn has been supervised. In my opinion the research follows the standard requirement for the Masters of Business Administration.

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Dr Oo Yu Hock
Supervisor

DECLARATIONS

I hereby declare that the thesis submitted in fulfilment of the MBA degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breach in this declaration constitutes academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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Signature of Candidate:

Date: 28th July 2016

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TABLE OF CONTENTS

ABSTRACT	ii
ACKNOWLEDGEMENTS	iii
APPROVAL PAGE	iv
DECLARATIONS	v
COPYRIGHT	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	ix
LIST OF APPENDIX	x
Chapter 1: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem	1
1.3 Objective of the Study	2
1.4 Research Question	3
1.5 Significance of the Study	3
1.6 Research Methodology	3
1.7 Organisation of Remaining Chapters	4
Chapter 2: REVIEW OF LITERATURE	5
2.1 Economic Factors Affecting Consumer Purchasing Decisions	5
2.2 Psychological Factors Affecting Consumer Purchasing Decisions	11
2.3 Socio-cultural Factors Affecting Consumer Purchasing Decisions	15
2.4 Demographic Factors Affecting Consumer Purchasing Decisions	19
Chapter 3: RESEARCH METHODOLOGY	26
3.1 Research Design	26
3.2 Population and Sampling Design	27
3.3 Data Collection Methods	29
3.4 Data Analysis Methods	30

Chapter 4: DATA ANALYSIS AND FINDINGS	31
4.1 Background Information	30
4.2 Economic Factors and Purchasing Decision	37
4.3 Psychological Factors and Purchasing Decision	39
4.4 Socio-cultural Factors and Purchasing Decision	41
4.5 Demographic Factors and Purchasing Decision	43
4.6 Multiple Regression Analysis	45
Chapter 5: SUMMARY, RECOMMENDATIONS AND CONCLUSION	47
5.1 Summary	47
5.2 Recommendations	52
5.3 Conclusion	54
APPENDIX	56
REFERENCES	61

LIST OF TABLES

Table 4.1: Gender of the Respondents	31
Table 4.2: Age Category of the Respondents	32
Table 4.3: Marital Status	33
Table 4.4: Level of Education	33
Table 4.5: Category of Occupations	34
Table 4.6: Planning to Purchase a car in 5-year Period	35
Table 4.7: Correlations Analysis	36
Table 4.8: Economic Factors	37
Table 4.9: Model Summary of Economic Factors	37
Table 4.10: ANOVA of Economic Factors	38
Table 4.11: Coefficients of Economic Factors	38
Table 4.12: Psychological Factors	39
Table 4.13: Model Summary of Psychological Factors	39
Table 4.14: ANOVA of Psychological Factors	40
Table 4.15: Coefficients of Psychological Factors	40
Table 4.16: Socio-cultural Factors	41
Table 4.17: Model Summary of Socio-cultural Factors	41
Table 4.18: ANOVA of Socio-cultural Factors	42
Table 4.19: Coefficients of Socio-cultural Factors	42
Table 4.20: Demographic Factors	43
Table 4.21: Model Summary of Demographic Factors	43
Table 4.22: ANOVA of Demographic Factors	44
Table 4.23: Coefficients of Demographic Factors	44
Table 4.24: Model Summary of Multiple Regression	45
Table 4.25: ANOVA of Multiple Regression	45
Table 4.26: Coefficients of Multiple Regression	46

LIST OF APPENDIX

Appendix 1 56

Chapter 1

INTRODUCTION

1.1 Background of the Study

The Malaysian automobile market has been booming drastically for the past decades. The number of vehicles registered for the year 2005 was 16,440 units and this has increased to 40,753 units in the year 2013 (Road Transport Department Malaysia, 2015). Various automotive manufacturers have entered the market since the Proton monopoly was lifted have opened up numerous vehicle segments that now provide a wide-range of options to the consumers. And this phenomenon has increased keen competitions among each vehicle segment, thus creating a highly competitive automotive market.

The automotive world today is changing and consumers are changing. Consumer behaviour is evolving and automotive companies need to respond accordingly in order to anticipate this evolution and accompanying change influences. Change management in the car manufacturing industry requires, among others, the need to ascertain relationship between car-purchasing behaviour and car-producing models and brands that are affected by four main factors, namely, economic, psychological, socio-cultural and demographic factors.

1.2 Statement of the Problem

Car-purchase behaviour among Malaysians has changed over the decades. Yet local investors, manufacturers and marketers lack thorough insight into consumer behaviour during product planning and investment decision-making processes.

Consumers often make their purchasing choices and judgments based on their own preferences and personal requirements. This is a major concern for car dealers and manufacturers to establish the preference factors for models selection (Momeni & Nazemi, 2010). Guessing or measuring the consumers attitude is an intricate task because predicting consumer attitude is as tough as understanding consumer mind (Bheri, 2004).

For the past three decades, studies had been conducted by scholars and marketers in identifying factors explaining consumer choice in car purchase and decision-making processes (Abramson et al., 1993). The majority of the research focused in the North America and Europe markets (Prieto and Caemmerer, 2013). However, automotive related studies done in Malaysia were mainly focused on characteristics of the desirable vehicles such as safety, quality, cost, comfort, reliability, and others. Until now, there are not many local studies on car-purchasing behaviours of the Malaysians consumers. This study, therefore, sought to fill such information gap of the Malaysia's automotive market.

1.3 Objectives of the Study

In this study, the objectives are as follows:

- a) To determine the economic factors affecting consumer purchasing decisions.
- b) To determine the psychological factors affecting consumer purchasing decisions.
- c) To determine the social-cultural factors affecting consumer purchasing decisions.
- d) To determine the demographic factors affecting consumer purchasing decisions.
- e) To examine and analyse the correlation between each variable and consumer car-purchase decisions.
- f) To recommend what future researches can do.

1.4 Research Question

The research question seeks answers to how consumer purchasing decisions, based on different influencing factors, affect the automotive market in Malaysia.

1.5 Significance of the Study

The study will benefit the car dealers and manufacturers in future product planning, marketing strategy and investment decision in Malaysia. Besides, the findings will assist the foreign car makers who wish to invest in Malaysia to have an in-depth understanding of the Malaysia market. Lastly, this study will also be beneficial to the consumers in that they will have more knowledge about consumer buying behaviour, and learn about the different factors affecting their buying decisions.

1.6 Research Methodology

The theory in this project paper is about consumer behaviour especially car-purchasing consumer in the Malaysia automobile market. An example of such a theory, “Understanding consumer buying behaviour and the ways how the customers choose their products and services can be extremely important for manufacturers as well as service providers as this provides them with competitive advantage over its competitors in several aspects.” said Kotler and Keller (2011).

The methods employed include a simple random sampling which used responses from a questionnaire survey. Through various online forums, data collected were processed and recoded into inputs format recognised by the Statistical Package for Social

Sciences (SPSS), and analysed using descriptive and inferential statistics of the SPSS program. The results were presented in tables and figures.

1.7 Organisation of Remaining Chapters

The following chapters will complete the project paper:

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Data Analysis and Findings

Chapter 5: Summary, Recommendations and Conclusion

Chapter 2

REVIEW OF LITERATURE

In this chapter, the study incorporates both internal and external situational contexts that affect consumer choices in car-purchasing decisions. It reviews literature relevant to the study focus especially on economic factors, followed by psychological factors, socio-cultural factors and finally demographic factors.

2.1 Economic Factors Affecting Consumer Purchasing Decisions

2.1.1 Price of the Product

According to Taylor and Wills (1969), psychology places a strong and large part in pricing a product. Kotler (2008) explains that many consumers use price as an indicator for quality. Besides, image pricing is especially effective with the ego-sensitive product such as expensive cars.

A study finds that the relationship between price and quality of car is direct-proportional. According to the Chartered Institute of Marketing (1997), consumers perceive price to be related to quality and it has even been shown that consumer may evaluate different price stages. The institute mentions further that price acts as replacement indicator of quality. There is a positive quality perception; some products are therefore priced deliberately high to position them as 'premium' or 'quality' brands. According to Olson (1997), when consumers feel suspicious on the quality of a product or brand, they are likely to use price as an indicator of quality for the relatively expensive product. He further stated that, as the price level increase, the risk of an incorrect

assessment increase and consumer often become less familiar with the product of infrequently of purchase.

While Rao and Monroe (1989) mentioned that when buyers do assume a positive relationship between price of a product against another prices, and the actual price is perceived as significantly different from the reference prices, the price option is likely to be perceived as being of higher quality. Their research reveals that the greater the ratio between the highest and lowest experimental prices, the greater would be the price perceives quality association. Attention to price is likely to be greater for higher prices packaged goods, durable goods and service than lower price product.

Scitovsky (1995) argued that consumers may judge quality by price, however such behaviour is not always the case. It simply reflects a belief that the forces of supply and demand would lead to a strong "natural" orderly of products on a price scale leading to a strong relationship between price and quality. According to Ahtola (1984), price is similar against monetary price as a lower level attribute in multi-attribute models because the price is a "give" component of the model, rather than a "get" component with conceptualization by other pricing research (Chapman, 1986, Manzumdor, 1980).

Krishnan, et al (1991) pointed out that the market price is objectively determined by the equilibrium of market force; individual consumers may or may not agree with the fact that standard assessment of the market at any point in time, and for any specific product. Perceived price, therefore, becomes the consumer's own judgment and its worthiness in comparison to what would be gained. Consumers perceive the price of a product from two perspectives, as a monetary cost in terms of the dollar amount paid, and as an opportunity cost measured by what that dollar amount could buy. It is noteworthy to

say that consumers may not always be knowledgeable or keen in their comparison when they encode prices in a day to day basis. They just do it in ways that are meaningful to them (Zeithaml, 1982; Dickson & Sawyer, 1986).

2.1.2 Level of Income

One essential economic factor that deeply influenced consumer behaviour is income. Nagarkoti (2009) suggested that the buying tendency of a buyer is always directly related to the economic situation or income of a buyer. Any individual who has higher level of disposable income will buy expensive and premium products compared to people of lower level income.

The economic situation is the purchasing power of a consumer which has a positive relationship with his personal spending (Kotler et al., 2008). This is mainly because the amount of goods bought by a consumer as well as the type bought differs depending on the income which a consumer earns. In the event that a consumer has greater income, chances are very high that such person will go for more luxury goods like high-end cars. Taylor (2011) is of the opinion that a reduction in income shifts purchasing behaviour from buying normal goods to inferior goods. This simply means that as consumers buy fewer speciality items, such as shoes and clothing, and buy more store-brand items.

Mogridge (2009) posits that the main criteria when it comes to consumer buying behaviour is that the average person of a given income level is likely to spend a given quantity of money on the purchase of car. He, therefore, goes ahead to argue that there is a function which gives, for every income level, as well as an average expenditure on a car

purchase. More recent studies that have been conducted in this area have shown that there is a positive relationship between income levels and vehicle-purchase decisions by individuals (Feng, Wang & Zeng, 2011). For example, a study revealed that two-wheeled and four-wheeled vehicle ownership in Thailand depends largely on the income levels of individuals (Nagai et al., 2003).

Another similar study by Diaz Olvera et al. (2008) and Blumenberg & Pierce (2014) established that income or lack of it influences how a household purchases their mode of transportation as well as the way in which individuals choose to travel. Therefore, they are of the opinion that indeed low-income households are less likely to own cars (Rahman, 2011) and more likely to travel by other modes of transportation other than a car. This means that the income level of an individual has a positive relation with car-buying decision. It also means that individuals who have a high income are likely to buy more expensive vehicle.

Other study shown that income level plays a role in predicting consumer awareness related to a person's attitude contraction. This is mainly because income growth has a positive relationship with quality of the car. This is, therefore, a fundamental issue when it comes to consumer purchasing decisions. The level of income of an individual influences the willingness to pay higher prices as a social responsibility towards the vehicle. In other empirical studies carried out in jurisdictions with low income per capita do not show any improvement in the willingness to spend more on vehicles (Bloom & Sevilla, 2014). Therefore, the income level moderates the relations between consumers behaviour towards purchase decisions of vehicles.

Gronmo (2008) has opined that individuals who are not able to fulfil their primary needs, especially regarding self-esteem or self-actualization in the model of Maslow's "Hierarchy of needs", are likely to compensate these desires through alternative means. Thus, low-income households or those facing racial or ethnic discrimination, are likely to spend heavily on social-visible products to compensate for their lack of status in society. In the event that traditional indicators of social statuses, such as wealth or occupational prestige, are not accessible, people will without doubt resort to the consumption of status products that are easily seen as symbols of a higher class (Fontes & Fan, 2006).

2.1.3 Fuel Prices

In 2003 and 2004, Turrentine et al. studied consumers' knowledge, beliefs, and behaviours relative to the fuel price influencing in vehicle-purchase in Northern Californians. The researchers raised open-ended questions to the context and validity of the information under a qualitative research, and the statistics show that buyers are shifting away from gas guzzlers. This is happening in a period of heightened attention to the issues related to fuel economy as well as fuel prices. Yet surprised by their findings, consumers often look to the media, experts, and other consumers to help them decide during the car-purchase process. Their decisions around cars' fuel economy drew on social awareness, but not on calculations. The consumer decisions about fuel economy were governed more by emotions than by analysis, more by what fuel economy means than by its monetary value. This implies that the consumers' perception on fuel economy was usually an aesthetic value rather than a financial one.

American Automobile Association (2015) summarised that the average fuel price for unleaded petrol in 2015 was 74 cents cheaper compared to the same time in 2014. The survey shows that drivers with hybrids and compact cars were inclined towards less fuel efficient vehicles for their next purchase. Researchers at the University of Michigan Transportation Research Institute, noting that the average fuel economy in new vehicle sales stalled last year after a steady increase, credited the trend to increased truck and SUV sales in response to lower fuel prices. While John O'Dell, senior editor of the automotive site Edmunds.com, says the market share of pickup trucks rose from 51.6 percent in August 2014 to 54.3 percent in November 2014 as fuel prices declined.

Another research, however, argues that the cost of fuel has a limited effect on buyer decisions. Charles Fleming (2015), writing for the Los Angeles Times, says that an increase in pickup truck sales began before the prolonged slide in fuel prices in 2014. However, buyers of used cars were more likely to favour fuel efficient cars when fuel prices are high and pickup trucks when prices are low. A different study by The Fuels Institute found that the market share of sport utility vehicles (SUV) increased from 25 percent in 2013, to 27 percent in 2014. The market share of small vehicles fell from 23 percent to 18 percent in the same period. This phenomena clearly indicates that fuel prices did influence buyer decisions on the vehicle they purchase.

2.2 Psychological Factors Affecting Consumer Purchasing Decisions

2.2.1 Perception

Perception is how consumers understand the world around them based on the information received through their senses. In response to stimuli, consumers subconsciously evaluate their needs, values and expectations. Then they use that evaluation to select, organise and interpret the stimuli (Connolly, 2010). The marketplace's perception of a product or brand is extremely important, which is why big brands work so hard to ensure that the general perception surrounding them and their industry is as positive as possible. As a result, companies pay millions of dollars to football players, athletes, and actors to be their spokesmen. By aligning the way people feel about their idols with the product branding, companies can improve the perception of their brand or reinforce what's already positive about it (Taylor, 2006).

Kotler (1995, 2000) explains that the perception of a situation at a given time may decide if and how the person will act. There are three different perceptual processes, which are selective attention, selective distortion and selective retention. In the case of selective attention, marketers try to attract the customer attention. Selective distortion is when customers pay attention to a particular stimulus, it is not automatically translated in a unique way. Whereas, in the case of selective retention, customers try to interpret the information in a way that will support what the customers already believe.

Smriti Chand (2015) demonstrates an example of cognitive mapping as applied to perception of product quality as follows: The consumer uses the input selector to select clues and assign values to them. For quality, the cues are typically price, brand name and

retailer name. There are strong positive relationships between price and quality in most consumers' perceptions, and brand name and quality. The information is subjective in that the consumer will base decisions on the selected information. Individual selects differently from the environment and each individual has differing views. Information about quality will be categorised, meaning that the individual may put Skoda Octavia in the same category as Mercedes Benz, or perhaps put Sony in the same slot as Aiwa.

2.2.2 Motivation

In the words of William J Stanton (1994), "A motive can be defined as a drive or an urge for which an individual seeks satisfaction. It becomes a buying motive when the individual seeks satisfaction through the purchase of something". Motivation acts as a driving force that impels an individual to take action to satisfy his needs. So it becomes one of the internal factors influencing consumer behaviour.

In other words, motivation is an activated internal need state leading to goal-oriented behaviour to satisfy that need. Accordingly, motives can be defined as relatively enduring, strong, and persistent internal stimuli that arouse and direct behaviour toward certain goals (Trehan, 2009). The starting point in the buying process is recognition of need. A need may be defined as lack of something useful. A person can be motivated to buy a product for convenience, for style, for prestige, for self-pride or being at par with others (Khan, 2007). If the marketers know what creates motivation, they may be able to develop marketing tactics to influence consumers' motivation to think about, be involved with, and process information about their brand to draw the consumer's attentions. (Smoke, 2009).

Similarly, Pinki Rani (2014) describes that motivation is what will drive consumers to develop a purchasing behaviour. It is usually working at a subconscious level and is often difficult to measure. Every person has different needs such as physiological needs, biological needs, social needs and others. The nature of the needs is that some of them are most pressing while others are least pressing. Therefore a need becomes a motive when it is more pressing to direct the person to seek satisfaction. To increase sales and encourage consumers to purchase, marketers should try to create, make conscious or reinforce a need in the consumers' mind so that they develop purchase motivations. Marketers must also, according to research, matching the type of product they sell to the consumers they target, pick out the specific motivation and the need to which their product respond in order to make them appear as the solution to the consumers need.

2.2.3 Beliefs and Attitudes

Kotler (1972) defines belief as “descriptive thought that a person holds about something” and attitude as “a person’s enduring favourable or unfavourable cognitive evaluations, emotional feelings, and action tendencies toward some object or idea”. Individuals have specific beliefs and attitudes about specific products and services (Sarangapani, 2009). Marketers are interested in the beliefs that people formulate about specific products and services because these beliefs make up product and brand images that affect buying behaviour. If some of the beliefs are wrong and prevent the purchase, the marketer has to launch a campaign to correct them.