

**MASTER OF BUSINESS ADMINISTRATION**

**< E-commerce: A study on the online purchasing behavior of  
Generation Y in Malaysia >**

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## Abstract

**Keywords** : E-commerce, online purchasing behavior, Generation Y, online purchasing criteria

**Purpose** : This study is conducted aimed to discover the factors which will directly influence the Generation Y's online purchasing behavior in Malaysia, as well as exploring their purchasing criteria while making online purchase.

**Background** : Along with the growing internet usage in Malaysia, e-commerce in Malaysia is showing a promising trend. The issue of factors influencing consumer behavior regarding online purchasing has dealt with many researchers and it is interesting to determine what factors have an influence on customers' online purchasing behavior.

**Method** : Quantitative research method was conducted by distributing 150 questionnaires to the Gen Y-ers in Malaysia who aged between 18 to 29 years old.

**Conclusion** : The study revealed that factors which will influence Generation Y's online purchasing behavior include gender, education level, purchasing power, internet usage and shopping experience. Meanwhile, the study also revealed that products that Generation Y in Malaysia are more willing to purchase through internet include entertainment tickets, travel related products/ services as well as books.

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## CHAPTER 1

### INTRODUCTION

During the last three decades, the use of internet has been increasing dramatically all over the world (Eliasson and Holkko, 2009). According to the World Internet Stats, the number of internet users all around the world has reached 1.68 billion of people, which increased by 362.3% within the nine year period from year 2000 to 2009 (Internet World Stats, 2009). Along with the development of internet and new technology, an opportunity has emerged which is, the possibility to make purchases online and it is commonly known as Electronic commerce (E-commerce). E-commerce is defined as "Maintaining business relationships and selling information, services, and commodities by means of computer telecommunications networks" (Eliasson and Holkko, 2009). In simple words, it means buying and selling products or service or making transactions through computer network which is Internet. E-commerce utilizes technologies like Electronic Data Interchange (EDI) and Electronic Funds transfer (EFT) which was introduced in the late 1970s to send commercial documents like purchase orders or invoices electronically.

Previous research had revealed that e-commerce is growing constantly all around the world (Andersone, 2009). For instance, The United States Census Bureau reports that total E-commerce sales in the United States increased 24.6 per cent to US\$86.3 billion from 2004 to 2005, with E-commerce sales accounting for 2.3 per cent of total retail sales in 2005 (Hynes, 2009). E-commerce has provided a huge business opportunity for organizations to explore. Therefore, it is actually an interesting field for research due to its fast growth rate. In addition, as E-commerce has developed into an important sales channel for companies in many industries, it is essential for marketers to gain increased knowledge of their target groups' behavior on the Internet. By doing so, marketers will have better knowledge about how and why consumers shop online, and it will be help them to plan their marketing efforts in a better and more efficient manner (Eliasson and Holkko, 2009).

E-commerce provides many opportunities and advantages to both business and consumers. The main opportunities of e-commerce to businesses and corresponding benefits to consumers includes worldwide access and greater choice, enhanced competitiveness and quality of service, mass customization and personalized products and services, elimination of intermediaries, greater efficiency and lower cost, and new business opportunities and new products and services (Kiranjit, 2004). A business firm will be able to reach broader customer groups, have potential for rapid growth and obtain more information about the customer than they could in a normal retail environment by conducting business on the internet. In consumer's perspective, the advantages of E-commerce are low price, simple, convenient, broad supply, and saves time (Eliasson and Holkko, 2009). Due to the advantages that it brings to business and consumers, as well as its fast growth rate all around the world, tons of researches had been done on the consumer perception and attitude towards E-commerce and also the consumer behavior in E-commerce as internet is emerging to become one of the biggest sales channel in the world.

However, there are also some disadvantages of shopping online. Most importantly, it is about trust. Trust is essential in E-commerce and the lack of it is the major factor for consumers to avoid online purchases (Elina, 2009). As internet is a new sales channel, therefore customers might feel uncertain, and insecure about the risks of purchasing online. Therefore, in order to reduce the uncertainty of customers, the most effective way is to define strict rules and customs. Unfortunately, in the current situation, there are still lack of established customs and rules in internet purchasing, and this is why trust is so important in E-commerce. Thus, for businesses which would like to enter E-commerce market, knowledge about the online consumer behavior is essential. It is also crucial for business organizations to understand the factors that influence the consumer online purchasing behavior and their online purchasing criteria before entering the E-commerce market (Elina, 2009).

Thus, in this research paper, the focus will be on the factors that will influence the customers' online purchasing decision and also consumer online purchasing criteria. Five chapters are included in this paper. Chapter 1 is the introduction of

this study, including the research background, problem statement, significance of study, and the research objectives. Second chapter includes the literature review, theoretical framework and hypothesis of this survey. Third chapter is methodology which explained the survey method that had been adopted and also the sampling method. The chapter four will be the findings of this research and the analysis of the variables as well as interpretation of the findings. Lastly, chapter five will be the conclusion of this study. In addition, the summarized findings and recommendations will be included in this paper as well.

### **1.1 Research Background**

For the past few decades, the business world witnessed a technology revolution which is known as Electronic Commerce or E-commerce. E-commerce provides business organization to conduct their business in a way that was unimaginable two decades ago (Sanayei and Rajabion, 2008). As a new retail channel which is becoming more and more common in the global business market, the benefits and limitations of E-commerce have been extensively discussed and documented in both popular press and academic journals (Vijayasathy, 2002). As mentioned above, E-commerce provides numerous benefits for both business and customers. Thus, it has become a very interesting field for research. However, the study of e-commerce is relatively new in developing countries such as Malaysia. E-commerce research draws heavily upon existing marketing literature and also existing statistics. Today, many researchers have drawn upon the previous researches that done on the traditional brick and mortar retail outlets for research on online purchasing. For instance, according to Thomas W. Dillion, consumer attitudes, demographic characteristics, and purchase perceptions influence purchase decisions of traditional retail outlets also combine to affect online purchasing decisions of e-commerce sites (Dillion, 2004). Thus, to understand the online purchasing behavior of the Gen Y-ers in Malaysia, researchers should focus on these three elements. However, due to the scale of research, this study will only offer insight into two of these major



elements—demographic characteristics and purchase perceptions—which are believed to be more influential on the purchasing decision of potential buyers.

Meanwhile, along with the growing number of internet users all around the world, the number of internet users in Malaysia has been growing significantly in the past few decades as well. According to the report done by Malaysian Communication and Multimedia Commission (MCMC), the number of internet users in Malaysia had increased from 3.7 million in year 2000 to 14.9 million in 2007, which had increased by approximately 400% (Internet World Stats, 2009). Table 1.0 shows the number of internet users with respect to the total population of Malaysia from year 2000 to year 2008. As shown in the table, the number of internet users in Malaysia has been growing constantly although the total population had dropped between year 2007 and 2008. The reason behind this is because of the urban rate of Malaysia has been rising for the past few years. In 2005, the urban rate of Malaysia is 63 percent which means 63 percent of the total populations are living in cities which are accessible to internet. The number is expected to rise to 63.8 percent in year 2010 (Malaxi.com, 2009). Thus, the growing number of internet users and the urban rate in Malaysia indicates a high growth potential for E-commerce in Malaysia.

Table 1.0: Internet usage and population growth in Malaysia (Source: Internet World Stats, 2009)

YEAR	Users	Population	% Pen.
2000	3,700,000	24,645,600	15.0 %
2005	10,040,000	26,500,699	37.9 %
2006	11,016,000	28,294,120	38.9 %
2007	13,528,200	28,294,120	47.8 %
2008	15,868,000	25,274,133	62.8 %

In Malaysia, e-commerce has received high attention and interest from governments, businesses and regional bodies. This importance has been attributed to two converging factors which are first, the development of the use of the Internet as a means by which information is disseminated and through

which communication and connectivity is enabled; and second, the affordability of personal computers, increase in their computing capability, and the wide use of open standards (Kiranjit, 2004). Furthermore, there is actually a high level of interest in e-commerce in the Malaysian government and in the resident information industries. Beginning 1997, the government established an Inter-Agency Task Force on Electronic Commerce to develop a national strategic action plan and recommend policy initiatives on security, encryption technologies, and transaction tracking mechanisms for facilitating e-commerce. One of the key topics for discussion was the relative advantages and disadvantages to Malaysia on e-commerce vis-à-vis international trade. So far, the conclusion appears to be that the advantages outweigh the disadvantages but that the country should proceed with caution (Kiranjit, 2004). Therefore, it is predicted that E-commerce in Malaysia is having a very high growth potential due to the high attention and interest from government and business bodies.

Meanwhile, when discussing about the increasing number of internet users in Malaysia, the Generation Y is one of the most critical groups of users that researchers should focus on. Generation Y (Gen Y) consumers were born between 1980 and 1994, with the youngest being 15 years old and the oldest being 29 years old as of 2009 (Cui and Trent, 2003). Other description terms of them include 'Millennial', 'Gen Y', 'Gen Yers' and 'Net Generation'. Gen Yers describe themselves as 'happy', 'upbeat', 'confident and one of the characteristics of them is that they care about self-image (Dias, 2003). Generation Y legal professionals are in their 20s and are just entering the workforce. With numbers estimated as high as 70 million in the United States, Generation Y (also known as the Millennials) is the second largest and the fastest growing demographic segment in the world (Sally, 2009). Gen Y-ers have grown out in a world with diverse and tons of new technology. Compare to the older generations such as baby boomers, Gen Y-ers are more technology minded and more likely to accept new technology (Noreen, 2007). They are often early adopters of new technologies and are extensive users of the internet. Meanwhile, researchers and market analysts have found out that college age or young adults who in the year 2003 are 18 – 24 years old are very important

group of customers segment under Gen Y as they as a cohort represent 36 percent of Generation Y (Cui and Trent, 2003). They are no longer worry-free teenagers, yet are young enough to make purchase decision, and start establishing values and buying principles that might last a lifetime (Cui and Trent, 2003). Besides that, previous researches also concluded that Gen Y-ers are having more disposable income to spend compare to the other generations. For instance, in United States, Gen Y-ers represent a group of nearly 70 million people with a significant spending power. Gen Y-ers typically spend about \$187 billion annually or \$260 per person, per month – in every industry, including wireless communication (Kumar and Lim, 2006). In addition to this, Gen Y is important for marketers because of the impact that they have on their families' purchase decisions (Kumar and Lim, 2006).

Being one of the most significant groups of customers, Gen Y-ers have become a popular target for research. It is very important for marketers to understand the common characteristics of this generation in order to target them as customers. Previous researchers have concluded that there are a few traits which could be used to define Gen Y-ers. Firstly, Gen Y-ers are Tech-Savvy. As mentioned above, Gen Y-ers grew up in a world of technology; they are armed with cell phones, laptops and other gadgets in their daily life and rely on it to perform their jobs better. They prefer to communicate through information technology stuff such as email and text messaging rather than face-to-face contact. Technology plays a much significant role in their daily life compared to the other generations. Besides that, researchers also found that Gen Y-ers are normally Family centric. Compare to the older generations, Gen Y-ers are more willing to trade high pay for fewer billable hours, flexible schedules and a better balance between work and life. It is because Gen Y-ers have a different vision of workplace expectation and more prioritize family over work compared to the older generations. On the other hand, researchers also found out that Gen Y-ers are normally Achievement-oriented. Being well nurtured and pampered by parents, Generation Y is much more confident, ambitious and achievement-oriented than the older generations. They are much more adventurous and are not afraid to question authority. In addition, another common characteristic of

Gen Y-ers are Team-Oriented. As children, Generation Y participated in team sports, play groups and other group activities. They value teamwork and seek the input and affirmation of others. Part of a no-person-left-behind generation, Generation Y is loyal, committed and wants to be included and involved. Lastly, Gen Y-ers are also Attention-craving. They crave attention in the forms of feedback and guidance. They appreciate being kept in loop and seek frequent praise and reassurance (Sally, 2009). By better understanding the common characteristics of Generation Y, it will help marketers to better understand their purchasing behavior.

### **1.2 Problem statement**

As mentioned earlier, Generation Y is currently the second largest demographic group in the world and is emerging to become the largest adult generational grouping in the world (Sally, 2009). By having high disposable income and being more technology-minded compare to the older generations, Gen Y-ers offer high sales potential for e-marketers to explore and it makes them a very interesting and exciting group to all e-markets and online business organizations. In order to target Generation Y as a group of customer, it is crucial for marketers to understand what they want and how they behave when making their purchasing decision. Besides that, it is also crucial for marketers to find out what factors will influence the purchasing decision of this generation in order to target them as customers. However, there is still lack of studies on this new generation's purchasing behavior in Malaysia especially when it is about online purchasing.

### 1.3 Research Questions

Research Question is the statement that identifies the phenomenon to be studied in the research. There are three research questions for this study which are

- What are the factors that influence Y Generation's online purchasing decisions in Malaysia?
- What are the online product purchasing criteria of Y Generation?
- What are the products that Y Generation is more willing to purchase through internet?

### 1.4 Significance of study

Much of the early researches on purchasing behavior have focused on the demographic factors that have an impact on the purchasing decision. It is because by determining these variables such as income, education level and age, it could help researchers and business organizations to predict the type of consumer who is likely to search for and buy certain types of products. For instance, according to the research done by Anthony Worsley, age has a significance influence on bread consumption. He found out that younger people are more likely to consume bread daily compare to older people (Worsley, 2003). Thus, this finding helps bread manufacturers to know which group of customers they should target and thus reduce the cost of marketing communication. Besides that, it could help the bread manufacturers to enhance the effectiveness of market segmentation as they have known which demographic factors have an influence on the purchasing decision of their customer. And thus, this is the main motive for this research which is to help e-marketer to identify which groups of customer are more likely to purchase online.

Besides that, as mentioned above, generation Y is emerging to become the biggest demographic group with high disposable income. They are turning to be the group of customer who offer the highest sales potential in many industries. However, there is lack of research conducted on this generation in Malaysia.

Therefore, this research on the purchasing behavior of this new generation could help organizations in different industries in Malaysia to have a better understanding on the common purchasing behavior of this new generation. In addition, this research could also provide knowledge about the online purchasing criteria of Generation Y and it will certainly help online business organizations in making business decision. By determining the criteria that will influence the target market's purchasing decision, it could help online business organizations and e-marketers to offer what their customer really desire and need, and thus create higher sales possibility.

In addition, as e-shopping is only just beginning to penetrate mass markets in Malaysia, limited research had been done on this topic. As activity in this market grows, researchers and social commentators will be interested to develop an understanding of the factors that affect consumer behavior in this marketplace (Ahasanul, 2006). Thus, this study provides an opportunity for better understanding about the e-commerce market in Malaysia.

### **1.5 Research Assumptions**

As this study focuses on online purchasing, it is assumed that all the respondents are using internet in their daily life. People who are not using internet in their daily life will not be included as respondents in this study. Besides that, it is also assumed that the respondents had made an online purchase before in order to qualify for participating in this survey. In addition, due to geographical problem, the respondents for this study will be mainly from Kuala Lumpur, Johor, Melaka, Selangor and Penang. It is assumed that respondents from these few main states of Malaysia could represent the whole population of Generation Y in Malaysia.

## 1.6 Research Limitations

The biggest limitation that needs to be acknowledged and addressed regarding this study is about the sample size. The sample size of this research which is 150 is considered quite small compare to the other bigger scale researches. Thus, the findings of this research could only be used as reference but it will not be conclusive. Besides that, another limitation of this study is about the primary data. The primary data for this study was collected through the survey method whereby respondent bias is likely to occur and cannot be controlled by the researcher. Thus, the findings of this study might be influenced by the respondents' bias error.