

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

Impulsive buying is defined as on the spot purchase that is triggered by a stimulus (Banerjee & Saha, 2012). In other words, it is an irrational behavior where consumers do not get the chance to fully digest and carefully evaluate the products which are being bought (Herabadi, Verplanken, & Knippenberg, 2009). The act of impulse buying is a focal point in many purchasing activities (Mattila & Wirtz, 2008) where, at one point or another, it is something that many of us must have experienced before. The topic of impulse buying has certainly attracted much interest among researchers from over the past 50 years (Harmancioglu, Zachary Finney, & Joseph, 2009). The research focus of impulse buying have gradually shifted from the “what”, to “why” and “how” of the matter (Bratko, Butkovic, & Bosnjak, 2013).

External and internal factors may trigger one to purchase products impulsively. External factors include cues that are strategically placed by marketers to lure consumers into impulse buying behavior (Karbasivar & Yarahmadi, 2011). This kind of external factors include store environment features namely, (1) ambience characteristics (e.g. color, lighting, odor, music, cleanliness), (2) design characteristics (e.g. style, architecture), (3) store characteristics (e.g. visual merchandising, window display) (Jung Chang, Yan, & Eckman, 2014), (4) promotional incentives (e.g. discounts, unexpected cheaper price, sales) (Karbasivar & Yarahmadi, 2011), (5) time and (6) shopping task (Mihic & Kursan, 2010). While the mentioned external characteristics have a substantial effect towards impulse buying, less study about impulse buying has been conducted towards examining and analyzing the behavior consumer’s intrinsic point of view.

For instance, individual differences, personality and culture determinants received relatively little attention. Even though there have been an adequate number of study for the topic of internal factors for impulse buying, almost none of them conduct a cumulative empirical analysis of personality, cultural, shopping enjoyment tendency, materialism as well as impulsive buying tendency in an Indonesian context. Placing a sole emphasis on just one or two internal characteristics will

provide a very limited perspective. Moreover, since individuals are the ones who will personally experience the “will power” to impulse buy and make an impulse purchase decision, studying consumers’ intrinsic factors will be a research done worthwhile. This study will analyze the significance of these five crucial elements towards impulsive buying behavior. Hence including consumer’s intrinsic factors is important to fill the gap for the intrinsic study of consumers’ behavior and predict their purchases with respect to fast moving consumer goods in the greater area of Jakarta (Pandey & Soodan, 2015).

The sector of fast moving consumer goods (FMCG) is chosen as it involves regular purchases of high consumption at a wide range of varieties. It accounts for a significant volume of goods over a wide range of products categories such as home care, personal care, foods and beverages (Banerjee & Saha, 2012). The fact that repeat purchase occurs at a great intensity for the FMCG sector, the importance of studying impulsive purchasing behavior increases manifolds (Pandey & Soodan, 2015). Thus, this study will examine how the five intrinsic factors namely, personality, culture, shopping enjoyment tendency, materialism and impulse buying tendency contribute to impulse buying behavior in the FMCG industry in the context and setting of Jakarta.

This research will replicate the theoretical framework model from a previous study entitled, “Intrinsic factors affecting impulsive buying behavior – Evidence from India” (Badgaiyan & Verma, 2014), and present in an Indonesian context (Jakarta). India and Indonesia are both developing countries that ranked at the top for their impulse purchases (The Changing Wave of Wealth, 2013). Despite that, both studies will present different empirical results in many aspects namely consumer’s personality, culture, shopping enjoyment tendency, materialism and impulse buying tendency. In June 2011, Nielsen issued a report stating that Indonesian shoppers are becoming more impulsive where 21% said they do not make a shopping list, 69% “said they might buy an additional item” and 39% said “they always buy additional items” (Ramaun, 2011). Therefore increase percentage of impulse shopping in Indonesia makes it an attractive context for research. Moreover, analyzing in an Indonesian context will address the gap of evaluating the significance of all five elements towards impulse buying behavior for Indonesian consumers.

### **1.1.1 FMCG Industry in Indonesia**

Despite the deceleration of economic movement, prior studies have identified that Indonesia's FMCG sector continues to benefit from the rising purchasing power of the emerging middle class. When the economy grew from 6.2% to 6.5% since 2010, consumer spending rose at double digits over the same period of time (Yu, 2014). The archipelago nation remains a magnet for the FMCG sector (Azhari, 2014). As consumers shift their lifestyles by visiting modern shopping centers during their weekend, modern retailers will continue to receive benefit in contrast to traditional ones, such as small grocers and warung (small-family owned business) where they may shrink in number and revenue sales. This consequently boosts the consumption of FMCG goods such as groceries, household products, personal care products and pharmaceuticals products at modern trade (GBP, 2013). Thus reflecting high consumer confidence for the 250 million populated country (Yu, 2014). Some of the FMCG players in Indonesia include Unilever, Procter & Gamble, L'Oreal, Indofood, PT Frisian Flag Indonesia, and PT. Sayap Mas Utama (WINGS Indonesia).

Unilever Indonesia has received consistent growth achieving as much as 16% increase in profit and revenue in 2012. This drives L'Oreal, a France-based cosmetics maker, to set their target on West Java as a location for their largest factory worldwide (GBP, 2013). On the other hand, Indofood Sukses Makmur, the giant food producer of Indonesia, has also enjoyed tremendous domestic and export sales of its products, allowing it to expand into other emerging markets like Brazil and China (GBP, 2013). Moreover, leading retail companies such as PT Matahari Putra Prima, PT Hero Supermarket, PT Trans Retail Indonesia and South Korea's Lotte group are aggressively expanding their FMCG outlets and operations in Indonesian market (Global Business Guide, 2014). Therefore the FMCG sector in Indonesia has high potential and is predicted to continue to grow (GBP, 2013).

Additionally, the traditional trade sector that currently holds a market share of 54% is expected to be erode and replaced by modern trade. It is estimated by Nielsen that modern trade accounts will grow and take a hold of a 53% majority share of Indonesia's market (Nielsen, 2014). Therefore the increase in modern trade accounts in the near future will certainly saturate the FMCG players in Indonesia.

Indonesian shoppers living at rural areas now have more disposable personal income. Similarly, those living at the urban areas have also created demands for products that were considered unnecessary in the past. This especially applies to personal care products such as women's beauty products. Based on an article, the cosmetics market in Indonesia is growing rapidly at a rate of 14% growth totaling \$1.01 billion USD in 2012 (GBP, 2013). Moreover, demand for men's cosmetic products is also experiencing much growth that is clear to witness throughout Asia(GBP, 2013). By taking this particular data into account, this research will focus on the personal care category of FMCG sector.

### 1.1.2 Impulsive Buying and Indonesian Consumers

Indonesia has always been known to be one of the fastest growing countries in terms of consumption (Budiman, Chhor, & Razdan, 2013). Its private consumption has continued to rise, strengthening investment climate and other foundations of the economy (Chaves & Diop, 2014). As a matter of fact, consumption was one of the major factors for the growth of Indonesia's economy (Oberman, Dobbs, Budiman, Thompson, & Rosse, 2012). As can be seen from the graph below, it has been estimated that a population of 90 million people will join the consuming class in 2030 (Oberman et al., 2012).

Indonesia's population by income level, millions of people<sup>1</sup>

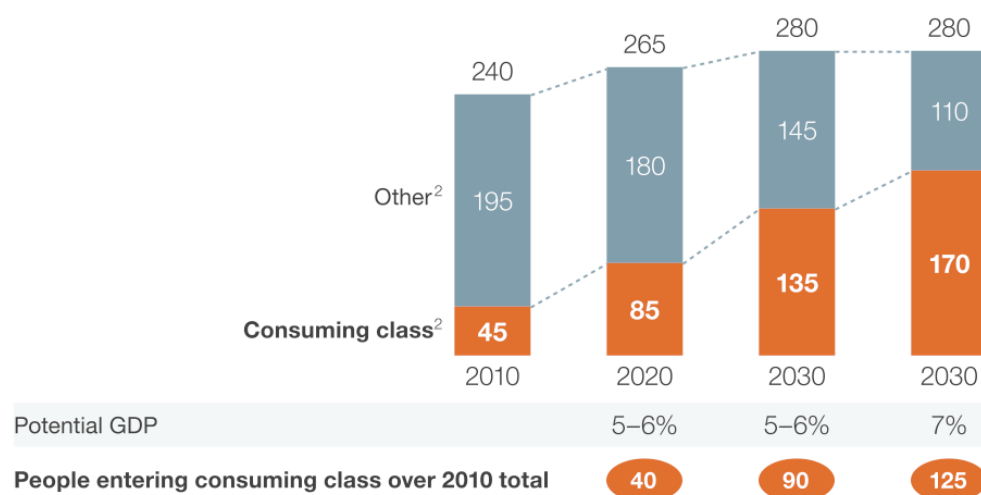


Figure 1.1 Indonesia's Population Income Level (Oberman et al., 2012)

For the first quarter of 2015, Nielsen issued a report stating that consumer confidence increased in thirty-seven of sixty markets. Indonesia scored a positive 123, above the baseline of 100, marking it as second highest among the sixty markets (Nielsen, 2015). This means Indonesian consumers have one of the highest degrees of optimism for spending. In addition to this, Indonesians typically have a more flexible household budget that exceeds the global average (Nielsen, 2014).

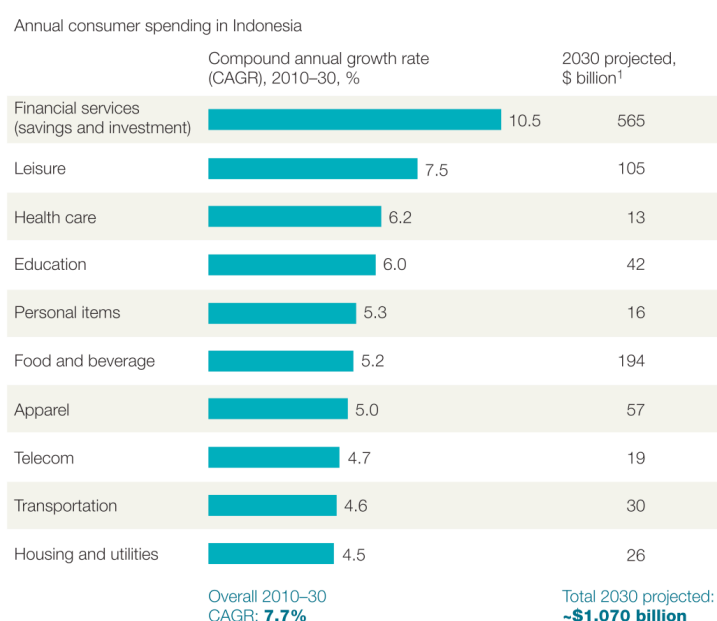


Figure 1.2 Annual Consumer Spending in Indonesia (Budiman et al., 2013)

In this status quo, Indonesia's consumer spending is close to the rate of developed countries. As can be seen from the figure above, consumer spending is projected to experience rapid growth between now and 2030. As this percentage increases, spending should grow to categories such as financial services, leisure, health care, education and personal items. Unlike consumers of other nations, Indonesians are known to be brand savvy where most have a preference which attaches more importance to brands. According to (Budiman et al., 2013), sixty-percent prefer local brands rather than the product itself. However, many are still unaware of brand ownership where for instance, one may bluntly consider Nestlé's Kit Kat as a local product instead of a foreign one. Moreover, Indonesian consumers are increasingly consuming premium-type products such as moisturizing creams, chocolates and biscuits (Nielsen, 2014).



Figure 1.3 Products penetration rate in Indonesia (Budiman et al., 2013)

As seen from the figure above, personal care products such as body wash, facial tissue, handwashing liquid, hair conditioner and all-purpose cleaner are placed as products of highest growth potential. Thus, this study will be focusing specifically on the personal care category.

## 1.2 Problem Statement

Impulse buying behavior remains a complex topic in the marketing world (Banerjee & Saha, 2012). Although there have been studies about the significance between trait effect and personality towards impulse buying behavior (Thompson & Prendergast, 2015), and its relationship with culture value dimensions (Dameyasani & Abraham, 2013) these studies did not assess the totality of other inherent factors such as materialism, shopping enjoyment tendency and impulse buying tendency. Thus, huge gaps still exist in examining the psychological aspect of impulse buying behavior. In addition to this, there is also a severe lack of research in respect to impulse buying behavior in Indonesia. Consequently, there are very few empirical studies that link all five elements namely personality, culture, shopping enjoyment tendency, materialism and impulse buying tendency with impulse buying behavior.

Moreover, there is an undergoing shift of retail landscape from wet markets and independent small shops to modern retail accounts in Indonesia due to its emerging middle class and increase in consumer confidence (Global Business Guide,

2014). The expanding retail sector will eventually create more competition where margins will be put to pressure (Global Business Guide, 2014). Therefore, a closer look on consumers' intrinsic factors will help retailers keep their retail game strong. Subsequently, there is also a growing interest for international business, thus new insights are necessary to be explored by examining intrinsic factors like cultural differences for developing countries like Indonesia (Saad & Metawie, 2015). As a result, it can be concluded that studying the five intrinsic factors (personality, culture, shopping enjoyment tendency, materialism, impulse buying tendency) will help to improve the in-depth understanding about impulse buying behavior.

### **1.3 Research Question & Objective**

The objective of this research will be to understand and evaluate the significance of consumers' intrinsic factors namely personality (emotional stability, agreeableness, extraversion, openness to experience, conscientiousness), culture (collectivism, individualism), shopping enjoyment tendency, materialism, and impulse buying tendency towards impulse buying behavior in Indonesia, specifically in the personal care category of FMCG industry. Thus these research questions will be used as a guideline to achieve the research objective:

The research questions proposed are as follows:

RQ1: Does emotional instability has a significant positive effect towards impulse buying behavior?

RQ2: Does agreeableness has a significant positive effect towards impulse buying behavior?

RQ3: Does extraversion has a significant positive effect towards impulse buying behavior?

RQ4: Does openness to experience has a significant positive effect towards impulse buying behavior?

RQ5: Does conscientiousness has a significant negative effect towards impulse buying behavior?

RQ6: Does collectivism has a significant positive effect towards impulsive buying behavior?

RQ7: Does individualism has a significant positive effect towards impulsive buying behavior?

RQ8: Does shopping enjoyment tendency has a significant positive effect on impulsive buying behavior?

RQ9: Does materialism has a significant positive effect on impulsive buying behavior?

RQ10: Does impulse buying tendency has a significant positive effect on impulse buying behavior?

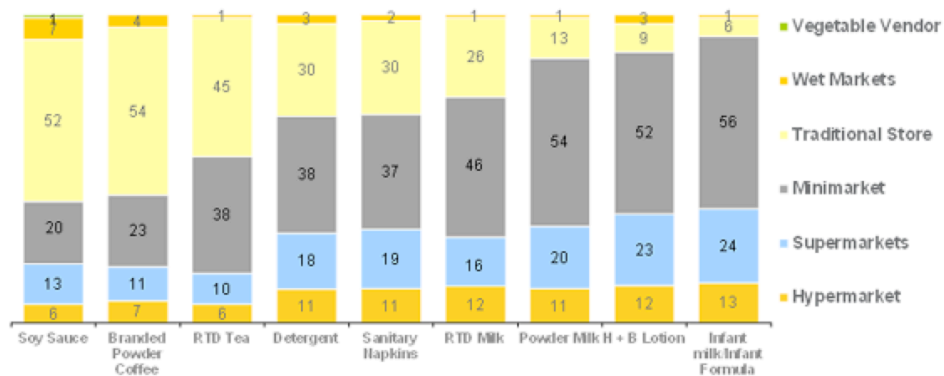
#### **1.4 Scope of Research**

For this study, the author will examine the significance of five elements namely personality, culture, shopping enjoyment tendency, materialism and impulse buying tendency towards impulse buying behavior for FMCG products in the greater area of Jakarta. In order to analyze this, the author will take into account the location of research, the demographics and psychographics of respondents. In order to conduct data collection the author will provide questionnaires in means of conducting a survey both printed and digital.

The author will also be targeting both genders, male and female, since FMCG products are consumptive for both genders. The targeted samples will be at an age of 18 years old and older, involving University students, young executives, housewives and even senior professionals that are the decision makers for the purchase of goods. The FMCG product category of personal care will be chosen for this research. As can be seen from the bar chart below, Indonesian shoppers mostly visit modern trade stores (e.g. minimarkets, supermarkets, hypermarkets) when shopping for personal care items (Ramaun, 2011).



For categories such as milk & skincare, shoppers prefer to shop at modern trade. While for basic food commodities such as soy sauce, branded powder coffee and ready to drink tea, shoppers prefer to buy at traditional stores.



Source: Nielsen  
Place Most Often Purchased (Total 5 cities inc. Medan 2010)

Figure 1.4 Products penetration rate in Indonesia (Ramaun, 2011)

For this reason, a wide variety of modern trade retail accounts will be selected as a context for this field study ranging from minimarkets, supermarkets and hypermarkets (e.g. Lotte Mart, Giant Hypermart, Food Hall, Ranch Market, Seven Eleven).

## 1.5 Aims and Contributions

### 1.5.1 Aims

The purpose of this study is to help retail accounts see the importance and understand more about intrinsic factors of consumers that consequently will affect impulsive buying behavior.

The aim of this research is to:

- Examine the significance of personality in affecting impulsive buying behavior in a retail context
- Examine the significance of culture in affecting impulsive buying behavior in a retail context
- Examine the significance of shopping enjoyment tendency in affecting impulsive buying behavior in a retail context
- Examine the significance of materialism in affecting impulsive buying behavior in a retail context

- Examine the significance of impulsive buying tendency in affecting impulsive buying behavior in a retail context

### *1.5.2 Contribution*

This study attempts to bring contribution of fresh theoretical and empirical data by sharing them among FMCG players in Indonesia namely, Unilever and Procter & Gamble. This study is also an attempt to answer the underdeveloped research regarding how intrinsic factors (personality, cultural differences, shopping enjoyment tendency, materialism and impulsive buying tendency) affect impulse buying behavior towards FMCG in the context of Indonesia. Moreover, the following are other contributions beyond contributing to a better theoretical understanding on impulse buying:

- Provide insights to retailers about which variables influence shopper's impulse buying urges and actions
- Provide additional insights to retailer's management to improve their strategy, hence potentially increasing sales by driving consumers towards impulse purchasing by controlling the variables through marketing strategies and segments
- Provide ideas to increase consumers' satisfaction and repeat purchase

For readers

- Gain knowledge and understanding about intrinsic factors that affects impulsive buying behavior in the FMCG industry

## **1.6 Structure**

In this research, author has divided the paper into five chapters, which include introduction, theoretical framework, research methodology, research findings and conclusion and recommendation. The brief of overview of each chapter will be provided.

### **Chapter 1: Introduction**

This chapter covers background of the study as well as information on the status quo namely about how personality, culture, shopping enjoyment tendency, materialism and impulsive buying tendency have an affect towards impulsive buying behavior. Furthermore, this chapter will also cover various elements such as the

problem statement, research question and objectives, scope, aims, benefits and structure of the study.

## Chapter 2: Theoretical Framework

Chapter two will include literature review that supports the author's study based on previous study and findings that other researchers has been done, such as theoretical foundations as well as frameworks from previous studies that have connection with the research topic. Additionally, definitions, analysis and detailed information will be conducted for each variable as a part of the creation of this research.

## Chapter 3: Research Methodology

This chapter will cover the various methods that the author's plans to use to support her study in order to answer the research question hence achieving objective. Furthermore, it will include the development of questionnaire.

## Chapter 4: Research Findings

Chapter four will outline the result, analysis and observations according to whether hypothesis proposed have been accepted or rejected.

## Chapter 5: Conclusion and Recommendation

This final chapter will conclude the entire research with summary, conclusion as well as recommendation; hence highlighting important and distinct findings.