

CHAPTER 1

INTRODUCTION

In this chapter, the researcher describes the background of the research, problem, scope, aims and benefits for other parties, and the research questions. Moreover, the researcher also explains the exploratory research that was conducted in order to gather information regarding to the problem which concerning the study's comparison – digital and non-digital goods.

1.1. Background

Internet have changed how human perform their activities tremendously, especially on how they communicate with each other. There are many communication method offered by the internet, such as email, instant messaging, social media, and video call. This rapid growth of technology makes consumers demand much more from technology in order to pursue an even better lifestyle.

Demands from consumers drive entrepreneurs to integrate their businesses or even create a new online-based business to build convenience for consumers to shop or to seek information wherever they are and whenever they wanted to. Internet enables retailer to sell not only tangible goods, but also intangible goods – digital products. Furthermore, it also offers retailer wider market coverage since internet can be accessed in most places, which indicates that there is no geographical limitation (Niranjanamurthy, Kavyashree, Jagannath, & Chahar, 2013). Since internet enables retailer to sell digital goods, there are 2 main product categories that can be offered

through the online platform which are digital and non-digital goods, which means that there are more variety of products that are available within the online platform.

Seeing the potential and benefits of the online platform, many businesses have emerge to this particular market. Therefore, competition in the online platform is growing time to time and drives e-retailers to pursue competitive advantage through various strategies. According to Hunt and Arnett (2004), the essential strategy to gain competitive advantage are segmentation and targeting; in which segmenting refer to the division of the potential market into groups that have similar needs and wants, and targeting is precisely fulfill the needs and wants of a particular group. Segmenting the market based on gender is considered to be crucial since male and female have different preferences of products (Yasin, 2009). They also have different perceptions on purchasing different types of product (Mitchell & Walsh, 2004; Biswas & Biswas, 2004). Furthermore, due to the existence of attribute differences between the types of product, e-retailers applies their strategies in different ways according to the type of products that they offer to the consumers. Hence, the next sub-chapters will discuss about the differences between the two categories of product and the differences between genders on purchasing those types of product.

1.1.1. Digital and Non-Digital Goods

The digital attribute of a product refers to the ability of distribution through the internet (Lal & Sarvary, 1999). Digital goods are intangible, which denotes that the goods have no physical form (e.g. music files, software, e-books). Whereas non-digital goods are

tangible, which means that the goods are visible and touchable (e.g. clothing, electronics, appliances).

There are 3 characteristics that differs digital and non-digital goods. First, digital goods are non-rival, which means that the consumption of the product does not affect the availability of the product to others. Second, the cost to reproduce and distribute the digital product are near zero since the product is easily copied once it is produced and its delivery is direct to the consumer through the online network. Third, digital goods have lower transaction cost compared to non-digital product due to lower cost to reproduce and distribute the products (Lambrecht, et al., 2014).

1.1.2. Gender Differences on Purchasing Different Types of Product

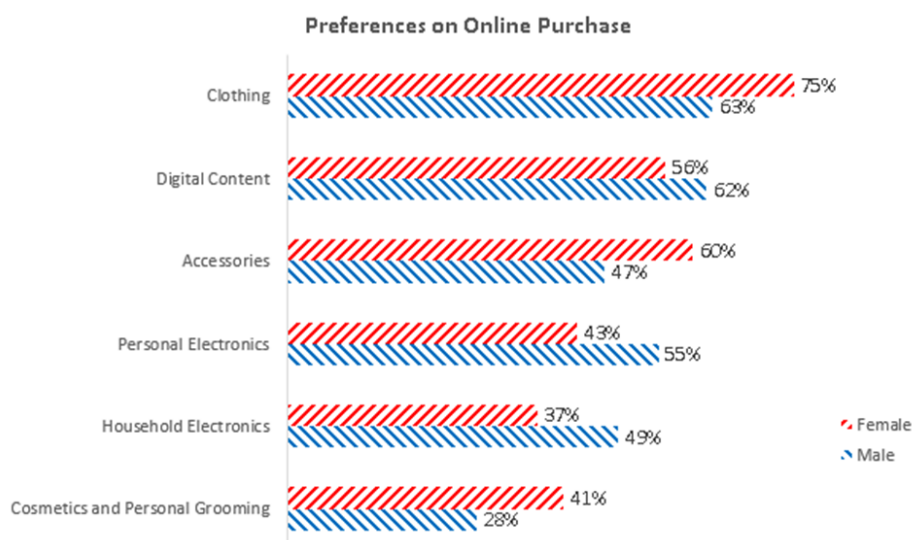


Figure 1.1. – Preferences on Online Purchase
Source: The Harris Poll (2014)

Based on figure 1.1, it is shown that males purchase digital content more compared to females. Meanwhile, in average, females purchases non-digital goods more than males. Hence, it is believed that there are differences in preference of product purchase online between genders. The variety of products that can be offered through online

platform create opportunities for retailers to emerge in this market. Moreover, the variety of products and convenience that are offered in the online platform makes consumers shift from offline purchase to online purchase. Therefore, it is believed that the growth of e-commerce will be immense.

1.1.3. Growth of World's E-Commerce

Currently e-commerce is very popular due to the growth of internet users and the demands for more convenience on doing business. It enables commercial transactions and negotiations between and amongst businesses and customers (Al-Fadhli, 2011). In short, e-commerce is a business activity within the virtual platform. The convenience that is offered by e-commerce to the consumers is the ability to purchase different type of goods all day (24/7) and to compare prices between retailers easily (Nanehkaran, 2013; Shin, 2001) With the emerging of m-commerce, which arises from the merger of e-commerce with mobile technology, the convenience of doing online shopping grows higher due to high mobility (Niranjanamurthy, et al., 2013).

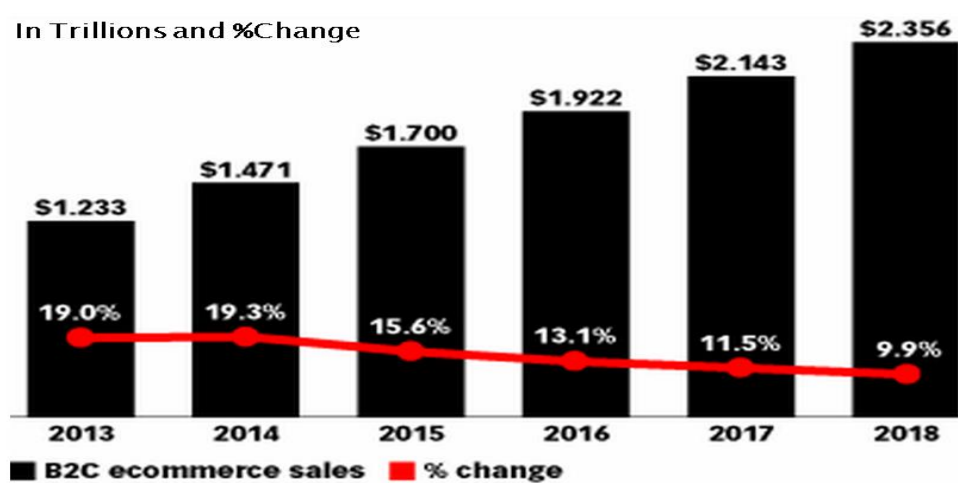


Figure 1.2. – B2C E-Commerce Sales Worldwide
Source: eMarketer (2014)

According to the survey research by E-marketer (2014), more than 40% of internet users in the whole world have been involved to e-commerce activity. As internet users increases, the sales derived from e-commerce are expected to continue to grow. Figure 1.2 shown that the estimated sales of e-commerce worldwide will continuously growing throughout the years and would reach approximately USD2.356 trillion in 2018, while the growth rate starts to decrease starting from 2015 and will settle in a 9.9% growth rate in 2018. Therefore, it is believed that number of retailers within the online platform will increase time to time since demands grows higher. Moreover, for businesses to enter the online market is relatively easy compared to the offline market (Niranjanamurthy, et al., 2013).

1.1.4. E-Commerce in Indonesia

Comparing to other big countries in Asia-Pacific, such as China, Japan, Australia, India, and South Korea, Indonesia has the least sales through e-commerce (eMarketer, 2013a). Only 7% of Indonesian have involved in e-commerce, whereas China have 32% of its population involved (Razdan, Das, & Sohoni, 2013). This shows that Indonesia has low adoption on e-commerce.

Table 1.1. – B2C E-Commerce Sales Growth Asia-Pacific

	2011	2012	2013	2014 ^e	2015 ^e	2016 ^e	2017 ^e
Indonesia	104.5%	85.0%	71.3%	45.1%	37.2%	26.0%	22.0%
China	103.7%	94.1%	65.1%	51.2%	30.6%	22.6%	18.3%
India	47.2%	39.7%	34.6%	27.1%	23.7%	18.2%	16.6%
South Korea	17.6%	6.0%	6.9%	9.3%	8.3%	8.2%	7.3%
Australia	11.0%	10.5%	6.0%	5.7%	5.1%	5.0%	4.2%
Japan	27.1%	13.2%	-7.2%	7.1%	6.7%	5.6%	5.0%
Other	23.9%	12.4%	12.7%	12.0%	11.9%	11.0%	10.2%

Source: eMarketer (2013b)

However, table 1.1 indicates that in terms of e-commerce sales growth rate, Indonesia is estimated to have the highest growth rate compared to other Asia-Pacific countries. Even though it is degrading time to time, Indonesia's e-commerce sales growth rate are still considered to be high, which displays that Indonesia is one of the most prospective country to do e-commerce. The opportunities offered by doing e-commerce in Indonesia drives entrepreneurs to establish businesses in the online platform. With the immense amount of online shops nowadays, it is expected that in the next years, there will be more e-businesses to be formed, which create fierce competition between them to gain larger market share.

In Indonesia, there are already several e-commerce-related medias that have gain popularity in the market. There are 3 categories of e-commerce-related medias, which are forums, B2C (Business-to-Consumer) sites, and marketplaces.

Most popular e-commerce-related medias in August 2015

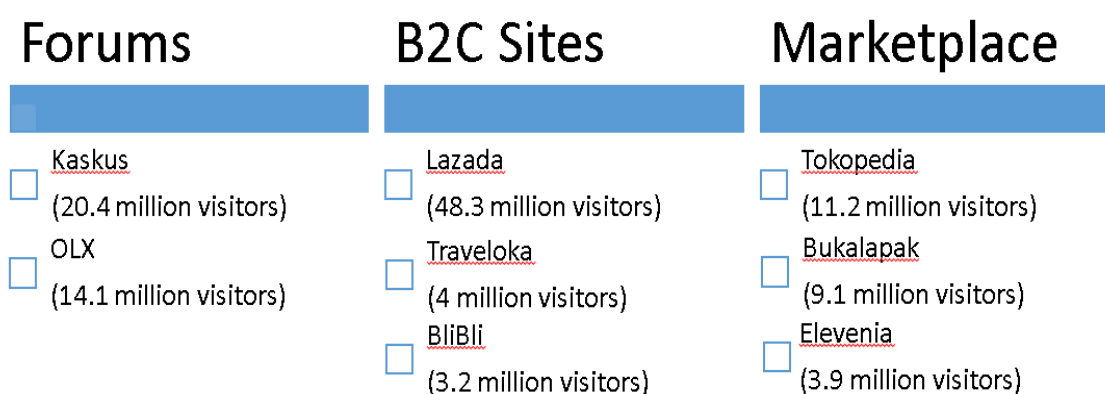


Figure 1.3. – Most popular e-commerce-related medias in August 2015
Source: (Cosseboom, 2015).

Figure 1.3 shows the most popular sites based on the number of visitors on August 2015. The sites stated on the figure are the main players on the industry of e-commerce

in Indonesia, and it is seen that Kaskus, Lazada, and Tokopedia is leading in their own category, with a visitor of 20.4 million, 48.3 million, and 11.2 million respectively. However, the leading site for e-commerce-related medias is Zalora, with 48.3 million visitors during August 2015.

1.1.5. Characteristics of Online Shopper in Indonesia

The estimated amount of Indonesian online shoppers in 2014 are 5.9 million (Cosseboom, 2014), where 53% of them are female, and 47% are male (Brand and Marketing Institute Consulting Group [BMICG], 2014). Compared to the total of internet users in Indonesia, which are 29% of Indonesian population (The Jakarta Post, 2015), the number of online shoppers appeared to be insignificant. Hence, it is believed that the penetration of e-commerce in Indonesia is low.



Figure 1.4. – Reason for not shopping online
Source: Razdan, Das, and Sohoni (2013)

Based on figure 1.4, the main reason of Indonesian for not shopping online is the fraudulent image existed in performing the activity. Furthermore, product and financial risk also have strong impact on demotivating the intention to purchase online. Comparable to the research conducted by BMICG (2014), the strongest barrier on purchasing online for Indonesian are the lack of trust, which is most probably caused by the risk presented in online shopping.

Online shoppers in Indonesia tend to purchase online through messaging applications, such as Line or Blackberry Messenger rather than other conventional website-based store. Possibly, the reason why online shoppers in Indonesia prefer messaging applications is because they are risk-averse (Razdan, Das, & Sohoni, 2013). By shopping through messaging applications, they are able to interact with the seller directly to ensure the vendor's credibility as well as the value and quality of products that the vendor offered.

1.2. Exploratory Research

The researcher has conducted exploratory research with a purpose of gathering information regarding to the reasons that influence the willingness and unwillingness to purchase online for both types of product – digital and non-digital goods. The questionnaires were delivered to a total of 62 respondents where 32 respondents answered the questionnaires concerning digital goods and 30 respondents answered the questionnaires concerning non-digital goods.

There are 2 sections within the questionnaire, which includes demographic questions and behavior questions. The demographic includes gender, age, occupation, expense, and residence. In the first behavior question, the researcher asked whether the respondent have bought digital or non-digital products (depending on the topic of questionnaire) online in the last year. The second and third question were designed in a form of open-ended question, where it allows the respondents to answer based on their own opinion freely. In the second and third questions, the respondent were asked to type in the reasons that motivates (second) and demotivates (third) them to purchase digital or non-digital products online. The questionnaire can be found in Appendix 1 and 2, and the detailed coding can be seen in Appendix 3.

1.2.1. Digital Goods

There are 17 females and 15 males that have responded in the questionnaire which emphasizes on digital goods. From 32 respondents, 26 of them are aged between 21 and 30 years old (82%), and the rests are below 21 (9%) and between 41 and 50 (9%). Half of respondents are students and the other half consist of entrepreneurs, private employees, and part-time worker. In general, 41% of the total respondents haven't bought digital goods in the last year, which shows that digital goods are not too popular in the Indonesian market. However, based on gender, only 26% of male respondents that have not bought digital goods online, whereas female respondents have more than 50% of them that have not purchased digital goods online. This indicates there are difference between genders concerning their purchase behavior towards digital goods.

Below are the results for the open-ended questions concerning digital product:

Reasons for purchasing digital goods online:

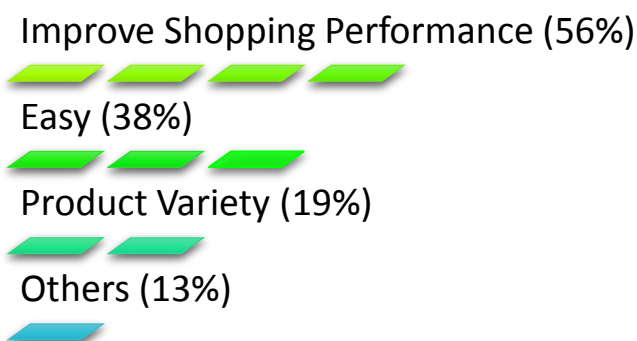


Figure 1.5. – Exploratory research: Reasons of purchasing digital goods online
Source: Exploratory Research Data by Author

Figure 1.5 shown that 18 respondents, which represent 56% of the total respondents think that by purchasing digital goods online, they improve their performance on shopping such as time efficiency, cheaper, and faster. More than a third of the total respondents also mentioned that the easiness of shopping digital goods online would influence them to purchase online.

Six of the respondents purchase digital goods online due to the variety offered in the online platform. Moreover, there are 4 respondents that answers differently; in which 3 of them stated that the availability of the product is their reason to purchase digital goods online, and 1 of them feels that trust towards vendor is also influencing the intention to purchase digital goods online. In this context, product availability refers to the availability of digital goods that only can be purchased through online platform. Several games or other software are only available in the online platform, rather than through mediums (e.g. CD, DVD) in the offline platform.

Descriptively, there is no difference between genders regarding the factors that motivates them to purchase digital goods online except for product availability; in which male respondents considered product availability as an important factor to purchase digital goods online, while female respondents appeared to be not concern for this factor.

Reasons for not purchasing digital goods online:

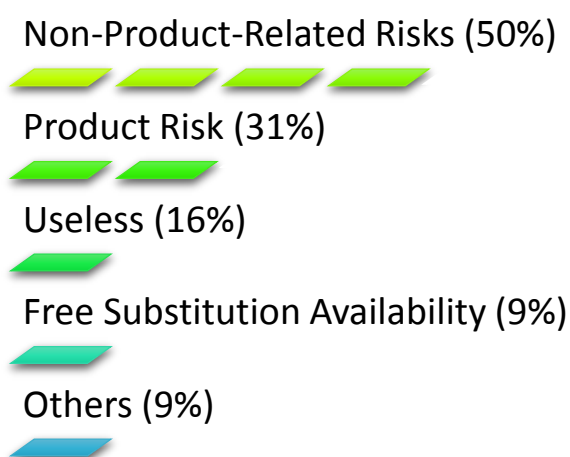


Figure 1.6. – Exploratory research: Reasons of not purchasing digital goods online
Source: Exploratory Research Data by Author

Based on the figure 1.6, it is shown that half of the respondent (50%) hesitate to purchase digital goods online due to the non-product-related risks, mainly frauds. Ten respondents, which represent 31% of the total respondents stated that they are concerned for the quality of the digital product offered. Five female respondents state that purchasing digital goods is useless for them.

Three of the total respondents also mentioned that availability of free product substitution – Pirated product – is also one of the reasons that cause negative influence towards intention to purchase digital goods online. There also other factors that were mentioned by 3 respondents which demotivate them to purchase digital goods online,

which are download time, complexity in performing online transaction, and untrusted vendor.

Therefore, the differences between genders lies on the necessity for the product, where 5 out of 17 female respondents specified that digital goods are useless for them, whereas male respondents did not mention anything regarding to uselessness.

1.2.2. Non-Digital Goods

There are 16 females and 14 males that responded to the questionnaire concerning non-digital goods. From 30 respondents, 22 of them are aged between 21 and 30 (73%) and the others are aged below 21 (13%), between 41 and 50 (7%), and above 50 (7%). Interestingly, all of the respondents have purchased non-digital goods online in the last year. This indicates that the penetration of online purchasing of non-digital goods for both genders is high.

Below are the results for the open-ended questions concerning non-digital product:

Reasons for purchasing non-digital goods online:

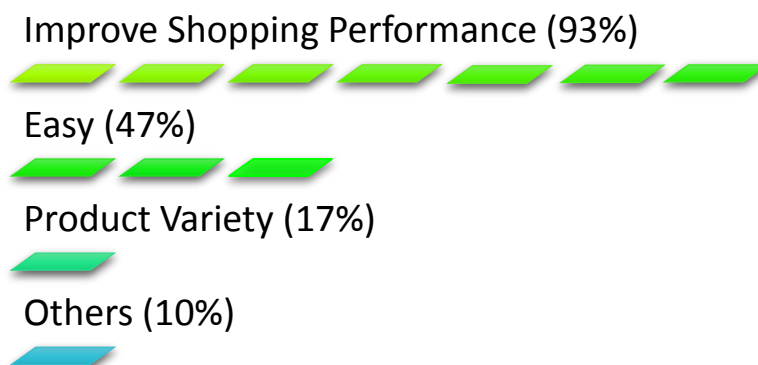


Figure 1.7. – Exploratory research: Reasons of purchasing non-digital goods online
Source: Exploratory Research Data by Author

Based on figure 1.7, 28 respondents, which represent 93% of the total respondents cited that they purchase non-digital goods online because they believed that the activity itself improves their performance on shopping. Fourteen respondents, which represent 47% of the total respondents also stated that practicality is also one of the drivers of purchasing non-digital goods online. Five respondents mentioned that the variety of non-digital goods offered online also influences the intention to purchase non-digital goods online. Furthermore, four respondents have different responses, which includes trust towards the vendor and hedonic motivation.

There are 2 differences between genders in the context of purchasing non-digital goods. First, females tend to enjoy shopping non-digital goods online compared to males. They perceived online shopping to be interesting and fun. Second, males think that trust towards the seller is important in motivating the purchase of non-digital goods online, while females think that vendor's credibility is an unimportant factor.

Reasons for not purchasing non-digital goods online:

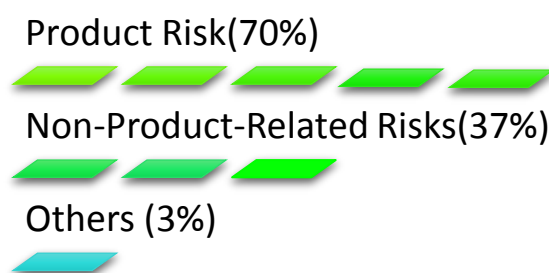


Figure 1.8. – Exploratory research: Reasons of not purchasing non-digital goods online
Source: Exploratory Research Data by Author

The figure 1.8 shown that the most influential factor that demotivates consumers to purchase non-digital goods online is the product risk (70%). Eleven respondents,

which represent 37% of the total respondents feel that non-product-related risks, such as frauds and delivery risk are also the main barriers for them to purchase non-digital goods online. A respondent also stated that negative review from other consumers would also impact negatively on the intention to purchase non-digital goods online. There is no particular differences between genders regarding to the factors that demotivates the intention to purchase non-digital goods.

1.2.3. Exploratory Research Findings

The main finding of this exploratory research is the different that exist between genders on the purchase behavior of digital goods. It is found that males purchase digital goods more than females, which correspond to a survey research by The Harris Poll (2014), where they stated that female are less likely to purchase digital goods compared to male. Furthermore, the researcher found that the most influential factor that motivates consumers to purchase digital and non-digital goods is the same, which is the improvement of their shopping performance, such as efficiency, cheaper price, and fast. However, the most influential factor that demotivates consumers to purchase digital and non-digital goods is different. For digital goods, the demotivating factor is the non-product-related risks, whereas for non-digital goods is the product risk. The researcher also found that male and female have different factors that motivate and demotivate the purchase of digital and non-digital goods online. Nevertheless, risk appeared to be the cause of hesitation for both genders in purchasing both product types.

1.3. Problem Statement

Since it is shown that the demands of shopping through the online platform is increasing in Indonesia (eMarketer, 2013b), the number of online shops in Indonesia is expected to increase in the next years. Each of the newly developed e-retailers are trying to get bigger “piece of pie”, which denotes that there will be fierce competition between them. Online retailers realize that they need to apply various strategies in order to gain competitive advantage. However, there are many challenges in applying the strategies since offline and online market have different attributes.

Based on the exploratory research conducted by the author, each gender have different factors that motivate and demotivate them to purchase digital and non-digital goods online. Furthermore, it is also found that males have more interest in purchasing digital goods rather than females. Therefore, it is assumed that there are differences on each gender’s perception and behavior on purchasing different types of goods, where segmenting and targeting the right market in the online platform might be problematic for the e-retailers. The lack of knowledge and understanding towards the market might lead businesses to its downfall. It might cause businesses to experience loss rather than profit, and their sustainability is at risk.

Furthermore, an exploratory research conducted by the author confirmed that risk (product risk and non-product-related risks) is the most negatively influencing factor towards the intention to purchase both of the product types – digital and non-digital goods. However, it is also found that the risks which concern consumers in online shopping are different between the types of good. For digital goods, non-product-

related-risk is the main factor in demotivating the purchase intention, while for non-digital goods is the product risk. Hence, e-retailers should mitigate different type of risks based on the type of products they offered in order to gain competitiveness advantage within the market and improve the survivability of the company.

The researcher believes that to gain deeper insight on the perceptions and behaviors of different genders towards online purchasing of different product types are important due to the problem stated. Hence, in this study, the researcher wanted to identify which perceptions drives the intention and behavior of different genders on purchasing online, and to investigate whether product types would produce alternate results.

1.4. Scope of Research

The researcher used the UTAUT2 (Unified Theory of Acceptance and Use of Technology 2) model to comprehend the problem stated. UTAUT2 is the most recent theory concerning technology acceptance, which is developed by Venkatesh, Thong, and Xu (2012). This theory is more to consumer perspective, where it can be used for predicting the intention as well as behavior of online purchasing. In this study, there are several modification to the UTAUT2 model, where 2 of the construct from the original UTAUT2 model are eliminated and 3 constructs are added into the model. The eliminated construct are price value and habit, and the added construct are perceived risk, product risk, and perceived trust.

There are 2 types of examination, which includes relationship analysis between the constructs and group comparison analysis. The examination of relationship between

the constructs are divided into 2 parts; in which the first part is to analyze the relationship of the determinants which consist of effort expectancy, performance expectancy, hedonic motivation, facilitating condition, social influence, perceived risk, and perceived trust towards purchase intention, and the second part is to predict purchase behavior through purchase intention and facilitating condition. This examination is gender-based, which means that the examination were conducted twice, once for each gender. The group comparison is used to analyze the difference between genders as well as product types towards each construct existed in the study.

To obtain the data that is required, the researcher conducted a survey in Indonesia, mostly in Jakarta. However, external condition in Indonesia, such as economic condition are not applied within the study even though Indonesia is currently experiencing bad economic condition and could influence the perceptions and behaviors towards online shopping. Furthermore, in this study, all respondents were assumed to have the same acceptance towards online shopping.

Based on a survey research by Nielsen (2014), millennial generation (Y) have the highest intention on purchasing online. Nevertheless, it is also stated that older generation also have high intention to purchase online. Hence, in this study, there is no boundaries of age for the respondents to participate the survey, but each of the respondents must at least have prior experience on purchasing either digital or non-digital products online. It is essential that the number of respondents should at least reach 100 for each gender to conduct examination of relationship, and to conduct group comparison, each group has to have at least 30 respondents.

1.5. Aims and Benefits

In this current section, the author discusses the objective of this research and the benefits towards marketing knowledge and other parties that are associated, which includes industry firms and society.

Objectives:

- To justify the relationship between the determinants and online purchase intention for both genders
- To identify the most influencing factor for both genders on their online purchase intention
- To validate the relationship of facilitating condition and online purchase intention towards purchase behavior for both genders
- To compare the perceptions and behaviors between genders on purchasing both digital and non-digital goods online.

Benefits:

Marketing Knowledge

- Distinguish the most influencing factor affecting online purchase intention of males and females
- Provide a better insight on how gender differences produce different perceptions and behaviors towards online shopping

- Provide a better understanding that differences in product type might affect the perceptions and behaviors of different genders.

Industry Firms

- The result of this research may help firms within this industry to focus more on the most beneficial factor that drives online purchase intention and reduce factors which impacts negatively on the intention of purchasing online for both genders.
- The insights that is gain for this study enables firm within this industry to target the right market for a particular product

Society

- Company that applies the insights from within this study might offer customers better experience in online purchasing by providing the customers according to their needs and wants.

1.6. Research Question

The questions below are developed to accomplish the aims of the study:

RQ1: Which determinants influence the online purchase intention for male and female?

RQ2: Which determinant is the most influential towards purchase intention for male and female?

RQ3: Which factors influence online purchase behavior for male and female?

RQ4: Does genders or product types create differences in perceptions and behaviors on online purchasing?

To response to the research questions that had been developed, the researcher conducted research based on the model which will be explained further on chapter 2, and using particular methodology which will be clarified on chapter 3.

1.7. Structures

CHAPTER 1: INTRODUCTION

The first chapter discussed the background of the research which deeply explained about the difference between digital and non-digital goods, difference in gender on purchasing different type of products, the growth of e-commerce sector, and the model used for this study. Exploratory research that had been conducted was also discussed thoroughly in this chapter. This chapter also describes the problem of the research that are needed to be solved, the scope of the research, which then followed by the objective and benefits for other parties. Lastly, the author clarified the development of the research question.

CHAPTER 2: THEORETICAL FOUNDATION

In the second chapter, the author explained the history of the extended UTAUT2 model and discussed thoroughly each of the variables within the model by providing relevant studies or findings of the variables. In this chapter, the author also explained the development of hypothesis and displayed the research model.

CHAPTER 3: RESEARCH METHODOLOGY

In chapter 3, the author described the research design used where it shows the sampling method and the criteria of respondents that are qualified to insert the survey. This chapter also discussed about how the researcher collected the data as well as the development of the questionnaire. Furthermore, the researcher provided the description of several methods that is used to analyze the data and test the hypothesis.

CHAPTER 4: RESEARCH FINDINGS

The fourth chapter can be operated after the researcher had collected the data from the survey that are given to the respondents. This chapter focused on analyzing the data that had been collected. The data was analyzed using IBM SPSS Statistic 22 software where it provided result for the researcher to determine whether a hypothesis is supported or not.

CHAPTER 5: CONCLUSION AND RECOMMENDATION

In the fifth and final chapter, the author summarized the findings to a conclusion, where it is expected for the author to be able to solve the problem which was stated in the first chapter. In this section, the researcher also provided the managerial implication, research limitation, and recommendation for future research