Consumers perception towards online shopping in singapore marketing essay

During the few past years, the Internet has grown to new levels not even envisioned. The Internet changes the way people live, work and purchase. Demangeot & Broderick (2007) state that ' Internet provides great advantages for the consumers, such as variety of products, services and prices from different suppliers

Using Internet facilities, commercial organisations can develop new markets; and improve the competitiveness of the company (Eastlick et al., 2006). However, the Internet may also create threats to some organizations.

The number of Internet users is increasing year by year. Figure 1 shows the growth of Internet users globally.

The fast growth of e-shopping and the increasing number of e-retailers has created an extremely competitive market place(George, 2004). Competing issues create a need for managers to understand factors which influence people using Internet as a new purchasing media (Fraser et al., 2005). It is becomes essential for the companies to understand benefits and risks of online shopping in order to underline the benefits and minimize risks.

Figure 1 Growth of Internet Users in the World

Source: http://www. internetworldstats. com/emarketing. htm

1. 2. Background of the Country

Singapore is an industrial country, which has a highly developed market-based economy. Total Singapore population is 4, 987, 600 (Singstat, June 2009) from which 72. 4 per cent has an access to Internet at home (Singapore Internet Statistics, 2010). Figure 2 illustrates the Internet users'

growth in Singapore, which is 180. 8per cent for the nine years period from 2000.

Figure 2 Internet Usage

http://www. internetworldstats. com/stats3. htm#asia

Based on research, conducted by IPSOS in 2007 (Figure 3), more than 60% of online users in Singapore use online shopping, which gives high potential for online trade market.

Figure 3 Online shopping statistics

Source: http://www. insightbureau.

com/insight_reports/mc_insights/2008_Q3_OnlineShopAP. pdf

1. 3 Objectives, research questions and research hypotheses

This study is intended to understand the buying process and behaviour of online consumers.

The basic objectives of the study are:

To determine consumer behaviour in online environment

To identify the main influencers in online buying process

To identify people's attitude towards benefits and risks of online shopping

Based on objectives identified, the following questions are raised:

What are the main factors that influence consumer purchasing decision online?

Is there any differences between online and offline consumer?

What consumer segments are more likely to shop online?

Is there any connection between identified factors and consumer segment groups?

Based on objectives and questions above, conceptualizing framework for this research has been developed. The important variables are clearly showed through logical reasoning in the framework. Based on this framework, the null and alternative hypotheses are developed as the followings:

There is a difference as well as no difference in perception on benefits of Internet purchasing between online and offline consumers

There is a difference as well as no difference in perceived risks towards Internet purchasing between online and offline consumers

1. 4. Scope

With the fast growth of Internet commerce it becomes very important for companies to study consumer behaviour (Jobber, 2001). If the influencing factors in the online buying and selling process can be identified, than it can be meaningful for the online companies to give much emphasis on these factors. The majority of companies want to increase the overall volume of the business because this can lead to significant reductions in costs and competitive advantages (Kotler, 2003). This research will pay attention to consumer behaviour in the online environment, providing theoretical information about online purchasing behaviour of the consumers.

Additionally, the present study is an attempt to get insight into people's perceptions towards online shopping in Singapore. This study will specify on the perception of Internet users towards benefits and risks associated with online shopping and how company can avoid customers' concerns about online shopping.

Chapter Two:

Literature review

2. 1 Introduction

Currently, e-commerce is getting huge attention from a range of organisation and customers due to the fact of fast Internet development (Lee & Lin, 2005). Online shopping, as a part of E-commerce, is becoming a tendency in Singapore (Rotem-Mindali et al., 2006). Online shopping has both advantages and disadvantages. Purchasing behaviour is determined by consumers' view of benefits and risks of online shopping. This literature review intends to review of all the relevant factors. Firstly, the definition of e-commerce and its growth will be defined. Secondly, theories regarding consumer perception and behaviour will be reviewed. Finally, the main benefits and risks will be summarized.

2. 2. Definition of E-commerce

There are different definitions of what is e-commerce. E-commerce is a very broad term used to describe process where electronic connections make resources exchange be possible (Vrechopoulos et al., 2001). In context of the Internet, E-commerce is used as a general term. The definitions of e-commerce are focused on buying and selling using the Internet. According to

Mark van Ketel and Tim D. Nelson (2009) electronic commerce (e-commerce), a subset of e-business, includes selling goods and services, as well as purchasing and exchanging over the Internet. Torkzadeh and Dhillion (2002) describe e-commerce as a purchase and sale over the Internet. This includes the process of finding a product, ordering and receiving as well as costs and benefits of a product or service.

Generally, E-commerce can be broken into two main categories:

Business to business (B2B) is where business makes online transactions with other businesses (Turban et al., 2003)

Business to consumer (B2C) is where online transactions are made between a business and an individual consumer (Wareham, 2000).

2. 2. 1 The importance of E-commerce

According to Carla et al. (2006) Internet is a powerful instrument to buy, sell and distribute goods and services worldwide in a fast growing supply chain. Internet provides potential market that has no or little restrictions, such as geography or time (Blackwell, 2000). E-commerce provides enormous opportunities for growth and development. Through the Internet people can communicate with each other over vast distances. It allows commercially moving business and people to a market in which everything that is for sale is advertised and everything that is wanted for purchase is requested somewhere (Kanttila, 2005).

Over the years E-commerce changing the way business used to work. According to Wareham, E (2000) " Expedia sells more than $ 14 million worth

of hotels and airline reservations a day from its web-site" Federal Express in Singapore began to save $10, 000 a day by creating customer service department online (Kotler, 2003).

The Internet provides businesses with the opportunity to sell their products to millions of people, 24 hours a day" (Bellman, 2006). Buyers and sellers can thus contact each other with no or little cost.

The development of e-commerce is often claimed to be reshaping almost all industries (Pawlyna, 1999). It influences the operation of organisations and people's activities greatly and brings fundamental changes to the way that business is conducted. E-commerce can enhance organisations' performance by tangible and significant operational efficiency (Mutz, 2005).

2. 2. 2 The growth of E-commerce and online shopping

The B2C and Internet usage rates are making stable progress and rising constantly. Electronic retailing, the B2C segment of e-commerce, is set to grow exponentially in the next few years (Siyal et al., 2006). Total online retail revenue is increasing year after year and expecting to increase in the nearest future (Shu et al., 2006). The increase of B2C e-commerce cannot help but to impact people's attitude to buy goods. Currently, one in ten Singapore adults can be categorized as frequent online purchasers (Shun, 2006).

Presently around 72. 4 per cent of Singapore households are web-connected (Singapore Internet Statistics 2010), also this position is expected to grow over the next decades (Singstat, 2009)

In the early stage of growth, e-retailing, the B2C segment of e-commerce is set to grow exponentially in the next few years (Tan, 2007). However, online shopping still remains as yet a minority pursuit with purchases concentrated in a comparatively narrow range of categories such as clothing and software, music and travelling (Shun, 2006).

2. 3. Segmentation of Online consumers

Vrechopoulos et al. (2001) segmented e-shoppers based on demographic, behavioural and attitudinal characteristics. Figure 4 illustrates classification of different segments of online shopping. Brown et al. (2003) classify e-shoppers according to purchasing motivations for shopping, which illustrated in Figure 5.

Figure 4 Vrechopoulos, Siomkos and Doudikis's Segmentation of e-shoppers

Characteristic

On-off shoppers

Online shoppers

Interested in online shopping

Social and demographic variables

Gender

Mainly men

Men and women

Age

25-44

18-44

Education

University and postgraduate studies

University studies

Level of income

Above average

Average or above

Material status

Single

Married

Job

Scientists, professionals, working in the private sector

Scientist, public and private sector employees

Attitudinal

variables

Home shopping motivations

Time saving, opening hours

Time saving, opening hours, exclusivity

Online shopping motivations

Fast delivery, low prices, range of products and opening times

Home delivery, low prices, range of products and opening times

Preferred payment method

Cash on delivery, credit cards

Cash on delivery

Willingness to pay more than through traditional channels

No

No

Willingness to pay delivery costs

Yes

Yes

Source: Adopted by an author from Vrechopoulos, A., Siomkos, G. & Doudikis, G. (2001)

Figure 5 Segmentation of online consumers according to purchase motivations

Type of shopper

Purchase motivations

Personalised shopper

Personal relationship with the seller. Service adapts to shopper's needs

Recreational shopper

Enjoys the act of shopping

Economic shopper

Achieve the nest quality-price relationship for the purchase

Involved shopper

Enjoys shopping and values personal relations

Convenience shopper

Values time and effort. Enjoy reduced prices

Local shopper

Loyal to a brand or shop in their local area

Apathetic shopper

Rejects the act of shopping. Values the convenience of Internet

Source: adopted by an author from Brown, M., Pope, N., Voges, K., (2003)

2. 4 Consumers behaviour theories

2. 4. 1 Consumers perception and consumer behaviour

Pawlyna (1999) identified perception as an initiator of behaviour. Additionally, perception can be considered as a process of information extraction. Even in the same reality, different people tend to perceive differently. It's vital to understand, that people's perceptions are more important than the reality in marketing (Kotler, 2000). The factors, which influence consumer's purchasing behaviour online can be identified by understanding customer behaviour.

In most studies perception identified as input, while behaviour as output, and treated as two separate phenomena. Rotem-Mindali (2006) suggested that perception and behaviour are two sides of the same phenomenon and are closely related to each other. Current study considered perception and behaviour as one integral part in order to understand customer perception and reasons which affect it.

2. 4. 2 Consumer decision process

There are several models (see Appendix 1), which describes customer purchasing behaviour, though they all have similar attributes that should be considered as fundamental stages upon which the consumer's behaviour is developed. Figure 6illustratesmain steps involved in consumer decision process.

Figure 6 Consumer decision process model

Source: Adopted by an author fromhttp://tutor2u.

net/business/marketing/buying_decision_process. asp

Predispositions (Before Purchase):

This stage includes past experiences, customer own personality and self-concept, attitudes and opinions in general, as well as on specific products.

Product Need:

Buyuko et al. (2004) stated that buyer recognises a need which can be satisfied by a product or service, as a result of either cognitive activity or some environmental stimulus. It can be simplified that the need is often caused by internal or external stimuli.

Information Search:

The search may arise on an internal and external basis (Goh, 1999). According to Donald (1974) this stage includes all searches of the internal and external environments for the alternative solutions as well as for information which can help in evaluating of those alternatives. The search for the information usually includes previous experiences and should be relevant to the present purchase situation.

Evaluation of Alternatives:

This stage involves comparison of alternatives from physical and cognitive activities. Consumers compare various brands by taking in consideration several attributes (Kotler, 2000). Attributes used for the evaluation of alternatives by consumers are also known as choice criteria. Figure 7shows a summary of these choice criteria. Additionally, differentiation and number of alternatives, time pressure as well as level of involvement will reflect the

extent of problem solving. As shown in Figure 8the extent to which customer involved in decision making process influence each stage of customer decision making process.

Figure7Choice criteria used for the evaluation of alternatives by consumers

Source: Adopted by an author from Bellman, S., Johnson, E. J., Lohse, G. L., & Mandel, N. (2006).

Figure 8 Purchase Involvement and Stages of consumer decision making process

Source: http://www. slideshare. net/roymogg/marketing-focus-on-the-customer-presentation

Purchase Activity:

This stage consist of customer involvement in making an actual financial decision as well as direct physical activities involved in decision making process about making purchase or not. Also this stage includes the actual transaction. However, customer' decision can be postponed, modified, or avoided due to influence of perceived risk involved in purchase decision (Kotler, 2000). Therefore, it is essential for marketers to recognize and understand factors that might provoke perceived risk and find out solutions to minimize that (Bellman et al., 2006).

Post Purchase Behaviour:

According to Kotler (2000) the current stage primarily concerned with product or service purchased by the customer. This level requires customer's

experience of satisfaction or dissatisfaction about purchased product or service, which further will influence subsequent behaviour of consumer. According to Fox all et al (1998) satisfaction or dissatisfaction created by product or service will make major impact on future purchase decisions.

Predispositions (After Purchase and Use):

After the process of purchasing the buyer (or non- buyer) should be left with cognitive content (Gunasekaran et al., 2004), which can be differ from that which present at the early stages. Consumers' attitude, information and experience may be changed due to factors of time and events (Hawkins, 1989). All of the above can influence the future purchase decision of the same type.

2. 4. 3. Consumer behaviour in Online Environment

When consumers shop online, they perform a similar sequence of tasks to offline shoppers (Mowen et al., 2003). Besides, online environment provides more information regarding each alternatives, also online environment is more flexible and time saving. Internet has significant impact on each stage of traditional decision making process. Final customer decision depends on several factors, which are illustrated in Figure 9.

Figure 9 Main factors that influence customer purchasing decision

Source: Adopted by an author from Buyuko & Zumi; Kan, Gulcin (2004)

Figure 9 presented factors, which lead to the decision process, which is described below.

Problem recognition:

Feeling the need or recognize the problem is the starting point. The Internet can generate the need or problem by itself and also can encourage customers to start the information search process (Breitenbach and van Doren, 1998).

Information Search:

Internet is one of the powerful sources of information, it has great advantages to store and process the information (Buyuko & Zumi, 2004), and due to the above Internet has a deep impact on the Information Search stage. According to Wareham (2000) Internet provides wide access to information base for the consumers. Comparing to the traditional environment Web is less costly and require less time for information search (Turban et al., 2002). One of the important differences between online and offline environment is the costs for the characteristics and attributes for which information can be obtained, are usually lower in online atmosphere (Kanttila, 2005).

Still, the Internet has far less impact for the products that are perceived as low risk and that are bought frequently (Mutz, 2005). Additionally, the Internet is much less effective for value expressive products than for functional products, which attributes can be easily compared online (Rayport et al., 2003).

Product Evaluation:

This stage requires customers to make final value judgment through evaluating different information. The main benefit of online shops is their ability to store large amount of content at a relatively low cost (Rotem-Mindali et al., 2006). Thus, this can be turned to advantage when customers evaluating the product. On another hand, Internet provides lack of tangibility, which leads to difficulties in evaluating products.

Purchase Activity:

Current stage involves issues regarding transactions, which include the following steps:

Agree contractually on purchase

Pay for the purchase

Wait for the delivery

Receive physical delivery

This stage can be influenced by different consumer-related factors, such as price, trustworthiness, availability or diversity of choices. According to Jobber (2001) this stage is also influenced by customer involvement, which is shown in Figure 6. Thus, customer will carry out very extensive evaluation when the purchase is very involving. On the contrary, purchases with low involvement will lead to simple evaluation and quick decision making (Schiffman, 2004).

Post Purchase Activities:

This stage is concerned with the satisfaction or dissatisfaction after purchase is made (Solomon et al., 2002). Internet provides good potential for customer satisfaction, as well as help to retain them. Web site can provide free customer support services, which will encourage repeat visits. Additionally, value-added services or feedback can be provided to the customers in order to retain existing customers and attract new (Siyal et al., 2006).

2. 5. Benefits of the online shopping

As discussed previously, there are a lot of factors that affect consumers' purchasing process. Those factors reflect both, advantages as well as disadvantages of Internet as a shopping medium. The advantages or benefits of online shopping considered by customers described as the followings.

2. 5. 1 Convenience

The customers expect online shopping to be easier and more convenient than as compare to traditional (Shun, 2006). Convenience is appearing very obvious at the stage of information search. According to Kotler (2003) ' The Internet is an almost perfect market due to the fact that information provided immediately and buyers can make a comparison of offers globally'. As a result, consumers require minimal effort and time in order to compare and contrast competitive products.

2. 5. 2. Time saving

According to Rayport et al. (2003) those who buy clothing on Web most often appreciate time saving. The process of locating merchants, finding items and procure offerings is easier in online environment (Maruca, 1999), which

means online shopping can economize on time. Consumers do not require leaving their houses and spent time for travelling in order to make merchandise. Additionally, online environment allows browsing for needed items by size, category or price. Browsing and time benefits of online shopping represent the positive perception of e-satisfaction (Lichtenthal, 2004).

2. 5. 3. Product related benefits

Comparing with a conventional retailer, e-retailer is able to offer a more wider range of products, because e-retailer do not have physical restrictions in terms of the amount and cost of floor space which is needed to display goods (Kanttila, 2005). Furthermore, it is less costly and easier for e-retailer to form alliances with other supplier, which brings more extensive inventories.

2. 5. 4. Lower price

Internet enhances customer knowledge about pricing. In online environment customers are able to visit sites of competitors and compare the prices; moreover intermediaries provide price comparisons, which make process of evaluation more convenient and time saving (Gunasekaran et al., 2004). This transparency of price increases the competition between e-retailers and drives the price down. Furthermore the cost for performing online business is lower than for offline (e. g. minimal staffing cost, no retail space costs), this also lead to lower prices (Brown et al., 2003). However, some researches show those consumers are ready to pay for the online products same as for offline in exchange for the convenience (Rayport et al., 2003).

2. 6. Perceived risks of online shopping

Perceived risk can be defined as the uncertainty which arise when customer cannot predict the consequences of purchase decision (Farley et al., 1973). The level of risk can vary depending on individuals, personality, situation and product. However, perceived risk can be reduced to some acceptable level in any purchase situation.

2. 6. 1. Risk of privacy

Privacy may mean diverse things to different people. Generally privacy refers to a moral right of individuals to avoid interruption interruptions into their personal life and affairs by third parties (Rotem-Mindali et al., 2006). Privacy is the main factor which stops many consumers from online shopping. Most of the time individuals get afraid that their private information can be sold, used, shared or discovered in an incorrect manner. According to Kanttila (2005) fears and concerns of online purchasing reduce online purchasing decisions.

2. 6. 2. Security risk

Security risks are often related to privacy issues. Security, especially online payment security is one of the main concerns for the consumers in e-shopping (Shun, 2006). Even the Internet and advanced technology improving fast, there are still high proportion of online users who are very cautious about making online purchase due to the concerns over credit and debit card security. Majority of customers have concerns whether the company is legal and private information will be not distributed to third

parties, due to high percentage of hackers operating online (Siyal et al., 2006).

2. 6. 3. Lack of inspection before purchase

Absence of direct sensory cues is another perceived risk, which is often mentioned both by marketers and customers. According to Schiffman & Kanuk (2004 the fact that consumers are unable to touch products offered online is considered as significant drawback. This fact leads to more uncertainties regarding online shopping, because consumers have doubts about quality of the purchased product. This is also the reason why a lot of products which require high involvement are seldom purchased online (Rayport et al., 2003).

2. 6. 4. Risk of delivery

Another drawback of online purchase is time between the purchase was made and time it received. When purchasing online, consumers cannot obtain the purchased product directly after transaction (Mutz, 2005). After the transaction was made the product will reach customer via home/office delivery sometime later. Therefore the reliability of delivery is another concerning issue.

Additional problem which involved in delivery process is speed. One more issue to consider about home delivery is the presence of customer at home (Lichtenthal, 2004). Sometimes time of the delivery can be uncertain, and such situation can also lead to uncertainty.

2. 6. 5. Risk of returning

Product returns are essential for the customers' convenience and satisfaction. Majority of researches shows that the rate of online returns are low, however it is only due to the fact that customers find the process of returning is too complex (Constantinides, 2004). Such disgruntled customers are unlikely to continue online shopping in future (Case, 2002). Another issue in returning goods is that money usually are paid through credit or debit card, and here arise another problem of returning money back on the customer account, which depend not on e-company, but on the bank through which purchase was done.

2. 7. Summary

It is unarguable that the Internet has become an important part of people's lives, enabling the fast growth of e-commerce. Currently, e-commerce is making improvements in customers' satisfaction and tries to involve more people in online business environment (Chen & Dubinsky, 2003).

Consumer perception is the creator of customer performance, at the same time customer actions are the output of consumer perception (Citrin et al., 2000). It is useful to understand factors which influence buyers' perception and purchasing behaviour. The adaptation of Internet creates a great impact on purchasing behaviour by providing more information, facilitating evaluation and decision making, and after-sales feedback.

Additionally, online shopping includes different benefits and risks related to factors influencing consumer purchasing behaviour. The main benefits of online shopping are:

Convenience

Time saving

Great product choice

Product customization

Lower prices

The most common perceived risks of online shopping are:

Privacy risks

Security risks

Lack of inspection

Delivery issues

Inconvenience of returning

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