

CHAPTER TWO

REVIEW OF LITERATURE

This chapter reviews the literature in five main areas: (1) Transaction via E-Commerce, (2) Growth of Internet Usage, (3) The Buyer Decision Process, (4) Factors Influencing Consumer Buying Decisions, and (5) Relevant Research.

2.1 TRANSACTION VIA E-COMMERCE

2.1.1 Definition of E-Commerce

Craig Fellenstein and Ren Wood (1999) stated that electronic commerce (hereinafter referred to as e-commerce) is doing business electronically. This includes the sharing of various forms of business information by any electronic means (such as electronic mail or messaging, World Wide Web technology, electronic bulletin boards, smart cards, electronic funds transfers, and electronic data interchange) among suppliers, customers, governmental agencies, and other businesses in order to conduct and execute transactions in business, administrative, and customer activities.

2.1.2 Type of E-Commerce

Online business transactions can be divided into four categories:

2.1.2.1 Business-to-Business (B2B)

Business transactions occur among business organizations for trading, business connections and production, and material management such as placing orders, supplying industrial parts to order, etc. Also, business connections between head office and branch offices through the internet is considered as B2B E-Commerce because it helps to boost up working efficiently and effectively.

2.1.2.2 Business-to-Consumer (B2C)

Business transactions take place between entrepreneurs and consumers through the internet; no matter which type of business deal it is. Entrepreneurs can extend their business bases over the internet as far as they can.

2.1.2.3 Business-to-Government (B2G)

Business transactions are conducted between the government sector and private sector; most of them are involved with the government procurement. Especially, a country which has fully developed its government internet support will bring innovative business applications closer nationwide, such as the Custom Department of Thailand. The department purchases durable articles online via the EDI system; as a result of that, those who are interested to do business with it have to install this system and serve it as a business connection among them.

2.1.2.4 Consumer-to-Consumer (C2C)

Business is dealt with between end-user consumers; in general, it is in the form of an E-Auction over a website used as a medium, allowing two consumers or more to make a business deal at the same time. Payment or delivery will be taken care of, including service charges calculated from 20% of the total price. (National Electronics and Computer Technology Center, 2003)

2.1.3 Value of the Internet to Buyers

Gilbert D. Harrell (2002) stated that buyers receive great value from e-commerce.

2.1.3.1 Better Information

The Internet enables buyers to obtain a great deal of information about products, including availability, costs, attributes, and use instructions, as well as information about manufacturers and sellers of particular brands. In many cases, before selecting an item, potential buyers can even obtain other customers' reactions to products.

2.1.3.2 Greater Convenience

Shopping at home or in the office via computer reduces the amount of travel and time associated with in-store purchases. This is particularly useful for buyers in rural areas or more remote communities around the world. In urban and suburban settings, traffic congestion is high, and consumers may save many hours each week otherwise spent waiting in traffic or on long checkout lines. In addition, saving in gasoline and other vehicle costs can be substantial, not to mention the social benefits of less auto pollution and congestion.

2.1.3.3 Wider Selection and Customization

Online buyers can choose from a wide selection as well as customized products. Retail outlets may carry only certain brands and sizes, but online sources offer all possible configurations. Buyers can compare many more brands and price points. Even unique and scarce products can be sourced quickly. At the same time, more customization is possible because buyers can interface with a seller's manufacturing facilities, which in turn are networked with suppliers, so sellers can build or manufacture on demand.

2.1.3.4 Better Price

Due to the competitive nature of the internet marketing economy and the efficiency saving, shoppers may benefit from lower prices. Companies that pioneered e-commerce used a low-price strategy to attract business and this strategy has continued because online shoppers have become accustomed to the competitive price.

2.2 GROWTH OF INTERNET USAGE

Craig Fellenstein and Ren Wood (1999) stated that it had taken fewer than five years after the birth of the internet for it to grow to approximately 90 million people online, and was heading toward hundreds of millions of people. A primary reason for the internet growth is its convenience and variety rated by active internet shoppers, which can be of great value in our daily decision-making processes. It could also reduce time-consumption.

A table from www.internetworldstats.com illustrated the internet usage for June 2008. It can be seen that the world usage growth (see figure 1) between 2000 and 2008 increased sharply. Asia had the most internet usage (39.5%) and was followed by Europe (26.3%). Furthermore, Thailand was the eleventh of 35 listed countries (see figure 2). In addition, the internet penetration rate of Thailand increased to 20.5%.

WORLD INTERNET USAGE AND POPULATION STATISTICS						
World Regions	Population (2008 Est.)	Internet Users Dec/31, 2000	Internet Usage, Latest Data	% Population (Penetration)	Usage % of World	Usage Growth 2000- 2008
Africa	955,206,348	4,514,400	51,065,630	5.3 %	3.5 %	1,031.2 %
Asia	3,776,181,949	114,304,000	578,538,257	15.3 %	39.5 %	406.1 %
Europe	800,401,065	105,096,093	384,633,765	48.1 %	26.3 %	266.0 %
Middle East	197,090,443	3,284,800	41,939,200	21.3 %	2.9 %	1,176.8 %
North America	337,167,248	108,096,800	248,241,969	73.6 %	17.0 %	129.6 %
Latin America/Caribbean	576,091,673	18,068,919	139,009,209	24.1 %	9.5 %	669.3 %
Oceania / Australia	33,981,562	7,620,480	20,204,331	59.5 %	1.4 %	165.1 %
WORLD TOTAL	6,676,120,288	360,985,492	1,463,632,361	21.9 %	100.0 %	305.5 %

Figure1: World Internet Usage and Population Statistics

ASIA INTERNET USAGE AND POPULATION						
ASIA	Population (2008 Est.)	Internet Users, (Year 2000)	Internet Users, Latest Data	Penetration (% Population)	(%) Users in Asia	Use Growth (2000- 2008)
Afganistan	32,738,376	1,000	580,000	1.8 %	0.1 %	57,900.0 %
Armenia	2,968,586	30,000	172,800	5.8 %	0.0 %	476.0 %
Azerbaijan	8,177,717	12,000	1,035,600	12.7 %	0.2 %	8,530.0 %
Bangladesh	153,546,901	100,000	500,000	0.3 %	0.1 %	400.0 %
Bhutan	682,321	500	40,000	5.9 %	0.0 %	7,900.0 %
Brunei Darussalem	381,371	30,000	176,029	46.2 %	0.0 %	486.8 %
Cambodia	14,241,640	6,000	70,000	0.5 %	0.0 %	1,066.7 %
China *	1,330,044,605	22,500,000	253,000,000	19.0 %	43.7 %	1,024.4 %
East Timor	1,108,777	-	1,200	0.1 %	0.0 %	0.0 %
Georgia	4,630,841	20,000	360,000	7.8 %	0.1 %	1,700.0 %
Hong Kong *	7,018,636	2,283,000	4,878,713	69.5 %	0.8 %	113.7 %
India	1,147,995,898	5,000,000	60,000,000	5.2 %	10.4 %	1,100.0 %
Indonesia	237,512,355	2,000,000	25,000,000	10.5 %	4.3 %	1,150.0 %
Japan	127,288,419	47,080,000	94,000,000	73.8 %	16.2 %	99.7 %
Kazakhstan	15,340,533	70,000	1,400,000	9.1 %	0.2 %	1,900.0 %
Korea, North	23,479,089	--	--	--	--	0.0 %
Korea, South	49,232,844	19,040,000	34,820,000	70.7 %	6.0 %	82.9 %
Kyrgystan	5,356,869	51,600	750,000	14.0 %	0.1 %	1,353.5 %
Laos	6,677,534	6,000	100,000	1.5 %	0.0 %	1,566.7 %
Macao *	460,823	60,000	238,000	51.6 %	0.0 %	296.7 %
Malaysia	25,274,133	3,700,000	14,904,000	59.0 %	2.6 %	302.8 %
Maldives	379,174	6,000	33,000	8.7 %	0.0 %	450.0 %
Mongolia	2,996,081	30,000	320,000	10.7 %	0.1 %	966.7 %
Myanmar	47,758,181	1,000	40,000	0.1 %	0.0 %	3,900.0 %
Nepal	29,519,114	50,000	337,100	1.1 %	0.1 %	574.2 %
Pakistan	167,762,040	133,900	17,500,000	10.4 %	3.0 %	12,969.5 %
Philippines	92,681,453	2,000,000	14,000,000	15.1 %	2.4 %	600.0 %
Singapore	4,608,167	1,200,000	2,700,000	58.6 %	0.5 %	125.0 %
Sri Lanka	21,128,773	121,500	771,700	3.7 %	0.1 %	535.1 %
Taiwan	22,920,946	6,260,000	15,400,000	67.2 %	2.7 %	146.0 %
Tajikistan	7,211,884	2,000	19,500	0.3 %	0.0 %	875.0 %
Thailand	65,493,298	2,300,000	13,416,000	20.5 %	2.3 %	483.3 %
Turkmenistan	5,179,571	2,000	70,000	1.4 %	0.0 %	3,400.0 %
Uzbekistan	28,268,440	7,500	1,745,000	6.2 %	0.3 %	23,166.7 %
Vietnam	86,116,559	200,000	20,159,615	23.4 %	3.5 %	9,979.8 %
TOTAL ASIA	3,776,181,969	114,304,000	578,538,257	15.3 %	100.0 %	406.1 %

Figure2: Asia Internet Usage and Population (including Thailand)

Moreover, the National Electronics and Computer Technology Center (2008) mentioned that the internet penetration rate of Thailand is increasing sharply. The main reasons given for support of internet popularity are the development of wireless devices, easy accessibility, and lots of information.

2.3 THE BUYER DECISION PROCESS

There are five steps that consumers pass through with every purchase (Kotler & Armstrong, 1996). The figure below shows the consumer buying process.

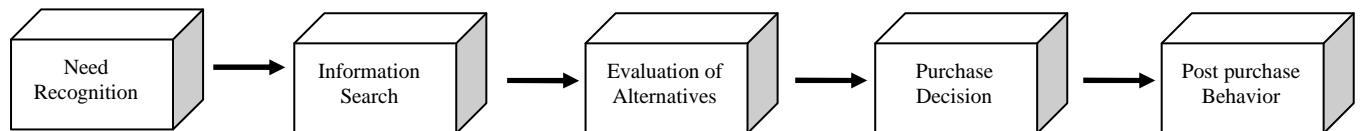


Figure3: Consumers Buying Process

2.3.1 Need recognition

The buying process starts with need recognition where the buyer recognizes a problem or need. The need can be triggered by internal stimuli when one of the person's normal needs such as hunger, thirst, sex, etc raises a level high enough to become a drive. Also, a need can be triggered by external stimuli such as advertising.

2.3.2 Information Search

An aroused consumer may or may not search for more information. If the consumer's drive is strong and a satisfying product is near at hand, the consumer is likely to buy it then. If not, the consumer may store the need in memory or undertake an information search related to the need.

The consumer can obtain information from any of several sources. These include:

- Personal sources: family, friends, neighbors, acquaintances
- Commercial sources: advertising, salespeople, dealers, packaging, displays
- Public sources: mass media, consumer-rating organizations
- Experiential sources: handling, examining, using the product

Generally, the consumer receives the most information about a product from commercial sources; however, personal sources appear to be even more important in influencing the purchase of services. Commercial sources normally inform the buyers, but personal sources evaluate products for the buyers.

2.3.3 Evaluation of Alternatives

First, we assume that each consumer sees a product as a bundle of product attributes. Second, the consumer will attach different degree of importance to different attributes according to his or her unique and wants. Third, the consumer is likely to develop a set of brand beliefs about where each brand stands on each attribute. The set of beliefs held about a particular brand is known as the brand image. Based on his or her experience and the effects of selective perception, distortion, and retention, the consumer's beliefs may differ from true attributes. Fourth, the consumer's expected total product satisfaction will vary with levels of different attributes. Fifth, the consumer arrives at attributes toward the different brands through some evaluation procedure. Consumers have been found to use one or more of several evaluation procedures, depending on the consumer and the buying decision.

2.3.4 Purchase Decision

In the evaluation stage, the consumer ranks brands and forms purchase intentions. Generally, the consumer's purchase decision will be to buy the most preferred brand, but two factors can come between the purchase intention and the purchase decision. The first factor is the attitudes of others. The second factor is unexpected situation factors. The consumer may form a purchase intention based on factors such as expected income, expected price, and expected product benefits. However, unexpected events may change the purchase intention.

2.3.5 Post Purchase Behavior

After purchasing the product, the consumer will be satisfied or dissatisfied and will engage in post purchase behavior. It lies in the relationship between the consumer's expectations and the products perceived performance. If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted.

Consumers base their expectations on information they receive from sellers, friends, and other sources. A delighted customer is more likely to purchase again and to talk favorably about the product and company. If the seller exaggerates the product's performance, consumer expectations will not be met, and dissatisfaction

will result. The larger the gap between expectations and performance, the greater the consumer's dissatisfaction. This suggests that sellers should make product claims that faithfully represent the product's performance so that the buyers are satisfied because bad word of mouth travels farther and faster than good word of mouth and can quickly damage consumer attitudes about a company and its products.

2.4 FACTORS INFLUENCING CONSUMER BUYING DECISIONS

Lamb, Hair, and McDaniel (2002) indicated that underlying cultural, social, individual, and psychological factors strongly influence the decision process.

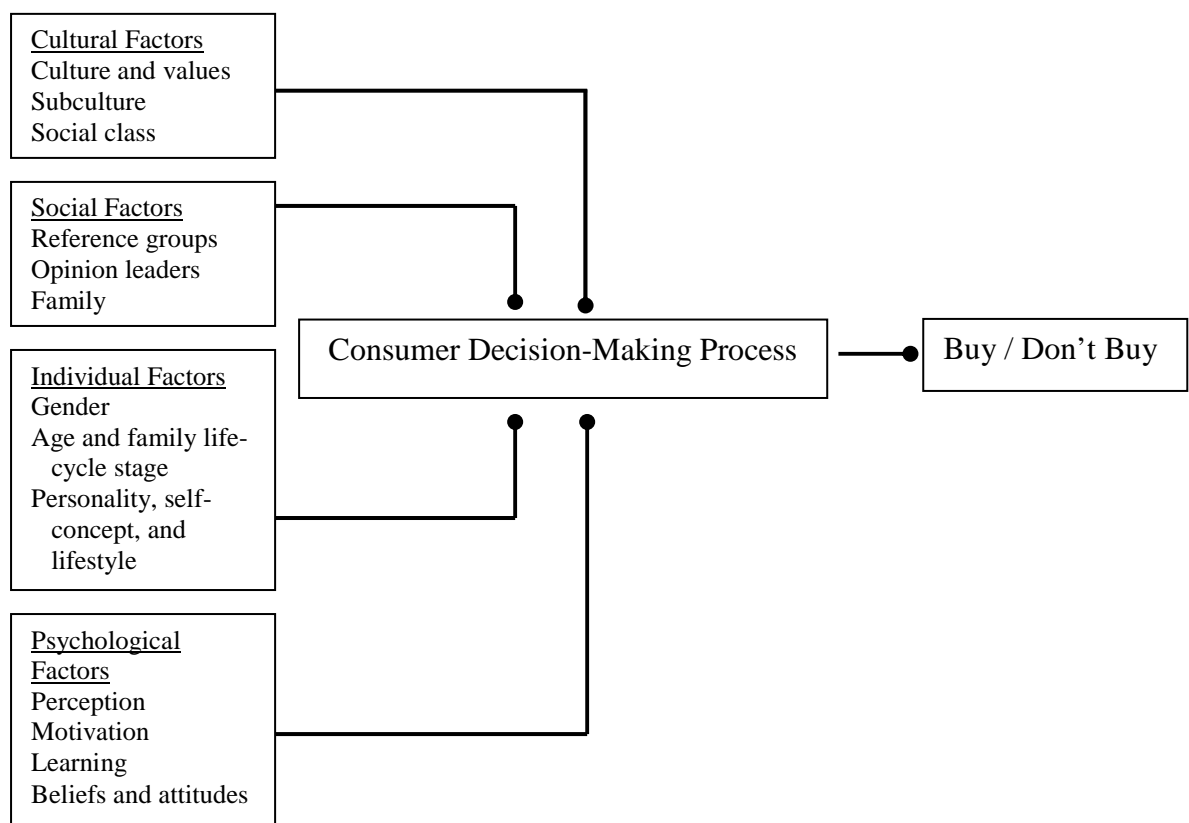


Figure 4: Factors Influencing Decision Process

2.4.1 Cultural influences

Underlying cultural, social, individual, and psychological factors strongly influence the decision process. What customers want or need can be seen from culture,

subculture and social class. Values, preferences, behaviors or perceptions around their families, workplaces, and neighborhoods are indicators that have influenced their life: what they are, what think about, what makes them achieve their careers or study and so on. This is the result of cultural effects. Each culture is comprised of subcultures playing an important role on less than cultural effects; additional identification and socialization will be obtained at this stage such as nationalities, religions, racial groups, and geographic regions.

2.4.2 Social Influences

Most consumers are likely to seek out the opinions of others to reduce their search and evaluation effort or uncertainty, especially as the perceived risk of the decision increases. They interact socially with reference groups, opinion leaders, and family members to obtain product information and decision approval.

2.4.2.1 Reference Groups

All the formal and informal groups that influence the buying behavior of an individual are that person's reference groups which are primary membership groups (such as family, friends, and coworkers), secondary membership groups (such as clubs, professional groups, and religious groups), aspirational references groups and nonaspirational groups.

2.4.2.2 Opinion Leaders

Opinion leaders tend to be self-indulgent, making them more likely to explore unproven but intriguing products and services. The combination of curiosity, activism, and self-indulgence makes opinion leaders trendsetters in the consumer marketplace.

2.4.2.3 Family

The family is the most important social institution for many consumers, strongly influencing values, attitudes, self-concept, and buying behavior. Moreover, the family is responsible for the socialization process, the passing down of cultural values and norms to children. They learn by observing their parent's consumption patterns, and so they will tend to shop in a similar pattern.

2.4.3 Individual Influences

A person's buying decisions are also influenced by personal characteristics that are unique to each individual, such as gender; age and life-cycle stage; and personality, self-concept, and lifestyle. Individual characteristics are generally stable over the course of one's life.

2.4.4 Psychological Influences

An individual's buying decisions are further influenced by psychological factors: perception, motivation, learning, and beliefs and attitude. These factors are what consumers use to interact with their world. They are the tools consumers use to recognize their feeling, gather and analyze information, formulate thoughts and opinions, and take action. Psychological influences can be affected by a person's environment because they are applied on specific occasions.

2.4.4.1 Perception

The process by which consumers select, organize, and interpret stimuli into a meaningful and coherent picture is called perception. In essence, perception is how consumers see the world and how they recognize that they need some help in making a purchasing decision.

People cannot perceive every stimulus in their environment. Therefore, they use selective exposure to decide which stimuli to notice and which to ignore.

2.4.4.2 Motivation

When people buy a product, they usually do so to fulfill some kind of need. These needs become motives when aroused sufficiently. One popular theory is Maslow's hierarchy of needs, shown in the figure below, which arranges needs in ascending order of importance: physiological, safety, social, esteem, and self-actualization. As a person fulfills one need, a higher-level need becomes more important.

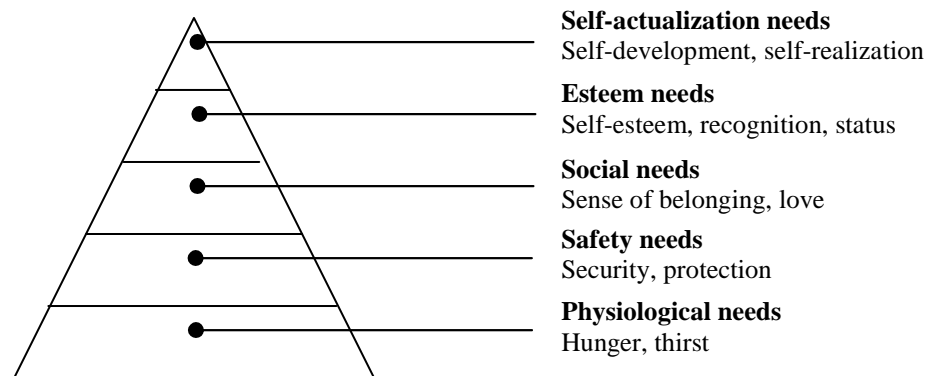


Figure 5: Maslow's Hierarchy

2.4.4.3 Learning

Almost all consumer decision making results from learning, which is the process that creates changes in behavior through experience and practice.

2.4.4.4 Beliefs and Attitudes

Beliefs and attitudes are closely linked to values. A belief is an organized pattern of knowledge that an individual holds as true about his or her world while an attitude is a learned tendency to respond consistently toward a given object. Attitudes rest on an individual's value system, which represents personal standards of good and bad, right and wrong, and so forth; therefore, attitudes tend to be more enduring and complex than belief.

2.5 RELEVANT RESEARCH

Pornchanok Arpornviriyavong (2008), in her research "Attitudes of Working People toward E-Commerce: A Survey of Reuters Software (Thailand) Company Limited" found out that the factors affecting the respondents' behaviors were price factors (31%), product choice (17%), place (17%), promotion/discount/free gifts (16%), purchasing timing, delivery lead time (11%), and vendor choice (8%).

Moreover, 24.7% of respondents were not sure whether to buy any products and services online in the next 12 months because of three main reasons. First, they had a lack of confidence in the security of payment system (19%), followed by a lack of confidence in the quality of the product and the information provided on the internet (13%), and source reliability (12%).