

CHAPTER I

INTRODUCTION

1.1 Research Background

The rapid development of technology and information, particularly the internet, is shaping the current era. The internet has become increasingly accessible to everyone, especially in urban areas. This accessibility has simplified the process of finding and acquiring goods and services online, thereby supporting various activities, including business processes. In Indonesia, the internet's growth has significantly influenced consumer behavior in terms of purchasing goods and services. Now, individuals can conveniently access a wide range of buying and selling procedures through their smartphones or mobile phones, which is commonly referred to as online shopping.

According to Shruthi et al. (2016), online shopping refers to the direct purchase of goods from sellers without intermediaries, enabling customers to compare different deals and select the most suitable option for them. Factors such as availability, competitive prices, promotions, comparisons, customer service, user-friendly interfaces, and variety of options play a significant role in influencing consumers' decision to engage in online shopping (Jadhav & Khanna 2016). Additionally, website design and features also contribute to the appeal of specific online platforms and entice shoppers to make purchases (Akroush & Al-Debei 2015). The convenience and time-saving nature of online shopping, especially for individuals with busy lifestyles and long working hours, have made it a preferred option over traditional shopping (Akroush & Al-Debei 2015).

Furthermore, the internet has become an integral communication tool in daily activities, providing vast amounts of information available at any time. This abundance of information has the potential to influence individuals in making impulsive decisions, particularly within the realm of interpersonal communication (Alfisyahr et al., 2019). E-commerce, which facilitates online transactions, has experienced significant growth, and is expected to continue expanding due to its

increasing importance in the modern world (Alfisyahr et al. 2019). As more people recognize the benefits, online shopping has become a popular choice, offering convenience, reduced travel time and costs, and easy payment options, all from the comfort of one's home (Alfisyahr et al. 2019).

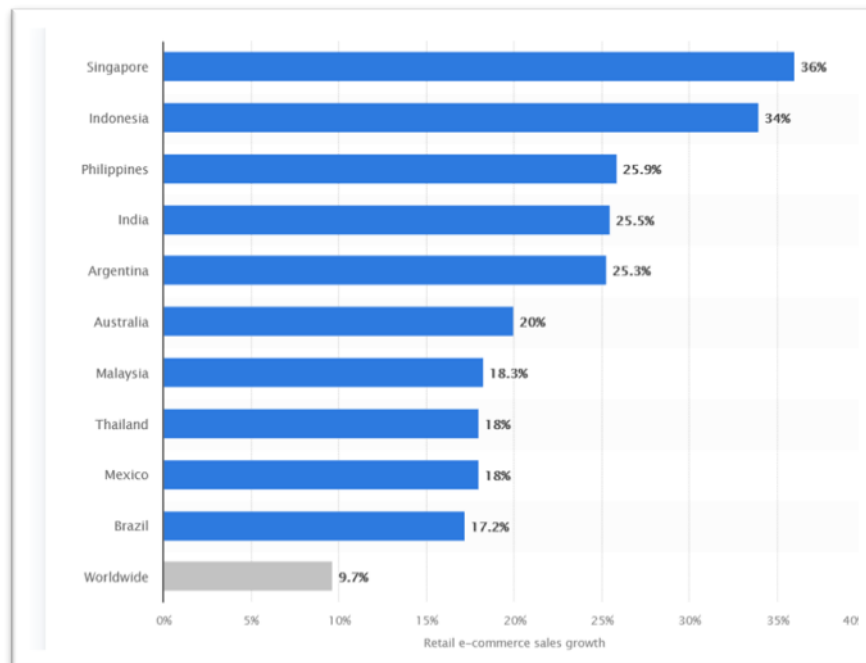


Figure 1.1 Leading countries based on retail e-commerce sales growth in 2022

Source: statista.com

Figure 1.1 illustrates that Indonesia ranks as the second fastest-growing e-commerce market globally. Predictions indicate that the e-commerce market in Asia, Australia, and the Americas is expected to experience the most significant growth in 2022. Singapore and Indonesia are projected to have the highest growth rates, with online sales expected to increase by 36% and 34%, respectively. Among the countries in the Americas, Argentina is anticipated to have the highest e-retail market growth, surpassing 25%. Furthermore, Indonesia is identified as a thriving e-commerce market in the Asia-Pacific region, primarily due to improving internet penetration, increasing digitalization, and the emergence of localized e-commerce platforms. The COVID-19 pandemic, with its social limitations and temporary store closures, has further accelerated the shift towards online shopping as more

consumers turned to digital channels. In 2020, internet sales accounted for 20% of Indonesia's total retail sales, surpassing US\$129 billion. Alongside well-known e-commerce enterprises, several lesser-known Indonesian companies have secured significant funding, positioning them to have a substantial impact in 2021. One such company recently completed a successful funding round, raising US\$1.5 billion and becoming Indonesia's largest IPO to date.

In addition, a shift in consumer behavior is evident, with 70% of offline shoppers choosing to conduct payment transactions electronically. This shift signifies a transition from traditional to digital payment methods. According to a report by J. P Morgan (2019) on global payment trends, e-wallets rank as the third most used alternative payment method in e-commerce, following debit and credit cards. This highlights the growing popularity of e-wallets in online transactions. J.P Morgan (2019) also notes that the development of payment instruments continues to evolve, with the introduction of new features supporting e-commerce and e-wallets, such as the Pay later system.

The Pay later system provides a convenient installment payment option without requiring a credit card. It has been widely adopted by various e-commerce platforms and e-wallet providers, including Traveloka, OVO, Gojek, and Shopee. The introduction of the Pay later system addresses the low penetration of credit card usage in Indonesia, which currently stands at only 0.07% per capita. This untapped market presents significant opportunities, and the Pay later feature aims to cater to consumers who lack credit card access but still require credit for their purchases. Although the Pay later system offers a solution, Mitchell & Qadar (2019) argue that it can also contribute to impulsive buying behavior. The ease of making purchases with a single click through the Pay later system may encourage impulsive buying in e-commerce transactions.

Impulsive buying behavior is not exclusive to the Pay later system; it is a common phenomenon worldwide. Dawson & Kim (2010) reported that 50% of consumers make impulsive purchases, and Lee & Kacen (2008) emphasize that retailers often employ various strategies, such as product displays, store layout, and package designs, to attract and engage customers and increase impulse buying.

Studies by Kacen & Lee (2002) and Rook & Fisher, (1995) indicate that impulsive purchases can occur with items of any price range. While impulsive buying is more likely to happen with cheaper products, it can also manifest when purchasing higher-priced items (Rook & Fisher 1995).



Figure 1. 2 Most widely used Paylater feature in Indonesia in 2021

Source: Dailysocial.id

Figure 1.2 displayed above indicates that Shopee Paylater is the most popular Paylater feature in Indonesia in 2021, with a percentage of 78.4%. Shopee Paylater, also known as SPayLater, is an installment payment or loan option provided by the Shopee e-commerce platform. This service is offered in collaboration with PT Commerce Finance and allows users to pay the full amount either one month after the transaction or in installments over a span of several months. Shopee Paylater offers three different payment plans with terms of 3 months, 6 months, and up to 12 months. Early users who meet Shopee's requirements may have their loan limit increased to IDR 3 million or more from the initial IDR 750,000. According to Huang (2016) and Makanyeza & Mutambayashata (2018), both hedonic and utilitarian motivations influenced by external factors can impact individuals and lead to consumptive behavior. These factors can be attributed to various elements such as demographics, culture, socio-economy, social groups, family, and more. Furthermore, Wang (2012) highlights that web design can also stimulate internet usage, indicating that the aforementioned factors can induce consumptive behavior and impulsive buying tendencies. Floh & Madlberger (2013); Wells et al. (2011) emphasize that impulse shoppers often struggle to control their inherent behavior when visiting online stores. Additionally, Floh & Madlberger, (2013) point out that online shoppers engage in discrete psychological states characterized by unplanned and sudden buying decisions, making it challenging for retailers to predict consumer behavior accurately.

Web quality, which refers to the quality of a website's design, is among the factors that can influence customers to engage in consumptive behavior and exhibit impulsive buying tendencies online. In line with this, Singh Shergill et al. (2005) state that impulse buyers, in general, struggle to control their inherent behaviors when browsing online stores. Singh Shergill et al. (2005) highlight that websites serve as primary repositories of information that aid consumers in their search for relevant information. Ranganathan & Ganapathy (2002) further emphasize that B2C websites enable consumers to engage in online shopping through the World Wide Web. The design characteristics of a web page can also impact consumers' decision-making processes when it comes to online purchases.

Additionally, Floh & Madlberger, (2013) note that online consumers are more likely to experience discrete psychological states that lead to impulsive and sudden actions regarding purchasing decisions, making it challenging for retailers to accurately predict consumer behavior. Lastly, Wu (2013) and Wu et al. (2011) define online shoppers/consumers from the internet user perspective as individuals who utilize various functions throughout the entire purchase decision-making process, including product information search, tracking of product delivery, and completion of the payment system.

The advancement of information and communication technology, particularly the internet, has transformed consumer behavior, particularly in terms of face-to-face interactions between buyers and sellers. Offline, such meetings occur, but they are absent in online transactions. The internet has made online purchases more convenient for customers. As e-commerce continues to grow in Indonesia, consumer consumption habits are also on the rise. Rook (1987) defines individuals who experience a strong desire and quickly act upon it as impulse buyers. Unplanned purchases are often referred to as impulse buying, which is supported by Rook & Fisher (1995) statement that impulsive shopping can occur online.

Sales promotion is one factor that drives impulsive purchases. It is defined as activities aimed at persuading target market members to make a purchase by offering discounts or gifts, as explained by (Hollensen, 2014). Sales promotion encompasses below-the-line activities such as point-of-sale displays, demonstrations, leaflets, free trials, contests, and premiums like 'two for the price of one'. Unlike media advertising, which earns a commission, below-the-line sales promotion does not. Kiran et al. (2012) state that the primary objective of sales promotion is to entice potential customers to purchase the offered products. Bhakat & Muruganatham (2013) added that promotion is one of the elements that influences impulsive buying.

The abundance of promotions available in online markets can tempt customers to make impulsive purchases. This study aims to examine the factors driving impulsive buying in online shopping, specifically focusing on the presence

of the Paylater system, Hedonic Motivation, Sales Promotion, and Web Quality. The research utilizes data collected from an online survey conducted among Paylater system users in Indonesia. The analysis employs structural equation modelling (SEM) to explore the relationship between these four variables and online impulsive buying behaviour.

1.2 Problem Formulation

Based on the background explained previously, the problem statement is formulated as follows:

- 1.2.1 Does hedonic motivation have a positive effect on online impulsive buying behaviour?
- 1.2.2 Does pay later feature as payment solution have a positive effect on online impulsive buying behaviour?
- 1.2.3 Does sales promotion have a positive effect on online impulsive buying behaviour?
- 1.2.4 Does web quality have a positive effect on online impulsive buying behaviour?

1.3 Research Objectives

Based on the background and problem statements explained previously, the objective of the study is formulated as follows:

- 1.3.1 Examining and analyzing the effect of hedonic motivation to online impulsive buying behaviour.
- 1.3.2 Examining and analyzing the effect of pay later features as payment solution to online impulsive buying behaviour.
- 1.3.3 Examining and analyzing the effect of sales promotion to online impulsive buying behaviour.
- 1.3.4 Examining and analyzing the effect of web quality to online impulsive buying behaviour.

1.4 Benefits of Research

The result of this research is expected to be academic and practical. benefits which can be described as follows:

1.4.1 Academic Benefits

1. AcademiCS can use this research as a reference for future research about the role of hedonic motivation, paylater feature, sales promotion, and web quality's impact to online impulsive buying behaviour.
2. The researchers will have the ability to expand and acquire comprehensive knowledge in their field. Ultimately, this study has the potential to make a valuable contribution to the readers.
3. The future researchers may use this research as reference for a new research about the relationship between each variables

1.4.2 Practical Benefits

1. The company can use this research as a means of feedback for the company's internal sector. In addition, this research can support the company in improving the web quality and additional information about the paylater feature more clearly and understandable but detailed for the consumers.
2. Researchers hope that the results of this study can be used in the practical world as reference material in making decisions and considerations before buying something. So, the people can more be careful in using Shopee pay later feature in the future. Thus, consumers can reconsider when they are about to do online shopping especially when they are about to use paylater feature as their payment option.

1.5 Writing Systematic

This thesis consists of 5 chapters to clarify the reading of research results, as follows:

CHAPTER 1: INTRODUCTION

This chapter covers the problem's history, how it was formed, the research's goals, its advantages, and the systematiCS for creating research papers.

CHAPTER 2: LITERATURE REVIEW

The theories discussed in Chapter 2—The definition of Consumer Behavior, Hedonic Motivation, Pay later systems, Web Quality, and Sales Promotion—will be used by researchers. In addition to the theory employed, chapter 2 also covers an overview of prior research and a conceptual framework that clarifies how to answer research questions and how variables relate to one another.

CHAPTER 3: RESEARCH METHODS

Research design, operational ideas that are employed by researchers as concepts to be discussed as research subjects, and various data sources, including Shopee e-commerce usage statistics, are all covered in Chapter 3. The research's instruments and methodologies include approaches to ascertain how Pay later, Hedonic Motivation, Web Quality, and Sales Promotion affect the Online Impulsive Buying Behavior.

CHAPTER 4: ANALYSIS AND DISCUSSION

In Chapter 4, the research object, the data, the questionnaire analysis, and finally the researcher's discussion are all generally described. The researchers' discussion indicates that Shopee pay later feature, Hedonic behavior Web Quality, and Sales Promotion affect the Online Impulsive Buying Behavior

CHAPTER 5: CONCLUSION AND SUGGESTION

The constraints of the analysis performed by the researcher, their recommendations for the research object, and their conclusions are all included in Chapter 5.