Consumers’ Buying Behaviour toward Local and Imported Cars: An Outlook after the Implementation of ASEAN Free Trade Agreement (AFTA) In Malaysia

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ABSTRACT

Consumer nationalism (or ethnocentrism) refers to domestic consumers’ biasness for local products over imported products. Since Malaysia has been manufacturing its own local-made car, Malaysian consumers were expected to portray higher preference in buying a local car. However, in spite of the support given by the government, sales of imported cars have shown an increasing trend since 2000, even before AFTA was fully implemented. The trend clearly indicated that more Malaysians were showing their preferences for imported cars. The objective of this paper is to examine factors affecting Malaysian's car-buying behaviour, especially after AFTA was implemented. A survey had been conducted to collect relevant data from car buyers in the Klang Valley. A structured questionnaire was used to record the responses. The study uses factor analysis in identifying factors affecting consumers’ car-buying behaviour. The findings of the study show that attributes of the car, car maintenance, acquisition process, attitude of consumers, and price of the car were significant in explaining the purchasing pattern. Logistic regression is used to examine preferences in purchasing the car. The result indicated that car maintenance, car attributes and consumers’ attitude (nationalism) were highly significant in explaining whether consumers will buy local or imported cars. Based on the findings, local car manufacturers should provide excellent maintenance and repair services, conduct R&D activity, and continuously respond to market tastes and preferences so that it can enhance consumers’ propensity to buy local cars.

Key words: consumer buying behaviour, local and imported cars, factor analysis, logistic regression.

1.0 INTRODUCTION

The Malaysian government had developed policies to promote an integrated automobile industry with the objectives to reduce imports, save foreign exchange, create employment, develop strong forward and backward linkages with the rest of the economy and adapt industrial technology from other countries. The implementation of the country's first national project by Perusahaan Automobil Nasional Berhad (PROTON) in 1985 was an important step towards the development of the motor vehicle industry in Malaysia. Since then, a number of projects related to motor vehicles, including Perusahaan Automobil Kedua (PERODUA), Hicom MTB and Inokom have been launched. The domestic car market is also served by imported brands, especially from Japan. With the interest in protecting the local car manufacturers, the government imposes several instruments, including high tariff and import quota on imported cars, which resulted in higher prices of imported cars than local cars. As a consequence, local cars lead the market for several consecutive years (Table 1).
Table 1: Car market share from 2000 to 2014 (%)

<table>
<thead>
<tr>
<th>Type</th>
<th>00</th>
<th>01</th>
<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
<th>07</th>
<th>08</th>
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<th>11</th>
<th>12</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>80</td>
<td>81</td>
<td>79</td>
<td>69</td>
<td>59</td>
<td>55</td>
<td>45</td>
<td>57</td>
<td>56</td>
<td>59</td>
<td>56</td>
<td>57</td>
<td>53</td>
<td>51</td>
<td>47</td>
</tr>
<tr>
<td>Imported</td>
<td>20</td>
<td>19</td>
<td>21</td>
<td>31</td>
<td>41</td>
<td>45</td>
<td>55</td>
<td>43</td>
<td>44</td>
<td>41</td>
<td>44</td>
<td>43</td>
<td>47</td>
<td>49</td>
<td>53</td>
</tr>
</tbody>
</table>

Source: Malaysian Automotive Association (2015)

As a participant in the World Trade Organization (WTO), Malaysia is exercising market liberalization under the auspices of the WTO. The participating countries are required to remove unfair trading practices, including rules and policies in the compulsory usage of locally produced inputs for manufacturing of traded goods. Malaysia, therefore, is required to phase out several measures that are considered as unfair trading practices to protect the local automobile industry. As a result, the car market trend was slightly changed in 2014, where imported cars had improved its market position by sharing 53% of the local car market. Based on this data, the objective of this paper is to identify factors influencing consumer car purchasing decision after the AFTA was implemented.

Consumer behavior

The success of a product is largely determined on how firms initiate an action in response to customers’ tastes and preferences (Sing & Tong, 2011). In understanding customers, continuous learning about market environment is fundamentally critical (Slater & Narver, 1995; Brady & Cronin Jr., 2001). Kohli & Jaworski (1990) have conceptually mentioned how learning facilitates firms to be responsive to market changes. Learning, in fact, endows firms with information related to the current situation, and it exposes firms with the future trend of the market (Kohli & Jaworski, 1990). In this context, learning is a reliable process to generate market-related information that could be used as the basis in understanding consumer behaviour.

Studies related to consumer behavior are extremely significant in a number of aspects. The concentration of consumer behavior in the dynamic business environment permits businesses to offer attractive products in the global marketplace. The knowledge of consumer behavior allows businesses and firms in predicting consumer intentions to purchase in-group (home-country products) or out-group (foreign products) (Zeugner-Roth et al., 2015). Further, consumer buying behaviour can provide a clue related to which product to survive, which industry to perform and which company to succeed (Wang et al., 2014). Apparently, by understanding consumer behavior, it assists businesses to understand the way consumers think, perceive, and feel so that it gives better understanding on factors affecting their purchase decision.

Several researchers described the steps involved in consumer buying behaviour. Kotler (2003) demonstrates the three steps of the buying process as believe development, attitude development, and purchasing decision. Babu et al. (2010) outlined that a decision-making process starts with need recognition, search and evaluate option, purchase and finally, the post purchase decision. In the latest development, Wang et al. (2014) illustrated a more comprehensive process of consumer buying behaviour including need recognition, information search, pre-purchase evaluation, purchase decision, product consumption, evaluation of product consumption, and finally the divestment stage. However, the execution of each step depends on the types of purchasing decision, whether consumers buy minor or major new purchase as well as minor or major re-purchase (Babu et al. 2014).
Many studies have outlined factors that influence consumers in their purchasing decision. Theory of planned behavior explains three determinants that influence purchase intention, including, attitude, subjective norm and perceived behavioral control (Ajzen, 1991). Blackwell et al., (2001) distinguished three major categories that determined the decision process, including individual differences, environmental influences and psychological processes. Kotler (2003) explained four important elements influencing buyer behaviour; namely, cultural, social, personal and psychological factors. Babu et al. (2010) outlined the determinants for purchase decision as internal influences and external influences in which the former is related to consumers’ perception, knowledge, attitude, personality, lifestyle, role and consumers’ desire to attain certain outcome and the latter related to culture, group membership and purchase situation.

Factors affecting buyers’ behaviour in purchasing a car

In-depth knowledge about the product is a critical element in purchasing a new invention (Babu et al. 2010). In buying a sophisticated product such as a hybrid car, the cost of the car, environmental concern and the brand name greatly influence customers’ intention to purchase cars (Razak et al., 2014). Purchasing expensive products, infrequently, risky and highly self-expressive like an automobile, requires high involvement from customers due to the significant differences between brands. In terms of brand name, consumers would have their inclinations that are commonly developed according to their perception towards the brand (Wang et al., 2014). Brand popularity is considered to be the accumulation of market acceptance and brand goodwill over time. The effects of brand popularity on brand performance are not limited to the current period, but extend to the future ones as well, for example, through the word-of-mouth (Koo Kim, 1995). Other than that, Solomon & Englis (1994) indicated that purchase decisions based on loyalty may become simplified and even habitual in nature as a result of satisfaction with the current brand(s). In fact, loyalty provides fewer reasons for consumers to engage in extended information search among alternatives (Uncles et al., 1998).

Attitude also plays a pivotal role in determining the decision in purchasing a car. Attitude is related to what a person feels or beliefs about something (Babu et al., 2010). Ajzen and Fishbein (1980) defined belief as underlying attitudes and subjective norms that ultimately determine human intention and behaviour. Apart from this, Blackwell et al. (2001), reported demographics, psychographics, values and personality can affect the decision process and buying behaviour. For example, consumers tend to limit their consideration to the previous brand when they are old, have low education level, and when their income is not high (Greenleaf et al, 1995). Other demographic elements that may influence consumers purchasing behaviours are neighborhood, gender, age, education, employment information and also household information such as the number of people in the household, age group, as well as personal and household income (Choo, et al., 2004). Buyer decisions are also influenced by personal factors such as stage in life cycle, occupation, economics circumstances, lifestyle, personality and self-concept. (Kotler, 2003)

The criteria of the product such as the price, quality, and reliability have great influence in the car purchasing decision. Each person brings three primary resources into every decision making situation; time, money and information reception and processing capabilities. The most common variable in the selection of a car model is price (Choo & Mokhtarian, 2004). It is generally accepted that consumers use price as indicators in valuing both product cost and quality (Arora & Stoner, 1996). The price of a car is shown to be important for both male and female buyers, but for different reasons. For male
buyers, paying a higher price for a car meant that they could have higher expectations and impress others more, whereas for female buyers a higher price was more important in assuring them that their car would perform as it should (Moutinho et al., 1996).

Parasuraman et al. (1985) pointed out that many tangible cues such as style, hardness, colour, label, feel, package, fit, etc., were used by consumers to judge the quality of products. Most managers agree that high-quality products and services are fundamental to a successful competitive strategy (Arora & Stoner, 1996). Like "quality," the notion of reliability has its roots in the physical goods manufacturing sector, where common definitions concentrate on the probability that product offerings will function satisfactorily when used according to specified conditions for specified time intervals. In many instances, reliability is seen to involve how well products perform compared with manufacturers' promises (Caruana & Pitt, 1997). In addition, consumers see the importance in after-sales services for the purchases that they made as it indicates value-added to the products.

Finally, group membership may also influence the decision-making process in purchasing a car. Group membership indicates consumers’ belongingness to many other groups in which consumers share certain characteristics that may influence consumer purchase decision (Babu et al., 2010). Cars are often purchased by both spouses, perhaps with involvement from children or other members of the extended family. As Davis (1976) explained, "A husband may buy a station wagon, given the reality of having to transport four children, despite his strong preference for a sports car," and a father may choose to ask his children about the colour and style before he and his wife purchase a car.

2.0 THEORETICAL FRAMEWORK

Figure 1 shows that buying pattern differences exist among consumers based on their attitude toward local and imported products. If an individual exhibits patriotic emotion, they are likely to develop the sense of “nationalism.” However, if a country promotes world amity and concern, people tend to acquire “world-mindedness” (Rawwas et. al., 1995).

Nationalism is a sentiment of supreme consumer loyalty towards a nation-state, having significant effects on attitudes and purchase intentions. Consumer nationalists are willing to make a sacrifice to purchase a domestic brand because they believe that imported goods may damage their country’s economy (Han, 1988). On the other hand, “world-minded” consumers are those who favour a “world-view of the problems of humanity and whose primary reference group is humankind,” (Sampson & Smith, 1957; Skinner, 1988). World-minded individuals not only display interest in or knowledge of international affairs, but also value world spirit and consensus development (Gomberg, 1994).

The next stage in the model argues that consumers use products’ country of origin (CO) as simplifying informational cues. Such cues are used in consumer decision making to the extent that consumers perceive them to contribute accurately to predictions concerning an imported product’s quality (Hong & Wyer, 1989; Wall et al., 1991). Samiee (1994) contended that an ample verification exists in the literature suggesting that a segment of customers (nationalists) seeks or uses CO information. Therefore, the model postulates that nationalistic consumers tend to use CO highly as a salient attribute in their decision process (Wall & Heslop, 1986).
The perceived quality construct comes next. The model anticipates that consumer nationalism and/or world-mindedness might influence the perception of quality of domestic versus foreign products. Consumer nationalism appears to influence the consumers’ choice both through product quality and through direct affective factors regarding a purchase itself. Regional differences in acceptance of foreign products also suggest that consumer nationalism may be influenced by local social norms (Ajzen & Fishbein, 1980). That is, pressure from one’s reference group to purchase a domestic product may outweigh an individual’s prior preference towards purchasing a foreign good.

Differential acceptance of foreign products on a national level may also reflect a country’s level of consumer nationalism. Han (1988) found that consumer nationalism influenced cognitive evaluations of products, and ultimately affected purchase intent. This implied that while some individuals who are nationalists tend to perceive the quality of domestic products as being higher than that of foreign ones, others who are world-minded may be inclined to think that the quality of foreign products is higher than domestic ones. A world-minded consumer, being unbiased by CO, is then more likely to perceive products with a foreign CO as being higher in quality, particularly when objective quality levels are comparable.

**Figure 1:** A conceptual framework assessing the influence of nationalism and world-mindedness on consumer evaluation of domestic and foreign products.

### 3.0 METHODOLOGY

**Research instrument**

The study was conducted using self-administered questionnaires to record responses from car purchasers. The questionnaire was divided into 5 sections as follows:

Section 1: Respondent’s expectation towards the local car
Section 2: Respondent’s current choice of a car
Section 3: Respondent’s opinion about AFTA
Section 4: Respondent’s expected purchasing pattern after AFTA’s implementation
Section 5: Demographic Profile

Respondents ranked their expectation from “1” which refers to “strongly disagree” to “5” which refers to “strongly agree” for a set of questions in Section 1 – 4 of the questionnaire.

Data collection and Analysis

The survey was conducted in the Klang Valley, where a vast majority of the population works in the capital city (Suganthi et al., 2001). Therefore, the number of car buyers is expected to be highest as compared to other regions. The sample for the study consisted of car buyers of both local and imported cars. A total of 150 young and professional individuals, chosen purposively, provided their responses to the study. The study used Factor Analysis to identify factors affecting car-buying pattern. These factors were then used as independent variables in the Multiple Logistic Regression. Selected demographic variables were also included to determine important factors affecting the car-buying pattern.

4.0 RESULTS OF THE ANALYSIS

The reliability of data is measured by using Cronbach’s alpha. The Cronbach Alpha value was 0.900, which indicated that the data used was reliable for this study. The respondents consisted of 56% males and 44% females. Most of them were aged between 26 to 30 years (41%), 22% of them were below or equal with 25 years, 4% were between 31 to 35 years; 13% were between 36 to 40 years; 10% were more or equal with 41 to 45 years.

Factor Analysis

The value of Kaiser-Meyer-Okin Measure of Sampling Adequacy was 0.876, indicating that the data was adequate to be used in conducting factor analysis (George & Mallery, 2001). Using the Principal Component Analysis as the Extraction Method, the study found that there were five important factors influencing consumers’ expectation towards the local car (Table 2). It is based on the initial eigenvalue. Factors having values that were greater than one were considered as the factors that could influence a decision. The first factor which was considered as the most important factor that can influence their decision accounted for 38.6%, followed by the second factor 10%, 8%, 5% and 4.5% for the third, fourth and fifth factor respectively. The cumulative value for all five factors was 66%.

<table>
<thead>
<tr>
<th>Component</th>
<th>Total</th>
<th>% of Variance</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8.492</td>
<td>38.601</td>
<td>38.601</td>
</tr>
<tr>
<td>2</td>
<td>2.222</td>
<td>10.099</td>
<td>48.700</td>
</tr>
<tr>
<td>3</td>
<td>1.795</td>
<td>8.159</td>
<td>56.860</td>
</tr>
<tr>
<td>4</td>
<td>1.091</td>
<td>4.960</td>
<td>61.819</td>
</tr>
<tr>
<td>5</td>
<td>1.005</td>
<td>4.566</td>
<td>66.385</td>
</tr>
</tbody>
</table>
The factors which could explain consumers’ preference towards a local car were: (i) attribute of the car, (ii) car maintenance, (iii) acquisition process, (iv) attitude of the consumers, and (v) price of the car.

The most important factor affecting preference towards a local car was the attribute of the car itself. The components included in the attribute of the car were safety features of the car, design of the car, quality of the car, quality of after sales service, workmanship, prestige of owning the car, delivery period, fuel consumption and resale value of the car.

The second factor influencing their preference towards the local car was the maintenance of the car. It included maintenance and repairs, availability of the expertise in maintenance and repairs, availability of the spare parts, cost of maintenance and price of the spare parts.

The third important factor affecting their preference was the acquisition process, which included availability of financing, influence from family members, warranty and durability of the car. Next was about the attitude of the consumers which included level of nationalism, intention to impress others and popularity of the car. The final important factor influencing their preference towards a local car was the price of the car.

**Logistic Regression**

Using results of the factor analysis, the paper proceeded with estimating a regression equation using the logistic regression technique. The form of the regression equation is as follows:

$$Car = f (\text{Age}, \text{Income}, \text{Distance}, \text{Household Size}, \text{Sex}, \text{Attribute}, \text{Attitude}, \text{Acquisition}, \text{Influence}, \text{Nationalism}, \text{Maintenance}, \text{Price})$$

where,

- $Car = 1$, if the preferred car is a local car; $Car = 0$, if otherwise,
- $\text{Age} = \text{Age of buyer (years)}$,
- $\text{Income} = \text{Income of buyer (Malaysian Ringgit)}$,
- $\text{Distance} = \text{Distance between house and place of work (kilometre)}$,
- $\text{Household} = \text{Household size (number)}$,
- $\text{Sex} = \text{Gender of the buyer (1 = Male; 2 = Female)}$,
- $\text{Attribute} = \text{Attribute of the car (scale)}$,
- $\text{Attitude} = \text{Attitude of buyer towards car (scale)}$,
- $\text{Acquisition} = \text{Acquisition process (scale)}$,
- $\text{Maintenance} = \text{Car maintenance (scale)}$, and
- $\text{Price} = \text{Price of car (scale)}$.

Based on the Omnibus Tests, the Chi-square statistics indicated that the overall model was highly significant. The $R$-square was 0.608 and the percentage of correct prediction, which showed how well the model predicted the responses, was 83%. Results of the logistic regression are shown in Table 3.
Table 3: Results of the Logistic Regression Estimation

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>-0.127</td>
<td>0.073</td>
<td>2.997</td>
<td>1</td>
<td>0.083</td>
<td>0.881</td>
</tr>
<tr>
<td>Income</td>
<td>0.000</td>
<td>0.000</td>
<td>2.587</td>
<td>1</td>
<td>0.108</td>
<td>1.000</td>
</tr>
<tr>
<td>Distance</td>
<td>0.000</td>
<td>0.000</td>
<td>0.003</td>
<td>1</td>
<td>0.958</td>
<td>1.000</td>
</tr>
<tr>
<td>Household size</td>
<td>0.197</td>
<td>0.160</td>
<td>1.523</td>
<td>1</td>
<td>0.217</td>
<td>1.218</td>
</tr>
<tr>
<td>Sex</td>
<td>0.041</td>
<td>0.671</td>
<td>0.004</td>
<td>1</td>
<td>0.952</td>
<td>1.041</td>
</tr>
<tr>
<td>Attribute</td>
<td>-2.416</td>
<td>0.779</td>
<td>9.626</td>
<td>1</td>
<td>0.002</td>
<td>0.089</td>
</tr>
<tr>
<td>Attitude</td>
<td>0.953</td>
<td>0.372</td>
<td>6.548</td>
<td>1</td>
<td>0.010</td>
<td>2.593</td>
</tr>
<tr>
<td>Acquisition</td>
<td>0.130</td>
<td>0.524</td>
<td>0.062</td>
<td>1</td>
<td>0.804</td>
<td>1.139</td>
</tr>
<tr>
<td>Maintenance</td>
<td>3.647</td>
<td>0.907</td>
<td>16.154</td>
<td>1</td>
<td>0.000</td>
<td>38.351</td>
</tr>
<tr>
<td>Car prices</td>
<td>-0.472</td>
<td>0.517</td>
<td>0.834</td>
<td>1</td>
<td>0.361</td>
<td>0.623</td>
</tr>
<tr>
<td>Constant</td>
<td>0.866</td>
<td>3.034</td>
<td>0.082</td>
<td>1</td>
<td>0.775</td>
<td>2.378</td>
</tr>
</tbody>
</table>

From the table, it was found that Attribute, Attitude and Maintenance were highly significant (at 95% level of confidence) in explaining whether people will buy local or imported cars when AFTA was implemented, whereas the other variables such as Age, Income, Distance, Household size, sex, acquisition process and car prices, though important, were not very significant in explaining whether the consumer preferred a local or foreign car.

In terms of the Attribute variable, the greater the consumer believed that attributes of a car were important in making his choice; the greater would be the likelihood (0.89 more likely) that he would not buy a local car. The other variable that was significant in this study was Attitude, which indicated that the ethnocentric buyer was 2.593 times more likely to buy a local car. As for the Maintenance variable, the greater the consumer believed that maintenance of a car was important in making his choice, the greater will be the likelihood (38.351 times more likely) that he would buy a local car.

5.0 CONCLUSION AND RECOMMENDATION

In this study, the most and the least critical factors that will influence current and future buyers’ behaviours have been identified. This technique is appropriate for analyzing the factors taken into consideration when buying a car. Understanding peoples’ needs, taste and preference is relatively important in creating customer satisfaction and loyalty because it will lead to retention in buying a local car. Local car manufacturers must constantly monitor customers’ expectations towards the local car to ensure that the customers will prefer to buy local cars when AFTA was implemented. Customers are most likely to choose a car that meets their expectation such as good attribute and after sales service.

Improving attributes of the local car and its maintenance services is certainly not simple. There are a few areas that should be improved in the attribute of the local car in retaining or establishing higher degree of nationalism to create ethnocentric buying behaviour. It could be achieved if local car manufacturers are considering and implementing the suggestion listed below:
Establish the right service quality standards for service dealers

It was found in the study that the greater the consumers believed maintenance of the car is important in making their choices; the greater would be the likelihood that consumers would buy a local car. To be more competitive, the dealers must have qualifications in repairs and maintenance of the car. Local car manufacturers should train service dealers to deliver a premium service, to provide the best advice as well as to build-up a good relationship with customers. License should only be released for those who are qualified. This is to give the best after-sale services for the customers of the local car. Our local manufacturers can sustain their market share if they can provide premium services at a very reasonable price as compared to foreign manufacturers.

Constant Research and Development

Local manufacturers should proceed with constant R&D to improve the attributes of the car. They should invest in R&D to enhance the competitiveness of products in an open market. Local manufacturers must understand the market before designing any new model. With convenient financing facility and healthy economic conditions, consumers have high bargaining power in purchasing a car where they tend to pay premium price for a car that has the best attribute which meets their expectations.

REFERENCES


