



**UNIVERSITI PUTRA MALAYSIA**

***INFLUENCE OF PRICE AND PRODUCT INFORMATION ON PURCHASE  
INTENTION FOR HOME PERSONAL COMPUTERS (PCs) IN MALAYSIA***

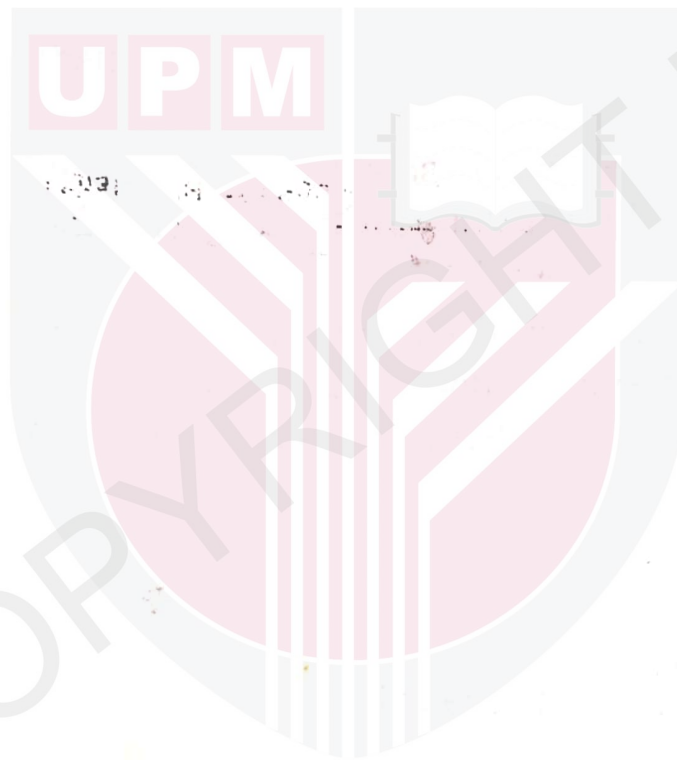
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# INFLUENCE OF PRICE AND PRODUCT INFORMATION ON PURCHASE INTENTION FOR HOME PERSONAL COMPUTERS (PCs) IN MALAYSIA

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## **ABSTRACT**

*Price and product information are empirically examined to see their influence on purchase intention. These are done together with three intervening variables namely perceived price, perceived quality and perceived value.*

*The aim of this study is to find out how consumers use product attribute and price information in the evaluations of a product.*

*A survey was conducted amongst students to find out whether price and product information has any influence on their purchase of a home PC. Two levels of price were included in the questionnaire. The price levels are specified to create large differences in price as to facilitate measuring its impact on consumers' perceptions of quality but at the same time to be considered realistic by respondents. The high prices were selected to be close to the upper ends of the price ranges in local markets, and the low prices close to the lower ends. Linear regression analysis was used to examine the hypotheses.*

*This study indicates that the consumers' price perception is positively influenced by objective price and negatively influenced by reference price, which implies that before deciding on appropriate price levels for target customers, marketers should know consumers' internal price standards. The findings also indicate that perceived quality and perceived price act directly on purchase intention. At the same time, it is found that the purchase intention is influenced by perceived value. A future research could be done in this area and more variables could be brought into the model.*

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# CHAPTER 1

## INTRODUCTION

### 1.0 Introduction

Product features and price are major decision variables used by marketers to influence the product evaluations and purchase behaviors of potential customers. To effectively make decisions regarding these variables, marketers seek knowledge about how consumers use product attribute and price information in the evaluations of products (Chang and Wildt 1994). In this study, Personal Computers (PCs) have been chosen to find out the influence on purchase intention in Malaysia. What made PC buyers make the decision to purchase?

PCs are a high-involvement product requiring attitudinal conviction before purchase (Rossiter 1997). Therefore, in order to influence the consumer, a high-involvement product needs to accompany by a detailed message and information regarding that product. The marketer needs to decide on what information or product feature needed to induce consumer. A consultant suggests a strategy of building a strong value perception using a comparative advertising campaign emphasizing a strong price advantage while arguing that the product is basically as good as the market leader. Will this be effective? Will the low price result in a strong value perception, or will it detract from the perceived quality of the product and thereby negatively impact value? (Chang and Wildt 1994).

## 1.1 Evolution of PCs

The segments in PCs Industry are usually defined as business, home, government and education users (Miller 1998). In this study, the focus is on Home users only. Most home users are price conscious, and they value ease of operation and service as well as support from the manufacturer (Miller 1998).

The most publicized story of a company start-up in the computer industry is that American computer designers Steven Jobs and Stephen Wozniak, working out of their garage, created the Apple II in 1977. The Apple II was one of the first PCs to incorporate a color video display and a keyboard that made the computer easy to use. Jobs and Wozniak later founded Apple Computer Corporation (Ditto 1998).

In 1981 International Business Machines Corporation (IBM) introduced the IBM PC. It was designed with an open architecture that enabled other computer manufacturers to create similar machines, or clones, that could also run software designed for the IBM PC. The design of the IBM PC and its clones soon became the PC standard.

The value of the IBM name on PCs was a differentiated feature for which some customers were willing to pay a premium price as the product emerged. However, as customers familiarized themselves with the standard features and as a host of PC clones entered the market, IBM brand loyalty began to fail. Clones offered customers features similar to those of the IBM product at a substantially lower price, reducing the attractiveness of IBM's product (Hitt et al., 1999).



Basically, vendors who are selling clone PC will buy components and software from various vendors to configure systems and sold under their own brand labels.

The Apple Macintosh, developed in 1984, featured a graphical user interface (GUI)—a visually appealing way to represent computer commands and data on the screen. The Macintosh GUI combined icons (pictures that represent files or programs) with windows (boxes that each contain an open file or program). Information on the screen was controlled by a pointing device known as a mouse. Inspired by earlier work of computer scientists at Xerox Corporation, the Macintosh user interface made computers easy and fun to use and eliminated the need to type in complex commands. Today, software available for IBM PCs and clones also features a GUI.

During the last 20 years, computing power has doubled about every 18 months due to the creation of faster microprocessors, the incorporation of multiple microprocessor designs, and the development of new storage technologies. These technological advances, coupled with new methods for interconnecting computers, such as the World Wide Web, will make PCs even more powerful and useful. PCs have revolutionized the way people work, play and organize their lives (Ditto 1998).

## 1.2 PC Sales in Asia/Pacific region

Competitively, Compaq maintained leadership in the Asia/Pacific region market and IBM remained the second ranked vendor (Refer to Table 1.0). For Legend computer, it is not available in Malaysia. According to International Data Corporation (IDC 1999), the rankings will change from quarter to quarter, depending on how each vendor performs. Dell and Gateway computer are one of the popular brands in Malaysia. Dell is the leader in using the direct method of phone-in and build-to-order concept, where consumers buy the PCs through telephone ordering or Internet, allowing flexible configuration to consumer and the PC will be delivered through courier to the consumers' doorstep. Dell does not sell their computers through retailers.

Vendor	Q2, 97	Share	Q1, 98	Share	Q2, 98	Share
Compaq*	279	10.4%	208	8.8%	249	9.8%
IBM*	211	7.9%	174	7.5%	215	8.4%
HP	146	5.5%	137	5.9%	141	5.5%
Legend	76	2.8%	102	4.4%	117	4.6%
Acer TI	163	6.1%	112	4.9%	115	4.4%
Others*	1,801	67.3%	1,572	68.4%	1,711	67.2%
Grand Total	2,676	100.0%	2,305	100.0%	2,548	100.0%

Source: International Data Corporation, 1998

\* Compaq includes Digital and IBM includes LG IBM

\* Others include Dell and etc.

Table 1.0 : Asia/Pacific (Ex. Japan) PC Shipments, Second Quarter 1998 Preliminary results by Vendor (Thousands of units)



In the Asia/Pacific region market, Malaysia has 3.1% of market share in the 2<sup>nd</sup> Quarter 1998 which accounted for 78,000 units of PC shipments. Although there was a decrease in figure when comparing with Quarter 2 1997, the situation is getting better. Refer to Table 1.1 below. The market trend for PC in Malaysia will be discussed in the following section.

Country	Q2, 97	Share	Q1, 98	Share	Q2, 98	Share
Australia	413	15.4%	391	16.9%	462	18.1%
Hong Kong	96	3.6%	99	4.3%	90	3.5%
India	118	4.4%	200	8.7%	164	6.4%
Indonesia	125	4.7%	21	0.9%	12	0.5%
Korea	460	17.2%	281	12.2%	275	10.8%
<b>Malaysia</b>	<b>112</b>	<b>4.2%</b>	<b>64</b>	<b>2.8%</b>	<b>78</b>	<b>3.1%</b>
New Zealand	60	2.2%	54	2.3%	62	2.4%
Philippines	55	2.1%	39	1.7%	37	1.5%
PRC	776	29.0%	806	35.0%	994	39.0%
Singapore	102	3.8%	82	3.6%	82	3.2%
Taiwan	158	5.9%	152	6.6%	163	6.4%
Thailand	93	3.5%	42	1.8%	39	1.5%
ROAP	107	4.0%	73	3.2%	90	3.5%
Grand Total	2,676	100.0%	2,305	100.0%	2,548	100.0%

Source: International Data Corporation, 1998

Table 1.1 : Asia/Pacific (Ex. Japan) PC Shipments, Second Quarter 1998 Preliminary results by Country (Thousands of units)

### 1.3 PC market Trend in Malaysia

According to IDC Malaysia 1999, the local PC market is expected to register an overall growth rate, in terms of units shipped, of 12.5% this year (1999). The projected growth is mostly attributed to the renewed confidence in the country's economy as well as the implementation of business expansion plans.

Based on the market survey in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 1999, there are especially strong purchasing activities in the Government and commercial sectors. Government sector's buying has increased by more than 30% in terms of units. The government is actually leading the way in spending and that has helped many Information Technology (IT) vendors.

Buying is also strong in the large businesses and corporate sectors due to overall company performance and the upgrading of machinery for business expansion purposes.

The mergers in the banking sector, a major IT spender, could affect the PC market, as many organizations in the segment would most probably postpone further investments until the mergers are finalized (IDC, Computimes 1999).

On the market performance in the second quarter, in terms of size, the government sector accounted for about 8.5% of the market, the commercial/business sector 56% and the consumer market 30% (Refer to Table 1.2).

Sector	Q2, 1999
Government	about 8.5%
Commercial/business	56%
<b>Consumer market</b>	<b>30%</b>

Source: IDC Malaysia (Computimes September 1999)

Table 1.2 : Market Performance for 2<sup>nd</sup> Quarter, 1999 in Malaysia

With regards to the preference for branded or clone PCs, the ratio is almost equal, with the clone PCs being more prevalent in the consumer market segment as well as among the small and medium enterprises (SMEs) for reasons of pricing and lesser need for support.

Business segment tend to look for vendors who can provide support with more consistent quality across the board as well as better service. Branded PC vendors tend to offer a lot more options, especially in terms of software availability.

Dell largely drives the major change in the way computers are built and distributed in Asia (Nikkei Electronics Asia, 1997) and it has given consumers the flexibility in configuring their own PC. This is especially suitable for home user.

The CEO of Dell, Michael Dell was awarded the title of Dato' on 13<sup>th</sup> July 1998 by the Governor of Penang for his significant contributions to the local IT industry and electronic commerce developments (Dell 1998).

#### 1.4 Problem Statement

Today, information and knowledge are the new tools of competition. Malaysia has now moved from an industrial to an informational society. The Prime Minister of Malaysia, Dato' Seri Dr Mahathir Mohamad has initiated a project called Multimedia Super Corridor (MSC). Its objective is to accelerate Malaysia's entry into the Information Age, and through it, help actualize Vision 2020 (Multimedia Development Corporation, 1999).

With this project, it increases the PC shipments in Malaysia. In the 2<sup>nd</sup> quarter of 1998, it has 78,000 units of PCs delivered, which is a 18% growth (International Data Corp, extracted from Computimes, 1998). This shows that there is a very bright opportunities for marketers.

In order to gain the most market shares in this competitive environment, marketers need to know how price and product attribute information combine to influence quality perceptions and how this translates into purchase intentions. Marketers need to find out these questions below:

- Do consumers use physical product attributes as the primary indicator of product quality?

In this case, will displaying the PC's information indicates quality of the PC, for example, "With 3D-effect".



- Do consumers use price as a quality indicator?

Is the higher-price PC considered a quality product or vice versa?

- Does this vary depending on the circumstances?
- If price is used as an indicator of quality, in terms of purchase intention, will the low price result in a strong value perception, or will it detract from the perceived quality of the product and thereby negatively impact value?
- What are the relative roles of price and quality evaluations in the determination of the value of a product to a consumer?
- What are the roles of consumers' evaluations of quality and value in the formation of purchase intentions? (Chang and Wildt, 1994).

Those are the reasons why it is necessary to study the influence of price and product information on purchase intention.

### **1.5 Importance of the study**

As businesses are getting more competitive, marketers are searching for more ways to get to the consumers. Among the important benefits of studying the influence of price and product information on purchase intention for PCs in Malaysia are as follows: -

1. To benefit the marketers in deciding product information to include in a communication package and understand how consumers perceive in relation to price, quality and value.
2. To benefit PC Vendors. The need to find out what is the consumers' overall price range to ease the process of setting up a PC price, which could induce consumers.
3. To contribute research findings for this field in Malaysia.

Marketers who understand these components can influence patronage decision and improve their competitive situation.

## **1.6 Objectives of the study**

### **1.6.1 General Objective**

This study intends to examine the links between price and product information, perceived quality and value, and purchase intention, as well as the effects of internal reference price and perceived price. This study also suggests how various factors influence the formation of quality and value perceptions, and under what conditions price and perceived quality combined will yield favorable purchase intentions.

### **1.6.2 Specific Objectives**

The specific objectives of this study are: -

1. To determine the correlation between the perceived price and the objective (actual) price or reference price.
2. To determine the correlation between the price and the perceived quality.  
Will consumers use price as an indicator of perceived quality and at what price levels will consumers perceived it as good quality and poor quality.
3. To determine the trade-off between perceived price and perceived quality, which leads to perceived value, and whether perceived value induces purchase intention.

## **1.7 Hypotheses**

### **1.7.1 Perceived Price**

Perceived price can be defined as the consumer's perceptual representation or subjective perception of the objective price of the product (Jacoby and Olson 1977). Although objective price is a factor often cited for its association with quality, value, and purchase intention, perceived price has been identified as a relevant intermediate variable in the price-quality-value relationship (Monroe and Chapman 1987; Zeithaml 1988).



Winer (1986) suggests that when making purchase decisions, consumers often compare objective price with internal reference price, which is the overall price level or range the consumer perceives for the product category. Zeithaml (1988) uses the means-end chain (Figure 1) to specify the general directions of the effects of objective price and reference price on perceived price. It is hypothesized that perceived price is formed by a perceptual representation of the objective price in relation to the reference price. A higher reference price will induce consumers to perceive the objective price as lower and vice versa. As such, we hypothesized that,

**H1: Perceived price is positively influenced by objective price and negatively influenced by internal reference price.**

### **1.7.2 Perceived Quality**

Product attribute information is an elemental or disaggregates form of information, whereas perceived quality can be considered a summarization of this information (Olson and Jacoby 1972; Myers and Shocker 1981; Zeithaml 1988). It is generally agreed that both intrinsic and extrinsic product attribute information, including price, influences quality perceptions. A large body of literature addresses the price-perceived quality relationship, and, although there is some variance in findings, a positive relationship between price and perceived quality has been identified in numerous studies (Rao and Monroe 1988; Zeithaml 1988).

Despite research evidence on the positive relationship between price and perceived quality, various researchers suggest that this relationship is mediated by perceived price (Dodds and Monroe 1985; Zeithaml 1988). According to Jacoby and Olson (1977), consumers encode the actual price and form a price perception. This price perception, or perceived price, then influences the formation of quality perceptions. Therefore, we hypothesized that,

**H2: Perceived quality is positively influenced by intrinsic product attribute information and perceived price.**

### **1.7.3 Perceived Value**

Perceived value has been proposed (Dodds and Monroe 1985; Zeithaml 1988) as an intervening construct in the relationship of price and nonprice information with purchase intention. Some researchers (Dodds and Monroe 1985; Sawyer and Dickson 1984) treat perceived value as a trade-off between the “give” and “get” components of a product. Part of the “give” component, also referred to as perceived sacrifice by Zeithaml (1988); corresponds to the price paid as perceived by the consumer and is expected to have a negative impact on perceived value. The “get” component corresponds to the quality of the product as perceived by the consumer and is expected to have a positive impact on perceived value. As such, we hypothesized that,

**H3: Perceived value is positively influenced by perceived quality and negatively influenced by perceived price.**

#### 1.7.4 Purchase Intention

Purchase Intention is often considered an important indicator of actual purchase. Therefore, perceived value and purchase intention are measures of separate constructs, although they are expected to be positively related in most instances, and the perceived value is expected to be a key variable affecting the purchase intention. In general, if a product is judged low in value due to either low quality or high price, purchase intention is expected to be low; if a product is judged high in value, this judgment is expected to lead to high purchase intention. Based on the above discussion, the following hypothesis is proposed that,

**H4: Purchase intention is positively influenced by perceived value.**

#### 1.8 Research Limitations

In this study, there are several limitations. As PCs were employed as a technically complex product (Chang and Wildt 1994), not many respondents understand the function of a product attribute for a PC. For example, 32MB RAM. However, this is taken care off by displaying the function of the product in the questionnaire to help the respondent in understanding the product attribute of a PC. For example, RAM is the PC's main source of memory (Refer to Appendix 1).

Secondly, the perception of individuals is very subjective and changing through time. According to Zeithaml 1988, consumers hold multiple meanings of value. There are generally four broad expressions of value, namely, value is low price, value is whatever I want in a product, value is the quality I get for the price I pay and value is what I get for what I give.

Conceptually the study is limited in scope due to the omission of other possibly relevant variables that could have been introduced into the model. However, this study does consider more constructs and linkages than most previous research in this area. Various studies have examined the use of price information relative to product choice (e.g., Dickson and Sawyer 1986; Huber, Holbrook, and Kahn 1986). However, such studies often neglect the intervening roles of quality and value perceptions (Zeithaml 1988).

Other studies have examined the price-perceived quality relationship but largely ignored the constructs of ultimate concern: purchase intention and purchase (Olson 1977; Monroe and Krishnan 1985). Still other studies have investigated perceived price (Lichtenstein and Bearden 1989; Urbany, Bearden, and Weilbaker 1988); however, its role in the determination of value and purchase intention has received little empirical attention.



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