

I hereby confirm that I have examined this project paper entitled:

FACTORS OF PRODUCT RISK INFLUENCING ONLINE SHOPPING
INTENTION AMONG STUDENT IN UTEM MELAKA, MALAYSIA

By

FATIMAH NAZIRAH BINTI KHALID

I hereby acknowledge that this project paper has been accepted as part fulfilment for
the degree of Bachelor of Technepreneurship (Hons)

Signature :

Supervisor : DR. HASLINDA BINTI MUSA

Date : 10th June 2015

Signature :

Evaluator : EN. MOHAMAD AMIN BIN MOHAMAD

Date : 10th June 2015

FACTORS OF PRODUCT RISK INFLUENCING ONLINE SHOPPING
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FATIMAH NAZIRAH BINTI KHALID

Report submitted in fulfillment of the requirement for the degree of Bachelor of
Technopreneurship (Hons) .

Faculty of Technology Management and Technopreneurship
Universiti Teknikal Malaysia Melaka

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" I declare that this project is the result of my own research except as cited in the references. The research project has not been for any degree and is not concurrently submitted in candidature of any other degree ".

Signature :

Name :

Date :

DEDICATION

This research paper is lovingly dedicated to my father , En . Khalid Bin Abdullah and to my late mother, Pn . Che Sunti Binti Che Kah who have been my constant source of inspiration, they have given unconditional support with my studies. I am honoured to have them as my parents. Thank you for giving me a chance to prove and improve myself through all my walk of life. To all my family thank you for believing me for allowing me to further my studies.

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ABSTRACT

On-line commerce through Internet is gaining attention from students today. The purpose of this study is to examine the factors of product risk influencing online shopping intention among students in Universiti Teknikal Malaysia Melaka (UTeM), with online shopping and how each type of product risk influences online purchase intentions. A conceptual model was proposed to illustrate the relationships between factors of product risk with online shopping intention. Several factors such as knowledge, quality and category of product that influence online shopping intention among students were analyzed. Respondents who were selected are studying in a public institution of higher learning in Melaka which is students in UTeM's. The results indicate that product quality of online product is a strong positive predictor of online shoppers' purchase. Meanwhile, product knowledge is negatively related to online shopping intention perceptions. Findings are discussed with theoretical and managerial implications.

ABSTRAK

Perniagaan atas talian melalui internet semakin mendapat perhatian daripada pelajar-pelajar hari ini. Tujuan kajian ini adalah untuk mengkaji faktor-faktor risiko yang mempengaruhi produk niat membeli-belah dalam talian di kalangan pelajar-pelajar di Universiti Teknikal Malaysia Melaka (UTeM), dengan membeli-belah dalam talian dan bagaimana setiap jenis pengaruh risiko produk niat pembelian dalam talian. Model konseptual telah dicadangkan untuk menggambarkan hubungan antara faktor-faktor risiko produk dengan tujuan membeli-belah dalam talian. Beberapa faktor seperti pengetahuan, kualiti dan kategori produk yang mempengaruhi niat membeli-belah dalam talian di kalangan pelajar telah dianalisis. Responden yang telah dipilih belajar di sebuah institusi pengajian tinggi awam di Melaka yang merupakan pelajar UTeM. Keputusan menunjukkan bahawa kualiti produk dalam talian adalah peramal positif yang kuat pembelian pembeli dalam talian. Sementara itu, pengetahuan produk yang negatif yang berkaitan dengan persepsi membeli-belah dalam talian niat. Penemuan ini telah dibincangkan dengan implikasi teori dan pengurusan.

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

The advancement of the World Wide Web has resulted in the creation of a new form of retail transaction—electronic retailing (e-tailing) or web-shopping. The rapid growth of the Internet technology has enabled Malaysian consumers to purchase products or services from the web-retailers and search product information from the Internet. However, web-retailers can only offer certain ranges of products and services to web-shoppers, including e-banking services, technology gadgets, cosmetics, clothing and the booking of airlines ticket.

Wolfenbarger and Gilly (2001) assert that web-shopping presents different shopping experiences even when the same products are purchased. Through web shopping, consumers interact in a virtual environment via the website interface (Alba, Lynch, Weitz and Janiszewski, 1997; Hoffman and Novak, 1996). Therefore, web shopping is perceived to be more risky and therefore trust and risk play prominent roles in online transaction (Forsythe and Shi, 2003; Pavlou, 2003).

Web-shopping behaviour does not necessarily follow traditional consumer behaviour in the bricks-or-mortar retailing environment, thus Internet marketers are advised to explore the determinants of customer online purchasing intention among the web shoppers. With a good understanding of the web shopper's online purchase intention, web-retailers will be able to develop effective and efficient web-shopping strategies to attract new and potential web-shopping customers.

Based on Egelin and Joseph (2012), Eggert (2006), Miyazaki and Fernandez (2001), past research has found that a major inhibitor of online shopping is the uncertainty or perceived risk associated with online purchasing. The researchers have argue that the uncertainty associated with online shopping represents not only a challenge but also an opportunity to online retailers if a better understanding of the relationship between risk perceptions and online purchase intentions is warranted.

Perceived risk is the degree to which a person expresses uncertainty about a service or good and particularly, the consequence (Bauer 1960). Perceived risks associated with online shopping negatively influence online purchase intention and behavior (Bhatnagar and Ghose 2004; Doolin et al. 2005; Drennan et al. 2006; Forsythe and Shi 2003; Kuhlmeier and Knight 2005; Slyke et al. 2004]. Some researchers examine the impact of various risks associated with online shopping on online shoppers' decision-making by treating perceived risk as one unidimensional construct (e.g., Pires et al. 2004). In contrast, others argue that perceived risk associated with online shopping is multifaceted with one of its components such as uncertainty and consequences having several subdimensions of product or performance, financial, social, psychological, physical or convenience (Zheng et al. 2012).

Therefore, the goal of this research is to present in a clear and more detailed about the factors of product risk towards online shopping intention among the university student. The findings extend our knowledge of the specific risk perceptions that impact online purchase intentions and the role of online shopping

experience in mitigating the formation of product risk perceptions. More importantly, findings from this study provide insights regarding how internet product purchase risk give impacts on online purchase intentions among students.

1.2 Problem Statement

Online shopping is become popular among shopaholic and the Internet has provided businesses of all sizes with opportunities to expand their market base, improve operational efficiency, create new links with trading partners, and provide better customer service. However electronic commerce (e-Commerce) has, in many cases, failed to live up to its potential. In particular, business-to-consumer e-Commerce transactions have not reached a point of critical mass, largely due to a lack of online consumer trust (Baldwin & Currie, 2000; Görsch, 2001; Head & Hassanein, 2002). Trust is a critical component for any business transaction, and is particularly essential in the e-Commerce environment, where transactions are more impersonal, anonymous and automated.

The shopping through the Internet raises questions concerning customer intentions to online shopping. Web shopping involves a number of concerns of consumers, including trade fraud, product quality, monetary losses, privacy, information quality and so on. Those concerns may be the consequences of a failed purchase online. The purpose of this paper is to develop theoretically justifiable constructs for measuring web-customer perception of risk in online shopping.

That is why, this research have be done because the researcher want to know what are the factors of perceived risk that influence online shopping intention. For instance, nowadays, many university students shows their interesting to purchase the

product like apparel or digital product by using online service. By using this online service, they can save time because they do not have to spent more time at shopping complex to buy their things. But, using the online service, they need to be more careful and trust the seller because buying the online business product there will be pros and cons. There are many perceived risk that customer must be aware in using online business such as product risk, financial risk and privacy risk. But normally the most risk that always concern by the customer is product risk. They need to know some of the perceived risk while using online business.

1.3 Research Questions

1. What are the factors of product risk that effect online shopping intention among UTeM students?
2. What are the relationship between product knowledge, product quality and product category towards online shopping intentionamong UTeM students?
3. Between the product knowledge, product quality and product category which one is the most significant factor that contribute to the online shopping intention among UTeM students?

1.4 Research Objectives

The purpose of this research is to examine the influence of internet product purchase risk in online business among UTeM students. Thus, the objectives of this research are as below:

1. To analyze the factors of product risk towards online shopping among UTeM students.
2. To investigate the relationship between product knowledge, product quality and product category towards online shopping intention among UTeM students.
3. To examine between the product knowledge, product quality and product category which one is the most significant factor that contribute to the online shopping intention among UTeM students.

1.5 Scope and Limitation

1.5.1 Scope

This research is to study about the factors of product risk that influence the online shopping intention among consumers. The scope of this research are more focus to university students because they are the most population that show the

interest in online business. The researcher choose undergraduate students in UTeM, Melaka as the respondent because mostly the students involve in purchase online products. While, the specific place choose in doing this research which is area Utem Kampus Bandar. This location become the scope of research because it will give a convenient for the researcher to find the respondent to answer the questionnaire and collect the data.

1.5.2 Limitation

Every research has limitations. As been discussed before, there are many factors of perceived risk that affecting online shopping intention. But in this study because of time constraints the researcher did not examined all of perceived risk factors that influence online shopping intention. Besides that, in this research because of time and cost constraints the researcher only examined the factors of product risk in online shopping intention only for students. It is obvious that in the other institutions people have different characteristics and behaviors. Then result of this study may have lack of generalizability to other institutions. In addition, the methodology of this study for analyzing the data may not be able to fully assess the online shopping intention of consumers based on discussed variables.

1.6 Importance of the Study

This research is implement because to know the impact of the product risk in online shopping. It is not easy to the seller to make sure the customer satisfaction

when buying their product. In this new era, most of the people nowadays more concern about its safety and do not like to take any risks.

By doing this research many factor that contribute to online product risk like product attribution can be reveal. For example, buy the online scarf. When we look at the online business website, all of the product attribution is good, and then we order that product. But unfortunately, when the product is received at us, the product attribution do not look same as it shown in the internet. This situation will give the bad impact to the customer and customer can send back the item to that online business seller.

So, the importance of this research is to examine the factors of product risk in online business among students in UTeM, Melaka.

1.7 Summary

Chapter 1 is about the development of the framework for the research. The framework acts as guidelines for the researcher to ensure the research align with the objective of the research. This chapter includes basic information about the research such as introduction of online business and perceived product risk. The purpose of doing the research and the expected outcome is also discussed in Chapter 1. The chapter also tells about the scope that the researcher will cover the limitations of the research and key assumptions of the result of the research. Finally, the chapter covers the importance of the research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter will explain about literature review for dependent variable and independent variables that will support this research. The dependent variable in this research is online shopping intention among students in UTem, Melaka. For this research there are three independent variables under product risk that used to test the dependent variable, which are product knowledge, product quality and product category.

2.2 Online Shopping in Malaysia

The Internet is becoming popular in Malaysia, as it is a virtual place where people share their ideas, build communities, shape the future democratically, and promote a new way of doing business. The Internet is the world's biggest shopping mall that allows enterprises to do their business with low cost involved, yet covering global market. According to a research by the Thailand Development Research Institute, e-commerce in the United States captures 70 % of the world market value, followed by Europe with 14 %, and Canada 8 %. The Asia Pacific region captures only 5 % of the market value (E-revolution, 2000).

Based on Paynter and Lim (2001), E-Commerce is a potentially growing business for today's market. The traditional boundaries will soon be replaced with a whole new technology as well as a mechanism and media for purchasing goods and services. The electronic payment system provides opportunities for new global and national trading relationships. Doing transaction online will bring many benefits for both companies and consumers. E-commerce eliminates the traditional purchase approach, which is time-consuming and labor-intensive. Issuing purchase orders, obtaining multilevel approvals and tracing invoices can lead to high transaction costs.

Internet procurement automates this process and helps companies increase the speed and reduce the cost of purchasing transactions. Orders will be placed electronically and the product will be produced and shipped out without the cost of middlemen. Perhaps most importantly, order status and inventory levels could be made available to both the seller and its customers. This should relieve the sales and customer-service departments of phone calls and e-mails to track orders and verify inventory levels.

Cyber space can be an outstanding way to nurture the business revenue base. Customers can reach a company on the Internet globally for 24 hours. It creates new markets and segments, allow customers to make wise purchasing decisions and increases business competitiveness. Selling online would eliminate the costs involved in rental or buying a business space or building. Virtual server space would substitute for the costs of ideally located shop lots.

E-commerce would provide consumers with benefits such as interactive communications, fast delivery, and more customization that would only be available for consumers through online shopping. Product information in the Internet is more compact and it ranges from various sites. Users have more opportunity to choose and compare products they want to purchase or easily find and select specialized products. This kind of open market place would increase competition, provide benefit for industrial buyers as it will promote better quality and more variety of goods.

2.3 Product Risk

One of the perceived risk in online shopping is product risk. Product risk is the perception that a product purchased may fail to function as originally expected (Kim *et al.*,2008). Results of previous studies demonstrate little consensus with respect to the relative strength of the various types of risk on purchase intentions. The Internet, just like any type of non-store shopping, makes it difficult to examine physical goods; consumers must rely upon somewhat limited information and pictures shown on the computer screen (Jarvenpaa and Tractinsky,1999). Besides that, Bhatnagar (2000) state that it is the loss incurred when a brand or product does not perform as expected, is largely due to the shoppers' inability to accurately evaluate the quality of the product online.

Bhatnagar and Ghose (2004) argued that product risk has the most significant negative impact on shoppers' online purchase intentions. Peter and Tarpey (2000) stated that product risk as the probability of the item failing to meet the performance requirements originally intended. Product risk has been reported as the most frequently cited reason for not shopping online. According to Forsythe and Shi (2003), product risk was found to have significant impact on the frequency of purchasing online. A relatively high level of product risk is expected when being purchased online, particularly for some product categories, due to shoppers' inability to physically examine and test product attributes online (Alreck and Settle 2002; Garbarino and Strahilevitz 2004), suggesting that risks associated with product uncertainty are likely to negatively affect online purchase intentions at least for some products (c.f., Bhatnagar et al. 2000). For instance, shoppers perceive a higher level of product risk for apparel when purchasing online as opposed to when purchasing in traditional stores (Goldsmith and Goldsmith 2002). Moreover, this factor measures a consumer's concern about the product knowledge, product quality and product category.

2.4 Factors of product risk influencing consumers to shop online.

Though there are several factors of product risk that influence consumers to shop online, but as mentioned above researchers have selected three factors after reading literature in the field on consumer intentions and perceived risks towards online shopping and these factors are discussed below in the light of previous literature.