

**FACTOR AFFECTS CUSTOMER BEHAVIOR
DURING CURRENCY
DEPRECIATION IN JOHOR BAHRU.**

NURAYATI BINTI DABAS

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

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By

NURAYATI BINTI DABAS

I hereby acknowledge that this project paper has been accepted as a part fulfillment
for Bachelor of Technology Management with Honours (High Technology
Marketing)

Signature :

Name of Supervisor : DR. MOHAMMAD HARIRI BIN BAKERI

Date :

Signature :

Name of Panel : PUAN ADILAH BINTI MOHD DIN

Date :

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NURAYATI BINTI DABAS

**Report submitted in fulfillment of the requirement for the Bachelor of
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Universiti Teknikal Malaysia Melaka**

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DECLARATION

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

Signature :

Name : NURAYATI BINTI DABAS

Date :

DEDICATION

This research paper is special dedicated to my parents, En. Dabas Bin Rakman and Pn. Naemah Binti Anwar, who has been my main source of inspiration and encouragement during my studies. Thank you for giving me the opportunity and a new experience in my life to complete this meaningful research. Thank you to my fiancée Abdul Rahim Bin Abdullah because always give full support to me for further and complete my study. To my sibling thanks for you endless love, prayers and encouragement toward me. Not forgetting, to those who indirectly contributed in this research, your kindness means lot to me. Thank you very much.

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In the name of Allah, the Most Gracious and the Most Merciful

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Last but not least, I would like to express my deepest thanks and appreciation to my family members, friends and all who directly or indirectly give me their endless support, encouragement and have their helping hand in completing this research paper.

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ABSTRACT

Nowadays, Malaysia face on currency depreciation right now and many industries get negative impact from this current situation. This present study aims to study the most factor effect on customer buying behavior during currency depreciation in Johor Bahru and this factor include culture factor, personal factor, social factor and currency factor. First, several study about factor effect customer behavior, buying behavior and currency depreciation already obtain. In order to investigate the effects of currency depreciation on customer buying behavior in Johor Bahru, researcher selects the 384 customer as our sample framework. The data gathered were analyzed by using descriptive analysis. The finding shows that there is a significant relation between Culture Factor, Social Factor and Currency Factor (independent variable) and the Customer Buying Behavior (dependent variable). Researcher also recommends future researcher to focus one product to do a comparison of consumer buying behavior in different area of Malaysia like southern area of Malaysia and east coast Malaysia where Pahang, Terengganu, and Kelantan where there are culture difference.

ABSTRAK

Pada masa kini, Malaysia menghadapi kejatuhan mata wang sekarang dan banyak industri mendapat kesan negatif daripada keadaan ini. Kajian ini bertujuan untuk mengkaji kesan faktor yang paling memberi kesan kepada tabiat membeli pelanggan semasa kejatuhan nilai mata wang di Johor Bahru dan faktor ini termasuklah faktor budaya, faktor peribadi, faktor sosial dan faktor mata wang. Pertama, beberapa kajian mengenai tingkah laku pelanggan kesan faktor, tingkah laku membeli dan kejatuhan nilai mata wang telah didapatkan. Untuk menyasat kesan kejatuhan nilai mata wang ke atas tingkah laku membeli pelanggan di Johor Bahru, penyelidik memilih pelanggan 384 sebagai rangka kerja sampel kami. Data yang dikumpul dianalisis dengan menggunakan analisis deskriptif. Dapatan kajian menunjukkan bahawa terdapat hubungan yang signifikan antara faktor budaya, faktor social, faktor peribadi dan Mata faktot mata wang (pembolehubah bebas) dan kelakuan membeli pelanggan (pembolehubah bersandar). Penyelidik juga mencadangkan penyelidik masa depan untuk memberi tumpuan satu produk untuk membuat perbandingan tingkah laku pembelian pengguna di kawasan yang berlainan di Malaysia seperti kawasan selatan Malaysia dan pantai timur Malaysia di mana Pahang, Terengganu, dan Kelantan di mana terdapat perbezaan budaya.

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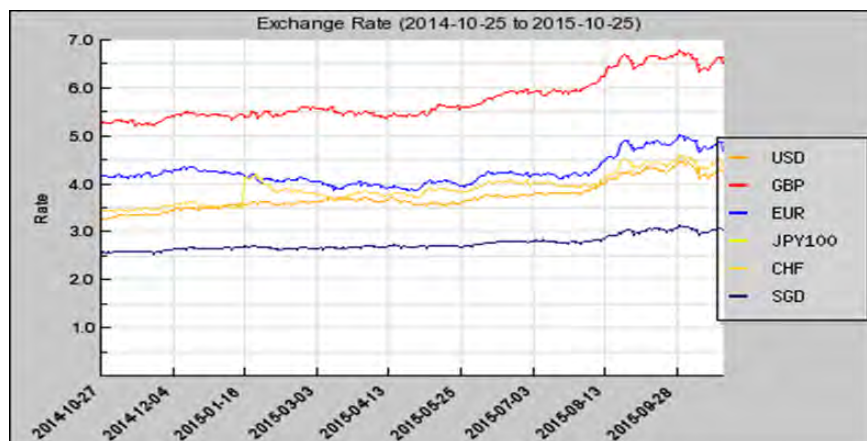
CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Ringgit depreciation has been the hot subject in current economic scenario. We are experiencing a tough time with ringgit depreciation every day. Current economic context created anxious moments to various industrial sectors in Malaysia. On 29 th September, 2015 the value of Malaysian ringgit (MYR) has depreciated at 4.47 United States Dollar (USD) exchange rates. The surpassing the peg level of 3.8 set during 1998's Asian Financial Crisis and taking the ringgit almost an every time low.

The experts in the field perceived the situation in different manners. Some considered it as highly depressed and threatening environment; some others considered it as an opportunity in disguise. There are various positive and negative impacts which are being predicted by experts in the fields. Ringgit depreciation, no doubt it will affect buying behavior of user, householders and customer.



Source: Bank Negara Malaysia

Figure 1.1: Exchange Rate on 25 October 2014 to 25 October 2015

Marketers must be aware of the business environment especially of economic factor because all businesses are affected by national and global economic factors. National interest rates and fiscal policy is set around economic conditions and this situation dictates how consumers, suppliers and other organizational stakeholders such as suppliers and creditors behave within society. Such as, economy undergoing recession will have high unemployment, low spending power of customer and low stakeholder confidence. Conversely a growing economy will have low unemployment, high spending power of customer and high stakeholder confidence.

Successful marketers will respond to economic conditions and spending power of customer. Economic is uncertainty so this gives impact to customer making decision to buying of the product. Eventually, marketers will need to review the impact economic conditions are having on their competitors, customer and respond accordingly to ensure that it employs strategies that protect and promote its business through economic conditions throughout the world.

1.2 PROBLEM STATEMENT

The depreciation of the national currency will invite the inflation problem. Imported goods more expensive than eksport goods. The manufacturer will also take

the opportunity to move imported component costs including the cost of raw materials to consumer. It will also effect rising prices on household income and a decrease in salaries. The main problems are identified, as these problems are effect on customer buying behavior to buy product and service.

Firstly, according to Randy (2013), economists call the relationship between changes in consumer income and the quantity of an item purchased an Engel curve. This relationship is used by economists to classify goods. The clasification and following:

- i. For a normal good, consumers buy more of it as incomes increase, but at a decreasing rate such that its average budget share declines at higher income levels.
- ii. For a luxury good, consumers buy more of it as their incomes increase and at an increasing rate such that its budget share increases at higher income levels.
- iii. For an inferior good, consumers buy less of it as their incomes increase.

So if ringgit has depreciation it will effect on buying behavior of customers to make decision on item purchasing. The main question is, “how worried should Malaysians be about the ringgit depreciation?”(The Star, 5th July 2015). Dr Zakaria, director of Malaysian Institute of Economic Research (MIER), says there are two types of products the consumer product and the intermediate product. For imported consumer goods, it is easy to see the direct impact when the ringgit is weak. With the intermediate products, these are used as input to produce other products. So Dr Zakaria says, although the final product is local, there will still be an impact from the weaker ringgit because the inter-mediate products to make it are imported. So when customer purchases the final product, customer has to pay more to get the same product. Therefore the price of things in this country will go up.

1.3 RESEARCH QUESTIONS

This study attempted to address the following research questions;

- i. What is the culture factor influences on customer buying behavior during currency depreciation?
- ii. What is the social factor influences on customer buying behavior during currency depreciation?
- iii. What is the personal factor influences on customer buying behavior during currency depreciation?
- iv. What is the currency factor influences on customer buying behavior during currency depreciation?

1.4 RESEARCH OBJECTIVE

The objectives of the study are stated as below:

1. To study culture factor influences on customer buying behavior during currency depreciation.
2. To study social factor influences (family, reference group and social class) on customer buying behavior during currency depreciation.
3. To study personal factor influences on customer buying behavior during currency depreciation.
4. To study currency factor influences on customer buying behavior during currency depreciation.

1.5 SCOPE AND LIMITATION OF THE STUDY

1.5.1 Scope

The scope of this project is to investigate the currency depreciation on the consumer buying behavior factors in Johor Bahru on four major elements that was introduced in the Kotler and Keller (2006) and currency influence (Kandil et al, 2007). These four elements include cultural factors, social factors, personal factors and currency factor. Besides that, the study also identifies what factors influence the buying behavior.

The study is conducted in Johor Bahru, because of the position near Johor Bahru is Singapore and this very suitable for the study of an indelible mark, the standard of living in Johor Bahru is also high compared to other states. Respondents are mainly residents in Johor Bahru.

1.5.2. Limitations

This research have three limitations are identified in this study. Firstly, the limited generalizability as it was conducted solely in one city, Johor Bahru, Johor. So this study, not cover all states in Malaysia. Secondly, researcher assumed that all respondents have provided honest and correct answers. Third, this research just to examine the factors those influence the customers buying behavior during currency depreciation. Researcher may not cover other aspects in currency depreciation.

1.6 SIGNIFICANCE OF THE STUDY

Ringgit depreciation has been the hot subject in current economic in Malaysia. Currency is uncertainty, and to understanding of the consumer behavior regarding the characteristics of consumers in influencing their buying behavior is crucial. By understanding the consumer behavior during currency depreciation can help the marketers to understand the consumers buying behaviors so that implement appropriate strategies for their products and help their company to achieve its goals and survive in the nowadays competitive world.

1.7 SUMMARY

As a summary of this research, firstly explanation about the current issue in Malaysia about the currency depreciation and customer buying behavior.

This chapter introduced about the current issues in Malaysia that related with currency depreciation to influence customer buying behavior. In this chapter explanation about the objective of the study, the scope of the research and the limitation of the research that explain about limited data that uses to complete this research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter shows a literature review of the factor customer buying behavior. In addition, this presents the issues and factors, ideas and opinions, and results of the research those others have undertaken in the study area. The conceptual framework that best describes the theory with the relevant variables identified and discusses how they are related.

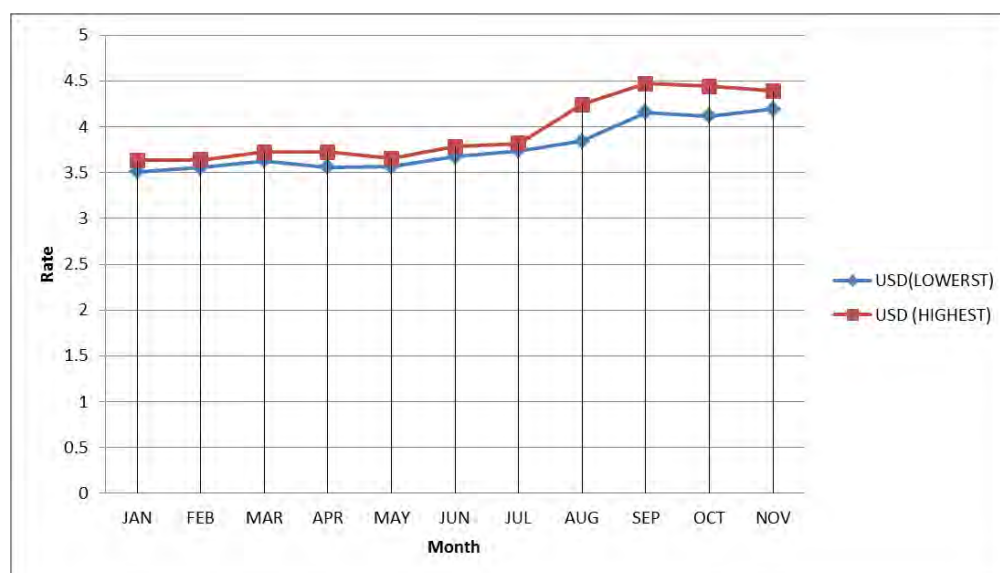
2.2 CURRENCY DEPRECIATION

Currency depreciation is a decrease in the value of a currency relative to another currency. Where, a depreciated currency is less valuable or less expensive and therefore can be exchanged for a smaller amount of foreign currency. That means that the ringgit has depreciated against the dollars. It now takes RM 4.47 to buy one dollars, so that the ringgit is less valuable. At the same time, the dollars has appreciated against the ringgit,

Based on exchange rates of Central Bank of Malaysia shows on 29th September, 2015 the value of Malaysian ringgit (MYR) has depreciated at 4.47 United States Dollar (USD) exchange rates. The surpassing the peg level of 3.8 set during 1998's Asian Financial Crisis and taking the ringgit almost every day low.

According to Lee and Law (2013), the problem of currency depreciation in Malaysia has never happened in 1997 to 1998 during the Asian financial crisis. Where Malaysian pegged their currencies to US Dollar at the rate of RM 3.80 equal to \$ 1 USD on September 1998 and the peg system had ended on 20 July 2005 and starting from 21th July 2005, its exchange rate system was back to the managed float system. It can be observed that the RM and USD was appreciating from the rate of RM3.80 every \$1 USD in July 2005 to around RM2.96 every \$ 1 USD in April 2011.

Figure 2.1 describes the exchange rate movement in Malaysia from January 1997 to November 2015. The Asian Financial Crisis started in Thailand on July 1997 and soon the crisis engulfed other South East Asian economies including Indonesia, Republic of Korea and the Malaysia (Fang and Miller, 2002). Figure 2.1 shows the movement of the currency rate of the country where in 1998 the highest currency is RM 4.725 per \$ 1 USD. But these rates began to decline from 1999 until 2014 under which the conscious exchange of RM 3.80 per \$ 1 USD. But in 2015 the exchange rate back upward until RM 4.4725 per \$ 1 USD. This resulted in the collapse of the national currency, which hit Malaysia currently.



Source: Bank Negara Malaysia

Figure 2.1: Exchange Rate Movement from January 2015 to November 2015.

2.3 CURRENCY DEPRECIATION FACTORS AND IMPLICATION

According to Zakaria et al. (2010), there are several factors that caused the financial crisis in 1997. The first factor, which caused financial crisis in Malaysia, is speculative attacks, deficiencies in risk management, corporate governance and the equity markets, and infrastructure law. Where in Malaysia, there is no clear policy on loans directed to large firms, and to that extent we cannot say that the financial constraints on large firms is weak. In addition, it also leads to poor cash flow and more problem loans.

The second factor, the lack of risk management caused by the financial crisis also affected the Asian region, including Malaysia. Currency mismatches have also occurred in Malaysia, with the exchange control regime which requires the approval of loans in foreign currency. There are a number of leading companies that have been allowed to raise loans, even if they only have cash flow in ringgit until the company suffered heavy losses.

The third factor is the form of governance and corporate market equities. Asia is characterized by a system of concentrated shareholding. Non-competitive product market and legal protection of the weak and governance by large shareholders and not managers have reduced the opportunity for management to experts, poor diversification of investments, and increased risk of seizures by shareholders by insiders. Concentrated shareholding led to equity markets that are underdeveloped.

Malaysia had to face the problem of depreciating the currency again in 2015 and the factors are different than in 1997. According to Saleena (2015) there are three external factors for currency depreciation in Malaysia: namely oil price plunge, China's economic slowdown and foreign capital outflow.

The main factor is the drop in world oil prices since June 2014, when crude oil prices fell more than 50% due to oversupply and weak demand for crude oil. Therefore, it affects Malaysia dramatically because Malaysia is a net importer of oil. In addition, crude oil prices declined as well; and Malaysia is the number two producer of palm oil. Next, the impact is mainly on exporting countries like