

THE IMPLEMENTATION OF COST LEADERSHIP STRATEGY TOWARDS
THE PURCHASE DECISION OF FIRST TIME CAR BUYER

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APPROVAL

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DECLARATION

“I admit that this report is a product of my own work except the citation for each which I have mentioned the sources.”

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DEDICATION

Firstly, I want to dedicate this dissertation to my family. A special thanks and gratitude to my lovely parents, which is Boey Wai Leong and Goon Poh Sam, who raise and providing endless support throughout the study period. On the other hand, I also want to dedicate this dissertation to friends, especially to all my housemates, coursemates and who have supported me throughout the final year project process and brought cheers to my 4 years of studies. I am grateful to have all and each one of you in my life.

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ABSTRACT

The automotive industry is growing rapidly, companies implemented different kinds of business strategy to enhance their business. The implementation of cost leadership strategy allows certain firms to lower their car price by lowering the cost and providing acceptable quality of the product to attract buyers. Schemes offer to first time car buyers to pursue them for purchasing the car. Certain sub variables are counted to affect the buying decision of first time car buyer, which includes the buyer's intention, buyer's affordability, buyer's price perception and buyer's attitudes. The research aims to develop a research model for cost leadership strategy and first time car buyer's purchase decision. In order to do so, the study will help to analyze the relationship between the implementation of cost leadership strategy towards the purchase decision of first time car buyer. The research is conducted through survey form by distributing questionnaire to 500 people randomly and whom gives response is only 200 respondents. It is conducted to Melaka citizen and mainly distributed to younger age people who are already being first time car buyer and those who are having potential to be one of the first time car buyer in the future. Sub variables of cost leadership strategy and first time car buyer's purchase decision had been identify and new research model is formed. However, it is suggested to do improvement in terms of adding other potential variables to support the model such as financial by making the model to be more clearer and improve its accuracy.

Keywords: Cost Leadership Strategy, First Time Car Buyer, Purchase Decision, Low Cost, Acceptable Quality, Affordability, Purchase Intention, Price Perception, Attitude

ABSTRAK

Industri automotif sedang berkembang pesat, syarikat melaksanakan pelbagai jenis strategi perniagaan untuk meningkatkan perniagaan mereka. Pelaksanaan strategi kepimpinan kos membolehkan syarikat tertentu untuk menurunkan harga kereta mereka dengan mengurangkan kos dan menyediakan kualiti produk yang boleh diterima untuk menarik pembeli. Skim ditawarkan untuk pembeli kereta kali pertama supaya mereka dapat membeli kereta. Pembolehubah sub tertentu dikira untuk mempengaruhi keputusan membeli di kalangan pembeli kereta kali pertama, yang merangkumi niat pembeli, kemampuan pembeli, persepsi harga pembeli dan sikap pembeli. Kajian ini bertujuan untuk membangunkan satu model penyelidikan untuk strategi kepimpinan kos dan keputusan pembelian dibuat oleh pembeli kereta pertama. Dalam usaha untuk berbuat demikian, kajian ini akan membantu untuk menganalisis hubungan antara pelaksanaan strategi kepimpinan kos terhadap keputusan pembelian pembeli kereta kali pertama. Kajian ini dijalankan melalui borang kaji selidik dengan mengedarkan soal selidik kepada 500 orang secara rawak dan hanya 200 responden memberi tindak balas. Ia dilaksanakan untuk warga Melaka dan sebahagian besarnya diagihkan kepada mereka yang berusia lebih muda yang pernah menjadi pembeli kereta kali pertama dan mereka yang berpotensi menjadi pembeli kereta kali pertama pada masa akan datang. Pembolehubah sub strategi kepimpinan kos dan keputusan pembelian pembeli kereta pertama telah dikenalpastikan dan model penyelidikan baru terbentuk. Walau bagaimanapun, penyelidikan ini dicadangkan untuk melakukan penambahbaikan dari segi menambah pembolehubah lain yang berpotensi untuk menyokong model seperti sumbangan kewangan supaya model ini menjadi lebih jelas dan meningkatkan ketepatannya.

Kata kunci: Kos Strategi Kepimpinan, Masa Pertama Pembeli Kereta, Pembelian Decision, Kos rendah, Kualiti diterima, Kemampuan, Purchase Niat, Harga Persepsi, Sikap

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CHAPTER 1

INTRODUCTION

1.0 Introduction

The history of Malaysia automotive industry started in the early 1960s when a policy has developed by the Malaysia government to promote an integrated automotive industry to strengthen its industrial base (Mashahadi et al., 2007). In that particular time, this industry was aimed to reduce its dependency on the agricultural sector. Today, the automotive industry is designed to increase Malaysia's industrialization process to become a developed nation by 2020 (Osman et al., 2009). Since the automotive industry is becoming more and more consistent (Sultana & Ibrahim, 2014), the competition of the cars in the market also getting stronger. Therefore, different business strategies are applied in the industry to attract buyers. On the other hand, the population of young adult is growing rapidly. To attract first time buyer like young adults, cost leadership strategy which lowering the cost and providing acceptable quality of the car allows low pricing to apply and lower the price of the car.

1.1 Background

Business strategy like cost leadership strategy allows low pricing that major roles on decreasing costs to secure profits because the prices offered are lower than competitors' prices. In the buyer's view of price, price is the amount that they willing to pay or pay more to purchase products or services that mainly contribute in

fulfilling their needs and wants (James & Aubrey, 2016). Generally, consumers prefer the lesser-priced product (Lynn et al., 2013). Pricing is always important to marketers because it is the element that represents a marketer's assessment of the value which buyer sees on every products and services and it is the amount that buyer is willing to pay for it. While pricing a product like car may seem to be a simple process but it is not. From a buyer's point of view, including first time buyer, the value is the sole justification for the price (Burnett, 2007). It is the basic element which usually will influence the buyers' perception as purchase stimuli to make a purchase decision towards that particular product or service (Diaz et al., 2011). Hence, first time car buyer will encounter to purchase a lower price car.

1.1.1 Business Strategy and Pricing

Cost leadership strategy implemented by reducing all sources of cost throughout its value chain and increase efficiency then only enable to charge a lower price to buyers (Khan & Ahmad, 2011). It enhances R&D, outsourcing practices to gain access to cheaper input and charges the output in lower prices. By applying the cost leadership strategy, the products or services are offered with acceptable quality and features to a broad set of buyers at a low price (Ketchen & Short, 2015). Furthermore, it implements the concept as "why pay more when you can pay less" so that lower price is offer to attract the first time car buyer. Business strategy divided into few types. The competitive strategy are including cost leadership strategy, differentiation strategy and focus strategy (Porter, 2008). In this case, first time car buyers are likely to pay less for a car because they are price sensitive especially for those who has lower income (Sudhir, 2001). Therefore, this research will mainly focus on cost leadership strategy towards first time car buyer's purchase decision.

Cost leadership strategy is one of the approach where many buyers are price sensitive. Cost leadership strategy is able to achieve when the business uses lower cost in the production (Magretta, 2013). It is accomplished by either do a job by improving the efficiency and controlling the costs along the activity-cost chain or

revamp the activity-cost-chain to bypass together some producing activities (Collins & Porter). Besides, it stresses the efficiency in terms of scale facilities by the doing cost reduction in manufacturing process, minimization of expenses of product research & development (R&D), services, sales and advertisement (Miller, 1986).

Since cost leadership strategy is applied, lower the cost along the activity cost-chain affects the quality of the product. According to one study, when subtly remind of quality, consumer evaluated expensive product more favorably than the cheaper product (Journal of Consumer Research, Inc, 2012). On the other hand, we can say that cheaper product stands for the product is having acceptable quality level. When this strategy applies, it lowers the cost and it produces products and services with features that are acceptable by customers (Ireland, 2011). It also emphasize that cost leadership strategy put products with limited standard features in acceptable quality to appeal to a wide group of customers (Bhattacharjee et al., 2015).

1.2 Buying Decision Process

Each buyer's buying behavior is based on stimuli which came from the environment (Alauddin et al., 2015). It same goes to first time car buyer, they will undergo this process to make a decision on buying a car. The stimuli will go through the buyer black box where the buying decision is formed. The outcome of the thinking inside the black box is buyer's responses. The relationship of the buyer's black box and responses are summarized as below:

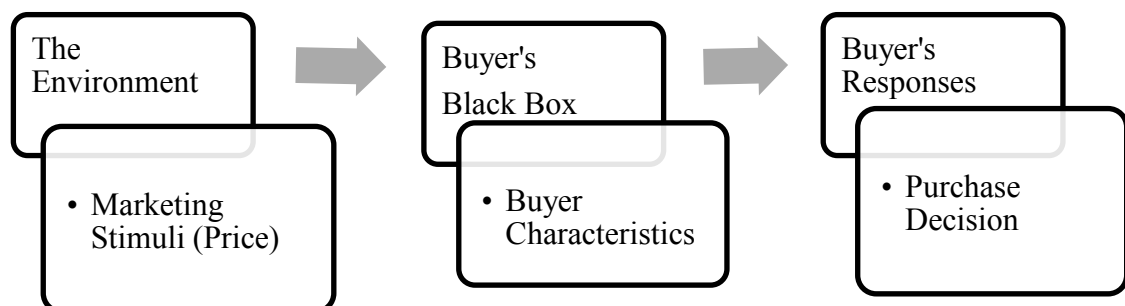


Figure 1.1: Buying Decision Process

The buyer's black box is affected by psychological factor like perception (Kotler & Keller, 2009). This means that every person has a picture in their world and that is a result of perception. Perception plays major role on the buyer's black box (Sandhusen, 2000). Besides, perception is the process where by the person selects, organizes and then analyses all the information and follow by contributed to generate a meaningful picture of the world (Akaegbu, 2013). Therefore, the price of the car will gives perception to first time car buyers to influence their purchase decision.

1.2.1 Buyer and First Time Car Buyer

Buyer is a party that acquires or agrees to acquire the ownership for the goods or benefits for the services in exchange for money or it involves other consideration under a contract of sales. They also called as purchaser. Furthermore, buyers will pay certain amount of price to gain the goods and services. Whereas, first time car buyer in this case is a person who wanted to buy a car and who wanted to own their first car.

“How much a car can I afford?” this question arrived when a first time car buyer who wanted to buy a car for personal usage. The buyer needs to figure out his or her budget and the price that they are able to pay. In 2014, a study is carried out by Diana Chai which is about the fresh graduate salary with only RM 2500, but should it be a question appeared of enough to live on and the result is shown below:

Table 1.1: Fresh Graduate Salary

	JONATHAN, IT EXECUTIVE	MARDIAH, WRITER	PRIYA, ACCOUNT EXECUTIVE
EPF and SOCSO Contribution	RM270	RM270	RM270
Car Loan	RM560	N/A	N/A (old car, paid up by

			father)
Petrol and Toll	RM250	N/A	RM250
Mobile Plan	RM90	RM60	RM50
Rent	N/A	RM500	RM800
Utilities (Water/Electric)	N/A	N/A	RM200
Public Transport	N/A	RM250	N/A
Contribution to Family	RM200	RM500	RM480
Weekday Food Spending	RM600	RM400	RM300
Weekend Food and Entertainment	RM400	RM300	RM150
Savings	RM130	RM220	N/A
MONTHLY INCOME	RM2500	RM2500	RM2500

(Source: Chai, 2014)

From the table above, the data showed that only Jonathan will pay RM560 for each month for the car loan and for the another 2 person they do not pay for the car loan. Questions arrived whether they afford to pay when the price of the car is higher or is that possible for them to own their first car with only RM2500? In this case, prices will be very sensitive and low price will definitely able to grab first time car buyers' attention.

Then, people started to wonder whether their salary enough for first time car buyer to purchase their own car. Cars in Malaysia are not cheap as people aware but there are cars with lower prices. However, how much is it all going to set first time car buyers back and able to afford it by using their monthly wage (Ong, 2014). The top ten highest starting salaries of fresh graduates in Malaysia are shown in the table below:

Table 1.2: Top Ten Highest Starting Salary of
Fresh Graduate in Malaysia

Job	Salary
Pharmacy	RM 3640
Corporate Strategy	RM 3200
Sales – Financial Services	RM 3054
Doctor	RM 2719
Sales – Engineering and IT	RM 2612
Geophysics	RM 2612
Aviation	RM 2533
Actuarial Science	RM 2475
Sales – Corporate	RM 2456
IT – Software	RM 2452

(Source: *MYMenLifestyle.com*, 2014)

From the table above, the top ten highest starting salaries of fresh graduate in Malaysia are around RM 2452 to RM 3640. However, there is lots of fresh graduate might not work under these ten categories of work and get such monthly wage. There is fresh graduate that earns under RM 2500 per month. The first step in buying a car should be to know the price range that you can afford which buyer needs to aware of the down payment and monthly payment. Basically, the higher the price of the car, the higher the monthly payment buyer has to pay. When the affordability is low, buyers would likely to purchase a lower price car.

Buyer's buying power refers to the capacity of an individual customer to buy certain quantities of goods and services. Basically, high buying power means the buyers have higher incomes and purchasing power relative to price of goods available. On the other hand, low buying power means the buyers does not have enough the amount of money to buy goods at the market price. Malaysians were plagued by poor purchasing power (Lee, Yow & Chi, 2011). According to Nor Akmar Yaakub, the head of Financial Education Department at the Credit Counseling and Debt Management Agency (AKPK), many loans were approved for individuals even that they are having weaker purchasing power for cars and it will

entitles them to fork out big monthly installments. The buyer's buying power usually affected by the changing prices of the product. For example, if the prices of car decline, buyers have greater buying power to purchase the car.

1.3 Problem Statement

In the automotive industry of Malaysia, Kongs said the sales of car are very competitive. Urban Malaysian buying car at younger age (Cheng & Yeoh, 2014). The first time car buyer falls in the range of younger age people. Jamaluddin stated that a "Youth First Vehicle Scheme" was proposed and suggested for young people to buy their first car (Tan, 2014). The main purpose is to increase the number of first time car buyers who are in younger age. In long term, the competition in the automotive industry is getting stronger (Rosli, 2006). Pricing strategy that sets are low to attract first time car buyers.

Unfortunately, for the first time car buyers in such young age, the question appeared as whether they are affordable to buy a car due to the economy in Malaysia facing critical times. Moreover, the income earned per month by young age people like fresh graduates are not high enough where their wage range is around RM 2500 to RM 3500 and some of them might earn lesser than RM2500. Then, the purchasing power of car buyers will decrease and affect the decision making on purchasing a car. First time car buyers will be more price sensitive due to their budget.

In response to this problem, this study proposes to investigate whether the extension in cost leadership strategy that implemented will affect first time car buyer's purchase decision or not.

1.4 Research Questions

This research aims to answer the following research questions:

- i. Is there a significant sub variable of cost leadership strategy?
- ii. Is there a significant sub variable of first time car buyer's purchase decision?
- iii. Is there a relationship between the cost leadership strategy and first time car buyer's purchase decision?

1.5 Research Objectives

Based on the research questions, there are three objectives have been planned to be studied, which are:

- i. To identify the significant sub variable of cost leadership strategy.
- ii. To determine the significant sub variable of first time car buyer's purchase decision.
- iii. To study the relationship between cost leadership strategy and first time car buyer's purchase decision.

1.6 Scope and Limitation of The Study

In this research, the scope of study focuses on people who staying in Melaka. There were several limitations in this research. Firstly, the honesty of the respondent. Basically, the researcher not able to control the honesty of the respondent to answer the questionnaire given and they might just simply answer the questions without further understanding. Secondly, the limitation of the geographical area where the respondent is limited to people who only staying in Melaka. Therefore, people from other states are not getting participate in the research. Thirdly, the knowledge of the respondent. The limit comes with the knowledge and understanding of respondent towards the topic of the studies. Respondents might don't have a deep understanding and level of knowledge towards the research and making assumptions when