



## Modeling the determinants of consumers' attitudes toward online group buying: Do risks and trusts matters?



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### ABSTRACT

The aim of this research is to investigate the determinants of consumers' attitude towards online group buying (OGB). Furthermore, this study compares male and female shoppers based on their purchasing behavior in OGB. Partial Least Square-Structural Equation Modeling (PLS-SEM) approach supported by Smart-PLS 2.0 was used for data analysis as it avoids biases in the parameter estimation in regression analysis. A PLS-SEM approach revealed that website trustworthiness was the strongest predictor of consumers' attitude towards OGB. Consumers noted that the site of initiator appeals to be more trustworthy than other sites and delivers every promise made. Indeed, they felt trusted for their group buying on the Internet when clear legal privacy statements including guarantees are available on the websites. They were assured that initiator's protective measures for online payment are secured. The reliability and validity of the measurement items used and collection of data via survey questionnaires clearly confirmed the robustness of the research methodology applied which led to the creation of reliable and valid discoveries. Online retail managers should improve their transaction security mechanisms and Internet technology to dwindle consumers' perceived risks in terms of financial, product and time risks, strengthen their trusts, and grow online trading confidence when executing OGB. With sufficient knowledge of network group-buying platform, customers would develop more trust to the security of online group-buying platform which lessen the risk cost thereafter. The viable quantitative empirical results transport new and substantial ideas into the marketing model as it systematically and precisely investigates the significant factors and adds to the emergent works around consumer OGB behavior.

### 1. Introduction

Online group buying (OGB) has received significant popularity globally (Edelman et al., 2011). For instance, Groupon (i.e. <http://www.groupon.com>) had 39.5 million active customers in 2012 residing in 44 countries in North America, Europe, Asia and South America (Shiau and Chau, 2013). Online group-buying refers to “a certain number of consumers who join together as a group via Internet, for the purpose of buying a certain product with a discount” (Cheng and Huang, 2013, p. 185). In OGB, consumers share information, resources and/or knowledge embedded within the social networks with each other to promote the same interests and trusts besides urging them for engagement and participation to enjoy the attractive incentives and price discounts (Cheng and Huang, 2013; Kauffman et al., 2010a, 2010b; Liu et al., 2013; Pappas, 2016). As compared to traditional shopping environment, consumers can enjoy high discounts at a reduced price of up to 50% by shopping for products in bulk on the Internet (Draper, 2012; Eklund, 2010).

OGB offers customers cheaper product price as they would receive more discounts after identifying or recruiting more people to purchase the products or to buy the products in large quantities (Kauffman et al., 2010a, 2010b). Studies on OGB behavior is deemed necessary as it is attributable to the progression of electronic commerce which bridges the customers' relations and marketing strategy (Close and Kukar-Kinney, 2010). Hence, it is obliged for further research (Herrero and San Martin, 2012; Mosteller et al., 2014), including aspects of trust (Suh and Han, 2003; Pavlou and Fygenon, 2006; Vos et al., 2014) and perceived risks (Hong and Cha, 2013; Kamarulzaman, 2007). This is because these factors contribute to the long-term sustainability of e-retailers, also known as web vendors (Jiang et al., 2008). Thus, it is essential to investigate the determinants of consumers' attitudes toward OGB, particularly in the aspects of risks and trusts (Hong and Cho, 2011; Kiang et al., 2011; Pappas, 2016).

In this study, the quantitative research and the proposed research model extend insight to the factors that influence consumers' attitudes toward online group buying by furnishing empirical evidence. Using

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the posited model, the research intends to provide answers to the following research questions:

- (i) What factors affect consumers' attitudes toward OGB?
- (ii) How do male and female shoppers differ in terms of their purchasing behavior in OGB?

To answer this research questions, this research aims to investigate the determinants of consumers' attitudes towards OGB. Next, this study compares male and female shoppers based on their purchasing behavior in OGB. Thus, understanding the determinants of consumers' attitudes towards OGB provides online retail managers with empirical input to identify and target potential customers to better serve their needs and demands (Pan and Zinkhan, 2006). Notably, customers' satisfaction level could be easily achieved when online retail managers design their OGB marketing and communication strategies efficiently.

The remainder of this paper is organized as follows. The subsequent section delineates the development of the research model and hypotheses. The methodology to execute this research is presented in Section 3, while the analysis of data is described in Section 4. The discussion of the findings is presented in Section 5, while the conclusion and direction for future research are presented in the final section.

## 2. Theoretical foundations and model development

Attitude encompasses the attitude towards online shopping (behavior), online shopping center (target object) and product catalog (target object) (Cho, 2004). Consumers' attitude towards online shopping affect their online shopping acceptance, as indicated by Cho (2004). In a competitive market environment with the evolution of network communities derived from online social media, several factors involved in their engagement of OGB have significant impact on consumers' attitude (Erdogmus and Çiçek, 2011; Jing and Xie, 2011; Shiau and Luo, 2012). This section covers the literature review related to factors such as perceived risks and trust of the initiator of online shopping and OGB.

### 2.1. Perceived risks

Perceived risk embraces the type and amount of insecurity that consumers perceive when considering to purchase products or services (Forsythe et al., 2006; Forsythe and Shi, 2003). Within the online shopping context including OGB, consumers develop apprehension of inability for product evaluation prior to purchase, product return and replacement, product mismatch, privacy and security of information, and transparency in pricing (Aghekyan-Simonian et al., 2012; Forsythe et al., 2006; Forsythe and Shi, 2003). Previous scholars noted that there are four types of risks related to shopping for products online, namely financial, product, time and psychological risks (Grewal et al., 2003). This study emphasizes on the first three risks as Featherman and Pavlou (2003) stated that psychological risk plays a marginal role in the online setting.

Financial risk refers to the “net loss of money to a customer” (Forsythe and Shi, 2003, p. 869) when buying a product or service. This study regards financial risk as monetary loss due to transaction error or misuse of bank account when purchasing products through OGB. However, financial risk is perceived in a different way among earlier researchers. For instance, Forsythe and Shi (2003) foresaw the financial risk to include the lack of security of financial information. By the same token, Nguyen and Klaus (2013) reflected the financial risk in term of consumers' feeling of distress in paying extra money, i.e. their price-related concerns. Consumers fear losing money while carrying out online transactions (Lee, 2009; Liebermann and Stashevsky, 2002). Therefore, they will spend money and do OGB when they have certainty and trust on the product information based on referrals from friends, the reputation of the product brand name and online store image (Aghekyan-Simonian et al., 2012; Hong and Yi,

2012; Coulter and Roggeveen, 2012).

Product performance risk refers to the loss suffered by the customer when the product does not perform as predicted (Grewal et al., 2003). In this study, product performance risk is denoted as a situation where consumers worry that they might suffer loss when purchasing the products via OGB as they are unable to physically evaluate the quality of the product beforehand. Consumers are unable to touch, feel and experience the product or service during online shopping. Due to scarce product knowledge or information, the upsurge of product risk affects their attitudes towards OGB (Grewal et al., 2003). The product performance risk is mitigated by procuring products of familiar brand names from recognized websites (Aghekyan-Simonian et al., 2012).

Time risk refers to the “loss of time incurred due to the difficulty of finding the website, speed of check out, time involved in receiving the order and finally confusing interfaces” (Forsythe and Shi, 2003). When consumers spend more time online, there is a greater tendency that they will shop for products via the Internet (Park and Jun, 2003). Indeed, researchers such as Liu et al. (2013) avowed that OGB initiators host more efficient systems with faster and accurate product delivery time to evoke consumers' attitude and interest for online group buying. The observations above have directed the formation of the following hypotheses:

**H1.** Financial risk has a positive impact on consumers' attitude towards OGB.

**H2.** Product risk has a positive impact on consumers' attitude towards OGB.

**H3.** Time risk has a positive impact on consumers' attitude towards OGB.

### 2.2. Trust of the initiator

Trust is defined as “a dynamic process and is built over a certain period of time contributing to satisfaction beyond the effects of the economic outcome” (Fam et al., 2004, p. 198). Trust is comprised of perceived reputation, structural assurance and web site quality as stated by Chang et al. (2005).

A firm's reputation is a “perceptual representation of their past actions and future prospects that describe the firm's appearance to its key constituents” (Fombrun, 1996, p. 165). The role of a firm's reputation in the online setting is more imperative than the offline market (Hyde and Gosschalk, 2005). A firm's reputation aids the formation of trust towards OGB and consumers' attitude (Turilli et al., 2010; Van Der Merwe and Puth, 2014). A positive perception of a vendor's reputation leads customers to form positive attitude on the perceived credibility and trust of an online vendor (Ganesan, 1994; Fuller et al., 2007; Koufaris and Hampton-Sosa, 2004). Analogous inference was also acquired by Van Der Merwe and Puth (2014). Besides, the visual appearance of the website and its reputation affect consumers' assessment of trust on unfamiliar online vendors (Pengnate and Sarathy, 2017). In a similar vein, other studies also found that perceived reputation influences customer trusting beliefs and trusting intentions (Lange et al., 2011; Mcknight et al. 2002a, 2002b, 2013; Sahi et al., 2016; Walsh and Bartikowski, 2013).

Structural assurance refers to the “belief that the web has protective legal or technological structures which guarantee that the transaction is conducted in a safe and secure manner” (Borenstein, 1996, p. 37). Both potential customers and returning customers develop positive perception of structural assurance in OGB when there is a clear statement on the legal regulation protection and technological safeguard that guarantee the Internet security in the websites (Kim et al., 2004). Moreover, a study related to the influence of primary consumer trust on the intention to conduct information retrieval via a website by Mcknight et al. (2002a, 2002b) found that structural assurance in the web impacted their trusting beliefs of a web vendor. Besides privacy

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