

## **A Review of Consumer Purchase Decision on Low Cost Green Car in West Java, Indonesia**

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— *Review of* —  
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### **ABSTRACT**

Since it was introduced in Indonesia in 2013, the LCGC (Low Cost Green Car) has successfully supported total car sales in Indonesia. Buying a car is a big investment and requires consideration of many different variables. Two reasons why LCGC is a popular choice in Indonesia are fuel efficiency and relatively cheap price. However, segmented for the lower middle-class segment, the LCGC is also preferred by the upper middle-class segment. Using questionnaires distributed to customers of LGCC in West Java region in Indonesia, this research observes how the reference group and price affect consumers' decision to purchase LCGC. The result is, both the reference group and price have asinificant influence on consumer's decision in purchasing LCGC. This study also shows that customers are more affected by reference group more than the price in their purchasing of LCGC.

Keywords: Low Cost Green Car, Reference Group, Price, Customer's Purchase Decision.

### **1. INTRODUCTION**

The strong economic growth and the increasing number of middle-class people are big opportunities for the development of LCGC (Low Cost Green Car) in Indonesia. Under the regulation of the Minister of Industry No. 33/M-IND/PER/7/2013 on the Production Development of Efficient and Affordable Prices of Four-Wheel Vehicles, the government introduced LCGC to car manufacturers in Indonesia. This policy is meant to drive the automotive industry in Indonesia and the answer to the growing concern in the community about environmental issues. LCGC, marketed at an affordable price, is projected to be anenvironmentally friendly car because the car does not consume a lot of fuel. So, the use of fuel can be minimized. At the initial appearance in Indonesia, LCGC sales target of each car

manufacturer in Indonesia, such as Toyota, Honda, and Suzuki is around 5,000 units per month. But starting from 2014, LCGC sales gradually increased and contributed significantly to the national car sales. The sales data from Indonesian Automotive Industry Association (GAIKINDO) shows that LCGC accounted for 14% of total car sales in 2014.

LCGC is a popular choice in Indonesia for its fuel efficiency and relatively inexpensive price ranging from IDR 100-150 million. The main purpose of government to issue cheap car policy is to enable the lower middle-class segment to have a car. But in reality, there are many people from upper middle-class segment also buy LCGC. This leads to the increase of private car ownership and there are many cars on the roads causing traffic congestion, increasing fuel consumption and pollution. This phenomenon indicates that consumer consideration in buying LCGC is not only the price, but also other variables. In addition, the emergence of various products made the competition in LCGC segment tight. Based on this fact, it is believed that there is a big possibility the reference group and price could potentially be the stimulus for someone to choose a product. Therefore, in accordance with the phenomenon outlined, this study is aimed at determining the impact of the reference group and price on consumers' decision in purchasing a Low Cost Green Car in West Java.

## **2. LITERATURE REVIEW**

Sanjaya, Kevin, Tantri, Indriani (2014) stated that consumers' purchase decision is the stage where a buyer has determined his choice, purchased, and consumed the product. The purchase decision is a process that involves the physical and mental activity of a consumer. In such condition, a consumer has had his own understanding of the product to be bought and had a confident feeling when buying and consuming it (Chang, Wei-Hung, 2011). The process of consumer's purchase decision is one part of consumer behavior that is created. Consumer behavior includes activities on how individuals, groups, and organizations select, purchase, use, dispose goods, services, ideas or their experiences in order to satisfy their needs and desires (Choy, Ng Cheng, and Ch'ng Huck, 2011).

There are several psychological factors that exist in individuals such as perception, motivation, learning, personality, and attitudes which affect a decision to purchase. Kotler and Keller (2012) showed that in the alternative evaluation stage, there is interest in the purchase decision to buy early, measuring the tendency of customers to perform a particular action on the product as a whole. According to Ozaki (2011), there are several key factors that influence people to buy a cheap car (LCGC), namely financial profit, care for the

environment, social values and norms, self-image, and fascination with new technologies.

From a study conducted by Lee and Govindan (2014), automotive industry plays a significant contribution to the economy of India. It was found that by increasing the customer's insight towards vehicle purchase behavior will strengthen the industry. Certainly, gregarious customers will tend to have the potential to affect the groups. It is also supported by the fact that customers are now starting to realize the need for Eco-friendliness (Choy, Ng Cheng, and Ch'ng Huck, 2011). Based on the phenomenon of this study that people are aware of LCGC and there are many youngsters join car club groups, it is easy to predict that reference group has a big influence on customer's purchase decision. Eze, Chin and Lee (2012) stated that in the consumption of luxurious products in China, peers, siblings, parents and celebrities are influential to consumers. Zhe Gu (2015) also stated that price reduction affects someone in impulse buying. Al Azzam (2014), researching furniture products in Jordan, proposed that aside from reference group, the price also strongly influences customers in purchasing a product.

In buying a product, consumers are willing to pay more for a product if they believe it is commensurate with the value they get from the product, which may be as a result of the additional benefits obtained or enjoyed from the consumption of the product (Faith and Edwin, 2014). Based on the research by Jenny Zhan & Brenda Vrkljan (2011), when buying either second-hand vehicles or new vehicles, price becomes the priority for consumers, including long-term costs, occurred from the purchased vehicles, insurance, and fuel cost.

### **3. METHODOLOGY**

#### **3.1 Research model and hypotheses**

This study employs the model shown in Figure 2, used to understand consumers' intention to purchase an LCGC. Customer Purchase Decision indicates a very high likelihood that he or she will buy an LCGC influenced by reference group and price. Thus, this study proposes the following hypothesis:

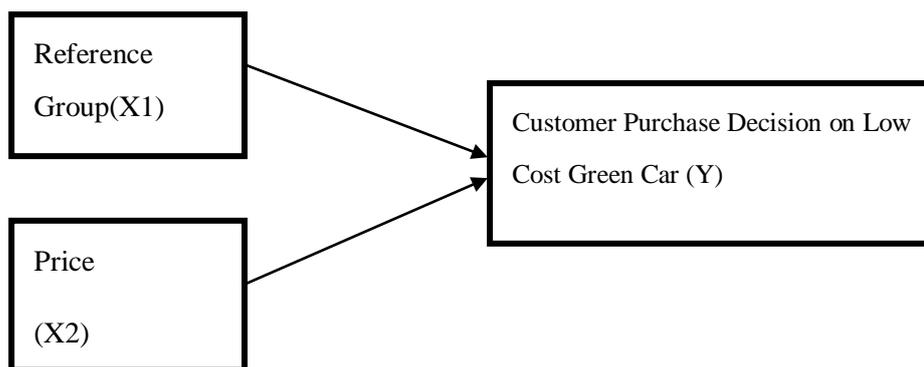


Figure 1. Research Model

Based on their study, Hogg and Terry (2000) found that individuals take advantage of their relationship with other people to show their existence. Schiffman and Kanuk (2009) stated that a reference group is an important group where everyone or the group is considered as a reference for a person in creating general or specific values or behaviors. From a marketing perspective, the reference group is the group that is considered as the basis for a person in the decision to purchase or perform a consumption. As a result, there will be social interaction and information to influence decision-making in a group of individuals. Tucker (2011), researching mobile phone, stated that purchase decision of mobile phone among youngsters is mostly influenced by their peers, family and sales people. They received information from advertisements, technological blogs, and other media. According to Decrop, Pecheux, Bauvin (2007), friends have a big effect in increasing the number of visitors in leisure business. Their result is similar to the result of Hsu, Kang and Lam (2006) stating that among some factors which contribute to the individual psychological side is reference group. It is known to pose a strong influence on a person's decision to travel to Hong Kong because the experience of a member of a group can affect him or her. This statement is supported by Chowdhury, Hossain, and Ahmed, (2012) stating that opinion of an influential leader, who is also a member of a group, influences the costumers in selecting the brand of cement product. From all of these studies, social factor plays an important role in decision making of customers (Kotler and Amstrong, 2006). Thus, it can be hypothesized;

#### H1: Reference Group Influences Customers' Purchase Decision

Seng and Husin (2015) stated that product and price play an important role as a stimulus in purchasing a product of a customer. Low price is not always a guarantee that customers will purchase the product. On the other hand, the price that is suitable with purchasing power and the segment is the best price. Alfred (2013), based on his study, stated that price and quality pose a great effect in customers' purchase decision of mobile phone in Ghana. His idea is

supported by Kenesei and Toddg (2003) stating that price is the cost that a shopper can best determine, and thus plays an important role in his decision. Norazah (2013) stated that basically, the price for an individual customer and buyer can have a different impact. The impacts often perceived by customers can be divided into two in consumption activities, namely 1) Economic impact, where the price for customers is associated with purchasing power because it is the cost for the customer. The higher the price is, the fewer the product they can obtain or purchase becomes. 2) Psychological impact, it can be explained that high price reflects the high quality of a product and the low price reflects low quality. In addition, Zhou and Gu (2015) stated that price presentation gives a significant impact on impulsive buying behavior. Based on the those authors' studies it can be hypothesized;

#### H2: Price Influences Customers' Purchase Decision

Schiffman and Kanuk (2009) defined purchase decision as an act of selecting two or more alternative options. Sanjaya, Kevin, Tantri, Indriani (2014) proposed that customers' purchase decision is a stage where buyers have decided their selection and purchased a product, as well as consumed it. Therefore, it can be concluded that purchase decision is a process involving physical and mental activities of a customer. In that condition, the customer has possessed his/her own perception of the product to be purchased and made a certainty when purchasing and consuming it (Chan, Wei-Hung, 2011). Based on those authors' studies, it can be hypothesized;

#### H3: Reference Group and Price influence customers' purchase decision

### 3.2 Instrument Development and Data Collection

This study consists of three variables, namely Reference Group, Price and Purchase Decision. Reference Group consists of 3 dimensions, namely communicative-ness, closeness, and figure. The price consists of 3 dimensions, namely price in fixing the car, the price of spare parts and discounts. On the other hand, purchase decision consists of 5 dimensions, namely problem recognition, search for information, alternative evaluation, purchase decision and post-purchase behavior. The questions in the survey are about behavior. All of the questions were applied with Likert scale. To obtain the portrayal of the research variables, a descriptive analysis was conducted on the data of respondent responses. The analysis technique used in this research is Structural Equation Modeling (SEM) based on variance structure, also known as Partial Least Square Path Modeling (PLS-PM). The variable measurement used is interval scale. In the end, these measured indicators could be used as a point of departure to create

instrument items in the forms of questions or statements needed to be answered by respondents. The population of this study is all car users of brands of the big five automotive LCGC companies. Samples were taken to represent the population. Questionnaires were distributed by using purposive sampling technique, so that the data obtained were expected to be relevant. The number of sample taken in this study was 126 persons. From the survey, it is found that the demographic characteristics of the respondent are mostly male (61%) from middle class segment. Their income is around 15-20 million rupiahs a month (32%). Majority of the respondents are undergraduate student (31%).

#### 4. RESULT AND DISCUSSION

##### 4.1 Finding

The structural model analysis testing causality between the reference group and price on customers' purchase decision is presented in figure 2.

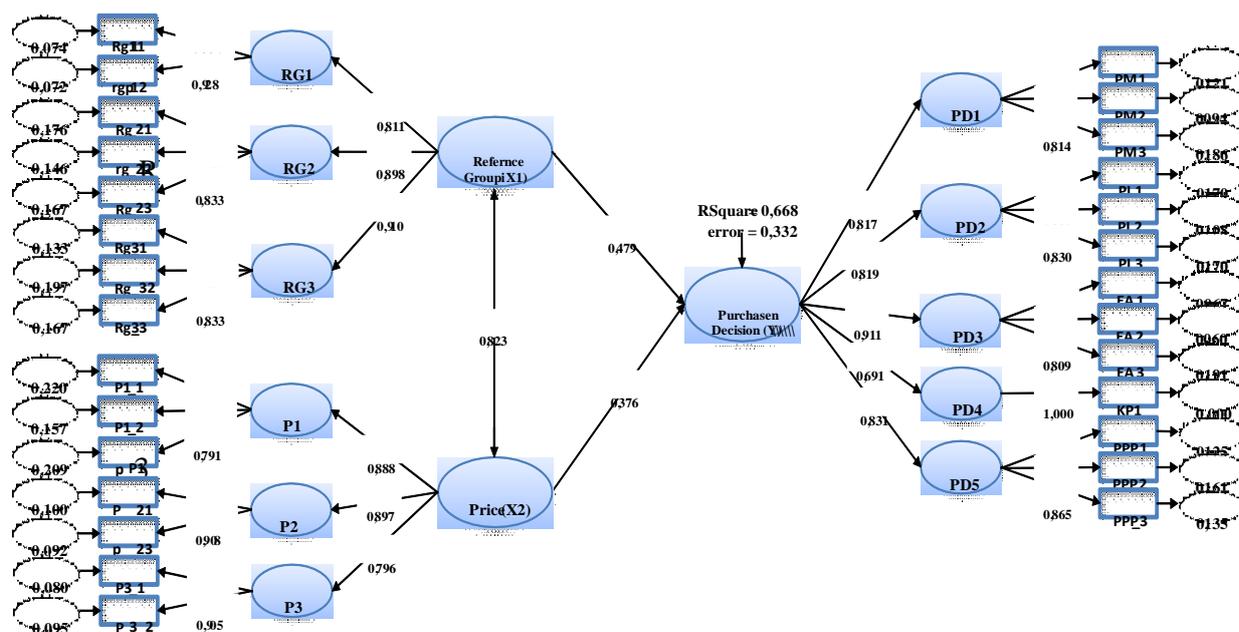


Figure 2. The Influence of Reference Group and Price on Purchase Decision

Reference Group (X1):

Customers' Purchase Decision (Y)

(RG1) = Trust

PD1 = Problem Recognition

(RG2) = Closeness

PD2 = search for information

(RG3) = Figure

PD3 = alternative evaluation

PD4 = purchase decision

Price (X2):

PD5 = post-purchase decision

(P1)= price or cost in fixing

(P2)= price of spare parts

(P3)= discount

Partial Hypotheses

H1:

H<sub>0</sub>: Reference group does not significantly influence customers’ purchase decision of Low Cost Green Car

H<sub>a</sub>: Reference group significantly influences customers’ purchase decision of Low Cost Green Car

H2:

H<sub>0</sub>: Price does not significantly influence customers’ purchase decision of Low Cost Green Car

H<sub>a</sub>: Price significantly influences customers’ purchase decision of Low Cost Green Car

**Table 1**

**Test Result of the Partial Influence of Reference Group and Price on Customers’ Purchase Decision of Low Cost Green Car**

Variable	Direct Effect	T count	t critical	Conclusion	
Reference group-> Purchase decision	22.95%	9.033	1.96	H <sub>0</sub> rejected	Significant
Price ->Purchase Decision	14.16%	7.071	1.96	H <sub>0</sub> rejected	Significant

Table 1 shows that the change in reference group by customers influences the change in purchase decision by 22.95%. Based on hypothesis testing using *t*-test statistic, it is verified that the reference group contributes positively to customer decision making. Furthermore, the

influence of the price on customer decision making is not strong (14.16%).

Simultaneous Hypotheses:

$H_0: \beta_{31} = \beta_{32} = 0$  Reference Group and Price do not simultaneously influence Customers' Decision Making.

$H_1: \beta_{31} = \beta_{32} \neq 0$  Reference Group and Price do not simultaneously influence Customers' Decision Making.

**Table 2**

**Test Result of the Simultaneous Influence of Reference Group and Price on Customers' Purchase Decision of Low Cost Green Car**

Determinant Coefficient	F count	F table	Conclusion	
66.8%	64.998	3.090	$H_0$ rejected	Significant

Because the determinant coefficient (R value) is 0.668, therefore reference group and price simultaneously influence customers' purchase decision of low cost green car by 66.8%. This is due to change in the reference group and the price causes a change in the purchase decision, while the rest 33.2% is described by other factors outside the observed variables here.

F-test was conducted to determine whether there is a direct and significant influence of reference group and price on purchase decision simultaneously. The results are as follows:

Based on table 2, it is shown that the value of F count is 64.998, bigger than the value of F table with  $v = 97$  ( $n - (k + 1)$ ) or 3.090, then  $H_0$  is rejected. Therefore, it can be concluded that there is a significant influence of reference group and price on customers' purchase decision of low cost green car. The testing of Structural Model (Inner Model) can be seen from the R-Square value that is the Goodness-fit Model test.

**Table 3****The Value of R-Square and Path Coefficients on Structural Model**

Structure	Path	Coefficient	T count	R Square
1	Reference group ->Purchase decision	0.479	9.033	0.668
	Price ->Purchase Decision	0.376	7.071	

**Source:** The data processed from output of PLS in 2016

Based on Table 3, it is shown that the value of the first substructure of customers' purchase decision construct of low cost green car is 0.668, meaning that the regression model is on the conformity with the goodness-fit level. The variability of customers' purchase decision of low cost green car can be explained by thereference group and price by 66.8% and the remainder 33.2% is affected by other constructs not examined in this study.

The evaluation of structural model was initiated to see the significance relationship between constructs shown by the value of t statistic. Hence, it is known that reference group has a significant influence on customers' purchase decision of low cost green car ( $t = 9.033$ ) with the path coefficient of 0.479. While the price has a significant influence on customers' purchase decision of low cost green car ( $t = 7.071$ ) with the path coefficient of 0.376.

The following table shows the direct and indirect influence of Reference Group and Price on Purchase Decision.

**Table 4****Test Result of Direct and Indirect Influence of Reference Group and Price on Customers' Purchase Decision of Low Cost Green Car**

Variable	Path Coefficient	Direct Influence	Indirect Influence (through), in %		Total (%)
			X <sub>1</sub>	X <sub>2</sub>	
X <sub>1</sub>	0.479	22.95	-	14.83	37.78%
X <sub>2</sub>	0.376	14.16	14.83	-	28.99%
Total Influence					66.8%

Based on Table 4, it is shown that the biggest influence among the variables observed is reference group on customers' purchase decision of low cost green car, which is 37.78%. This consists of 22.95% of direct influence and 14.83% of indirect influence through the variable of price. The influence of reference group on purchase decision is bigger than the price of the car. The total percentage of direct influence is 28.99%, consisting of 14.16% the direct influence and 14.83% the influence through reference group.

**4.2 Discussion**

Generally, one of the characters of Indonesian people is loving to gather in community, as an example is in the car community. In buying a car, this characteristic causes the reference group influences more than the price. Even there are several car brands with car clubs which have many members. Usually, they like the same type of car with accessories. Friends pose a significant influence because there is a sense of togetherness, tolerance, and solidarity built so that they tend to have the same decision in choosing the same car brand. It is common that teenagers have similar taste so that it is not hard to build togetherness. The similarity, esprit de corps, and togetherness bring a big influence in the purchase decision.

The sense of community can stimulate the members to spend the money on buying something. In this case, the community of low cost green car can muster in buying everything especially the car. There are many ways to do to anticipate if there is any member of the group who is unable to purchase a car. In Indonesia, there are variety ways to purchase a car, one of which is by leasing, either in short or long term installment. Therefore, leasing becomes a solution of any group member who gets difficulties in paying for the car.

## **5. CONCLUSION**

This study is to verify two hypotheses that reference group and price influence consumers' decision in purchasing LCGC. The result shows that reference group is more influential than the price. This is because the majority of LCGC users in Indonesia are undergraduate students. This group loves to join communities, for example by establishing informal groups such as a club. Even there are several car brands with car clubs which have many members. Usually, they like the same type of car with the accessories. Friends pose a significant influence because there is a sense of togetherness, tolerance, and solidarity built so that they tend to have the same decision in choosing the same car brand. It is common that teenagers have similar taste so that it is not hard to build togetherness. The similarity, esprit de corps, and togetherness bring a big influence in the purchase decision. The sense of togetherness is able to defeat customer's selfishness in spending money on buying something. LCGC is affordable for this age group. The majority of this segment do not have their own income and are still dependent on their parents. Generally, they buy the car by spending their parents' money. For the parents themselves, LCGC price is the most reasonable for their children. They also consider that in Indonesia, purchasing does not always by using cash; there are variety ways to pay for a car, one of which is by leasing, either in short or long term installment. Therefore, leasing becomes a solution of any group member who gets difficulties in paying for the car.

## **6. FURTHER RESEARCH**

Based on the above discussion, it is necessary to conduct further studies on low cost green car and green marketing. Then, it is important to conduct a research on customer behavior because people tend to realize the danger of pollution and fuel efficiency. Marketers should find a strategy on how to manage green marketing expected to detect a potential market.

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