Consumer Purchase Intention and Cross-Border Shopping: Implementation of Goods and Services Tax (GST)

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Abstract

Goods and services tax (GST), also called value-added tax (VAT), is an after-sales tax imposed on goods and services. The implementation of GST in Malaysia have significant economic, social, marketing, and political impact, and thus, has recently become one of the hottest discussion topics among consumers in Malaysia. From the marketing perspective, it will affect consumer purchase intention and spending patterns. Consumer purchases intention behavior will become more difficult to predict because it is directly influenced by GST. Past studies showed that consumers will likely cross to neighboring countries for shopping after the implementation of GST. This study compares consumer purchase intention before and after the scheduled implementation of the goods and services tax (GST) and to examine the consumer cross-border shopping intention. A total of 100 shoppers were interviewed in four major shopping centers in Klang Valley. Results show that most of the consumers are “likely” to purchase products before GST implementation and “very unlikely” to purchase within the first three months after GST implementation in Malaysia. However, consumers are “neutral” with regard to cross-border shopping intention. One-way ANOVA analysis shows that higher-income groups are less influenced by GST than lower-income groups. The sample size in this study could be considered relatively small for consumer studies. Thus, future studies should increase the sample size and use the longitudinal method.

Keywords: goods and service tax (GST), consumer purchase intention, shopping products, cross-border shopping

1. Introduction

Goods and services tax (GST), also called value-added tax (VAT), is an after-sales tax imposed on goods and services. It has been implemented in more than 160 countries around the world (Ahmad, 2014). Malaysia is one of the few countries yet to implement GST. However, the Malaysian prime minister announced in the 2013 budget that the country will implement the GST on April 1, 2015 at a rate of 6% (The Star, 2014). The majority of goods and services for the low-income segment will be exempted from GST, according to the Deputy Minister of Finance of Malaysia. Moreover, goods and services tax (GST) plays an imperative function in the economic, political, and social development of a country. The Star (2014) survey on global consumer confidence and spending intentions conducted by AC Nielsen showed that the Malaysia consumer confidence of 92 points is below the global average of 94 points.

The implementation of GST in Malaysia have significant economic, social, marketing, and political impact, and thus, has recently become one of the hottest discussion topics among consumers in Malaysia. In addition, Many consumers’ are concerned about the impact of GST on their lifestyle, purchasing power, and standard of living. From the economic perspective, the implementation of GST will affect Malaysia’s consumer price index, inflation, and gross domestic product growth. From the marketing perspective, it will affect consumer purchase intention, cross-border shopping behaviors, and spending patterns. As a result, retailers are faced with difficulties in predicting sales and forecasting consumer purchase intention before and after GST implementation. In addition, retailers will encounter other challenges such as uncertainty of the economy, the process of GST implementation, and supplementary policies of GST.

Past studies showed that consumers will most likely cross to neighboring countries for shopping after the
implementation of GST. However, there is an unambiguous relationship between GST and cross-border shopping. As a result, these issues indirectly affect the retail industry in Malaysia, especially in the border areas. As one of the biggest industries in Malaysia at present, the retail industry provides thousands of jobs. Consequently, ignoring the effect of GST on the retail industry is becoming increasingly arduous. Although some of the goods and services will be exempted, GST will be imposed upon the shopping products.

Very minimal information on this issue is available in Malaysia, and limited research has been conducted on the topic. Thus, this study aims to contribute by analyzing the issue from a purely marketing perspective. The research objectives are: (i) to compare the consumer purchase intention before and after GST implementation, and (ii) to examine the consumer cross-border shopping intention after implementation of GST.

2. Literature Review

2.1 GST Implementation and Consumer Purchase Intention

According to Black et al. (2006), consumers need to be asked first what they intend to buy, before consumer behavior can be predicted. What consumers think they will buy is referred to as consumer purchase intention. Kotler and Armstrong (2013), items such as furniture, personal care items, shoes, appliances, and clothing are considered as shopping products. Such products are usually purchased infrequently, and require a lot of comparison in terms of price, quality, and style. According to Shoup (1998), developing countries should not implement the GST for the following several reasons such as retail business is fragmented among small retailers; vertical coordination of manufacturer’s distribution and retailers; harmful discrimination of investment products. Based on the April 1, 2014 issue of The Wall Street Journal, Japan increased the VAT from 5% to 8%, an act that will indirectly reduce domestic consumption. According to Lim and Ooi (2013), “the average household is expected to pay 2.93% monthly as GST.” However, the low-income segment is expected to pay higher GST (3.07%) than high-income segments. Moreover, GST is predicted to increase inflation by an additional of 3.86%, lower consumers’ spending power, and negatively influence domestic consumption. Transportation (22.2%) and restaurant and hotels (17.3%) are the top two industries that contribute to GST in Malaysia. This paper does not specifically look into aspects of efficiency, motivation, and appropriateness of GST as a tax raising mechanism. Due (1963) showed that product consumption can be reduced by sales tax and that companies will increase the volume of the majority of finished goods if the average cost increases because of sales tax. Moreover, Crossley et al. (2009) revealed that 2.5% reduction in VAT increases consumer spending by nearly 1.2% because products subjected to VAT are mainly luxury items. However, Smart and Bird (2009) demonstrated that changing a retail sales tax to VAT will encourage more investment as exemplified by the growth in the aspects of machinery and equipment, and in the stock market. The European Commission (2007) broadens lessen in VAT on actual product would generate economic benefits like more employment and less unfairness. Cohen (1971) considered that the Europeans are generally happy with GST. This is mainly due to Europeans believing that GST will protect against tax evasion.

2.2 GST Implementation and Cross-Border Shopping

Clark (1994) mentioned that government policies, such as government tax, are one of the foremost attributes that influence buyers to engage in cross-border or out-of-town shopping. Leal (2010) postulated that lower taxes in the neighboring countries will attract the buyers to purchase products in these countries. Nielsen (2001) revealed that the commodity tax competition difference may provide chances for cross-border shopping; it is also a factor that absolutely raises the volume of cross-border shopping. Agawal et al. (2013) commented that higher sales taxes in the domestic market compared with those in the border countries will directly increase the purchase of product in the neighboring countries. Wang (2004) found that function and recreation are the two main attributes that influence Hong Kong residents to indulge in cross-border shopping and consumption in Shenzhen, China. Dmitrovic and Vida (2007) suggested that future studies should incorporate the social-psychological effects of cross-border shopping activities. Lau et al. (2005) indicated that cross-border shopping activities are influenced by retailing environments and individuality. Nevertheless, it is not affected by the closeness of the shopping malls. Timothy and Butler (1995) suggested that cross-border shopping activities are influenced mutually by economics and pleasure.

3. Research Methodology

3.1 Research Instrument

The study employed the survey as a research approach to compare the consumers’ purchase intention before and after the implementation of GST in Malaysia. Our research instrument utilizes a two-part questionnaire. The first part contains the questions about the personal information of the respondents, such as age, gender, and income.
The second part contains questions regarding consumer purchase intention before and after the implementation of GST and on their cross-border shopping intention. The Likert scale ranging from 1 (very unlikely) to 5 (very likely) is used in this survey.

3.2 Sampling Plan and Data Collection

For this study, person-administered survey is utilized by which an interviewer reads questions face-to-face to the respondent and records their responses. This type of survey method usually gives a good response rate and a swift data collection. Two interviewers were employed in this study to interview the respondents in four shopping centers in Klang Valley, Malaysia. These shopping centers were chosen owing to their size. Besides, most of the large shopping centers in Malaysia are located in Klang Valley.

3.3 Data Analysis and Hypothesis Testing

Descriptive statistics, independent samples t-test analysis, and one-way ANOVA were used for data analysis. The hypothesis tests are:

(i) There is no difference between gender and implementation of GST.

(ii) There is no difference between income and implementation of GST.

4. Results and Discussion

4.1 Frequency Statistics

Table 1 shows respondents’ personal information in terms of gender, age, income, and occupation. The interviewed shoppers consisted of 36 males and 64 females. The majority of the shoppers holds white-collar jobs (63%), with a monthly income of RM 5,001-7,000 (42%). The majority belongs to the 21-30 age group (41%).

Most of the respondents spend RM 1,501-2,000 monthly on shopping products; this means that they need to pay extra RM 90-120 per month after the implementation of GST. As a result, their purchasing power is reduced. In order to reduce the effect of GST on consumers, perhaps the Government can increase self and dependent individual relief from RM 9000 to RM 12000. Jenkings and Khadka (1998) postulate that rebate in self tax relief will directly reduce the effect of GST.

Table 1. Personal information

| Variables                  | Frequency | Percent (%) |
|----------------------------|-----------|-------------|
| **Gender**                 |           |             |
| Male                       | 36        | 36          |
| Female                     | 64        | 64          |
| **Age**                    |           |             |
| <21                        | 18        | 18          |
| 21-30                      | 41        | 41          |
| 31-40                      | 20        | 20          |
| 41-50                      | 12        | 12          |
| >50                        | 9         | 9           |
| **Income**                 |           |             |
| 1000-3000                  | 2         | 2           |
| 3001-5000                  | 20        | 20          |
| 5001-7000                  | 42        | 42          |
| 7001-9000                  | 29        | 29          |
| >9000                      | 7         | 7           |
| **Occupation**             |           |             |
| Blue Collar                | 37        | 37          |
| White Collar               | 63        | 63          |
| **Spending on Shopping Products per Month** | | |
| 1-500                      | 4         | 4           |
| 501-1000                   | 15        | 15          |
| 1001-1500                  | 22        | 22          |
| 1501-2000                  | 44        | 44          |
| >2000                      | 15        | 15          |
4.2 Descriptive Statistics

Table 2 shows that most of the consumers are “likely” (mean=4.36) to purchase the shopping products before the implementation of GST in Malaysia, as consumers try to avoid paying 6% GST on shopping products. Most consumers are “very unlikely” (mean=1.41) to purchase shopping products for the first three months after the implementation of GST because most of them have increased their purchase consumption on shopping products before the GST was implemented. That means, during the first few months after the implementation of the GST, the sales of shopping products are expected to decline. Thus, more marketing strategies should be implemented by the retailers in order to increase their sales.

| Purchase Intention                  | Mean | Standard Deviation |
|-------------------------------------|------|--------------------|
| Three Months before GST             | 4.36 | 0.93               |
| First Three Months after GST        | 1.41 | 0.57               |

Table 3 shows that consumers are “neutral” with regard to cross-border shopping intention, a situation that occurs mainly because consumers still lack the experience of GST implementation in Malaysia. Moreover, many other factors may influence the cross-border shopping intentions, such as the traveling distance, retailing environments, currency difference, language barriers, and personal characteristics. Loke (2014) a tax consultant commented that consumers need to unite and pressure retailers to reduce product prices after the implementation of GST. Consumers also need to change their spending patterns after the implementation of GST and to be guided by the principle of “shopping for items that they need and not what they want”.

| Shopping Intention                  | Mean | Standard Deviation |
|-------------------------------------|------|--------------------|
| After GST Implementation            | 3.14 | 0.81               |

4.3 Independents Samples T-Test

The F value of 0.13 and the significance of 0.52 presented in Table 4 shows that no difference exists between genders during the first three months after the implementation of GST. This finding was supported by Lim and Ooi (2013), there is no significant difference can be observed between males and females in terms of monthly payable GST.

| Gender | Mean | F-value | Significance |
|--------|------|---------|--------------|
| Male   | 1.63 | 0.13    | 0.52         |
| Female | 1.44 |         |              |

4.4 One-Way ANOVA

Table 5 shows the F value is 2.51 with a significant value of 0.04. The result shows a difference between incomes during the first three months after GST implementation. Higher-income groups are less influenced by GST than lower-income groups. According to Ng (2014), low- and middle-income segments are most likely to be affected by GST despite the exemption on some essential products.
Table 5. One-Way ANOVA

| Income       | Mean | F-value | Significance |
|--------------|-----|---------|--------------|
| RM3001-5000  | 1.33|         |              |
| RM10000-3000 | 1.29|         |              |
| RM5001-7000  | 1.38| 2.51    | 0.04         |
| RM7001-9000  | 1.45|         |              |
| RM>9000      | 2.48|         |              |

5. Conclusion

The objectives of this study are to compare the consumer purchase intention before and after GST implementation and to examine the consumers cross-border shopping intention. Using survey as research approach, 100 shoppers were interviewed in four major shopping centers in Klang Valley. Results show that most of the consumers are “likely” to purchase the shopping products before the GST is implemented in Malaysia and that consumers are “very unlikely” to purchase shopping products for the first three months after the implementation of GST. However, consumers are “neutral” with regard to cross-border shopping intention, this situation occurs mainly because consumers still lack the experience of GST implementation in Malaysia. Meanwhile, One-way ANOVA shows that higher-income groups are less influenced by GST than lower-income groups.

One of the major findings of this study is the possible sharp decrease in product sales during the first three months after the implementation of the GST. Therefore, retailers need to be prepared for such changes, and they should be more aggressive in sales and promotion. Consumer sales promotion tactics such as coupons, rebates, and price packs are extremely effective in increasing the sales of products in the short-term period. For this reason, retailers should use consumer sales promotion tools to encourage consumers to purchase their products. Further, retailers could consider to absorb the 6% GST tax during the first six months of GST implementation. This will indirectly reduce the price sensitivity of consumers. In order to reduce the collision of retail sales in the border after GST implementation, the government should introduce a distinct mechanism for the GST imposition in the border.

The sample size in this study is relatively small for consumer studies. Future research should be longitudinal and should increase the sample size. A longitudinal study ensures that consumer purchase intention can be measured more precisely. Moreover, studies could be taken every three months for one year.

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