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FACTORS FOR INTENTION OF CHINESE OVERSEAS DIRECT PURCHASE OF KOREAN PRODUCTS

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ABSTRACT

Online shopping of ODP (overseas direct purchase) has become more and more popular not only in Korea but also in China very recently. Especially among Chinese people, it is inevitable that ODP of Korean products became one of the newest trends in social commerce with the help of rapid development of information technology, social communication, and on-line shopping development. This study identifies Chinese consumers' perception on ODP of Korean products and attempts to find factors affecting their ODP intention, based on the analysis of survey data collected from Chinese consumers. The study finds that such factors include price competitiveness, product and new channel curiosity, product trust as well as risk related to import tax. The empirical evidence provides important strategic implications for ODP marketers and product makers.

KEY WORDS: ODP, Overseas Direct Purchase, On-line Shopping, Chinese Consumers, Intention to Purchase, Product Curiosity.

1. INTRODUCTION

As Internet becomes more and more widespread thanks to the development of information and communication technology and social communication, the online shopping market has rapidly grown. Internet shopping was possible only with the use of computers in the past, but it is now enjoyable without constraints to time and location with the help of mobile instruments such as smart phones. Moreover, mobile-based business model is also being proliferated with the fusion of the rapid widespread of mobile terminals and the development of wireless network. Transactions in the Chinese mobile business market amounted to 233 billion Yuan in 2013, 140% up over the previous year.

Purchase patterns of consumers are being varied as online shopping becomes widespread. Especially, overseas direct purchase (hereafter, ODP) draws increasing attention as people are getting more and more interested in demand for rational consumption (Kim, 2011). ODP can be defined as a kind of transaction in which a domestic consumer (directly) purchases a product in an overseas online shopping mall or an agent site, and gets delivery of the product domestically (Korea Consumer Agency 2015). A consumer does ODP to purchase rationally a product sold overseas when it is sold at a price lower than the same product domestically or when the product is not imported. In ODP, a domestic consumer gets a delivery of a product directly ordered in the websites of the open overseas market

or through E-commerce (electronic Commerce) using PC, smart phone or tablet PC.

ODP in China appeared in the market around year 2000 when Internet became popularized, and started to grow rapidly as rational alternative consumption channel when E-commerce and smart phones were spread widely in 2010. According to Chinese Tariff Bureau, for the ten year period from 2000 to 2014, ODP imports increased as much as 60% in number of purchases and 45.4% in amount per annual average. The ODP size reached about 44 billion dollars, about 14% of the worldwide E-commerce. PayPal reported that eighteen million Chinese consumers practice ODP in 2013, and expected the number to be doubled and the ODP to reach 165 billion dollars in five years (Institute for International Trade. 2014). In China, "Haitao" meaning ODP people is becoming popularized as a general noun (Kwon, 2015).

2. OBJECTIVES

With this background, the study is interested in recently rapidly grown ODP in China, and tries to find what has triggered such a surprising growth, and what factors have affected ODP, particularly Chinese consumer's intention to do ODP of their favorite, Korean product. The study will develop hypotheses based on previous literature and test them empirically based on survey data.

3. METHODOLOGY

Very numerous studies have been conducted on the factors affecting consumer's intention for product purchase in E-commerce market, and identified and suggested various factors (Hill, 2013; Lee et al., 2001; Kim, 2010; Ballard, 2007; Koukova, 2012). Among them, consumer's curiosity, trust, price competitiveness and risk could be extracted as relatively important ones, and how these factors work in the rapidly growing Chinese ODP market is interesting to us. Consequently, ODP curiosity, trust in ODP, price competitiveness (or cost advantage), and risk have been selected as potential factors affecting ODP intention of Chinese consumers. Thus, the basic research model of study attempts to test the following hypotheses which generate four primary independent variables and one dependent variable of ODP intention.

H 1: Curiosity of Chinese consumers has positive effects on their ODP intentions.

H 1-1: Curiosity of Chinese consumers for Korean products has positive effects on their ODP intentions.

H 1-2: Curiosity of Chinese consumers for new channels has positive effects on their ODP intentions.

H 1-3: Curiosity of Chinese consumers for contents in fashion has positive effects on their ODP intentions.

H 2: Trust of Chinese consumers has positive effects on their ODP intentions.

H 2-1: Trust of Chinese consumers in Korean ODP sites has positive effects on their ODP intentions.

H 2-2: Trust of Chinese consumers in Korean products has positive effects on their ODP intentions.

H 2-3: Trust of Chinese consumers in purchase reviews on Korean ODP has positive effects on their ODP intentions

H 3: Cost advantage has positive effects on Chinese ODP intentions.

H 3-1: Relatively low price of Korean ODP product has positive effects on Chinese ODP intentions.

H 3-2: Service offered with Korean ODP has positive effects on Chinese ODP intentions.

H 4: Risk has negative effects on Chinese ODP intentions.

H 4-1: Tariff and tax levied on Korean ODP product have negative effects on Chinese ODP intentions.

H 4-2: Transportation cost with Korean ODP has positive effects on Chinese ODP intentions.

4. SAMPLING DESIGN

In order to test the hypotheses, we planned to collect data through the questionnaire survey. The survey questionnaire was prepared using Likert five-point scale. Total number of questions prepared was forty, consisting of ten for demographics and three for each of ten subsections. The ten subsections include three subsections for each of Curiosity and Trust, and two subsections for each of Cost advantage and Risk

The survey questionnaire was distributed online and offline to four hundred Chinese consumers who declared to have ODP experiences.

5. STATISTICAL DESIGN

The study's statistical design is made to test the reliability of the survey items, the validity of the measuring instrument, and hypotheses.

Reliability of survey items, very important for internal validity of research, is tested in terms of Cronbach α . The study tests the reliability of categorization of the 30 questionnaire items into the ten factors and three factors, using Cronbach α measure.

Validity of the measuring instrument has to do with whether the instrument measures what it is intended to measure. It represents whether the measuring instrument developed to measure certain concepts or attributes properly reflects them. For this purpose the study applies factor analysis,

Finally, multiple regression is applied to test the ten hypotheses.

6. GEOGRAPHICAL AREA

The sample was collected in China through online and offline questionnaire survey.

7. RESULTS

The completed questionnaire responses were collected from all the four hundred recipients of the questionnaire. But sixty four responses were discarded as invalid ones because the respondents gave insincere replies, or did not have either ODP experiences or ODP intention. This resulted in valid 336 responses, consisting 81 (24.1%) of male and the remainder, 255 (75.9%) of female, an overwhelming majority. The distribution of their ages is as follows. Ages from 18 to 30 cover 44.9% of the entire sample, and ages from 31 to 41, 32.1%. These two groups cover more than three fourths of the total respondents. Regarding educational background of the respondents, an overwhelming majority, 76.8% were college graduates.

The results of the statistical tests are as follows.

First, the thirty items used to measure concepts (factors) were tied up in ten factors and in major four categories which can be titled as Curiosity, Trust, Cost advantage, and Risk. Reliability of the measure is conventionally regarded as satisfactory if Cronbach α value of each tied up factor is greater than 0.6. Table 1 shows that all Cronbach α values are 0.742 or higher, and thus the reliability of categorization of the 30 questionnaire items into the ten factors and four categories is deemed satisfactory.

Next, the factor analysis shows that the variables are tied up in ten factors, and that every factor loading value is 0.557 or above, higher than the general critical value of 0.5, as seen in Table 2. As the total cumulative variance is 77.44%, the validity of the measuring instrument is deemed satisfactory.

Communality of a variable is the proportion of variation in that variable explained by other common factors and a variable with communality of less than 0.4 is generally deleted from the analysis. Thus, five variables of A1, B3, D3, I3, and J3 have been deleted. All the values are greater than 0.7 and the reliability is again satisfactory. Cronbach α 's

recomputed without the five deleted variables are as seen in Table 2. As mentioned in the previous section, the study grouped the ten factors into four categories, and titled each category as Curiosity, Trust, Cost advantage, and Risk. We titled the ten factors of Factor 1 through Factor 10 in four categories as product curiosity, new channel curiosity, contents curiosity, web-site trust, product trust, purchase review trust, low cost advantage, service advantage, tax risk, shipping cost risk.

Finally, as seen in Table 3, the regression coefficients of Factor 1, Factor 2, Factor 5, Factor 7 and Factor 9 are found to be significant at 1% or 5%. This means that Chinese consumers' intention to do ODP is affected by their curiosity in product and new technology, trust of the product, (net) price of the product, and tax (tariff) risk. Multicollinearity would not be a problem in our regression analysis since the VIF (variance inflation factor) is at most 1.800, a far smaller than 10, a value most commonly recommended as the maximum level of VIF (Kutner et al., 2004). VIF is an index measuring how much collinearity increases the variance of an estimated regression coefficient, quantifies the severity of multicollinearity in an ordinary least squares regression analysis. All other things being equal, higher levels of VIF are known to affect adversely (unstably) the results associated with a multiple regression analysis.

Among the five significant factors, low cost advantage (price competitiveness of the product) seems to be the most influential factor affecting ODP of Korean products. This means that the price (net of possible discounts) is low, relative to that of the same product purchasable in China. The next influential factor is found to be product curiosity. One of the reasons would probably be that Korean products have very favorable images developed through publicity of famous Korean concerts, movies and dramas, and popular celebrity singers and drama stars. Finally, product trust is probably related to relatively high quality of Korean products together with their images.

On the other hand, the factors of web-site trust, purchase review trust, and service advantage are found to be insignificant. This result might ironically imply that ODP marketers and agents have not been much interested in these potentially important factors and make little efforts and investments in these areas yet.

8. CONCLUSIONS, SUGGESTIONS, AND AREAS FOR FURTHER RESEARCH

The study examined what factors affect the intention of ODP (overseas direct purchase) of Chinese consumers. The major findings and related implications are summarized as follows.

First, five factors such as product curiosity, new technology curiosity, product trust, low cost advantage, and tax (tariff) risk were found to have significant effects on Chinese consumers' intentions of ODP. The first four have positive effect and the last, negative effect. This implies that, as the ODP market in China is estimated to continually grow, the agents that provide ODP services must consider the tariff burden effect and find out the ways to reduce it.

Secondly, considering low cost advantage (price competitiveness) and product curiosity as the most important factors, the overseas direct purchase marketers should try to market new product frequently (e. g. every month) and maintain low level

of selling price, and make efforts to find out low cost sourcing in response to tariff risk.

Thirdly, according to demographic analysis, Chinese woman purchasers seem to have high interest in ODP, particularly of clothing, cosmetics and baby products. This result implies that ODP marketers should develop differential strategies for woman and man buyers, based on their differential preferences.

Future research in ODP area had better focus on the preferences and desires of Chinese consumers, varying according to their gender, age, and time horizon, and develop marketing approaches reflecting them. The research also should consider potential changes in Chinese government's policy including import taxes and their effects.

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9. TABLES AND REFERENCES

<Table 1> Reliability of Questionnaire Items

Factor	Variables	Cronbach α	
Factor 1 (Curiosity)	A1, A2, A3	.743	.840
Factor 2 (Curiosity)	B1, B2, B3	.786	
Factor 3 (Curiosity)	C1, C2, C3	.817	
Factor 4 (Trust)	D1, D2, D3	.742	.809
Factor 5 (Trust)	E1, E2, E3	.746	
Factor 6 (Trust)	F1, F2, F3	.763	
Factor 7 (Cost advantage)	G1, G2, G3	.748	.774
Factor 8 (Cost advantage)	H1, H2, H3	.747	
Factor 9 (Risk)	I1, I2, I3	.802	.870
Factor 10 (Risk)	J1, J2, J3	.804	

<Table 2> Validity Testing and Factor Analysis

Factor	Var.	Fact or 1	Fact or 2	Fact or 3	Fact or 4	Fact or 5	Fact or 6	Fact or 7	Factor 8	Factor 9	Factor 10	Communality	Cronbach α
Factor 1	A2	.793										.722	.706
	A3	.726										.756	
Factor 2	B1		.663									.759	.720
	B2		.839									.789	
Factor 3	C1			.879								.830	.728
	C2			.908								.887	
	C3			.912								.881	
Factor 4	D1				.878							.767	.720
	D2				.803							.786	
Factor 5	E1					.557						.874	.709
	E2					.680						.736	
	E3					.559						.722	
Factor 6	F1						.804					.738	.733
	F2						.763					.756	
	F3						.861					.805	
Factor 7	G1							.736				.681	.701
	G2							.821				.731	
	G3							.832				.703	
Factor 8	H1								.620			.729	.714
	H2								.891			.820	
	H3								.824			.725	
Factor 9	I1									.752		.832	.749
	I2									.682		.756	
Factor 10	J1										.873	.790	.755
	J2										.855	.783	
Eigen Value									.845	.693	.614		
Explained Variance									3.379	2.772	2.455		
Cumulative Variance									72.21	74.98	77.44		

< Table 3> Multiple Regression Result

Independent Variables: Factor (Title)	Non-standardized		Standardized	T value	Sig. T	VIF	Decision
	β	Standard Error	β				
Constant	2.500	.300		8.346	.000		
Factor 1 (Product curiosity)	.185	.051	.215**	3.605	.000	1.530	Accept H1-1
Factor 2 (New channel curiosity)	.120	.049	.142*	2.444	.015	1.452	Accept H1-2
Factor 3 (Contents curiosity)	-.038	.041	-.049	-.921	.358	1.212	Reject H1-3
Factor 4 (Web-site trust)	-.127	.069	-.116	-1.846	.066	1.710	Reject H2-1
Factor 5 (Product trust)	.160	.078	.132*	2.052	.041	1.800	Accept H2-2
Factor 6 (Purchase review trust)	.040	.060	.035	.665	.507	1.227	Reject H2-3
Factor 7 (Low cost advantage)	.286	.067	.251**	4.256	.000	1.501	Accept H3-1
Factor 8 (Service advantage)	.031	.062	.027	.501	.617	1.295	Reject H3-2
Factor 9 (Tax risk)	-.117	.041	-.153**	-2.874	.004	1.225	Accept H4-1
Factor 10 (Shipping cost risk)	-.079	.042	-.097	-1.880	.061	1.158	Reject H4-2

*, or **: Significant at a 5%, or 1% level, respectively.

R² : 0.248 Adjusted R² : 0.225 F : 10.715 Sig. F : 0.000

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