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***Buy Now & Pay Later (Installment) Vs Lump Sum
Payment of Online Shopping (Shopee) in Sabah, A
Quantitative Comparison from the Perspective of
Uses & Gratifications Theory***

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**BUY NOW & PAY LATER (INSTALLMENT) VS LUMP SUM
PAYMENT OF ONLINE SHOPPING (SHOPEE) IN SABAH,
A QUANTITATIVE COMPARISON FROM THE
PERSPECTIVE OF USES & GRATIFICATIONS THEORY**

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**THIS THESIS IS SUBMITTED TO FULFILL
THE REQUIREMENTS OF BACHELOR
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ABSTRACT

BUY NOW & PAY LATER (INSTALLMENT) VS LUMP SUM PAYMENT OF ONLINE SHOPPING (SHOPEE) IN SABAH, A QUANTITATIVE COMPARISON FROM THE PERSPECTIVE OF USES & GRATIFICATIONS

Advances in e-commerce nowadays have given users more choices to pay when purchasing items online via e-commerce platforms; Shopee etc. Thanks to the creativity and strides to make life easier for users when shopping, Shopee has recorded astounding sales over time. This can be attributed to payment methods that have different characteristics from one another but more study is needed to ascertain this phenomenon. One method is commonly known as the Buy Now Pay Later option or in other words, the instalment plan. This mode of payment has become an alternative favorite amongst users known for its budget-friendly approach when compared to the default lump sum payment approach widely used now in the e-commerce space.

However, it seems very clear based on journal publications that a lack of studies was being conducted especially in Sabah in the area of e-commerce related to these payment options. Post-adoption studies are urgently needed in the area of payment solutions for online e-commerce specifically Shopee as the biggest and the hottest e-commerce platform now in Malaysia. As such, this study aims to fill that gap to contribute to that area of study and aid online e-commerce advertisers in their decision-making to fully explore more budget expansion to promote either Buy Now Pay Later or lump sum payment solutions when engaging with users in the market.

A previous study was conducted in the area of Uses and Gratifications related to mobile payments in a developing country and how gratifications from using mobile payments influence the adoption of mobile payment among the population there.

The study found that six gratifications obtained through a literature review might have influenced users' adoption of mobile payment solutions. But after testing the six gratifications, only three were found to significantly influence users' attitudes to adopt mobile payment solutions that are ease of use, usefulness and integrative gratification. Because payment solutions are a medium where users would actively engage with specific motivations and gratifications, the outcome of

that study can be adopted in this research where the three gratifications can be utilized to compare the level of adoption between Buy Now Pay Later (instalment) and the default lump sum payment method. This research fully adopts the uses & gratifications theory as a pillar and deploys a quantitative survey as its methodological lens to fully understand and compare the level of adoption between the two payment solutions. The findings in this study found that users prefer BNPL as compared to lump sum based on the data obtained and analyzed through SPSS.

Keywords: Uses & Gratifications theory, Buy Now Pay later (BNPL), payment method.



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CONTENTS

	Page
TITLE	i
DECLARATION	ii
VALIDATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
LIST OF CONTENTS	vi
LIST OF TABLES	vii
LIST OF PICTURES & FIGURES	x
LIST OF ABBREVIATIONS	xiv
LIST OF ATTACHMENTS	xvi
CHAPTER 1: INTRODUCTION	

- 1.1 Preliminary Introduction
 - 1.1.1 Background of the Internet & E-Commerce
 - 1.1.2 What is Buy Now Pay Later?
 - 1.1.3 When did Buy Now Pay Later even became a concept?
 - 1.1.4 What is Shopee?
 - 1.1.5 Buy Now Pay Later on Shopee
 - 1.1.6 Why do people use Buy Now Pay Later?
 - 1.1.7 What is the Impact of Buy Now Pay Later Phenomena in E-Commerce?
 - 1.1.8 Lump sum (one-off) payment as the Default Payment of Shopee
- 1.2 Statement of Problem
- 1.3 Objective of Research



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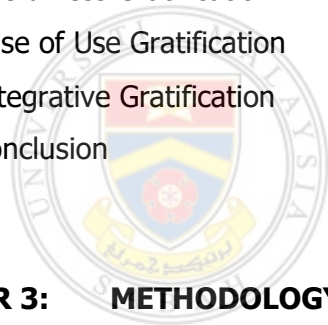
- 1.4 Significance of Research
- 1.5 Scope of Research
- 1.6 Conclusion

CHAPTER 2: LITERATURE REVIEW

- 2.1 Introduction
- 2.2 Uses & Gratification Theory (History & Development)
- 2.3 Previous Research
- 2.4 Research Model
- 2.5 Conceptualization
 - 2.5.1 Usefulness Gratification
 - 2.5.2 Ease of Use Gratification
 - 2.5.3 Integrative Gratification
- 2.6 Conclusion

CHAPTER 3: METHODOLOGY

- 2.1 Introduction
 - 2.1.1 Methodology
- 2.2 Population & Sample
- 2.3 Data Collection Procedures
- 2.4 Operationalization
- 2.5 Reliability Test of Data
- 2.6 Validity Test of Data
- 2.7 Conclusion



UMS
UNIVERSITI MALAYSIA SABAH

CHAPTER 4: RESULTS

- 4.1 Introduction
- 4.2 Demography Profiling, Results & Analyses
 - 4.2.2 Results & Analysis (Introduction)
 - 4.2.2.1 Results & Analysis
- 4.3 Conclusion

CHAPTER 5: DISCUSSION

- 5.1 Introduction
- 5.2 Discussion on Findings
- 5.3 Discussions on Theoretical Framework
- 5.4 Limitations of Research
- 5.5 Recommendations
- 5.6 Conclusion

REFERENCES

ATTACHMENTS



LIST OF TABLES

Page

- Table 1 : Previous Research on Uses & Gratifications Construct
- Table 2 : Model of Preference of Payment Method On Shopee
- Table 3 : Cronbach's Alpha Reliability Test of the Questionnaire Constructs
for the Pilot Test
- Table 4 : Cronbach's Alpha Reliability Test of the Questionnaire Constructs for
101 respondents
- Table 5 : Descriptive Statistics of Usefulness Gratification, Ease of Use Gratification,
Integrative Gratification
- Table 6 : T-test between Gratifications & Gender
- Table 7 : T-test between Gratifications & Income Level
- Table 8 : T-test between Gratifications & Marital Status
- Table 9 : T-test between Gratifications & Frequency of Purchase
- Table 10 : Results of the Descriptive Statistics Mean Test of Preference
Of Payment Method

LIST OF PICTURES

- Picture 1 : Map of Sabah
- Picture 2 : Step-by-Step Approach of Paying through Spay Later
- Picture 3 : Spay Later on a Shopee Account
- Picture 4 : Spay Later Instalment Plan on Display
- Picture 5 : Lump Sum/one-off Payment Option

LIST OF FIGURES

- Figure 1 : Pie Chart of Respondents Current Area of Residence
- Figure 2 : Pie Chart of Respondents Prior Experience in using Shopee
- Figure 3 : Pie Chart of Respondents Gender
- Figure 4 : Pie Chart of Respondents Age Group
- Figure 5 : Pie Chart of Respondents Marital Status
- Figure 6 : Pie Chart of Respondents Education Level
- Figure 7 : Pie Chart of Respondents Occupation
- Figure 8 : Pie Chart of Respondents Income Level
- Figure 9 : Pie Chart of Credit Card & Non-Credit Card Users
- Figure 10 : Pie Chart of Frequency of using Shopee as a Shopping Platform
- Figure 11 : Pie Chart of Awareness of Payment Methods on Shopee

LIST OF ABBREVIATIONS

BNPL	-	Buy Now Pay Later
EG	-	Ease of Use Gratification
IG	-	Integrative Gratification
UG	-	Usefulness Gratification

LIST OF ATTACHMENTS

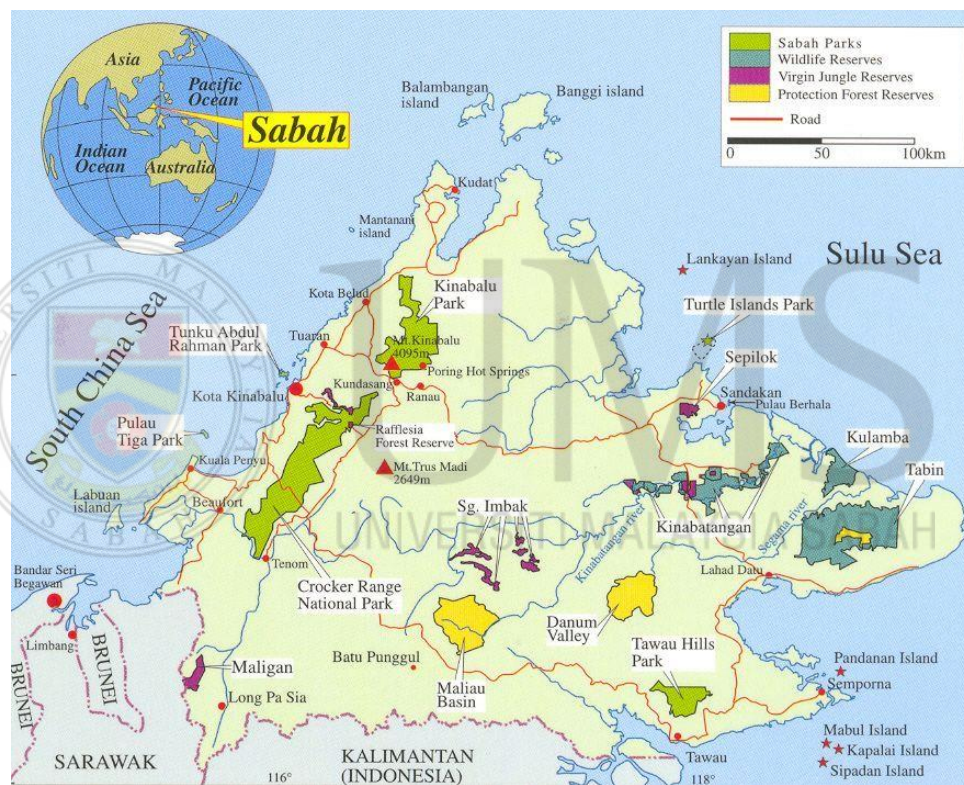
TITLE	Page
DECLARATION	i
	ii



CHAPTER 1

INTRODUCTION

1.1 Preliminary introduction



Picture 1: Map of Sabah - courtesy of bikeandtdours.com

The state of Sabah is a growing marketplace and an attractive destination for e-commerce firms. It is a state located in the East part of Malaysia. Known for its dazzling beauty of an array of flora and fauna, Sabah has been growing leaps and bounds over the years although its economy was disrupted by the recent covid-19 lockdowns. Economic recovery is on its way ever since its opening. Due to a significant amount of the population in the state who are millennials and considered tech savvy, the state is an ideal market for any e-commerce business looking for sales and businesses such as the likes of e-commerce platforms; Shopee, Lazada, etc. The state is also

recording an increase in internet penetration rate in the coming years. This development will render the market potentially profitable in the years to come especially for e-commerce players. Data provided by the Malaysian Ministry of Communications & Multimedia (KKMM) (Malaysia, 2022), Sabah recorded a penetration rate of 88% per 100 residents for mobile broadband & 20.9% per 100 residents for fixed line broadband. That would translate to 83.9% in the 3rd quarter of 2021 compared to 73.41% in the 2nd quarter of 2021 thus proving an increase in internet penetration rate in the state.

1.1.1 Background of internet and the e-commerce

According to Weng (Weng & Ding, 2012) citing figures from the Internet World Stats, the internet boasts at least 2 billion users and that number has been growing steadily. That growth has never slowed down and is expected to increase further in the coming years as the global population grows. In the background of such development, the exponential growth of the internet has also opened up new possibilities and sectors never seen before in the previous decade. The internet is seen as a gold mine of the future and it is not surprising that many scholars today testify that such reality is becoming a norm. Even industries never heard of before the advent of the internet have become a contributor to global GDP figures today. Previously, sellers and traders need to open up retail brick and mortar stores to display their products to the market. But that has become a thing of the past. According to Maignan and Lukas (Maignan & Lukas, 1997), the internet is now becoming the ultimate source of information, method of communication, marketplace platform and social system.

Since the internet has become an important avenue for any business to expand its channel replacing the need to have brick and mortar premises to sell their goods and services, that universe is highly interactive and can reach customers anywhere around the world with just a click of a button, a feature that makes it almost impossible for any bricks and mortar premises to match. This feature is the main reason why customers offline flocked to the internet as such universe can provide products and solutions without even setting their foot in the store. All you need to do is just sit in the comfort of your chair while enjoying a slice of pizza and just browse through a selection of websites that can offer the products that you need from the market. Just pay for the order, and the seller will have it shipped to you in no time. That is all it takes for it to

work. Because the internet has become the global marketplace for products and services, the rise of e-commerce as a dominant force to be reckoned with is unparalleled.

E-commerce is the industry that is borne out of the internet. An extensive amount of literature and an academic journal is dedicated to this development. E-commerce is a type of transaction involving the exchange of goods and services facilitated by electronic media and the internet (Vipin & Satyendra, 2021). If a consumer from the USA is interested in a product from a brand in China which is half a world away, by conventional means the brand would need to have a branch in the US to enable the consumer to have access to that specific product in the absence of the internet. This would then require a substantial amount of capital employed by the brand to set up the aforementioned branch and stock up the necessary inventories for public viewing. The internet eliminates the need for all that. With just a website or an app through the click of a mouse button and a swipe of the finger, the consumer would be able to view the product online, purchase without the need to visit the branch and receive the product at their doorstep via domestic couriers. This would save money, and time and significantly helped the brand to expand globally.



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1.1.2 What is buy now, pay later?

Buy now and pay later or known commonly as BNPL recently mushroomed with the rise of e-commerce. It is a mode of payment that cuts the payment of a product into instalments, a defining feature that makes it easily acceptable in the market. Just imagine if we as a consumer are given the option to have our payment settled in monthly instalments over a given period, wouldn't that be exciting? This is why BNPL has become a popular alternative channel and mode of payment for buyers on e-commerce platforms. However, the trend is relatively new and is still considered an infant in the market. More research is needed to contribute to a growing literature dedicated to this upcoming trend.

For any e-commerce to succeed, the payment system must be intact. It is because of this that BNPL acts as the payment channel for consumers to make a purchase. According to Della et al. (Della & Salsabilla, 2021), BNPL is the expansion of the current retail market and helps solve the payment issue faced by many consumers not rectified by large banking institutions. BNPL fills the gap in the consumer market left open up wide by the banks themselves. The rise of shopping online demanded a payment mechanism that is much more attractive and financial friendly to consumers, especially among the younger generations (generation z) that make up the bulk of demographics shopping on the internet. BNPL is a form of payment at a later date in one or more interest-free instalments which typically involves third-party lenders separate from the retailer.

BNPL can be considered an instalment purchase agreement. According to Firas (Firas, 2016), he cites that instalment purchase agreement is a contract structure utilized by the merchant to assist the consumer to purchase the merchant's products and services where under this structure, the consumer pays the merchant in full through a series of partial payments over time. This is the foundation of how BNPL works in the market.

The surging popularity of BNPL is an undeniable fact. With more payment conveniences and options for consumers to choose from to buy products online, consumers can just purchase their mobile phones through the program. This payment method acts like a credit extension similar to credit cards and extends the ability to what consumers can afford to buy. The best part of BNPL is that it does not go through a bank which would then require more financial paperwork which would otherwise strip them of the ability to buy more. To some consumers, BNPL is seen as a

substitute for credit cards offered by banks. However, it is starkly different in the sense that BNPL is offered via a digital process either through websites and applications instead of a card. But at this stage, BNPL is not offered to everyone due to the capital-intensive nature of the program. As such, the option is offered only to users based on repayment history, and demographic information & with just a few basic financial information required for them to submit (Subramaniam, 2021).

1.1.3 When did buy now and pay later even become a concept?

BNPL is a relatively new concept. BNPL was known to emerge publicly in Australia and European countries in the year 2015 (ASIC, 2018). After Pay, a fintech firm was among the early pioneers offering the service to the public. Later on, e-commerce firms such as Shopee etc. adapted the form of payment to increase more sales volume on their website (Yeyen, Salahudin, Dicky, & Titiek, 2020 - 2021).

1.1.4 What is Shopee?

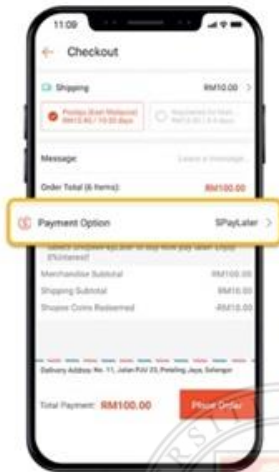
Shopee is a leading e-commerce platform in Southeast Asia & Taiwan tailored to providing customers with an easy, secure and fast online shopping experience through strong payment and logistical support. It is a growing company with over 160 million active listings with more than 6 million sellers to date which would also include more than 7000 of the leading brands and distributors selling and doing transactions on the platform (Shopee, Shopee Overview, 2022). Shopee is headquartered in Singapore under the ownership of Sea Group, a leading global consumer internet company founded in 2009.

1.1.5 Buy Now Pay Later (BNPL) on Shopee

HOW TO PAY THROUGH SPAYLATER

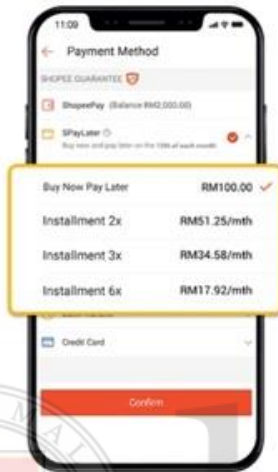
STEP 1

Upon checkout, click on "SPayLater"



STEP 2

Select your preferred installment plan. Monthly repayment amount includes all fees set up to charge user



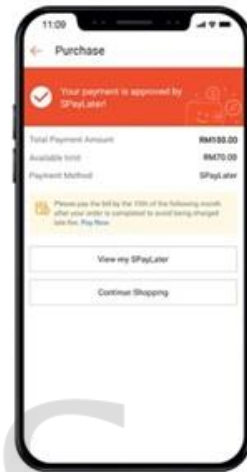
STEP 3

Input your ShopeePay PIN



STEP 4

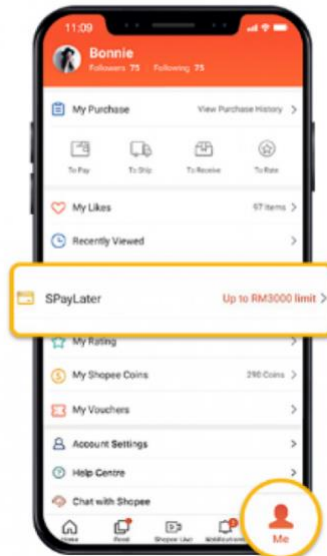
Receive payment confirmation



Picture 2: Figure detailing the step-by-step approach of paying through Spay Later – courtesy of TechNave.com

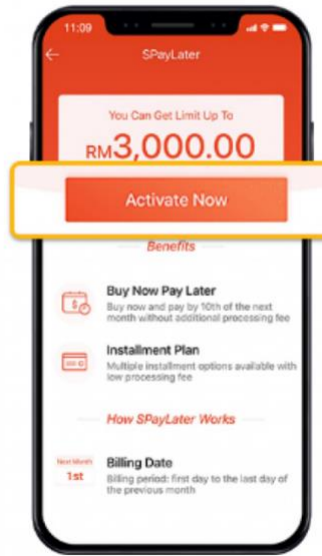
STEP 1

On the Me tab, select SPayLater



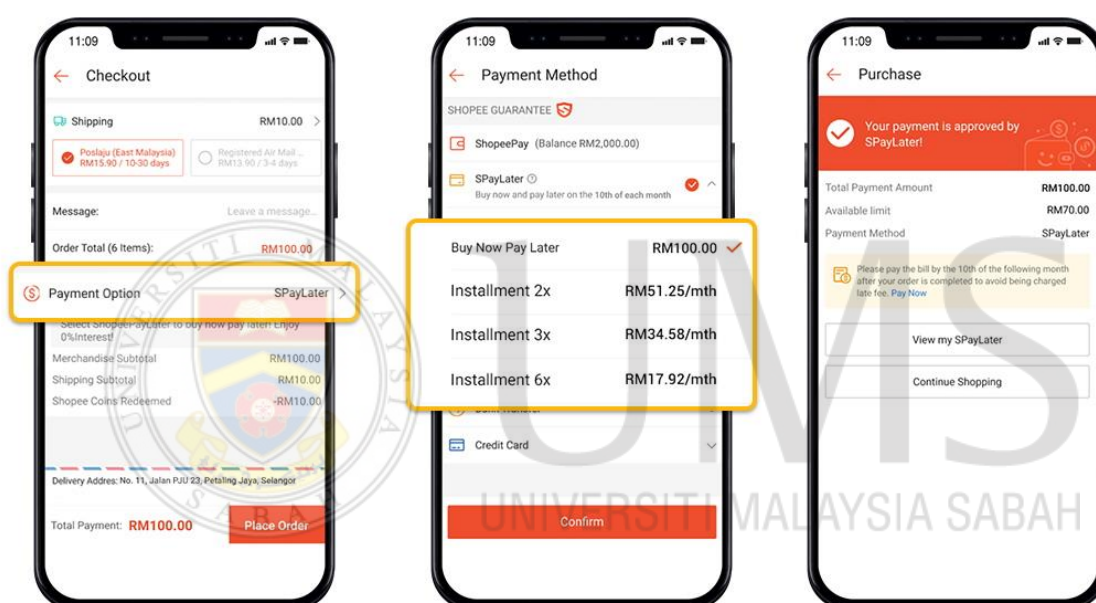
STEP 2

Click Activate Now



Picture 3: Display of Spay Later on a Shopee account – courtesy of mypromo.my

According to the Shopee website, the BNPL program for the e-commerce platform is known as Spay Later. The program is available by invitation based on shoppers' payment track record. Users who are Malaysian by birth, 18 years and above with a valid MyKad/My PR are eligible to use the payment platform. Shoppers can make a purchase immediately and pay for it next month, or as instalments across a few months. The few months option would be 2 months, 3 months, 6 months, or 12 months with a small processing fee of 1.25% of the total order amount (Shopee, Shopee Overview, 2022) (Shopee, Shopee Portal, 2022).



Picture 4: Spay Later Instalment plan on display – courtesy of LowYat.net

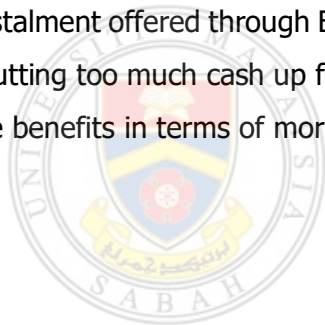
1.1.6 Why do people use Buy Now and Pay Later?

According to Prelec (Prelec & Loewenstein, 1998), payment mechanisms in instalments often ease the constraints of full payment at a time and increase the marginal propensity to consume and purchase more consumers. This is one of the hallmarks of BNPL as the instalment mechanism stimulates consumers spending ability to buy more than what they are capable of as inflation further increases over time the price of both foods and non-foods. This in turn will impact the consumers' ability to make a purchase. As such, financial institutions will go to great lengths to come up with financial instruments that will help consumers overcome their financial barriers to

spending. BNPL is accelerated by the pandemic and the widening gap on income inequality. Besides that, BNPL can be considered attractive to a group of users who are out of reach from credit cards and prefer not to have credit cards in their wallets. Another reason why BNPL is well received is due to the lack of requirement for users to prove their income statements.

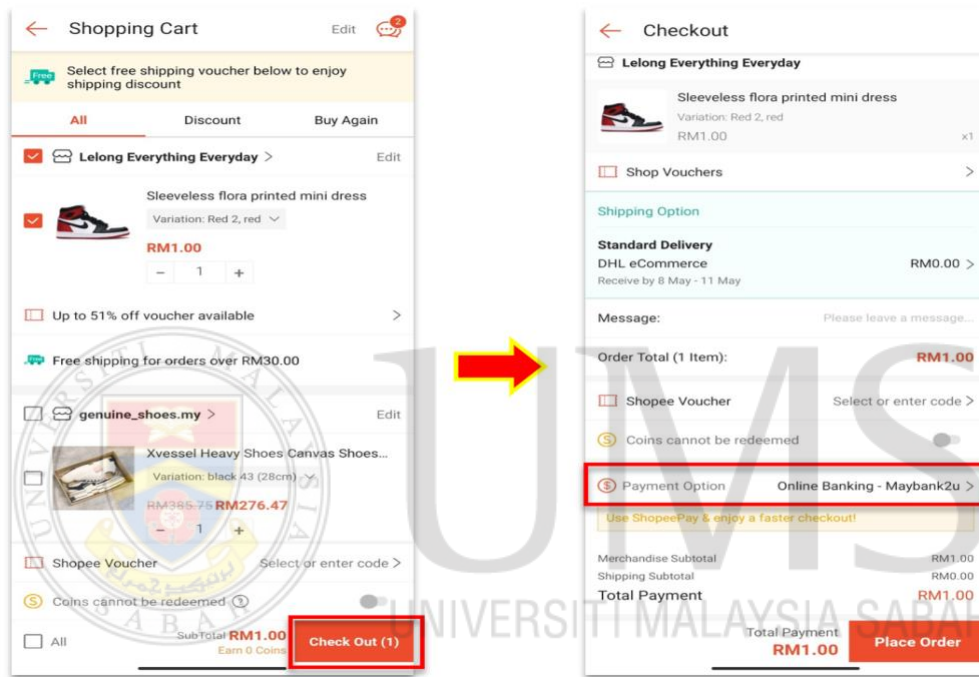
1.1.7 What is the impact of Buy Now and Pay Later phenomena in e-commerce?

BNPL is known to remove the barrier of purchase for consumers to buy especially high-ticket items such as electronic gadgets which are a popular category in the e-commerce space. Prelec (Prelec & Loewenstein, 1998) views that when a consumer is empowered with an instalment payment mechanism, it will help reduce their financial burden but at the same time increase their propensity to spend more as a result of impulsive purchasing behavior. This is because the payment mechanism has a huge bearing on how consumers spend their money (Hirschman, 1979). Instalment offered through BNPL offers a degree of flexibility to purchase high ticket items without putting too much cash up front. When consumers spend more, e-commerce players will reap more benefits in terms of more sales revenue coming through their income pipeline.



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1.1.8 Lump sum payment as the default payment of Shopee



Picture 5: Lump sum/one-off payment option – courtesy of Shopee Malaysia

Lump sum payment is the default option on the payment method offered in Shopee before the introduction of Buy Now Pay Later on the platform. It is the most recognizable payment method online and is a relatively straightforward transaction. If the cost of the product is RM 340, that amount will be exactly deducted on the credit card or debit versus Buy Now Pay Later which will split the payment in instalments depending on the options chosen by the users.

1.2 Statement of Problem

Buy now, Pay later is a new trend that has just boomed in recent times (Della & Salsabilla, 2021). Traditional banking as a whole is being disrupted by the constant ever-changing nature of the payment service sector (Yonghee, Young-Ju, Jeongil, & Jiyong, 1058-1061). With the explosion of e-commerce in the market, the shopping model has taken a new gear, flocking more consumers to purchase more items from online shopping sites. However, much research is needed to gauge the acceptance of BNPL versus lump sum from the standpoint of uses & gratifications. This is because even the literature on disruptive technologies itself related to it is scarce due to it being new into the marketplace (Puschmann, 2017) what more on the likes of BNPL. This is where the U&G theory plays a prominent role in understanding the trend customers purchase items paying using the payment method.

1.3 Objective of Research

To quantitatively compare the level of acceptance/adoption of Buy Now Pay Later (instalment) versus lump sum method of payment among consumers using Shopee in Sabah based on the framework of Uses & Gratifications Theory. The gratifications involved in this research are:

1. Usefulness gratification.
2. Ease of Use gratification.
3. Integrative gratification.

1.4 Significance of Research

Buy Now Pay Later is gaining popularity worldwide. It has been the talk of the town and has impulse customers to make purchases and improve sales on online vendors. This research is