

## FACTORS INFLUENCING GOLD PURCHASE BEHAVIOUR OF BUYERS IN ERODE CITY

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### ABSTRACT

Gold has been traditionally the preferred asset for Indians. In India, even today is amongst the largest purchasers of gold in the world. The Indians lust for gold has caused a tsunami of gold imports. This paper made an attempt to identify the factors influencing gold purchase behavior of buyers. Using a factor analysis by principal component method, this study identified investment alternative, liquidity, status quo, safety, quality conscious and customs and traditions are predominantly influencing factors of gold purchasing behaviour. After the thorough analysis it has been found out the demographic variables significantly differ with the factors of gold purchase behaviour. This study paves the way to understand the buyers and also useful to sellers of gold for preparing their policies and strategies.

**Key Words:** Gold Purchase, Buyers Behaviour, Factors influencing gold purchase

### INTRODUCTION

Gold is one of the oldest precious metals known to man and for years it has been valued as a global currency, an investment, a commodity and an object of beauty and India is not an exception to this. India's love affair with gold is timeless straddling over centuries and millennia. In India, Gold is not just another precious metal but it is a part of our culture, an inseparable part of our belief system and a matter of pride. It has always been considered a sacred item in life and is a must in every religious function- reason being that it is pure having passed through fire in its process of evolution. It's being seen as symbol of good fortune and prosperity. The stable purchasing power ability of gold and the inherent value feature of gold makes it a safe investment especially during the time of recession with high risk such as inflation, exchange rate fluctuations etc. In the past 20 years India's economy is growing at a rapid rate and the purchasing capacity of an Indian has increased to a great extent. For Indians, gold is wealth, financial security and also a fashion statement. These factors make India the largest buyers of gold in the world.

Indian jewellery industry is growing at a fast rate of almost 15%. In India, there are around 15,000 vendors in the gold processing industry and about 450,000 gold smiths spread across the length and breadth of the country. There are also about 6000 vendors in the diamond processing industry in India. Before the abolition of the Gold Control Act in 1992, only Minerals and Metal Trading Corporation of India (MMTC) and the State Bank India (SBI) were allowed to import gold. The abolition resulted into free import of gold by large export houses. The exporters in the export housing zones were allowed to sell 10% of their produce in the domestic market. In India, consumer demand for gold in the second quarter from April to June 2013 was 310 tonnes. This shows an increase of 71 per cent as compared to the second quarter of 2012. Gold in the form of investment is exclusively in a physical form, typically a gold bar or a gold coin and sometimes the list includes gold medals as well. During the second quarter of 2013, gold bars and gold coins investment rose to 116 per cent, while demand for jewellery rose by 51

per cent as compared to second quarter of 2012. Gold demand grew 21% to 1,289.8t – the strongest Q1 on record. Investment drove gains. Jewellery fell sharply on higher prices and market-specific factors. Global gold demand amounted to 993t in Q3 2016 (-10%), as high gold prices discouraged consumers. ETPs were the only bright spot during the quarter, with 146t of inflows helping to counterbalance weak demand elsewhere, notably in jewellery (-21%), bars and coins (-36%) and purchases by central banks (-51%) (*World Gold Council, 2016*). An increased demand for gold as an investment can be seen throughout these years as seen above. Thus it is important to study and to know what factors really affects demand for gold in a situation of High Price, or demand for gold when it's a product with an inelastic demand.

### STATEMENT OF THE PROBLEM

Gold has been traditionally the preferred asset for Indians. In fact, India, even today is amongst the largest purchasers of Gold in the world. The Indians lust for gold has caused a tsunami of gold imports. Gold is not just a mere investment for Indians. It is woven into the fabric of the Indian culture, traditions, religious beliefs and trendy. It is also considered as a status symbol helpful in asserting the wealth of a person in the society.

Gold is presumably as widely used investment in India as other investment instruments. But it is one prime option among rows of other instruments. It is considered by many, to be the best investment and can make to protect themselves during stock market declines and inflation. according to World Gold Council demand trend report for Q3 of 2016, Demand for gold in India for Q3 2016 was at 194.8 tonnes, down by 28% as compared to overall Q3 demand for 2015 (271.1 tonnes). In fact, history shows that the performance of gold goes up in times of high inflation. However, the price of gold also has its highs and lows and Indian households could just as easily lose money investing in gold as with any other investment. Hence, based on the aforesaid issues, the following questions are probed:

- i) When do buyers purchasing gold?
- ii) What are the general beliefs of buyers on gold purchase?

### SCOPE OF THE STUDY

The purpose of this study is to analyse the factors influencing gold purchase behaviour of buyers. The outcome of this study will be of immense help to the jewellers in understanding the choices and preferences of buyers, the criteria adopted by buyers in selecting a particular jeweller, in adopting a suitable pricing strategy, and in devising an appropriate marketing strategy, so as to nurse their customers in a better way.

### OBJECTIVES OF THE STUDY

The study has been carried out with the following objectives:

- i) To identify the factors influencing gold purchase behaviour; and
- ii) To find out the influence of demographic profile on factors of buyers' behaviour towards gold purchase;

### HYPOTHESIS

- There is no association between demographic profile and factors of buyers' behaviour towards gold purchase.

**RESEARCH METHODOLOGY**

Survey Method has been followed for the study. Both primary and secondary sources of data are used. Well structured questionnaire is designed to elicit necessary data from the respondents in Erode city. The secondary data are collected from the books, journals, web portals, etc. A proportionate random sampling method is employed to elicit the necessary information from the buyers of gold in Erode City. The sample size of 120 respondents, representing 30 in each of 4 zones in Erode City (East, West, South and North), has been duly selected to represent the entire universe. The primary data collected from the respondents has been analyzed with the help of Statistical Package for Social Sciences (SPSS). The statistical tools such as One-way Analysis of Variance (ANOVA), Karl Pearson’s coefficient of correlation and Factor Analysis by Principal Component Method have been employed to analyze and interpret the data.

**FACTORS INFLUENCING BUYERS’ BEHAVIOUR TOWARDS GOLD PURCHASE**

This study explored the predominant factors prevailing among the buyers with respect to gold purchase. Factor analysis by principal component method is applied on the fifteen variables of buyers’ behaviour towards purchase of gold to identify the predominant factors.

Table 1: Variables and Variable Loadings for Gold Purchase Behaviour

Variables / Factors	Factors Loadings	Eigen value	Cronbach’s Reliability Coefficient	% variation
<b>Factor 1: Investment Alternative</b>				
I believe that gold investment is a better investment alternative	.917	2.441	9.324	16.274
I always try to reduce the potential of loss in my portfolio	.901			
Continuous increase in market price of gold	.742			
<b>Factor 2: Liquidity</b>				
I may invest for emergency pledging	.898	2.155	7.452	14.366
I invest in gold for future purpose	.923			
<b>Factor 3: Status Quo</b>				
I invest in gold for my prestige	.658	2.057	5.984	13.712
I invest in gold to show my wealth	.778			
<b>Factor 4: Safety</b>				
Fullest safety for investment	.746	1.907	6.451	12.715
I believe that including gold will reduce my portfolio risks	.843			
<b>Factor 5: Quality Conscious</b>				
Can easily able to identify purity of gold	.923	1.843	5.954	12.283
Always purchase Hallmark gold only	.881			
<b>Factor 6: Customs and Traditions</b>				
I prefer to buy gold for my satisfaction	.867	1.262	5.188	8.417
I buy gold for special occasions (weddings, festivals, Akshayatriyai, etc)	.881			
I buy gold for religious purposes	.550			
I buy gold because of the traditional value it holds for me	.876			
KMO Measure of Sampling Adequacy = 0.574; Bartlett’s Test of Sphericity = 757.928, Sig. .000; Cumulative Percentage Rotation Sums of Squared Loadings = 77.766.				

The KMO and Bartlett's test for sampling adequacy for fifteen variables are found to be 0.574 and the chi-square value of Bartlett's test for Sphericity is 757.928. This clearly indicated that all the fifteen variables are different and perfectly distributed in a normal distribution. This also emphasized that the factor analysis is suitable for fifteen variables of buyers' behaviour towards gold purchase. The factor analysis by principal component method with varimax rotation has revealed six eigen values as 2.441, 2.155, 2.057, 1.907, 1.843 and 1.262. This indicated that the eigen values greater than 1 led to the existence of six major factors with 77.766 percent of variance.

The rotated component matrix table indicated that the variables loadings in each predominant factors of buyers' behaviour towards gold purchase. The first factor consists of three variables which are suitably named as 'Investment Alternative'. The second factor contains two variables which are suitably called as 'Liquidity'. The third factor includes two variables which are named as 'Status Quo'. The fourth factor contains two variables which are named as 'Safety'. The fifth factor includes two variables which are suitably called as 'Quality Conscious'. The sixth and final includes four variables which are suitably named as 'Customs and Traditions' (Table 1).

It is observed that the gold buyers in Erode city strongly believes gold is a best investment alternative, reduces portfolio risks and quite safest investment portfolio. Moreover, buyers are treated holding of gold as status symbol and it is used for emergency pledging. Thus, gold purchasing is linked with customs and traditions of the buyers.

**RELATIONSHIP AMONG THE FACTORS OF GOLD PURCHASE BEHAVIOUR**

The relationship among various factors of buyers' behaviour towards gold purchase has been established to make this study more meaningful. The combination of these factors is considered as the major influencing factor among the buyers' behaviour towards gold purchase. In this regard, Karl Pearson's coefficient of correlation is employed to find out the inter-relationship among the factors of buyers' behaviour towards performance of credit rating agencies.

Table 2: Relationship among Factors Influencing Gold Purchase Behaviour

Factors	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>
Investment Alternative (X <sub>1</sub> )	1					
Liquidity (X <sub>2</sub> )	.273**	1				
Status Quo (X <sub>3</sub> )	.359	.433**	1			
Safety (X <sub>4</sub> )	.243**	.257**	.348**	1		
Quality Conscious (X <sub>5</sub> )	.170**	.158	.270**	.469**	1	
Customs and Traditions (X <sub>6</sub> )	.145	.220**	.224**	.285**	.169	1

\*\*Correlation is significant at the 0.01 level (2-tailed)

The correlation results indicated that the first factor 'Investment Alternative' perfectly correlated with 'Liquidity', 'Safety' and 'Quality Conscious'. The second factor 'Liquidity' perfectly correlated with 'Status Quo', 'Safety' and 'Customs and Traditions'. The third factor 'Status Quo' perfectly correlated with 'Safety', 'Quality Conscious' and 'Customs and Traditions'. The fourth factor perfectly correlated with the 'Quality Conscious' and 'Customs and Traditions'. This showed that all these factors are highly influenced in the behavior of buyers towards gold purchase (Table 2).

**INFLUENCE OF DEMOGRAPHIC PROFILE ON FACTORS INFLUENCING GOLD PURCHASE BEHAVIOUR**

The six factors of buyers’ behaviour towards gold purchase, such as Investment Alternative, Liquidity, Status Quo, Safety, Quality Conscious and Customs and Traditions as identified by factor analysis, on demographic profile have been analysed to measure their influence. The factors of behaviour towards gold purchase have been taken as dependent variables and demographic profile of gold purchasers, such as age, gender, educational qualification, marital status, occupation, family income, annual savings and amount invested in gold as independent variables. One-way Analysis of Variance (ANOVA) is applied to find out the influence of independent variables on dependent variables (Table 3).

**Hypothesis: There is no significant difference between demographic profile and factors of gold purchase behaviour.**

Table 3: Influence of Demographic Profile on Factors of Gold Purchase Behaviour

Factors	Age	Gender	Education	Marital Status	Occupation	Monthly Income	Annual Savings	Amount Invested
Investment Alternative	1.215	.364	1.276**	1.643	3.016**	2.877*	.496**	5.577**
Liquidity	1.641	.370	.789**	.364**	.594*	1.322**	1.443**	13.238**
Status Quo	1.622**	3.052	1.924	1.419	1.076**	1.568*	3.700*	22.596**
Safety	.319	.805	1.542**	.010	.856	.148**	.509**	52.814**
Quality Conscious	1.210	3.209	4.119**	3.981*	1.307**	1.187**	.174**	10.921**
Customs & Traditions	.999**	3.578**	2.128	.004**	2.325*	2.806*	.201	.201*

The ANOVA results explored that the factors status quo and customs and traditions differs significantly with respect to age of the buyers at 5 percent level of significance.

The ANOVA results indicated that the factor customs and traditions differ significantly with respect to gender of the gold purchasers at 5 percent level of significance.

The ANOVA results explored that the factors of behaviour towards gold purchase such as investment alternative, liquidity, status quo, safety and quality conscious differs significantly with respect to educational qualification at 5 percent level of significance.

The ANOVA results divulges that the factors liquidity, quality conscious and customs and traditions differs significantly with respect to marital status of the gold buyers at 5 percent level of significance.

The ANOVA results identified that the factors of behaviour towards gold purchase such as investment alternative, liquidity, status quo, quality conscious and customs and traditions differs significantly with respect to occupation of the gold purchasers at 5 percent level of significance.

The ANOVA results showed that the factors of behaviour towards gold purchase such as investment alternative, liquidity, status quo, safety, quality conscious and customs and traditions differs significantly with respect to monthly income of the gold purchasers at 5 percent level of significance.

The ANOVA results proved that the factors of buyers' behaviour towards gold purchase such as investment alternative, liquidity, status quo and quality conscious differs significantly with respect to annual savings of the investors at 5 percent level of significance.

The ANOVA results revealed that the factors of buyers' behaviour towards purchase of gold such as investment alternative, liquidity, status quo, safety, quality conscious and customs and traditions differs significantly with respect to amount invested in gold at 5 percent level of significance.

### **SUGGESTIONS**

The following suggestions are made for the betterment of gold purchasers and jewellers.

#### **For Gold Buyers**

- ❖ The purchasers should be very cautious in selecting the gold jewellers. It is essential to collect information about various jewellers in the market and find the most reliable one for them. It will be helpful for them to buy real gold jewellery. While purchasing the gold they have to verify the weight, purity and quality of stones also.
- ❖ Gold buyers should buy gold bars and coins instead of jewellery for investment. If they attempt to sell, they may not get a good price for jewellery because of making and processing charges involved in it.
- ❖ Gold Buyers should look for Hallmark or BIS label engraved on jewellery, gold bars and coins in order to have better quality and purity.
- ❖ Gold is a very strong bet compared to shares that are highly volatile. So, gold buyers should decide to invest in gold at times when the markets are falling couple with high rate of inflation.
- ❖ Gold buyers should not use gold as a short-term investment instrument. Gold short selling usually will not give significant gain to buyers. Though the gold price has always been increasing of late, it is better to hold the gold longer period in order to get maximum yield on investment.
- ❖ If gold is purchased for investment, then buyers should invest in gold ETFs, because investing in gold ETF yield the same return as of investing in physical gold. Moreover, there is no fear of theft and one need not worry about the storage cost.

#### **For Jewellers**

- ❖ Jewellers should conduct customer survey very often. It paves a way to review changes in attitude and preferences of customer.
- ❖ Jewellers should offer more attractive cash discounts and introduce saving schemes to buyers to boost the sale of gold.
- ❖ Jewellers should introduce attractive variety of designs and latest fashion jewells to net more buyers.
- ❖ The Jewellers should adopt effective sales promotion strategies which create awareness and stimulate buying behaviour of gold purchasers towards them.
- ❖ Jewellers' have to maintain cordial relationship with their customers for better sales.

## CONCLUSION

It is apparent that gold is a valued possession in Indian culture. From the evidence reported herein, it is given artifact status by virtue of its traditional and cross-generational significance. The findings from the qualitative phase of this study supports that gold purchase is a ritual activity in the Indian culture. The study discovered that gold is a best investment bet which reduces portfolio risks and quite safest investment destination. Further, buyers are considered holding of gold as status symbol and also use it for emergency pledging. Moreover, gold purchase is linked to customs and traditions of the buyers. The findings and suggestions made in this study will explicitly serve as an eye-opener for the gold buyers and jewellers. To conclude, if these findings and suggestions are implemented, it will be a win-win situation for both jewellers and buyers.

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