

CHAPTER I

INTRODUCTION

1.1. Background

Today, we lived in an era where the barriers and boundaries of trade between countries have been thinning out. International business is a phenomenon that has been practiced for thousands of years throughout the history of the world. According to Czinkota, Ronkainen, and Moffett, international business can be defined as the activity of trade and transactions that are carried out across national borders in order to achieve individual, organizational, or company goals (Essay, 2016). The practice of international business is often carried out by a country to boost their national economy. International business practices can also be done to establish and maintain political relationships between countries.

Throughout the years, International business has been growing and increasing rapidly because of the continuous changes in the world such as Globalization. Globalization can be defined as a phenomenon where countries across the world become more connected and dependent in the aspect of economics, cultures, and population. Globalization can also be triggered by the development of technology, cross-border trades in goods and services, flow of investment, and information (PIIE, n.d.). Globalization has resulted in the rapid growth of international business and the melting down of international boundaries.

Due to the rise in Globalization, communication has been perceived as one of the most important aspects of a human's life. A person's ability to communicate can determine how that person would be able to reach success. In this era of globalization, the demand for technology-based platform and devices in which the user will be able to communicate with other users has been increasing rapidly. Because of the importance of communication, companies all over the world have been developing high technology communication devices such as smartphones, computers, tablets, laptops, and telephones. The example of technology that is used in this research is smartphones.

Technology expansion has been evolving extremely fast and unpredictable, which about 10 years ago people were using Nokia, that still had a keypad and could only do small tasks like doing call and messaging, and now there are smartphones, smart TVs, and other advanced technology gadgets. Technology and gadget companies nowadays are being forced to follow the trend and advancement of technology, and those who refuse to keep up with the trend will end up being left behind. For example, Nokia, which used to refuse using Android as their Operating Software, started declining and almost bankrupt because of the new smartphone series worked by Android and Samsung for the first time.

Through the years, living standards of people all over the planet has been growing and changing into modern society and lifestyle. This society and lifestyle demand a fast-paced communication. In modern society, people all over the world have

been dependent on the usage of the internet for multiple purposes. The internet can be used to find and gain information for study or business purposes, to communicate with one another, to express themselves, to find new people to operate their business, for political purposes, and many more. This kind of behavior results in a high demand for smartphones.

The phenomena of Globalization which influenced the growing activities of International Business also resulted in the growth of global market for smartphones. According to Kotler & Keller, Global Marketing can be defined as the process that companies use to focus their variety of resources in order to have the chance to penetrate the global market (Kurniawan, 2019). The practice of Global Marketing in the smartphone industry has varied throughout the years. Well-known companies throughout the generations such as Nokia, Blackberry, Apple, Samsung, and many more, all have their own global marketing strategies to penetrate the global market. There are a lot of companies competing in the market of smartphone industries all over the world. During the recent years, there has been an increase in market penetration which is conducted by smartphone companies originating from China, therefore resulting in a higher level of competition in the market share of international smartphone brands.

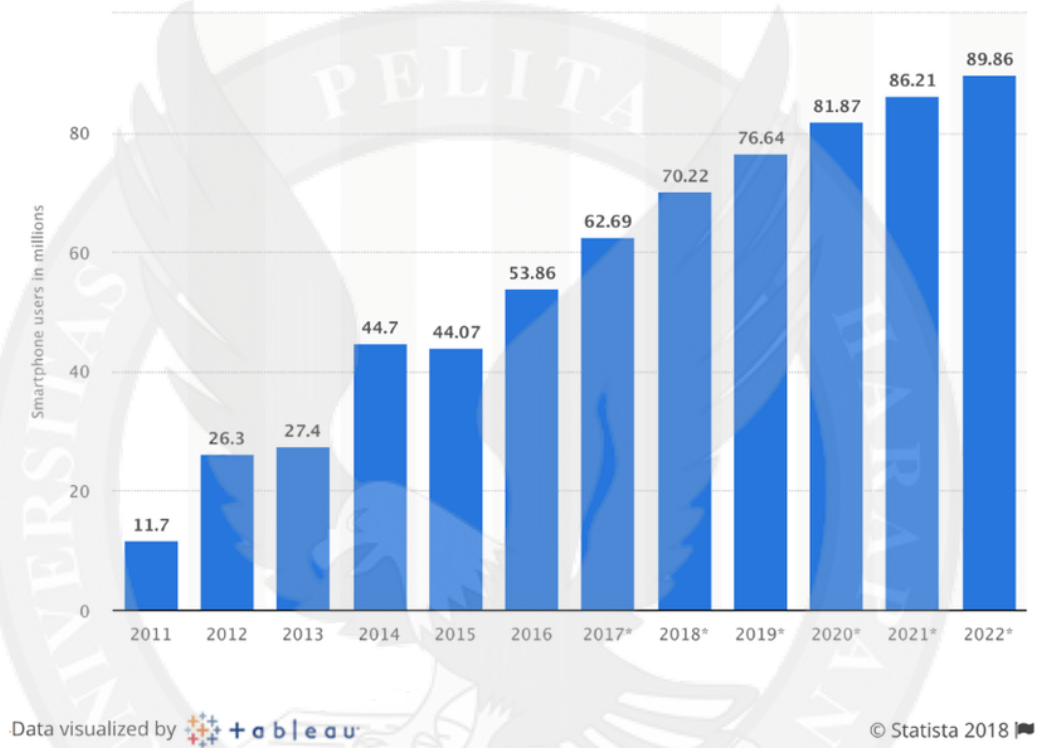
Vendor	Q4 2019 shipments (million)	Q4 2019 market share	Q4 2018 shipments (million)	Q4 2018 market share	Annual growth
Apple	78.4	21.3%	71.7	19.7%	+9%
Samsung	70.8	19.2%	69.9	19.2%	+1%
Huawei	56.0	15.2%	60.5	16.6%	-7%
Xiaomi	33.0	9.0%	26.8	7.3%	+23%
Oppo	30.3	8.2%	29.6	8.1%	+2%
Others	100.2	27.2%	105.6	29.0%	-5%
Total	368.7	100.0%	364.1	100.0%	+1%

Table 1: Worldwide Smartphone Shipments and Annual Growth
Sources: (Canalys, 2020)

According to the data presented by Canalys, Apple led the market of smartphones worldwide with 21.3% of market share in the fourth quarter of 2019 followed by Samsung and Huawei. Xiaomi ranks at the fourth place of market shares worldwide in the fourth quarter of 2019 by experiencing an increase by 1.7% in market shares from the fourth quarter of 2018 to 2019. According to the data above, it is shown that Xiaomi has the highest annual growth compared to the other brands. But even though Xiaomi has the highest annual growth, the market share of Xiaomi in the fourth quarter of 2019 is still close to the market share of Oppo. Smartphone brands from China such as Xiaomi and Oppo has been distributed to many countries around the world especially at the Asian Region.

The smartphone industry in Indonesia has been growing every year. Nowadays, the trends of the modern era such as e-commerce business systems have become

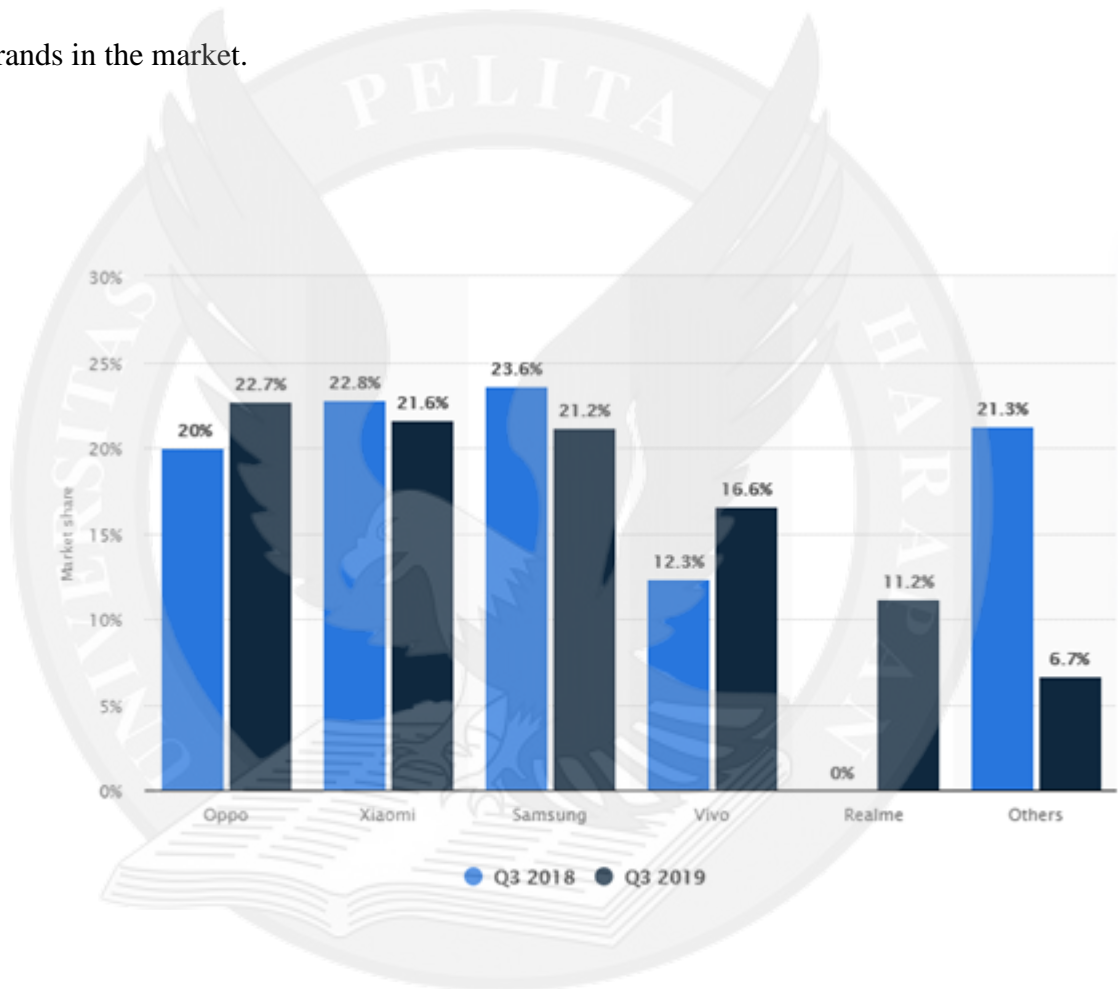
common in the Indonesian society. These changes in Indonesian society has resulted in the growing demand of internet, websites, and applications. Therefore, such changes result in a rapid increase of smartphone usage in Indonesia.



Graph 1: The Number of Smartphone Users in Indonesia from 2011 - 2022
Source: (Statista, 2020)

According to the data provided by Statista, the usage of smartphones in Indonesia has been projected to increase every year. It is shown that the number of smartphone users in Indonesia from 2011 to 2014 has increased drastically. The projected data has shown that the number of smartphone users in Indonesia will exceed 80 million users in the year of 2020. The continuous increase in the number of

smartphone usage in Indonesia has proven the size of the Indonesian smartphone market. The Indonesian market in the smartphone industry is very broad and filled with a variety of products and brands. In recent years, Chinese smartphone brands have been storming the market in Indonesia, resulting in a more intense competition among the brands in the market.



Graph 2: Vendors' market share of smartphone shipments in Indonesia from Q3 2018 to Q3 2019*

Source: (Statista, 2019)

According to the data provided by Statista, both Xiaomi and Samsung experienced a decrease in sales from the third quarter of 2018 until the third quarter of

2019 in the Indonesian smartphone market. Oppo and Vivo on the other hand, experienced an increase in sales from the third quarter of 2018 until the third quarter of 2019. It is shown that in the third quarter of 2019, the market share of Oppo in Indonesia surpassed the market share of Xiaomi.

Xiaomi is an internet company originated from China which core products are smartphones and smart hardware connected by an IoT platform. Xiaomi Corporation was founded in April 2010 by Lei Jun. The logo of the Xiaomi company, “MI” stands for “Mobile Internet” and it also has another meaning including “Mission Impossible” because the company has faced many challenges that had seemed impossible in their early days (XiaoMi, n.d.).

The company has a vision of being friends with its users and being the “coolest company in the hearts of its users”. Like any other successful international companies, Xiaomi is committed to continuous innovation and is focused on making products with high quality and efficiency. The company has built amazing high-quality products with an honest and affordable price, so that quality technology can be accessible to everyone and the users can have a better life through innovative technology. Xiaomi is the world’s fourth largest smartphone brand and has established the world’s largest consumer IoT Platform. Xiaomi have a leading foothold in many markets and has been present in 90 countries and regions all over the world.

Xiaomi is chosen as the object of research because during these recent years, the Xiaomi brand has been showing a lot of development in penetrating the smartphone

market in Indonesia. As most people see China companies' products as low quality, copycat, and cheap. Yet, MI could still expand their sales outside of China and compete with other top market companies like Samsung who was the market leader at the time Xiaomi did appear.

In the practice of Global Marketing, it is also important for companies to understand customer behaviors in order to succeed in the global market. Buying Intention is one of the most important Consumer Behavior. According to Dodds, Monroe & Grewal, Buying Intention can be defined as the possibility of a consumer to be willing to purchase a certain product or service (Yunus & Rashid, 2016). There are a lot of factors that could affect the Buying Intention of a product. The basic factors such as Price and Quality could cause huge differences of sales in the market.

One of the factors that was chosen in this research is Country Image. The image of the country that the product originated is a very important aspect in the success of the product in the market. If the country where the product originated has an unsatisfying reputation in the eyes of the market, then it could also affect the sales of the product. The market's perception of the country origin of the product can determine how much the product can penetrate the market and how long the product will remain sustainable. Therefore, the companies that are planning to penetrate the international markets must be sure that their country's image is suitable to their targeted customers.

The other variable that was chosen for this research is the Quality of Product. The quality of product focuses more on the experience and satisfaction of the

consumer towards the product. It is very essential for companies to maintain high quality standards for their products. High quality standards have to be implemented in order for the product to be sustainable in the global market and to ensure the convenience of the product to the user, which is important to the buying intention of the customer. In developing countries such as Indonesia, the quality of product is an important element to consider especially in the smartphone market.

Other than the quality of the product, it is also important for the company to ensure that the consumer is familiar with the brand. Brand Familiarity is not only the awareness the consumer has of the brand, but Brand familiarity is also the knowledge that the consumer has about the brand by spending an amount of time processing information about the brand. By being familiar to the brand, it would also determine the intention of the consumer to purchase the product. The way a consumer perceives a brand of a product and their decision to purchase the product can be a result of their experience with the brand. These experiences can be built by the satisfaction of a consumer to the product's quality or service and also from the reputation of the brand. Brand Familiarity can be a crucial part that is essential to the product's success and sustainability on the international market. In this case, Xiaomi is able to compete in Indonesian market although the brand is still not as popular as Apple and Samsung.

Based on the theories and data presented above, therefore this research is titled, "The Effect of Country Image, Brand Familiarity, and Product Quality to Buying Intention of Xiaomi in Jabodetabek.". The model of research that was chosen is a

replication of the research conducted by Yunus and Rashid in 2016 (Yunus & Rashid, 2016).

1.2. Research Problems

Based on the background that has been presented above, it is shown that the main problem that will be discussed in this research is:

The market share of Xiaomi in Indonesia in 2019 has decreased while its market share in the global market has increased. It is believed that purchase intention is the reflection of the market, while market itself is measured by market share of a product that spreads around the world. That is why this research is conducted on the Buying Intention of Xiaomi in Indonesia, and the factors that affect Buying Intention itself.

Therefore, the Research Questions are:

1. Does Country Image affect the Buying Intention of Xiaomi in Jabodetabek?
2. Does the Product Quality of Xiaomi affect the Buying Intention of Xiaomi in Jabodetabek?
3. Does Brand Familiarity affect the Buying Intention of Xiaomi in Jabodetabek?

1.3. Purposes of Study

Based on the Formulation of Problems that is presented above, the purposes of study are:

1. To identify the effect of Country Image towards the Buying Intention of Xiaomi in Jabodetabek.
2. To identify the effect of Product Quality towards the Buying Intention of Xiaomi in Jabodetabek.
3. To identify the effect of Brand Familiarity towards the Buying Intention of Xiaomi in Jabodetabek.

1.4. Benefits of Research

There are benefits that can occur from this research. From the theoretical standpoint, this research can provide new information or knowledge to interested parties. It can be useful as guidelines or comparisons to the next researchers in order to be able to prepare a proper thesis. From the practical standpoint, this research is expected to increase the knowledge and insight of researchers about Country Image, Product Quality, and Brand Familiarity. So that it would be useful for them to deepen their knowledge during lectures and researches. This research is also expected to provide additional information and benefit for the companies specializing in the smartphone industry in order to further understand the aspects of Country Image, Product Quality, Brand Familiarity, And Buying Intention of Xiaomi and to help them in achieving their goals.