CHAPTER I

INTRODUCTION

The entire structure of this research is outlined in this chapter. The research background, research problem, research question, research objective, research limitation, research contribution and research outline are included.

1.1 Research Background

In modern economic development, globalization has been a significant megatrend as it increases the cross-border transfer of goods, improving technology, and ease the barriers of delivering exchange information (Kovtun & Ignatyuk, 2014). In the business landscape, Globalization has been making more firms easier to trade goods or services internationally because it has a positive impact on technological advancement, declining trade barriers and other aspects that makes many countries become more integrated. In order to go global, developments in the micro and macroeconomic environments are pushing firms penetrate global market and take action. Thus, multinational business growth not only fuels globalization, but also contributes to the emergence of many global brands (Bhattacharya et al., 2020). Initially, domestic firms begin to enter the international market and then, to expand internationally, building brands that operate globally are often one of the first considerations of the firm's international business strategies (Chabowski et al., 2013). Firm's attempt to go global across the development process and promotion of global brands. Accordingly, as the competition starts to globalize, a firm's success depends on the ability to position and manage a brand across numerous countries in which it operates (Matanda & Ewing, 2012). International trade and foreign investment have escalated over decades, causing huge changes in international operations.The internationalization of competition is similarly radical in its impact on the market. Managers in almost all sectors must see worldwide competition as a reality (Kelz & Bloch, 1993)

The development in this era has created an immense opportunity for many businesses to provide their products/ services worldwide and customers are also able to evaluate and learn about Global brands and its product (Sulhaini et al.,

2018). The availability of information makes it easier for customers to make a purchase decision by comparing the possible options among product and services alternatives (Chen, 2015). The increasing varieties and options of the product intensify the competition in the market. In today's highly competitive market, improving and sustaining customers' brand loyalty is a common company goal and one of their success indicators. Recent studies signify that developing long term marketing strategies is vital because customers tend to differentiate brands based on the relationship embedded between customers and brand (Giovanis & Athanasopoulou, 2018). For that reason, many businesses are seeking ways to enhance customers' loyalty by brand- based differentiation, providing features or services that could lead to positive experiences and create passionate brands (Uygun & Guner, 2018). Loyal customers who repeatedly purchase from a brand contribute to achieving sustainable competitive advantages, generate a higher revenue stream and profits for survival and business development, thus, to maintain their customer they often create loyalty programs and switching costs to 'lock their customers' (Chen, 2015; Grisaffe & Nguyen, 2011). Besides product attributes and functional value, other factors such as emotions, meaning, and feeling that customers ascribe to a particular brand also affect their buying behaviour (Mingione et al., 2020). Consumers who have strong positive emotions are likely to be loyal and would repurchase from the same brand, even when other alternatives are provided (Asshidin et al., 2016). A substantial, distinctive emotional value helps the company to develop and sustain customers' brand loyalty (Konu et al., 2020).

The emotional connection in the customer-brand relationship is essential because it goes beyond consumer perceptions (or attitudes) and determines crucial marketing facets such as purchase intentions, willingness to pay, positive word of mouth, and forgiveness (Pourazad et al., 2019). The number of customers purchase increase because they want to meet their personal emotional need (Asshidin et al., 2016). Emotional value implies positive feelings upon specific brands, which increases customer loyalty towards a brand. (Sulhaini et al., 2020), stated that young customers often seek emotional value attached to global brands; therefore, they will admire and willing to pay more for the brands as they offer the value needed. A

study conducted by (Asshidin et al., 2016) about consumer preference towards global and local brands shows that consumers, especially in the developing countries, are knowingly to prefer global brands because of emotional rewards attached to the product such as wealth, prestige, sense of pleasure, and happiness when using such brands. Besides, emotional connection between brand and customers includes sincere willingness to support, admiration to a brand, reinforces positive preferences towards one's brand, and also leads to brand love or brand passion (Konu et al., 2020; Loureiro et al., 2012; Swimberghe et al., 2014). Passion act as the one of the aspects of emotion (Vallerand, 2012). Swimberghe et al. (2014) suggest that brand passion is the strongest emotional link in customer-brand relationships and the centre of solid and top-notch customer-brand relationships. One of the ways to understand customer-brand relationships is to focus on the feeling of passion which is the major force in the relation (Gillal et al., 2018). A brand can create various favourable feelings and experiences for its customers. When customers identify themselves to have strong and important feelings for a brand, positive feelings, and the passion for a brand start to develop (Uygun & Guner, 2018). Companies comprehend customers' passion for predicting their buying behavior and understanding their feelings toward a particular brand (Ahn et al., 2019).

In this research, the researcher wants to elucidate brand passion for a global brand, specifically brand in the tech, entertainment, and mass media industry. According to the Economic Sea (2019) report by Google, the digital market opportunity in Indonesia for the said industry is expected to be worth $130 billion by 2025 and appears to be appealing for foreign brands, including Netflix. Netflix is the world's leading entertainment service industry providing subscription-based internet television networks (Service streaming movies and television episodes). The founders of Netflix, Marc Randolph, and Wilmot Reed Hastings Jr began to operate Netflix on August 29, 1997, and now generate 193 million paid membership also, available in 190 countries (Netflix.com). The huge success of Netflix began in 1999 when Netflix adopted new business model strategies based on monthly subscription concepts without adding additional fees such as due dates, late fees,

shipping, and rental fee or per rental title fees. In 2007, Netflix introduced a more convenient way to distribute content for their customers, which allows them to instantly watch the movies on their personal gadget or computer without locally storing the data and provide a wider variety of platforms or devices to access its content. As a result of Netflix's success, Netflix became the world's most popular video streaming service with most subscribers in 2019 (Statista, A).

Furthermore, Netflix expected to generate more revenue in global markets by expansion to the International market, including Indonesia. Netflix began to penetrate Indonesia's market back in 2016 and has over 900 thousand subscribers now. As figure 1.1 below illustrates, the number of Netflix's subscribers keep doubling each year and expected to grow significantly (Statista, B). Additionally, A report conducted by Netbase brand passion about the top 100 most loved global brands in 2017 and 2018 reveals that Netflix was in the ninth position in 2017 and the tenth position in 2018. The rapid growth of Netflix's subscribers in Indonesia has been an interest for researchers to analyze if Indonesian customers do have a global brand passion for Netflix.

Figure 1.1: Estimated Netflix's subscribers in Indonesia (2017- 2020)

Source: Statista, B

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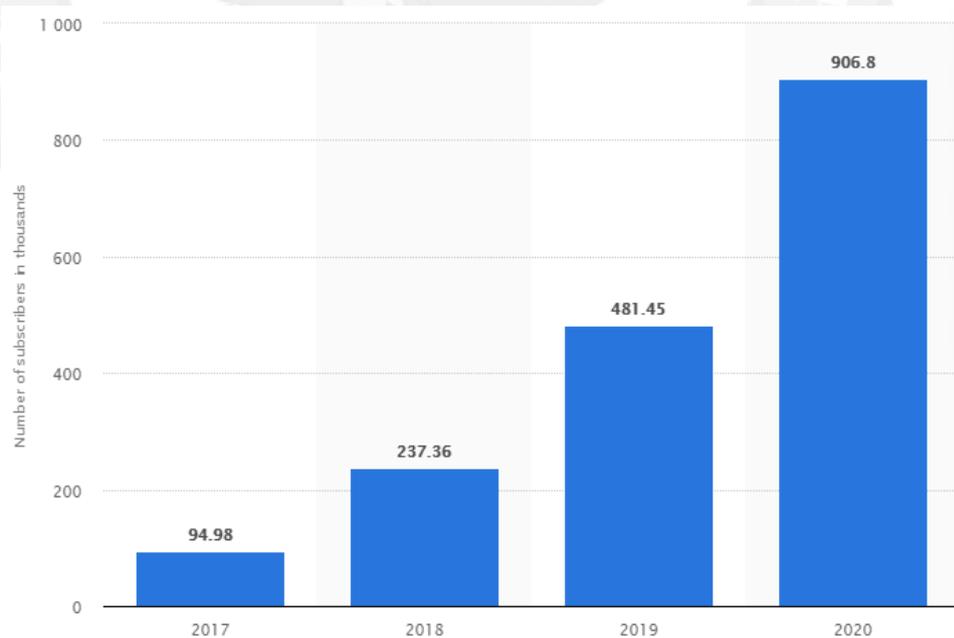
Understanding brand passion is essential in creating emotional relationships, considering it is closely related to brand loyalty and vitally important in marketing practices. Firms need to consider brand passion as a competitive action brand in their strategy because passionate customers are likely to do anything for the brand. Also, their feelings, perception, behaviour, and actions of the brand may be affected by their desire to own the brand (Kim & Kim, 2018). The result of studies conducted by several researchers shows empirical evidence that the outcomes of brand passion are important in a firm's managerial implications such as brand advocacy, supporting behaviour in social media, purchase loyalty, alternative devaluation, positive word of mouth, willingness to pay a higher price for the brand, brand trust, brand loyalty and brand identification(Albert et al., 2013; D'lima, 2018; Ghorbanzadeh et al., 2020; Gilal et al., 2020; Loureiro et al., 2012; Pourazad et al., 2015; Swimberghe et al., 2014). To enhance those outcomes, a brand needs to emphasize strong relationships with its customers and consider emotional aspects such as brand passion. Customers who are passionate about a brand tend to have a positive consequences on consumer behaviour. Therefore, the importance of brand passion necessitates marketers to conduct in-depth analysis about the determinants and also the consequences of brand passion (Ghorbanzadeh et al., 2020).

From the background that has been elaborated above, this research views that brand passion is a crucial aspect that drives customer-brand relationships and plays a major role in managerial implication. This research focuses on the outcomes of Netflix's brand passion in Indonesia based on existing research conducted by (Pourazad et al., 2019). The variables proposed in the journal are Attitudinal Brand Loyalty, Brand Advocacy, Social Media Following, Sense of Community, Willingness to Pay a Premium Price, and also Alternative Devaluation. As the Netflix expansion has grown in Indonesia, this research would like to test the other factor and variables that are integrated with brand passion and brand loyalty, also to examine whether strong emotions could shape positive behaviour towards Netflix in Indonesia.

1.2 Problem Statement

Netflix is known as the world's number 1 video streaming service provider with the most subscribers in 2019 (Statista, A). AThe global expansion of Netflix is a key driver of the success of the company, they already operate in more than 190 countries around the world by 2017, and much of their subscription revenue comes from international subscription revenues (Brennan, 2019). The international market has been a hot seat for Netflix to expand its market share. In this research, researchers aimed to explore deeply if Indonesian customers have a brand passion for Netflix. Netflix Indonesia Spokesperson, Adwina Hargini stated that Indonesia offers big opportunities for Netflix and has a large market share for the Streaming Video on Demand (SVOD) segment. An annual growth rate (CAGR 2020-2025) of 23.4% is expected for the SVOD market in Indonesia, resulting in an estimated market volume of US$ 400 m by 2025 (Statista, C). Indonesia is indeed a promising market for the SVOD business. The large population size with more than 267 million inhabitants and the high adoption of digital technology has made companies like Netflix spread their business to Indonesia. Netflix has been operating in Indonesia since 2016, and however, despite its global popularity, Netflix was on the fragile ground in Indonesia. Statista (D) estimated that Netflix would generate revenue from Indonesia about US$76.6 million by the end of 2020, and Indonesia expected to receive 10% tax income from Netflix amounting to US$3.8 million alone in 2019.

Moreover, there had been a problem with Netflix and the Finance Ministry. Taxes that are expected to be obtained by Indonesia cannot be collected because Netflix doesn't have a permanent branch in the country. Netflix's Asia-Pacific headquarters is located in Singapore, and there is no indication that Netflix will open an office in Indonesia anytime soon. Hence, this company is under the supervision of the Ministry of Finance because Netflix has not paid taxes since it started operating in Indonesia.

Furthermore, More than four years ago, on January 27, 2016, Telkom blocked Netflix for all of its subscriber channels. At that time, this state-owned company argued that it had found pornographic content. Telkom is the only service

provider that blocks this service. This has been a Netflix major issue since Telkom is the biggest internet provider in Indonesia. P.T. Telkom Indonesia was again ranked first in the Top 100 Most Valuable Brands 2020 or the most valuable company in Indonesia. Thus, this is the sixth time Telkom has achieved glorious achievements while outperforming other top Indonesian brands since 2015 (Telkom, 2020). Service offerings from TELKOM, IndiHome have seven million clients, and from the third quarter of 2019 Telkomsel has 170 million subscribers, of whom approximately 65% are data customers. Accordingly, Netflix lost their potential customer, was not able to leverage Telkom's users, and not maximize their ability to penetrate larger markets in Indonesia. However, even though access to Netflix is blocked, Telkom's users are still able to enjoy Netflix's content by accessing a VPN browser. Despite the challenges Netflix is facing, Netflix is still capable of tackling the issues. The revenue generated each year from 2016 - 2020 shows significant escalation. The figure below shows the estimated streaming revenue of Netflix in Indonesia for the period 2017- 2020 (Statista, 2016. D) :

Figure 1.2: Estimated Netflix's revenue in Indonesia (2017- 2020)
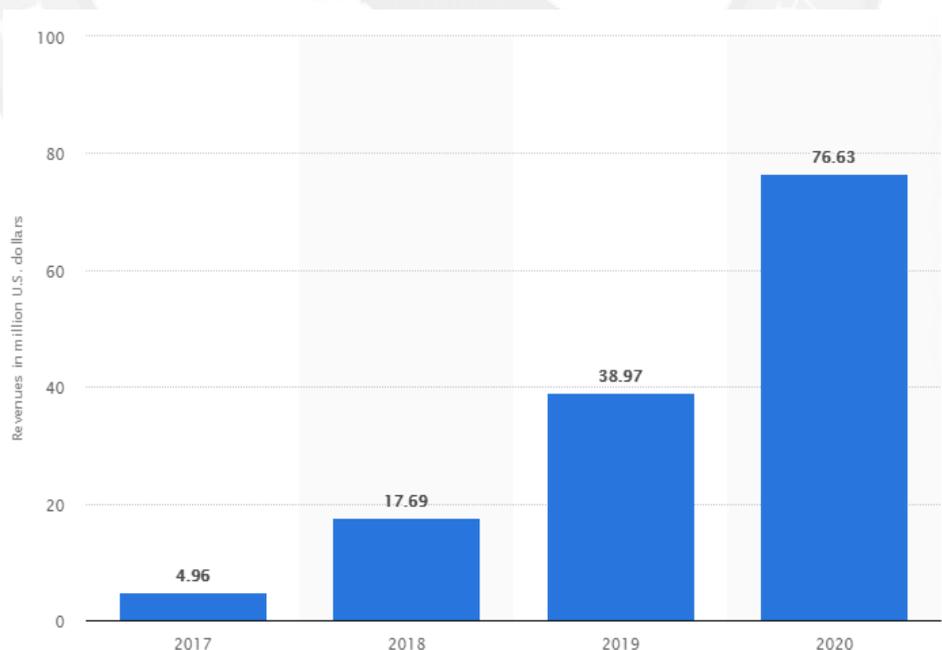
Source: Statista (D)

On July 7, 2020, Telkom finally unblocked Netflix. Service users from Telkom such as Indihome, Telkomsel, and Wifi.id can access the video streaming platform. According to Arif Prabowo, The Telkom's Vice President for Corporate Communication, the opening of the Netflix blocking occurred after an agreement was made to fulfil some conditions (Jannah, 2020). As the data explained above, Netflix's subscriber and revenues continue to increase every year despite the issue they were facing. Therefore, this study wants to discuss about the direct and indirect effect of customers' brand passion and loyalty on all outcomes, with a specific context about Netflix in Indonesia.

1.3 Research Objective

This research focuses on how passionate consumers towards a certain brand (Netflix) contribute to shaping their brand attitudes. The purpose of this research is to examine the influences of brand passion on its outcomes and attitudinal brand loyalty. It seeks to test whether brand loyalty is connected with brand passion and investigate the link between brand passion and the variables constructed on the model. Thus, based on the problem, this research's objectives are elaborated below:

1. To examine and test whether the presence of brand passion positively influences attitudinal brand loyalty.
2. To examine and test whether the presence of brand passion positively influences brand advocacy.
3. To examine and test whether the presence of brand passion positively influences the brand's social media following.
4. To examine and test whether the presence of brand passion positively influences customers' sense of community.
5. To examine and test whether the presence of brand passion positively influences customers' willingness to pay a premium price.
6. To examine and test whether the presence of brand passion positively influences alternative devaluation.
7. To examine and test whether the presence of attitudinal brand loyalty positively influences brand advocacy.

8. To examine and test whether the presence of attitudinal brand loyalty positively influences brands' social media following.

9. To examine and test whether the presence of attitudinal brand loyalty positively influences customers' sense of community.

10. To examine and test whether the presence of attitudinal brand loyalty positively influences customers' willingness to pay a premium price.

11. To examine and test whether the presence of attitudinal brand loyalty positively influences alternative devaluation.

12. To examine and test if there is a mediating role of attitudinal brand loyalty in the relationship between brand passion and brand advocacy.

13. To examine and test if there is a mediating role of attitudinal brand loyalty in the relationship between brand passion and the brands' social media following.

14. To examine and test if there is a mediating role of attitudinal brand loyalty in the relationship between brand passion and customers' sense of community.

15. To examine and test if there is a mediating role of attitudinal brand loyalty in the relationship between brand passion and consumers' willingness to pay a premium price.

16. To examine and test if there is a mediating role of attitudinal brand loyalty in the relationship between brand passion and alternative devaluation.

1.4 Research Questions

Based on the description of the research background above, the topic was raised, which leads to factors of what interests the customers. Thus the research questions of the problem for this research is as follows:

1. Does the presence of brand passion positively influence attitudinal brand loyalty?

2. Does the presence of brand passion positively influence brand advocacy?

3. Does the presence of brand passion positively influence the brand's social media following?

4. Does the presence of brand passion positively influence customers' sense of community?

5. Does the presence of brand passion positively influence customers' willingness to pay a premium price?

6. Does the presence of brand passion positively influence alternative devaluation?

7. Does the presence of attitudinal brand loyalty positively influence brand advocacy?

8. Does the presence of attitudinal brand loyalty positively influence the brand's social media following?

9. Does the presence of attitudinal brand loyalty positively influence customers' sense of community?

10. Does the presence of attitudinal brand loyalty positively influence customers' willingness to pay a premium price?

11. Does the presence of attitudinal brand loyalty positively influence alternative devaluation?

12. Does the presence of attitudinal brand loyalty positively mediate the link between brand passion and brand advocacy?

13. Does the presence of attitudinal brand loyalty positively mediate the link between brand passion and the brands' social media following?

14. Does the presence of attitudinal brand loyalty positively mediate the link between brand passion and customers' sense of community?

15. Does the presence of attitudinal brand loyalty positively mediate the link between brand passion and customers' willingness to pay a premium price?

16. Does the presence of attitudinal brand loyalty positively mediate the link between brand passion and alternative devaluation?

1.5 Research Scope

This research operated under several limited scope conditions:

1. This study discusses Brand passion, attitudinal brand loyalty, brand advocacy, social media following, sense of community, willingness to pay a premium price, and alternative devaluation.

2. This study was conducted in the main cities in Indonesia, especially in Jakarta, Bogor, Depok, Tangerang, and Bekasi

3. The respondents in this study are Netflix's customers ranging from age 16-34 years old. They are more familiar with global brands in their daily lives along with the globalization and current dynamic lifestyle trend.

4. The specific brand of this research is Netflix

1.6 Research Contribution

This research is expected to have contributed toward the general outlook and practical implications that will describe as follows:

1. Theoretical Contribution

   The research aimed to contribute a theoretical study that inputs seven emphasized variables that are; Brand passion, attitudinal brand loyalty, brand advocacy, social media following, sense of community, willingness to pay a premium price, and alternative devaluation. The research is expected to be able to develop a proper explanation about the relationship among proposed variables, providing insight and other important contributions that can be obtained as a material for interested parties to refer to this research and make further research on similar objects that have not been included in this research.

2. Practical Contribution

   This research is expected to provide relevant information, help individuals to generate ideas for those who are interested in this research, and with the results of this research, will help those who are interested in evaluating consumers' passion towards specific brands. This research is expected to widen companies or individuals insight about brand passion by providing material or reference to develop proper marketing strategies for

certain products in many countries, especially in Indonesia which is the location where this research is conducted.

1.7 Systematic Outline

The systematic outline included all the major parts and chapters in this research. The outline of the research is as elaborated below:

Chapter I: Introduction

This chapter elaborates on the research's structures, which comprise the research background, the research problem or problem statement, research question, research objectives, theoretical and managerial contributions, and the systematical framework of this research.

Chapter II: Literature Review

This chapter explains the complete existing theories and literature review of the research topic that will be taken from textbooks, journals, and other research sources. This chapter also contains the research model and hypothesis that discusses several variables concerning the research questions posed.

Chapter III: Research Methodology

In this chapter, the research methodology used in this research is described in order to respond to the research questions written and provide a full explanation of the research used. Starting from research paradigm, research object, research subject, unit of analysis, types of research, research design, ethics in data collection, types of variable, conceptual and operational definition, measurement scale, data source and techniques, types of question, and sample design.

Chapter IV: Data Analysis and Methodology

The fourth chapters in this research represent the findings of the linkages among variables in this study. The result of using statistical examination was performed with the data collected. The result of the discussion will provide accurate data to answers the research question and leads to the conclusion of the research.

Chapter V: Conclusion and Recommendation

The outcome and conclusion of research questions and other chapters are derived from this chapter, based on results of the review of this research and recommendations for the future will be made.