Chapter I

INTRODUCTION

1.1 Background

Indonesia is the fourth most crowded nation in the world, with an expected population of 271 million individuals. Of these 271 million people, more than half live in Java. This makes Indonesia a country that has high economic potential. According to news reported by Indonesia investment, Indonesia is the biggest economy in Southeast Asia which has various qualities that place Indonesia in a decent position to encounter quick monetary development (Indonesia Investment, n.d.-a). Deputy of LIPI's Social Sciences and Humanities, Tri Nuke Pudjiastuti said that the dynamics of the global economy had an influence on the dynamics of a country's economy and other economic actors, including Indonesia (LIPI, 2019). She also explained that the role and position of the Indonesian economy in the global arena can be seen from various aspects such as investment, industry, and trade which are the three main aspects in developing the Indonesian economy, both in the domestic and global markets. One of the sizable export commodities carried out by Indonesia is coffee.

Coffee is a beverage that is well known in different circles around the world. Coffee is an intricate combination of more than 800 volatile compounds while caffeine and chlorogenic acids are the most well known mixes. Coffee is served globally and most countries have built up their own preferences about how to prepare and present it (Nieber, 2017). Nieber (2017) also said that the historical

backdrop of coffee goes at any rate as far back as the tenth century, with a few legends encompassing its use. The local (undomesticated) beginning of coffee is thought to have been Ethiopia.

Coffee is taken as a brewed or fermented beverage that is set up from the roasted seeds of a shrubbery of the family Coffea. The coffee beans are contained in berries that, when developed, are processed and dried. The two principles species are Coffea Arabica (coffee Arabica) and Coffea canephora (coffee Rustica). According to (Indonesia Investment, n.d.-b), the distinction between the two assortments lies for the most part in their taste and level of caffeine. Arabica beans, which are more costly in the global market, have a milder taste and have a caffeine substance of 70% less than robusta beans.

As indicated by the information from the International Coffee Organization, Indonesia is the fourth biggest coffee producer in the world after Brazil, Vietnam, and Colombia, sequentially. Regarding agricultural commodities, Indonesia Investment also said that coffee is the fourth biggest foreign trade earner for Indonesia after palm oil, rubber, and cocoa. Of the total creation, the Association of Indonesian Coffee Exporters and Industries said that about 67% is exported while the remaining 33% is consumed domestically. This makes Indonesia the second largest coffee consuming country among coffee exporting countries after Brazil.

Indonesian people who consume coffee come from various backgrounds. In the past, coffee consumers in Indonesia were the elderly when they were hanging out with friends or while resting while working. Coffee in circulation is also diverse. Indonesia is a producer of robusta coffee. Each region has its own coffee with a

different taste and aroma. One of the famous ones in foreign countries is Luwak coffee. This type of coffee is known for its high price. But nowadays, coffee lovers have reached young people. Many specialty cafes offer coffee and are created in a supportive atmosphere for simply hanging out with friends or meeting colleagues. One of the most famous cafes in Indonesia is Starbucks.

Starbucks is an American coffee shop, accurately in Seattle's Pike Place Market. The main Starbucks store was a little shop in Seattle, Washington that was established by an English teacher named Jerry Baldwin, a history teacher named Zev Siegl, and an author named Gordon Bawker on March 30, 1970 (Wisnubrata, 2017). In the article it was also stated that before it was named Starbucks, this coffee shop is named Pequod, the name of the whaling ship in the Moby Dick story, but because many disagree, the name Starbuck appears, who is one of the crew members of the same story. From here, finally came to the name Starbucks. The Starbucks' logo is additionally enlivened by the ocean - featuring a twin-tailed siren from Greek folklore.

The timeline for the company since its initiation, expresses that in 1982, Howard Schultz joined Starbucks as director of retail operations and advertising. It was that year that Starbucks began distributing coffee to restaurants and coffee bars (Starbucks, 2019a). In 1983, Howards went on an outing to Italy, and on this excursion, he appreciated the prominence of the coffee bars in Milan. Seeing that, he saw the possibility to build up a comparable coffeehouse culture in Seattle. Upon his get back from Italy, Howard convinced the Starbucks founders to test the coffeehouse idea he had found in Milan in Seattle. In 1984, the first run through

Starbucks Caffè Latte was served. This preliminary was the start of the company that was worked by Schultz in 1985.

In the exact year, Howard met Il Giornale, where he offered brewed coffee and espresso drinks made straightforwardly from Starbucks coffee beans. In 1987, Il Giornale acquired Starbucks resources with the assistance of neighborhood investors and changed the Starbucks name to Starbucks Corporation. In that year, stores opened in Chicago and Vancouver, Canada which carried the total stores to 17. In 1988, all Starbucks workers, both part-time and full-time, received full medical advantages. Likewise, in 1988, Starbucks stores added up to 33 stores. After one year, the total stores expanded by a considerable amount up to 55 stores.

With quick development, Starbucks extended its central command in Seattle and expanded the quantity of stores to 84 stores in 1990. In 1991, Starbucks became the first privately owned US company to offer an investment opportunity program that incorporates part-time workers. In the exact year, Starbucks opened the primary authorized airport store at Seattle's Sea-Tac International Airport and has an all out store of 116 stores. In 1992, Starbucks finished its initial public offering (IPO), with common stock being exchanged on the NASDAQ National Market under the exchanging symbol SBUX. Furthermore, in 1993, Starbucks opened a roasting plant in Kent, Wash and reported the initial two-for-one stock split. Their total stores during the current year are 165 stores. In 1994, their stores developed quickly arriving at an all out store of 425 stores.

In 1995, Starbucks unexpectedly started serving Frappuccino blended beverages. In that year likewise presented Starbucks super-premium ice cream and

they reported a second two-for-one stock split. What's more, that year a roasting facility was likewise opened in York, Pa. Packaged Frappuccino coffee drinks were first sold in 1996 through the North American Coffee Partnership (Starbucks and Pepsi-Cola North America). The first store outside North America was also opened for the current year, to be specific, in Japan and furthermore opened in Singapore, which brought the absolute Starbucks stores to 1015 this year.

In 1997, Starbucks opened The Starbucks Foundation which profited local education programs. Starbucks also opened their first store in the Philippines in that year. In 1998, Starbucks acquired Tazo, a tea organization in Portland, Ore. Furthermore, Starbucks additionally broadened the Starbucks brand into grocery channels over the US and launched an authority Starbucks website, Starbucks.com. Starbucks also opened a few stores in a few countries, specifically Malaysia, New Zealand, Taiwan, Thailand and UK. To promote sustainable coffee-growing practices, Starbucks collaborated with Conservation International in 1999. Starbucks additionally gained Hear Music, a music company established in San Francisco and reported a third two-for-one stock split. The first stores in China, Kuwait, Lebanon and South Korea also opened that year.

In 2000, Howard Schultz was selected chairman and chief global strategist. Orin Smith was also elevated to president and CEO. Starbucks set up authorizing concurrence with TransFair USA to sell Fairtrade certified coffee in US and Canada. Starbucks also opened their stores in Australia, Bahrain, Hong Kong, Qatar, Saudi Arabia and United Arab Emirates. Starbucks presented ethical coffee-sourcing guidelines created in association with Conservation International and

furthermore Starbucks Card in 2000. Starbucks Card is an innovative stored-value card for consumers to utilized and reload. Starbucks additionally declared a fourth two-for-one stock split and opened stores in Austria and Switzerland. In 2002, Starbucks went into authorizing concurrences with national FairTrade organizations to sell Fairtrade guaranteed coffee in the countries where Starbucks works together. In the very year, Starbucks also settled a Starbucks Coffee Trading Company (SCTC) in Lausanne, Switzerland and opened new stores in Germany, Greece, Indonesia, Mexico, Oman, Puerto Rico, and Spain.

The following stores that Starbucks opened were in Chile, Cyprus, Peru and Turkey in 2003. Along with the launch of a few of these stores, Starbucks additionally gained the Seattle Coffee Company which incorporated Seattle's Best Coffee and Torrefazione Italia coffee brands, and furthermore opened a roasting facility in Carson Valley, Nevada and Amsterdam, Netherlands. The primary Farmer Support Center opened in 2004 in San Jose, Costa Rica. Starbucks likewise delivered Ray Charles, Genius Loves Company CD in collaboration with Concord Records and presented the Starbucks Coffee Master Program. In 2005, Orin Smith resigned and his position as president and CEO was supplanted by Jim Donald. That very year, Starbucks procured Ethos Water and reported a fifth two-for-one stock split, just as opening stores in the Bahamas, Ireland and Jordan. In 2006, Starbucks dispatched the industry's first paper drink cup containing post-consumer reused fiber, based on this, Starbucks figured out how to spare in excess of 75,000 trees each year.

In 2007, Starbucks disposed all counterfeit trans-fat and made two percent of milk the new norm for coffee beverages in all US stores as a feature of their commitment to wellbeing and wellness, and Starbucks also opened their stores in Romania and Russia. In 2008, Chairman Howard Schultz returns as CEO and procures the Coffee Equipment Company and its Clover brewing system. Likewise, in that year, Starbucks launched their first online community, My Starbucks Idea. Starbucks also reported Starbucks Shared Planet in this year. Starbucks Shared Planet is the organization's long-term conducting business responsibly. Starbucks also extended association with Conservation International for work on ethical sourcing and environmental change. Something else that was launched that year was Pike Place Roast, which soon became Starbucks top-selling coffee, and furthermore opened new stores in Argentina, Bulgaria, Czech Republic and Portugal.

In 2010, Starbucks extended digital contributions for customers with free unlimited Wi-Fi in US stores and extended coffee contributions with the ultra-premium Starbucks Reserve line and Starbucks Natural Fusions, the first nationally-branded naturally flavored packaged coffee. Also, in 2010, Seattle's Best Coffee rethought business system to broaden the brand's span. Starbucks likewise announced the primary Asia Farmer Support Center in Yunnan Province, China. Until that year, the total stores reached 16,858 stores around the world.

As composed on the authority Starbucks website, their company has a mission, in particular to inspire and support the human spirit - one individual, one cup and one neighborhood at a time. Starbucks accepts that they generally serve the

best coffee to each customer. Their objective for the entirety their coffee is to be developed under the best expectations of quality, utilizing ethical sourcing practices. Their coffee purchasers personally travel to coffee farms in Latin America, Africa and Asia to choose best-quality beans. And their master roasters draw out the balance and rich flavor of the beans through the mark Starbucks Roast.

Based on Starbucks stores and worldwide success, it is only natural that Starbucks is named the fifth most admired food and beverage company in the world according to Fortune business magazine (Sari, 2018). Based on the data below, we can see the growth of Starbucks worldwide.
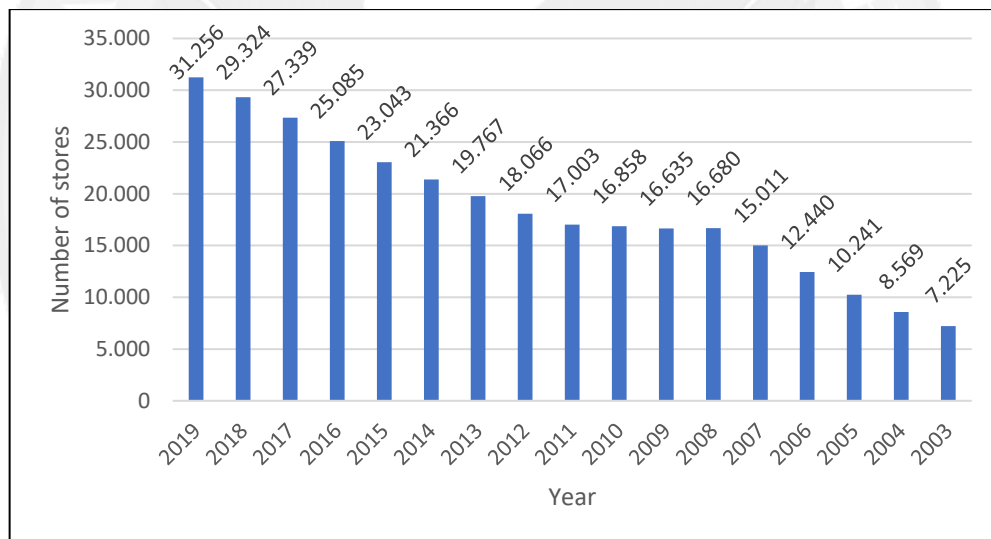

Figure 1.1 Number of Starbucks stores worldwide
Source: Lock, 2020

The graph in Figure 1 displays the data provided by Statista, the growth in the number of Starbucks stores around the world are very significant from 2003 to 2019. The data is reinforced by the graph in Figure 2 which featured 15 countries with the highest number of Starbucks stores around the world to by mid-2020. The first sequence is occupied by the United States with the total number of stores

reached more than 6300, and Indonesia ranks eighth in total stores as many as 450
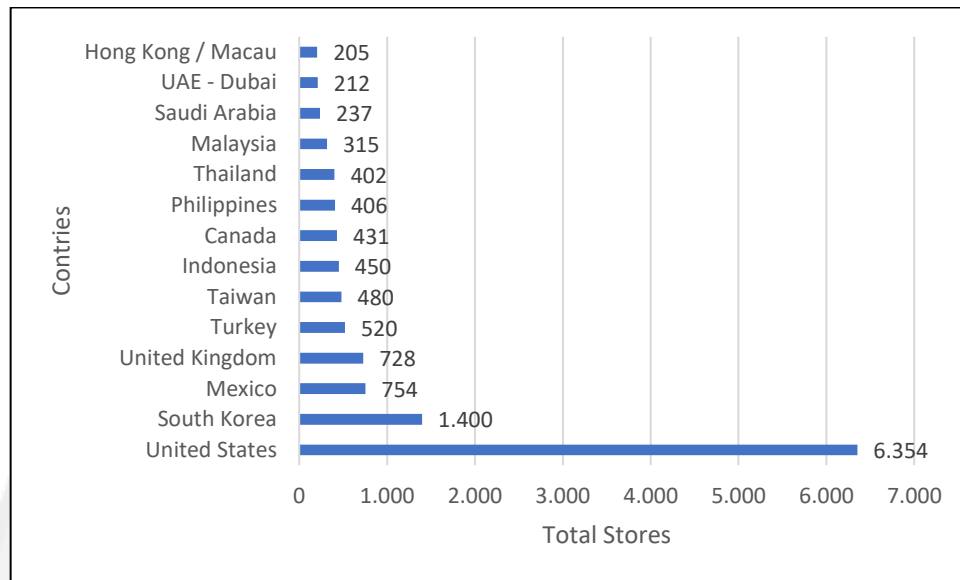
stores.

Figure 1.2 Top 15 countries with the most Starbucks stores
Source: Knoema, 2020

The success of Starbucks overseas has also reached Indonesia and made

Starbucks ranks tenth and the only Food and Beverages brand nominated for the

top 10 brands in Indonesia based on the Asia's Top 1000 Brand report published by

The Nielsen Company and the Asia-Pacific Campaign (Prasetyo, 2012). The

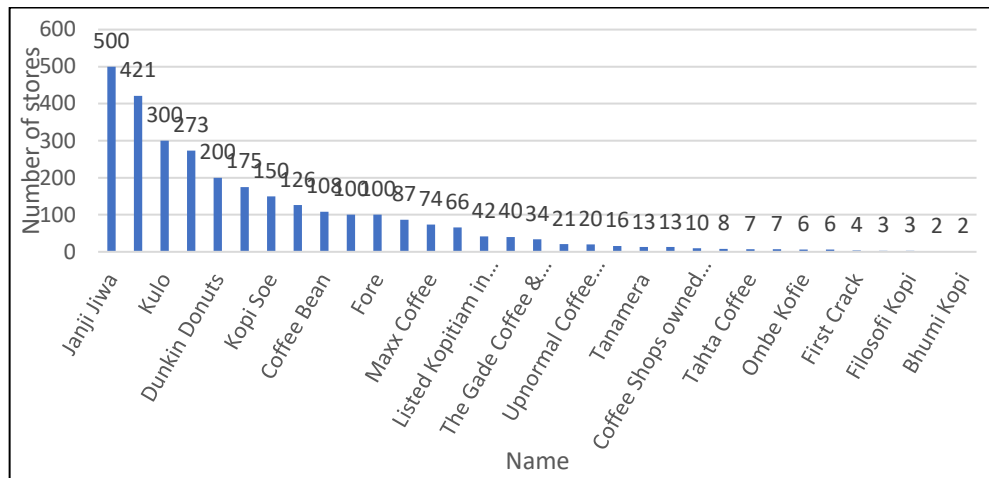pictures below will show the reputation of Starbucks in Indonesia.

Figure 1.3 Number of coffee shop outlets in Indonesia by brand
Source: Hirschmann, 2020a

Based on the graph in Figure 3, can be viewed below according to data from 2019, Starbucks ranks second for the highest number of coffee shop outlets in Indonesia. The first place is occupied by Janji Jiwa as one of Indonesia's original brands. Not much different from Janji Jiwa, Starbucks is in second place with a total of 421 stores. Compared to Maxx Coffee which is one of Starbucks competitors in Indonesia that carries a similar concept, Starbucks is still far superior based on the number of stores in Indonesia. In the graph, it can be seen that Maxx Coffee is in 13th place with a total of 74 stores. It can be seen also in the graph below (figure 4), Starbucks still ranks first as the largest share of the market value of coffee chain stores in Indonesia, in 2019 too.
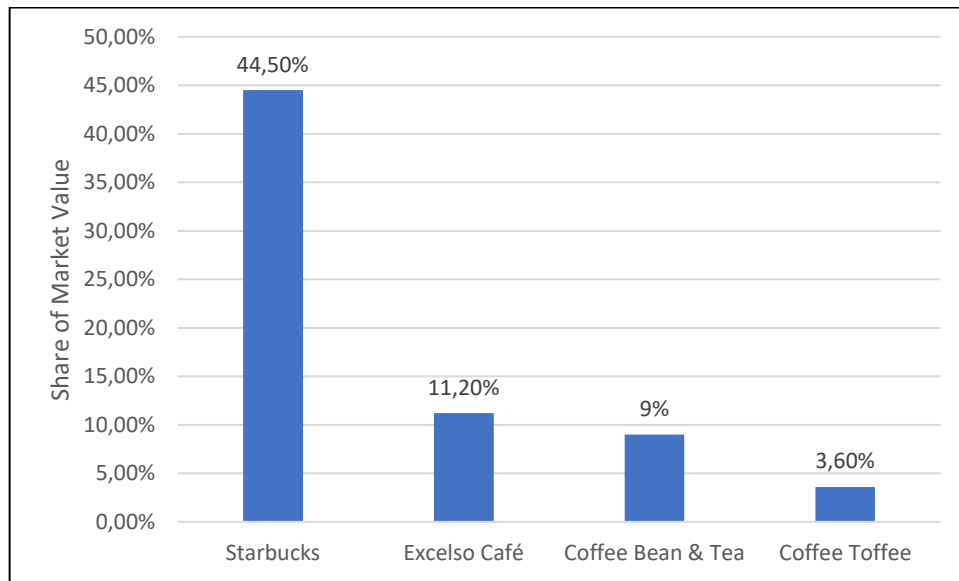
Figure 1.4 Share of Market Value of Coffee Chains in Indonesia
Source: Hirschmann, 2020b

Starbucks was first present in Indonesia on May 17, 2002 at Plaza Indonesia, Jakarta (Starbucks, 2019b). In the same year, Starbucks opened their first branch in Plaza Senayan and in Surabaya, precisely at Tunjungan Plaza 4. For their first airport store in Indonesia, opened at Soekarno Hatta Airport in 2003. In 2003, the first store was also opened in Bali, namely at the Hard Rock Hotel Bali. In 2004, Starbucks opened a store that was open for the first 24 hours, namely at Skyline Building Thamrin. In addition, that year, Starbucks also provided Wi-Fi in their shops as a form of their commitment to continue to innovate and likewise opened their first store in Sumatra, unequivocally at Sun Plaza Medan. Starbucks also directed the first competition of Coffee Ambassador that year. Starbucks first drive-thru store in Southeast Asia at KM 19 Cikampek was opened in 2005. Furthermore after a year, Starbucks let the second competition of Coffee Ambassador and opened their stores in Margo City Depok and Botani Square Bogor.

In 2007, Starbucks opened many new stores in Indonesia, namely in Yogyakarta, to be precise at Ambarukmo Plaza, in Surabaya, namely at Tunjungan Plaza 3 which is the fourth Starbucks store in Surabaya, in Bandung to be precise at the Paris van Java Mall which is also the fourth store in Bandung, as well as the second drive-thru at KM 13.5 Serpong. In early 2008, Starbucks opened their 61st store in Indonesia at Pacific Place. In 2009, Starbucks reopened their airport store at Terminal 3 Soekarno Hatta and opened their first store in Balikpapan. The next airport store was opened at Juanda International Airport, Surabaya in 2010. In that same year, Starbucks added a new store in a different city, namely in Semarang and opened their 90th store at Sogo Central Park.

The 100th, 111th, and 5th drive-thru stores opened in 2011. The hundredth store is located at the University of Indonesia and the 111th store is located at UOB Plaza, Jakarta on 11 November 2011. Drive-thru The 5th city is located at KM 97 Rest Area, and the 9th city to open a Starbucks store in Indonesia is Batam, followed by Makassar as the 10th city. In 2012, Starbucks opened their new store at Solo Paragon in Solo, and Solo became the 11th city to open Starbucks in Indonesia. The 12th city is Palembang, precisely at Palembang Indah Mall. As of January 2018, it has been recorded that Starbucks in Indonesia is located in 326 different areas in 22 significant urban cities in Indonesia.

It can be seen from the development of Starbucks in Indonesia; it is not surprising that Starbucks is a well-known brand in Indonesia. With this success, of course, it opens up opportunities for the emergence of new competitors with a similar concept, both from abroad and from within the country. As explained

before, Indonesia is a genuinely enormous market. According to data from BPS in 2020, the value of Indonesia's trade balance up to August 2020 reached US $ 2,327 billion. This can explain how big the market share is in Indonesia and how attractive the Indonesian market is to foreign investors.

Seeing this, how the attitude of the Indonesian people also has a strong enough influence on products and brands in Indonesia. Through the 100% Love Indonesia campaign since 2009, the Indonesian government is trying to foster a sense of love for domestic products (Anggi & Ellyawati, 2015). With this campaign, it is hoped that the Indonesian people will consume more domestic products. Of course, this has a good impact for Indonesia because it can help small businesses progress so that the Indonesian economy can improve. However, if the Indonesian people apply this, it will create a strong ethnocentrism attitude and are detrimental to foreign investors and companies that enter Indonesia.

Based on one of the previous studies, it was said that in developing countries, consumers will in general accept that local products are of lower quality than imported products (Jianlin et al., 2010). Indonesia is one country from that category. However, ethnocentrism can be misinterpreted as a form of nationalism and patriotism, in which consumers feel disloyal when buying or consuming products from abroad, especially if alternative domestic products are available (Tasurru & Salehudin, 2014). With this misinterpreted thinking, products from abroad can be adversely affected. However, Indonesia, which has a large market share, has the potential to receive brands from abroad, especially brands with good reputations. As a global brand, Starbucks has a reputation that is quite superior to

other brands in the same industry. Indonesian people of various age categories, especially in big cities, tend to choose Starbucks compared to Starbucks competitor brands, both local brands and international brands.

There are quite a lot of coffee lovers in Indonesia, providing opportunities to make a business in it. So, this industry can be a good object of research to prove how consumer ethnocentrism affects an image of global brands. From the previous research model that the researcher used in this study, the researcher added the Consumer Ethnocentrism variable in order to see how the Indonesian people's attitude towards a global brand, especially Starbucks. Therefore, the focus of this research is consumer ethnocentrism, global brand image, brand trust, brand satisfaction, and brand loyalty.

1.2 Research Problem

As explained above, the coffee market in Indonesia is quite large, from exports to domestic consumption. Starbucks, as one of the pioneers of coffee in the world and furthermore the biggest coffee brand in the world, certainly has a relatively good brand reputation. With the presence of Starbucks in Indonesia, it is increasing the share of the coffee market in Indonesia, which was initially only for the aged who are old enough to become the consumption of young people too. The development of the Starbucks business in Indonesia has led to many other competitors both from within the country and from abroad. The emergence of many of these competitors can have an impact on Starbucks as a global brand entering Indonesia. The Indonesian government is currently campaigning for the "I Love Indonesia" movement which will make it more difficult for global brands to enter

Indonesia. With this campaign, the Indonesian people are advised to love domestic products more.

In addition, this campaign can also shape Indonesian society that is ethnocentristic. With this ethnocentrism, Indonesian people will tend to prefer domestic products. This will make it difficult for global brands that want to enter Indonesia or those already in Indonesia, for example Starbucks. With this phenomenon, the researcher made this study because the researcher wanted to prove how the ethnocentrism of Starbucks consumers in Indonesia affects the image of Starbucks itself and how the Indonesian people continue to be loyal to the Starbucks brand compared to competing brands.

1.3 Research Questions

From the background and the objectives above, the question problems to this study is

1. How does the influence of Consumer Ethnocentrism on Starbucks's Brand Image?

2. How does the influence of Starbucks's Brand Image on Consumer Satisfaction?

3. How does the influence of Starbucks's Brand Image on Brand Trust?

4. How does the influence of Consumer Satisfaction on Brand Trust?

5. How does the influence of Consumer Satisfaction on Brand Loyalty?

6. How does the influence of Brand Trust on Brand Loyalty?

1.4 Research Objectives

The purpose of this study is to:

1. Analyze the influence of Consumer Ethnocentrism on Starbucks's Brand Image.

2. Analyze the influence of Starbucks's Brand Image on Consumer Satisfaction.

3. Analyze the influence of Starbucks's Brand Image on Brand Trust.

4. Analyze the influence of Consumer Satisfaction on Brand Trust.

5. Analyze the influence of Consumer Satisfaction on Brand Loyalty.

6. Analyze the influence of Brand Trust on Brand Loyalty.

1.5 Research Scope

This study has limited coverage on the following requirements:

- This study discusses consumer ethnocentrism, global brand image, brand trust, brand satisfaction, and brand loyalty

- The main focus of this research is the Starbucks brand

- Respondents of this study were Starbucks consumers and over 18 years of age

The requirements mentioned above are a modification of previous studies with the addition of the Consumer Ethnocentrism variable and distributed in different countries.

1.6 Research Contribution

This research is expected to have a contribution in an overall theories and practices as described below:

- Theoretical Contribution

It is hoped that this research can contribute theoretically to the nature of ethnocentrism and how the people of a country perceive a global brand that wants to enter a country or that already exists in that country. This study also provides a deeper explanation of the factors that can influence one's loyalty to global brands for global brands themselves. It is hoped that this research can be used as a reference for other studies on global brands in the future.

- Practical Contribution

The practical contribution of this research is that it can become a reference for global brands in seeing barriers and determining strategies before entering a country, especially Indonesia. This research will provide a new perspective in determining strategies in overcoming the obstacles that may occur for global brands when entering a country, especially countries with a fairly high level of ethnocentrism. With this research, global brands can see from the perspective of a consumer from a global brand in a country where people have high ethnocentrism.

1.7 Research Outlines

This research consists of five chapters as will be explained below:

- **CHAPTER I – INTRODUCTION**

- The first chapter of this study contains the background taken for this study, research objectives, research problems, research questions, research scope, and also a theoretical and practical contribution to this study. This chapter also explains the outline of each chapter in this research.

- **CHAPTER II – LITERATURE REVIEW**

This chapter describes the variables in this study, the relationships between variables, and also the research model for this study.

- **CHAPTER III – METHODOLOGY**

  This third chapter describes the systematics and methods that will be used in analyzing and measuring the relationships between variables that have been described in the previous chapter. This chapter also explains the methods for collecting data for a quantitative research approach.

- **CHAPTER IV – DATA ANALYSIS AND DISCUSSION**

  This fourth chapter describes the results of actual research on the relationship between variables from the data that has been collected. The results of the discussion will explain the results of this study which will lead to conclusions for this study.

- **CHAPTER V – CONCLUSION AND RECOMMENDATION**

  This fifth chapter is the final chapter of this study which will explain the conclusions of this study as well as the views of the researchers, such as theoretical implication, managerial implication, limitation of the study, and closes with suggestions and recommendations for future researches in the future.