

CHAPTER I

INTRODUCTION

1.1 Research Background

In the Southeast Asian region or what we commonly know as ASEAN, the country of Indonesia is one of the ten countries with the most population. The range of population projections in Indonesia, estimated at 265 million, makes Indonesia the country with the largest population of almost one-third of the total population of the ASEAN countries. Based on the results of the *Badan Pusat Statistik* (BPS) that the majority of Indonesia's population is filled with young people or who are in the productive age range of around 15-64 years (BPS, 2016). If we look at this population, Indonesia has a great opportunity to dominate the market in Southeast Asia and therefore also becomes its own attraction for domestic and foreign investors to take advantage of opportunities to invest and build businesses or their companies in Indonesia. In running and establishing their business in Indonesia. The effect of globalization has made the boundaries of economic activity between countries disappear, making it easier for multinational companies with a global brand to enter the country so that they converge into economic activities that involve many countries (Hartanto, 2018). Products that are produced by foreign companies usually rely on local resources in the production process to minimize production costs and maintain the taste locally or also they import raw materials from the country of origin to maintain the quality

standards that have been determined. This also triggers local companies to be able to innovate and adapt to the latest culture and trends to compete with global brands competitively.

According to Aaker (1991 cited by Faircloth et.al, 2001) that in creating a good brand association it will produce a good brand image which can also increase brand equity. Therefore, in shaping the perception of a good brand image in the eyes of the public, the company itself must be able to provide quality offers because the perception that has so far been embedded in the minds of the Indonesian people is that products with foreign brands have higher quality and prestige. better than locally made products because the price is more expensive and has been widespread throughout the world (Cece, 2015). This is related to the country of origin effect which creates consumer views and evaluations of a country of origin of production. Usually, a product is written with the word "made in", then many people are familiar with the word and immediately mean that the product comes from a certain country. Therefore, to be able to compete in the world of international business, a company must have the right strategy to market their products and one of the main things is to create the best brand (Keegan et.al, 2007 cited by Purwitasari et.al, 2018).

In general, people prefer brands that are already well-known such as foreign brands that already have a high popularity and easier to market. However, not always having an image of foreign products always attracts the buying interest of potential consumers because in recent years there have been government programs that encourage brand localization to encourage local industries to form

perceptions of loving domestically made products and a sense of love for the country towards the recognition of local cultural diversity (Kussudyarsana, 2016). This attitude is commonly known as ethnocentrism when wanting to buy an item will reject foreign products and tend to prefer local brands that can be triggered by a sense of patriotism and nationalism because they will feel unfaithful to the state when buying foreign products (Wall and Heslop, 1986 cited by Ramadhan, 2017). Apart from being defensive of the country, some consumers also feel that their tastes are better suited to local brands and can also bond with one another. However, there are still consumers who compare and choose global brands that can be integrated with the local culture. Therefore multinational companies must be able to properly position the brand strategy well to improve good perceptions and purchase intentions in the eyes of the local community. The focus of this research is to find out which one is more popular with Indonesian consumers between the global brand or local brand. Therefore, the scope of the research will be reduced to the category of daily drinks in the coffee market in Indonesia, namely the global brand company "Starbucks" and the local brand company "MaxxCoffee". This industry is considered to be experiencing rapid development and growth in people's purchasing power, especially among young people and people of productive age.

"Starbucks" was founded by Jerry Baldwin, Zev Siegl, and Gordon Bowker in 1971 in Seattle, United States. Until now, it has become a giant multinational company with branches of more than 20,000 outlets throughout the world. The history of the beginning of the entry of "Starbucks" in Indonesia began with the

opening of their first store at Plaza Indonesia on May 17, 2002, until January 2018 it was noted that Starbucks Coffee Indonesia had 326 branches spread across 22 cities in Indonesia. Starbucks Coffee Indonesia is a franchise business that is under the ownership of PT. Mitra Adiperkasa Tbk (MAP) (Ourstory, 2019). The reason the researchers chose the brand "Starbucks" as a representative compared to other global brands in Indonesia such as "Coffee Bean & Tea Leaf, DOME, Caribou Coffee, and others" is because only "Starbucks" continues to grow, presenting the latest innovations, becoming increasingly popular in the community. and able to attract potential customers to continue to come to the store, and become the best brand among other global brands (Clarisa, 2018).

Seeing the development of the coffee shop business in Indonesia with this very potential opportunity, Lippo Group did not want to stay silent and finally, they got involved in the coffee beverage business by creating their local brand, "MaxxCoffee" which was first established in April, 2015 in Cikarang. In just two months, Lippo Group has opened their ninth MaxxCoffee branch in Lippo Village Karawaci. Based on the statement given by their head of marketing Geoffry Samuel that "MaxxCoffee" has arrived at Lippo Plaza Medan, Lippo Plaza Jogja, Lippo Plaza Kupang, Lippo Plaza Kairagi Manado, Aeon Mall BSD, Palembang Icon, Maxx Box Orange County Cikarang, and most recently which is the flagship shop "MaxxCoffee" at MaxxBox, Lippo Village Karawaci. Geoffry Samuel said that in the future "MaxxCoffee" plans to expand their business by establishing 80 branches that are spread all over. The reason the researchers chose the brand "MaxxCoffee" launched by the Lippo Group as a representative compared to other

local coffee brands that are quite popular among the public such as "Janji Jiwa, Kopi Kenangan, Excelso, Kopi Kulo, and others" is because "MaxxCoffee" offers a variety of product types. new, 20-30% cheaper prices than other brands that are believed to be able to reach a wider market, using the most advanced coffee machines from America, an interior design similar to "Starbucks" with its vintage style, and having the same target market segmentation, namely for the upper-middle class so that they can become equal competitors. "MaxxCoffee" itself is making the right move by trying to take advantage of local resources such as presenting Aceh Gayo, Kintamani, Flores coffee and in the future will strive to present other new types of coffee from various regions in Indonesia. This is expected to attract the interest of the community, especially those who like the taste and taste of local products (MIX, 2015).

In the beginning, the habit of sitting drinking coffee while talking was only available in local stalls until in recent years various kinds of international coffee shops have been present in big cities in Indonesia, but there are still many traditional coffee shops around the local community. Now coffee drinks themselves can be enjoyed with various types of flavors by all groups ranging from teenagers, adults, office workers, students, and visitors who want to sit back and relax, surf while talking accompanied by coffee that has been purchased. The consumptive nature of society is not just fulfilling functional values but has changed to a more symbolic direction where initially it was only a secondary need that turned into a primary need. This change in consumptive nature can mean that the changing mindset has made them to fulfill prestige and dignity, especially at

the center of the trend of urban lifestyle. It is assumed that if they sit and relax while enjoying a cup of coffee in an expensive coffee shop it is considered a luxury to increase social class if it is used as a daily habit (Solikatun et.al, 2018). The need for modernization in coffee shops can now be used as a gathering place for young people, social interactions, meeting places with a comfortable atmosphere, places for fast food and breakfast. Therefore, the habit of people in coffee shops is used as a place to fill their time and waste their money on buying coffee as a lifestyle.

The growth of the coffee shop business in Indonesia is experiencing fairly rapid growth, this can be seen from the significant increase in the number of coffee shops in the past three years and offset by the increase in domestic coffee consumption. Based on the results of research conducted by TOFFIN Indonesia (a company engaged in providing goods and services in the cafe, hotel and restaurant industry), the number of coffee shops in Indonesia in August 2019 has exceeded 2,950 outlets, this data has recorded a threefold increase. more than in 2016 where there were only around 1000 outlets. This figure could be bigger because the census carried out still did not cover small/traditional coffee shops in small areas and was only taken based on coffee shops with networks in big cities (VOI, 2019). The head of marketing for TOFFIN Indonesia also said that the prospect of coffee shop business in Indonesia in 2020 will be expected to grow by 10-15% (Beritasatu, 2020). Despite a decline from 2012 to 2017, Indonesia is still listed as the 4th largest coffee bean producer in the world after Brazil, Vietnam and Colombia with an average weight of 639,000 tons/year or about 8% of world

coffee production (data were taken in 2015) with a composition of 27.16% Arabica coffee and 72.84% robusta (Kementerian Pertanian, 2017).

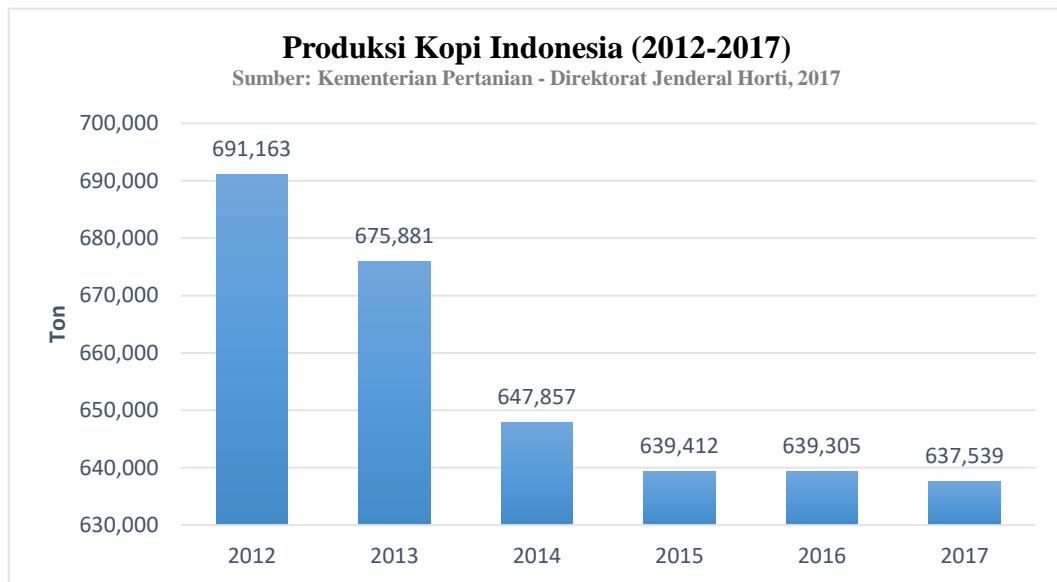


Figure 1.1 Produksi Kopi Indonesia (2012-2017)
Source: <https://databoks.katadata.co.id/datapublish/2017/07/03/berapa-produksi-kopiindonesia>

Based on the results of data captured by the Center for Agricultural Data and Information System of the Ministry of Agriculture, it shows that coffee consumption for Indonesians in 2016 reached a weight of around 250,000 tons and continues to grow by 10.54% to 276,000 tons. The projected coffee consumption from 2016-2021 is predicted to grow at an average of 8.22% / year. In 2021, the coffee supply will reach 795,000 tonnes with an estimated consumption of 370,000 tonnes, therefore there will be a surplus of 425,000 tonnes.

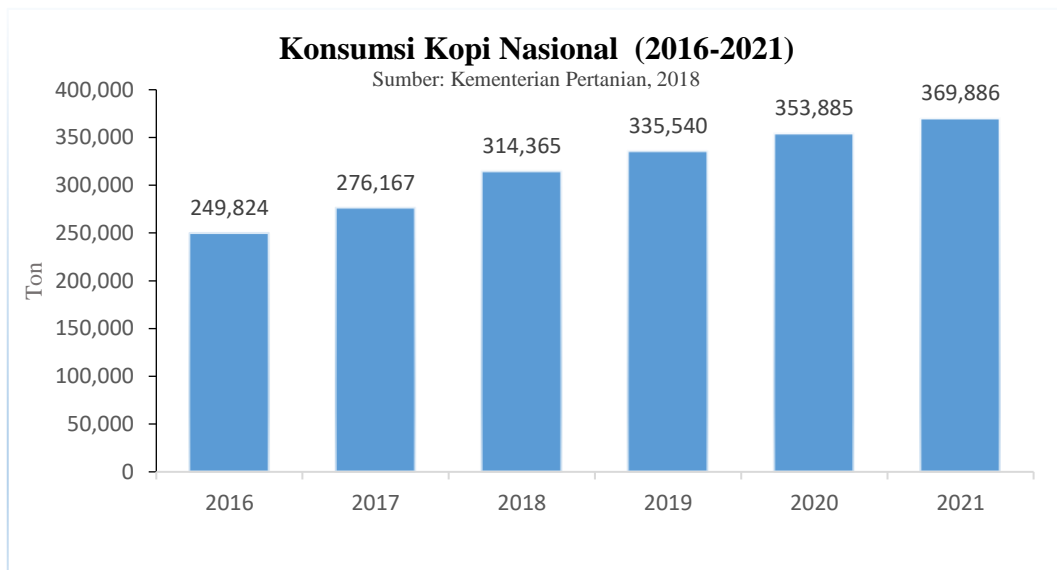


Figure 1.2 Konsumsi Kopi Nasional (2016-2021)
Source: <https://databoks.katadata.co.id/datapublish/2018/07/31/2021-konsumsi-kopi-indonesia-diprediksi-mencapai-370-ribu-ton>

Seeing so much of the attractiveness of the Indonesian people to their passion for consuming coffee drinks today which is used as a daily lifestyle, this study is expected to explain and provide information on how Indonesian consumers view the coffee brands they buy from either the global brand to local brand in Indonesia. A company with a global brand "Starbucks" is suitable for a comparison that can compete with local brand companies such as "Maxx Coffee" which are also in the food and beverage industry which are both focused on selling coffee. This research is a replication study of a journal written and published by Cristina Calvo Porral and Jean-Pierre Levy-Mangin of the University of Quebec in Ottawa, Gatineau, Canada.

1.2 Research Problem

Based on the background above, the researcher has formulated the research problem as follows:

- 1) Do consumers have different interests in local and global brands?
- 2) Are there different levels that affect the assessment of local and global brands?
- 3) Which brand dimension has a higher impact on consumer brand value?

1.3 Research Question

Based on the background above, the researcher has formulated the research question as follows:

- 1) Does *Brand Awareness* positively affect *Brand Equity*, for local brand and for global brand?
- 2) Does *Perceived Quality* positively affect *Brand Equity*, for local brand and for global brand?
- 3) Does *Brand Associations* positively affect *Brand Equity*, for local brand and for global brand?
- 4) Does *Brand Loyalty* positively affect *Brand Equity*, for local brand and for global brand?
- 5) Does *Brand Equity* positively affect *Purchase Intention*, for local brand and for global brand?
- 6) Does *Brand Equity* positively affect *Willingness to Pay Premium Price*, for local brand and for global brand?

1.4 Research Objective

The research objectives to be achieved from this study are as follows:

- 1) Determine whether *Brand Awareness* positively affect *Brand Equity*, for local brand and for global brand.
- 2) Determine whether *Perceived Quality* positively affect *Brand Equity*, for local brand and for global brand.
- 3) Determine whether *Brand Associations* positively affect *Brand Equity*, for local brand and for global brand.
- 4) Determine whether *Brand Loyalty* positively affect *Brand Equity*, for local brand and for global brand.
- 5) Determine whether *Brand Equity* positively affect *Purchase Intention*, for local brand and for global brand.
- 6) Determine whether *Brand Equity* positively affect *Willingness to Pay Premium Price*, for local brand and for global brand.

1.5 Research Benefit

The research benefits that expected to be obtained in this study are divided into two namely:

- 1) Academic Benefit

Providing useful input as well as consideration for consumers regarding for local brand and for global brand on the coffee drink market in Indonesia.

- 2) Practical Benefit

Provide understanding for consumers to understand, for local brand and for global brand on the coffee drink market in Indonesia.

1.6 Research Outline

CHAPTER I: INTRODUCTION

In this chapter, the researcher will mention and explain the background of the research, research problem, research question, research objective, research benefit, and research outline.

CHAPTER II: LITERATURE REVIEW

In this chapter, variables dependent, variable intervening and variables independent will be used as a base of research, with theories that support these variables, along with the research model.

CHAPTER III: RESEARCH METHODS

In this chapter, the researcher will describe the analytical methods used in the research that are attached to data and data sources.

CHAPTER IV: RESULT & DISCUSSION

In this chapter, the researcher will explain the results and data analysis regarding the research, which was obtained in a previous attempt to provide speculation and hypothesis to describe the relations among the variables.

CHAPTER V: CONCLUSION & RECOMMENDATION

In this chapter, the researcher will present the conclusion and recommendations for future research.