

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

With the increasing numbers of products and services circulating across the market and each representing its own distinct features, consumers' preferences upon choosing is no longer just about the brand but rather the origin of the product being the main indicator (Nielsen, 2016). Known also as the country of origin effect, this is starting to become a widely used term where they form an association between a country's capability and what they are able to produce best. Assessments made are not limited to its physical attributes such as quality and style but also the country's reputation and its products' value. The reputation of each country is often formed through the historical background of the country itself, therefore forming a certain kind of image in consumer's mind and a tool to reassure them in term of scrutinizing the quality of a product. As the idea of commodities' origin is becoming increasingly complex, the historical background attached to a certain location is imperative in its contribution of creating meaning and value (Pike, 2015). Furthermore, once a reputation is formed it tends to leave a lasting impression and is not susceptible to change. Alongside with the understanding the importance of country of origin as it attach value to how consumers view things, it is to be known and also mentioned by Temporal (2015) that such image does not happen overnight and in fact is affected by an abundance of factors. Therefore through gaining an understanding on how the image of the country could affect many sectors and many aspects it will help form an idea on how products could further penetrate the international market and on how certain country image could both entice and dissuade customers.

When viewed from the perspective of using logical approach or way of thinking, as per mentioned by Bilkey and Ness (1982) in Pike (2015) the way commodities influence consumers are commonly triggered by either intrinsic or extrinsic cues. In which case a product's COO is categorized within the extrinsic cues as it affects the perception of a (Adrejooluwa & Liu, 2018) consumer before lastly affecting the decision they made. Hence as awareness upon the power of products' geography grow, the effort to utilize and expand the cue ignited by a product's origin is constantly improved and emphasized where at the same time putting forward the implementation of strategy to turn the idea of Country of Origin into an asset supporting the value of a product. In a research conducted by (Adrejooluwa & Liu, 2018) it was stated that the main objective of a company operating within the business world are nonetheless the consumers as not only they become the main source of a company's profitability; consumers have the indispensable roles of affecting the supplies of products or services a company is willing to circulate within the market. This situation is further emphasized in a research conducted by (Agyekum *et al.*, 2015) perusing the advance statement about how customers in general view products from the perspective of overall quality alongside with the level of satisfaction gained has made them to derive a theory that this situation has led many companies to include extrinsic indicator towards products in order for customers to make a direct correlation in determining their qualities. The matter pertaining the way a product quality is perceived is heavily affected by its origin is not novel as it has been discussed in several journals and *final paper* at which most hypothesis came to a positive conclusion. Further development of other research will be discussed within this research paper.

Being a business that runs within the technological sectors, PT. Andalas Citra Elektrindo caters to consumers seeking for a sustainable hardware capable in providing energies needed to support their activities; to be exact the electric panel. However with the constant growth of

globalization, PT. Andalas Citra Elektrindo aside from designing the finished goods desired by consumers, they are also accommodating products coming from different parts of the world therefore giving consumers the liberty to choose products that are of the same line, however possess varying origins. Although the company's competitive advantage also lie on their performances or actual implementations of the product lines, the variety of products available also contribute in upping the reputation as the ability of choosing also set a clear differentiation of what kind of result can a consumer gain by deciding to go with a certain product line coming from a certain countries. Therefore with the varying prices and qualities available, it inevitably sparks a certain question to whether or not, the origin of a product (COO), will affect the way consumers' perceive its quality.

This study will be analyzing and reporting whether there really exist a relationship between the origins of countries towards customers' perception on product quality. Aside from identifying where commodities are from, there are also many factors as well as indicators of which association and linkage are formed between a product towards a country; emphasizing trustworthiness and reliability before lastly affecting the perception of consumers regarding its quality. This study will also further emphasize the situation where the background of a country will also form an inevitable association at which all of these will contribute to the overall image added up to the original product.

With its standing being one of the most sought-after security provider, however with constant competitors competing within the same field using analogous product lines, PT. Andalas Citra Elektrindo has to be selective in regard of the products they supply as often they will be in huge quantity and will ensure their reputation of having an unparalleled products in the eye of customers. Through understanding the role of country of origin effect hence a certain understanding and network could be built and help with future decisions. Alongside with the data, a shorter time for decision

making can also be achieved as technology markets are often facing the challenge of deciding which company products to choose, the reasons varying from price to quality but focusing more on which will have a better advantage towards consumer perception before finally a transaction can be made. Therefore the reason behind this research specifying on country of origin towards consumer perceive value is in order to provide a basic and statistical data that will help understand consumers either individuals or companies who have made a purchase and use the service provided at PT.Andalas Citra Elektrindo regarding their preferences when it comes to choosing the products as that might be advantageous towards the overall turnover of the products as well as providing an insight to assist in future decisions on which country's manufacturer to begin a business transaction with. PT. Andalas Citra Elektrindo was founded in 2001 and is located at Jalan KL Yos Sudarso Komplek Brayon Prima Blok G No.10-11. The hierarchical structure consists of different directors each in charge of different operations from marketing, accounting and finance to manufacturing. The annual sales is as follows:

Table 1.1 : Sales of PT.ACE electrical panel from 2014-2018

Year	Number of Sales (Unit)	Growth of Sales
2014	35	-
2015	36	2,86 %
2016	38	5.56 %
2017	45	18.4% %

Source : Prepared by the Writer (2019)

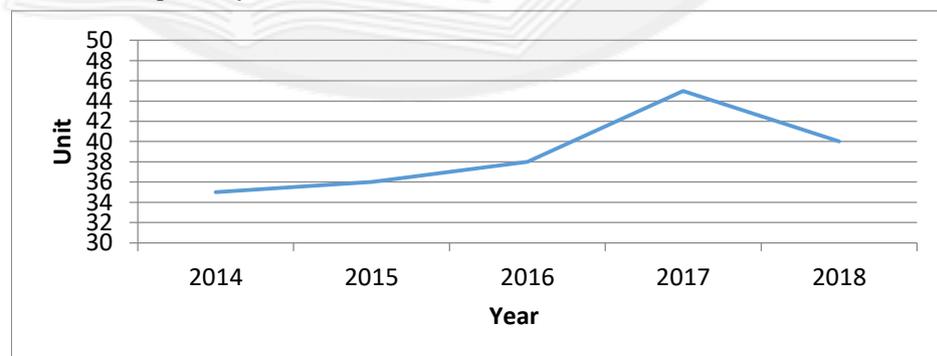


Figure 1.1: Graph of PT. ACE sales from 2014-2018

Source : Prepared by the Writer (2019)

The annual sales of PT. Andalas Citra Elektrindo consistently increased from the year 2014 before facing a decline in 2018 by ..% reducing the unit produced to 40 units. The overall sales of the company was doing despite some fluctuations that are inevitable and further policies set by governments that further restrict the business activities of the company and lastly affecting their overall performance in 2018. During this moment, the company focused more on providing specific origin on their electrical panel's components, thus limiting the choices available for consumers.

Alongside with the reasons and brief explanations stated above, the writer is interested to do a research surrounding the matter of **“The Effect of Country of Origin on Consumers’ Perceived Product Quality at PT. Andalas Citra Elektrindo.”**

1.2 PROBLEM LIMITATION

Different factors could affect the way consumers perceived the quality of the electrical panel's component; varying from country's economic well-being, stability in politics, the culture, their reputation, opinions circulating even to the products itself such as the package, price and many else. In consideration to the limitation such as time that this research will encounter, hence research will be limited to analyzing the Country of Origin (COO) as the independent variable (variable X) and its effect towards consumers' perceived product quality as the dependent variable (variable Y) during the transaction made at PT. Andalas Citra Elektrindo. There are also certain problems faced by the company The indicators set on variable X will be based on the things that are integral within the NBE (National Brand Effect) which will be a country's economic development, its reputation and the authenticity (Temporal, 2015), meanwhile for variable Y the indicators would be price, familiarity and brand image. The products that will be included within this research is strictly limited to the product lines available at PT. Andalas Citra Elektrindo.

1.3 PROBLEM FORMULATION

The characteristics and reputation of a country may lead to different perception of product quality by consumers, depending on the country-of-origin (COO) of the product. Positive perception on product quality leads to more sales and eventually profitability of a firm. There are two questions that could be derived, which are:

- a. What are the factors that contribute in measuring products' country of origin at PT. Andalas Citra Elektrindo?
- b. What are the factors that contribute to the way product quality is perceived by consumers at PT. Andalas Citra Elektrindo?
- c. What are the consequences of country's image and how does it mediate the relationship between products' country-of-origin and consumers' perceived product quality at PT. Andalas Citra Elektrindo?

1.4 RESEARCH OBJECTIVE

The objective of this research none other is to first find and prove that there exists a correlation between products' country-of-origin towards consumers' perception on its quality. Hence the completion of this research is expected to create a better and thorough understanding on the matter.

The objective of this study is in two folds:

- a. To analyze products' country of origin effect at PT. Andalas Citra Elektrindo
- b. To identify the perceived product quality at PT. Andalas Citra Elektrindo
- c. To investigate the effect of country-of-origin of products towards consumers' perception of their qualities at PT. Andalas Citra Elektrindo

1.5 BENEFIT OF THE RESEARCH

The benefit of this research nonetheless is incorporated or consist of both theoretical benefit and practical benefit.

1.5.1 Theoretical Benefit

Alongside with the completion of this research, when viewed from an academic perspective, aside from giving a more in-depth information and understanding regarding the relationship between the variables which is the Country of Origin (COO) towards Consumer's perceived Product Quality, this research will produce an opportunity for writer of this research to dissect each variable deeper as well as gain further knowledge before finally creating more room for discussion on questions related to the topic.

1.5.2. Practical Benefit

There are several targets to which the writers hope this research could contribute for:

- a. For the writer, as this research will be dissecting and analyzing meticulously between the relationship of COO on Consumer's Perceived Product Quality while using a real-life situation and on-going transaction that leave an opportunity to verify whether any significant correlation between the two exist.
- b. For the company, through knowing and verifying whether or not a product COO contribute towards consumers' inclination in indicating value could help the company in staging a situation or deciding on the products they might import in the future to which will have an impact towards their overall profitability.
- c. For other researchers, this research is hoped to become a platform to which can be used by other researchers as a reference when conducting a research of their own that pertains or is somewhat similar to the topic that is being discussed.

1.6 SYSTEM OF WRITING

The system of writing will cover all of the content relating to this research of which has been put on systematical order alongside with comprehensive explanations for each and every part. Arrangement will be done per chapter to simplify and provide easier access in understanding this research together with its objective. The system of writing is as follows:

Chapter I: Introduction

This Chapter is meant to explain briefly about everything that pertains to the result of this study. Starting from the background of the study is where the reason behind this title as the main objective of the research is mentioned in a concise yet comprehensive manner. This will be followed by research object and problem limitation in order to limit down the factors that will be studied and analyzed. Problem formulation mentioned about the problems itself meanwhile research objective is where the purpose or the intention of this overall study is mentioned. All in all this study focuses solely in country of origin and its effect towards consumers' perception on quality, therefore all the previous mentioned are the steps that will be conducted by this study to dissect the information available and come to a suitable conclusion.

Chapter II: Literature Review and Hypothesis Development

This chapter explains in an elaborate manner the theoretical background of the variables relating to this research, previous research, hypothesis development, research model, and framework of thinking. This chapter main focus is to study in depth the variables of the research

Chapter III: Research Methodology

The integral part of the research will be mentioned and elaborated in this chapter such as the research design,

population and sample. Following will be the data collection method, operational variable definition, variable measurement and data analysis method.

Chapter IV: Data Analysis and Discussion

General view in regard of “research” object will be elaborated by writer followed by data analysis of which will include descriptive statistic, result of data quality testing as well as the testing of hypothesis. This chapter will be closed with discussion.

Chapter V: Discussion

Reaching the end of the research, this chapter will give a full coverage and elaborate on the conclusion of the research. Conclusion will be followed by explaining the implications that occurred as well as the recommendation that could be given.

