

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Nowadays, companies utilize various strategies to attract new customers, retain current customers and differentiate their products from their competitors. Business is an organization or economic system where goods and services are exchanged for one another or for money. Every business requires some form of investment and enough customers to whom its output can be sold on a consistent basis to make a profit. Indonesia, with the third fastest growing economy in the group of twenty (G20), has both substantial and interesting food and beverage markets, as well as very dynamic food and beverage demand. The development of economy, that is increasing rapidly, leads to business competition, especially companies that have the same product. Companies are required to have its own superiority to attract consumers, so they can maintain existing market share.

Take a looking at social and culture developments that are more advanced and modern, so many people who like things are instant. One of them is an instant drink which is widely circulating on the market, like instant coffee. According to Indonesian research Society (2018, p.32-43) coffee is popular because it has a special taste and flavor. Companies in the beverage sector are competing to vary their products, from taste, packaging, until the service offered. This is done to attract the customers to stay on a product or can be said to be loyal to the product.

Facing increasingly competitive competition, the company demanded to be able to create its own uniqueness accompanied by planting a positive image of

the product issued to win among competitors. Seeing the economic conditions and lifestyles of Indonesian who are more intelligent in choosing products and always want a new product, marketers must be smart in attracting consumers and maintaining customer loyalty to gain market.

Customer loyalty is a measure of a customer likeliness to do repeat business with a company or brand. When a customer is loyal to a specific brand, they are not easily influenced by availability or pricing. They are willing to pay more if they get the same quality of product or service, they are familiar and love.

There are benefits to be gained by the company if it has loyal customers (Mark, 2019), including:

1. Drive repeat business, whatever their reason may be, loyal customers are more likely to drive repeat business, making retention of loyal customers key.
2. Increase revenue, once a customer likes and trusts the quality of the brand, they are more likely to purchase in higher quantities.
3. Create brand ambassadors, happy customers are likely to tell friend and family about the products, essentially advertising and spreading good graces on behalf. Existing customer referrals help bring in new customers, making loyal customers brand ambassadors of sorts.
4. The success of cross-selling increases, causing a greater customer share.
5. Word of Mouth becomes more positive with the assumption that loyal customers are also satisfied.
6. Defend against the competition, when loyal customers spend money with the brand, competitors lose out on potential revenue.

7. Gain valuable feedback, loyal customers will not mind taking the time to share valuable feedback that it can then turn into actionable marketing tactics, because they like the brand and what to improve.

Customer loyalty is absolutely needed by a company to be able to survive and be able to compete with other companies. To build customer loyalty, it is necessary to have efforts from the company to provide the best quality in every product or service, so that a strong perception of quality is formed in the customer's mind. Loyalty certainly does not come just like that, companies must be able to manage the strategies on how the customers or what the customer's needs, in hope that customers want to buy the product that produced by the company.

In process of purchasing coffee, consumers of course through several process such as seeing advertisement and other people's recommendation. After that, consumers begin to compare one product to other. Therefore, consumers choose to buy based on their experience and will buy the same product (loyal).

One way to achieve competitive advantage and maintain customer loyalty is to form a positive brand image in customer's mind. A good brand will get a better position in the marketplace than its competitors and thereby increasing the customer will buy the brand and allows consumers to identify their needs that can be fulfilled by the brand itself. To influence consumers buying interest, companies must improve their overall brand image, because the stronger brand image in customer's mind, the stronger the customer's confidence to remain loyal to the product they bought so that it can be led a company to benefit from time to time.

Image is the public's perception of a company or product. A brand can be an added value for a product, be it a product in the form of goods or services. It can be concluded that the brand image is a perception / signal generated from consumers using the brand.

One of the most popular instant coffee products in Indonesia is Indocafe coffee. Company that produces Indocafe is PT. Sari Incofood Corporation. The company was established in 1985, which is one of the largest factories and exporter of instant coffee in Indonesia. PT. Sari Incofood Corporation is also one of the pioneers in producing instant coffee mix 3 in 1 and cappuccino in sachet packaging in Indonesia. Indocafe become the 5 leading brands in Asia Pacific region.

These following data are the results of the research on instant coffee in Indonesia according to Top Brand Index:

**Table 1.1**

**Top Brand of Instant Coffee in Indonesia**

NO	YEAR		
	2018 (%)	2019 (%)	2020(%)
1	Indocafe (20.0 %)	Good Day (34.1 %)	Good Day (32.3 %)
2	Good Day (18.4 %)	Indocafe (15.2 %)	Indocafe (15.0 %)
3	Nescafe (16.5 %)	Nescafe (11.5 %)	Nescafe (11.3 %)

Source: [www.topbrand-award.com](http://www.topbrand-award.com)

In 2019 and 2020 Indocafe has no longer in the first position but dropped to second rank in Top Brand Index. Thus, Indocafe coffee indicates the decline of customers' loyalty of and repurchases intention to

buy the products in the future. In Journal of Research Management (2018), repurchase intention is an individual valuation relating to repurchase on a service or a product in the same company, by considering the state and their situation. As we have known, the repurchase intention is the dominant return influenced by customers' loyalty.

The beverage industry recorded the sharpest decline in history due to the Covid-19 pandemic last year. This industry, which may be one of the sectors that is relatively stable in industry, but in fact the beverage industry has dropped dramatically. Every business organization has desire to achieve the goals set by maximizing profits, increasing sales, expansion, growth and customer loyalty. Profit maximization also serves as the backbone of business goals that depend on customer loyalty. The growth of customer loyalty can be caused by several factors, such as product quality, price and service satisfaction

In recent years, the decline of customer loyalty has become a problem for Indocafe. Currently, product quality is prioritized, such as hygiene from product quality and processing sanitation for the beverage industry, both medium and large scale, of course being considered by customers, especially in this current pandemic. This has an effect on Indocafe's sales level, which is decreasing over time due to questionable product quality.

Service satisfaction can be assessed as how far the difference between the reality and expectations of customers for the services they receive. This can be obtained from a consumer satisfaction survey to create a customer excitement and enthusiasm for the product. Lack of satisfaction with the services offered by

Indocafe that do not match customer expectations such as product quality, price and taste variations that causes customers to be disloyal. Feelings of pleasure or disappointment that arise after comparing existing products and products that are expected have an impact on the level of satisfaction in relation to the higher the brand. Indocafe market share decline was due to the strengthening of other instant coffee brands. Judging from the quality of coffee products, the watery texture and aroma of the coffee are less attractive when compared to other products whose fragrance is very attractive to consumers' attention and interest. So, the level of satisfaction with the quality of Indocafe products among the public is low. The setting of higher prices also affects customer loyalty because the price does not match the product being offered. As well as taste variations which only have 1 choice that does not make consumers feel curious and bored with Indocafe products. Because of its variety helps the retailers understand the buying behavior of the customers and increase the growth and volume of the product as well as the customers' satisfaction and loyalty.

The high interest of the Indonesian society towards coffee, the habit of drinking coffee for the Indonesian is a routine matter when starting activities or after carrying out work activities to relieve fatigue, especially for workers and students. According to Wilopo & Sanawiri (2016), states that -Indonesia is ranked 37th in terms of total coffee consumption and is ranked fourth in world exports. For this reason, Indocafe must know consumer groups as well as the needs and desires of consumers in order to form a good brand image in the minds of consumers.

In the domestic market, Indocafe still has challenges in shaping its image due to limited activities that are not normal because of Covid-19 so that there is a change in consumer behavior who spends more time at home, avoids gathering activities and switches to digital transactions. Demands for the defense and enhancement of brand image, companies try to attach distinctive characteristics to their brands. Advertising and sponsorship events are two things that are known to influence the brand image of a company to be well-known and easy to remember. The problem that is usually faced in sponsorship is the lack of research that can prove the effectiveness of sponsorship events. As well as advertising, such as on television and in social media, which are less developed by the company, consumers do not get information about products that can help consumers in terms of consumption decisions.

The successful of brand to attract the consumer, it depends on consumer perception. Pramudio on the (Journal of Research in Management, 2018, p.32-43) explains that brand image has a potential to affect consumer perceptions about the goods or services offered. The more positive perception of the quality of a product means the stronger consumer loyalty.

Based on the introduction above, author would like to conduct this research, in which this research was conducted in order to determine the impact of brand image toward customer loyalty in the Indocafe. It can be seen that the basic problem in this research is the decline of Indocafe as the Top Brand Index in instant coffee category, decreased every year and no longer in the first position. The decline is in the value, indicates the decrease of consumer

perception about the product quality. Indocafe faces very intense competition in the beverage industry. Furthermore, this research was conducted in order to further understand if variable played a bigger and important role in affecting customer loyalty in beverage industry with entitled **“The Impact of Brand Image towards Customer Loyalty - A case Study in Beverage Industry “INDOCAFE” at Medan.**

### **1.2 Problem Limitation**

Due to limitation of time, budget and the information that gave by the company, the writer will be only focus on Brand Image as independent variable towards customer loyalty as dependent variable at Indocafe.

### **1.3 Problem Formulation**

Based on the background of this research, the writer formulates the following problem:

1. Does brand image impact on customer's loyalty?
2. How good is brand image of Indocafe in the customer's perception?

### **1.4 Objectives of the Research**

The objectives of this study are:

1. To explain does brand image impacts on customer's loyalty.
2. To explain how good the brand image of Indocafe in customer's perception



## **1.5 Benefits of Study**

The outcomes of the research are intended to serve the following benefit:

### **1. Theoretical Benefits:**

The result of the research is expected to give additional information about the relationship between brand image towards customer loyalty in choosing product instant coffee. Additionally, the research can be reference for management.

### **2. Practical Benefits:**

From this research, this study has the benefits they are as follows:

#### **a. For the companies**

The result of this research can be a deliberation for companies to decide policies and may deliver knowledge about the factors influencing customer loyalty of Indocafe Corporation.

#### **b. For the researcher**

This result can be used to increase the knowledge and ability to think about the application of theories that have been obtained from courses and apply it to actual research.

#### **c. For academic**

The results of this research are intended to be a study materials reference in fields related to management, especially regarding the impact of brand image towards customer loyalty at Indocafe Corporation.