

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

Indonesia is one of many developing countries that currently focus in building domestic infrastructure and economics (Situmorang, 2014). Joko Widodo as the seventh President of the Republic of Indonesia, is very active in promoting the economics through local businesses. He encourages young people to seek for business opportunity and immediately start their own business, as he stated during ‘Young on Top National Conference 2018’ in Jakarta (Kompas, 2018). In the past few years, Indonesian market started to give appreciation to local creations and products (Kompas, 2017), as Jokowi motivates Indonesian people to be proud of local product by wearing it himself. He makes himself as the example for the society to start promoting local brands. As the globalization emerged with advanced technology and the support from The President, there is an actual great opportunity for young generation to start their own business.

In the midst of the globalization era, wider market with varying products and services are offering more selection of products thus, later on lead to a consumerist culture (Kuncoro, 2012). Basically, consumptive is a human desire to find satisfaction from fulfilled needs (Goodwin *et al.*, 2008). However, this theory has been developed into a belief that someone’s happiness depends on a large extent

of personal consumption (Lucius & Hanson, 2016). Through the exposure of global market products, Indonesian culture has evolved to an extreme consumerism (Ansori, 2009). With 261.99 million population in 2017 (Statista, 2018) and a consumerist culture, Indonesia has a great potential to be a profitable market for local industry.

As a developing country, Indonesia has many uncovered valuable potential and resources such as, coffee. Little do we know that Indonesia is the fourth biggest coffee producer in the world (Liputan 6, 2016) as shown in figure 1.1, with total production of 672,283 tons coffee bean in 2017 (Kementerian Pertanian, 2016).

| No. | Negara    | Produksi (Ton) |           |           |           |           |           | Share (%) | Kumulatif Share (%) |
|-----|-----------|----------------|-----------|-----------|-----------|-----------|-----------|-----------|---------------------|
|     |           | 2011           | 2012      | 2013      | 2014      | 2015      | Rata-rata |           |                     |
| 1   | Brazil    | 2.952.000      | 3.456.000 | 3.432.000 | 3.258.000 | 2.964.000 | 3.212.400 | 35,51     | 35,51               |
| 2   | Vietnam   | 1.560.000      | 1.590.000 | 1.789.980 | 1.644.000 | 1.758.000 | 1.668.396 | 18,44     | 53,95               |
| 3   | Kolombia  | 459.300        | 595.620   | 724.500   | 798.000   | 804.000   | 676.284   | 7,47      | 61,42               |
| 4   | Indonesia | 498.000        | 630.000   | 570.000   | 528.000   | 636.300   | 572.460   | 6,33      | 67,75               |
| 5   | Ethiopia  | 379.200        | 379.500   | 380.700   | 388.500   | 390.000   | 383.580   | 4,24      | 71,99               |
|     | Lainnya   | 2.784.420      | 2.634.360 | 2.443.080 | 2.355.600 | 2.455.020 | 2.534.496 | 28,01     | 100,00              |
|     | Dunia     | 8.632.920      | 9.285.480 | 9.340.260 | 8.972.100 | 9.007.320 | 9.047.616 | 100,00    |                     |

Figure 1.1. The Biggest Coffee Producer in the World in 2011 to 2015

Source: Kementerian Pertanian (2016)

This result is gained from all over Indonesia such as, Sumatera, Sulawesi, and Java, which projected in the figure 1.2 below.

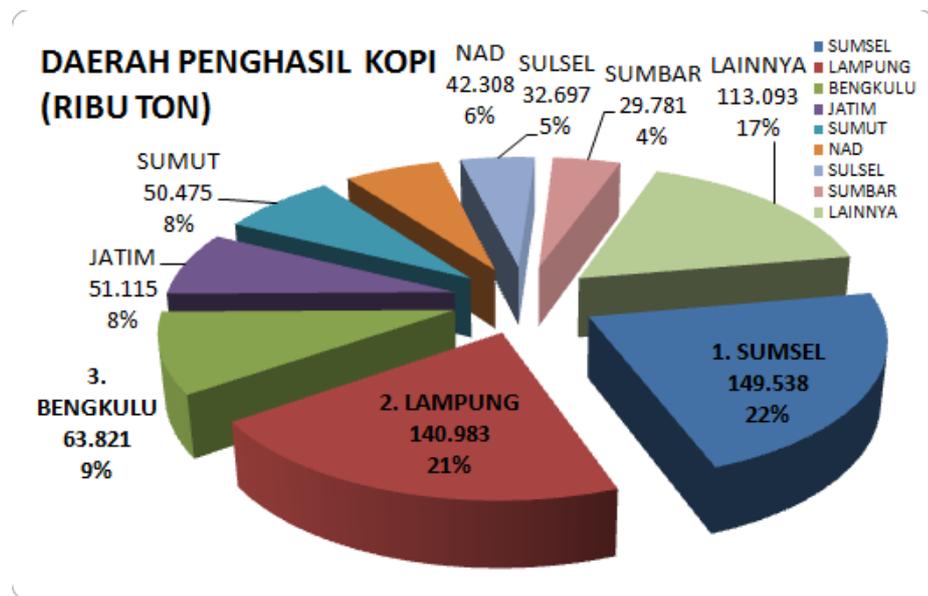


Figure 1.2 Indonesia’s Coffee Producer Mapping

Source: Kompasiana (2015)

Both graphs above show Indonesia’s potential to start building local coffee industries by taking advantage of the available resources. Moreover, young generation see this phenomenon as an opportunity to develop local resources by starting a business of local coffee shop. Nowadays, local coffee shop is one of the trending business owned by mostly young generation. This business idea is aligned with people’s enthusiasm to experience the local taste of Indonesia’s coffee beans, which proven by the projected growth of coffee consumers in Indonesia that reaches 1,79 kilograms per capita every year (Badan Pusat Statistik, 2016). Nowadays, drinking coffee has become part of the lifestyle thus, the coffee shops owners has

to continuously improving and innovating to maintain the business. The interesting innovation of the local coffee shops is not only focus on the tasteful coffee but, also a spacious place with a unique design to attract customers. Mostly known as an *Instagram-worthy* place or *Instagramable*, local coffee shops are competing to provide the most trendy and unique design to fulfill customers' desire. This innovation also fully supported by the President himself and the government (Kompas, 2017) thus, it motivates local coffee shop businesses to continuously growing.

In the early start of local coffee shop industry, the companies target the most potential and approachable market which is millennials. Millennials is identified to be the massive market size with strong purchasing power, estimated to be \$ 170 billion per year (Adams, 2015). In the early 2018, according to Badan Perencanaan Pembangunan Nasional (Bappenas), the number of millennials population in Indonesia is around 90 million with the age range of 18 to 34 (Sembiring, 2018). With the characteristics of open minded, impulsive and spontaneous, easily influenced, and critical, millennials are a promising potential market (Moreno *et al.*, 2017). Most of them are highly exposed to the use of technology particularly internet since a very young age thus, they are very familiar to it. Around 123million of Indonesia population is active users of internet or almost 50% of the entire population with the dominance of millennials (Purwandi & Ali, 2016). To be specific, the main platform that being used by millennials to access information is media social, as projected in the figure 1.3 below.

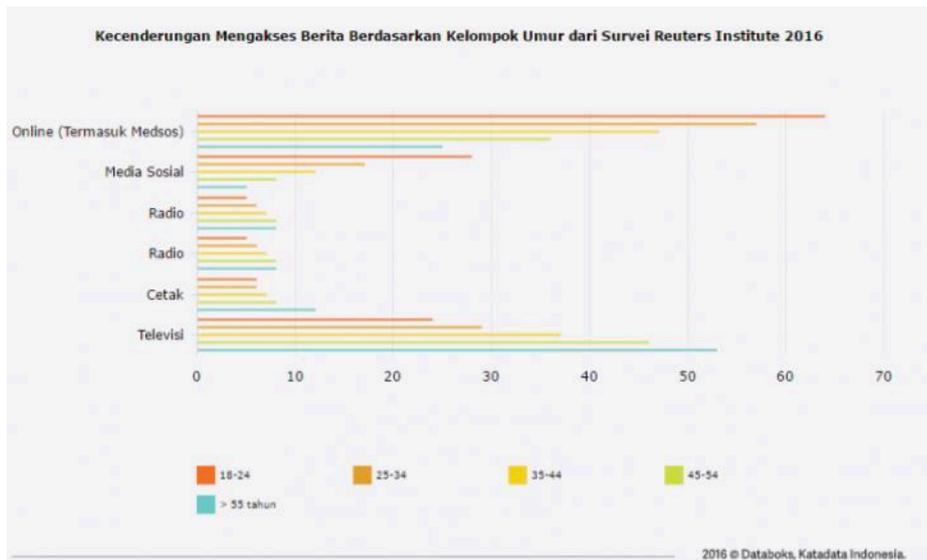


Figure 1.3. Platforms that mainly used by Millennials

Katadata Indonesia (2016)

Regarding this phenomenon, local coffee shop owners take an opportunity to communicate their brands through digital branding. Digital branding is a vast and rapidly growing sector with a potential to be a very powerful tool especially for new business or business with minimum cost (Sivathanu, 2016). Furthermore, from the research conducted by Sivathanu (2016), digital branding significantly contributes to the customer buying behavior in form of web content, online advertising, personalization, reward and incentives, and social media presence.

However, according to the research by Katherina Smith (2011), about digital branding and millennials, the most preferable approach to deliver the brand value to millennials market are through social media and brand community. Digital branding by using social media is focused on the content, building reliability and

trust, and creating an engaging online campaign (Farook & Abeysekara, 2016) by using the platform such as, *Instagram*, *Facebook*, *Twitter*, and more.

Most of the local coffee shop in Indonesia already have social media platform with the purpose of not only communicating the brand but also to create a community and communicate with the customers. For example, 'Toko Kopi Tuku' as one of the initiator of local coffee shop business has an *Instagram* account with 38,500 active followers since 2015, in which they post their products, the photos of the artistic designed place, and the customers activity. They also provide information regarding their schedule and order policy on their *Instagram* biodata. Social media can also be used to initiate a trend among the users which beneficial for the business. For example, the local coffee shop industry was created a trend once through its innovation of a trendy and unique place which is *Instagramable* for the customers. This trend was spread through *Instagram* and had successfully drive customers' preference of not only tasteful and affordable coffee but also a good place. In return of the social media posts, customers can give comments or feedback on the social media page which enable the owners to improve their quality. Moreover, local coffee shops must maintain the credibility and reliability of the information they post on social media in order to maintain reputation and build customers' trust towards the brand.

Similar to social media, brand community plays a significant role in communicating brand's value amongst the customers. Brand community is a specialized, non-geographical bound of community that share the same admirer of a brand (Terechshenko & Radionova, 2011; Muniz & O'Guinn, 2001). A brand

community can share the same interest of hobby toward local coffee shop with the purpose of promoting the brand to a wider market scope through word-of mouth which can be done manually and digitally. Manual word-of-mouth in a community is usually being done by hosting an event on the coffee shop space such as, workshop or gathering in order to introduce the brand to the market or simply to socialize. However, millennials found that digital word-of- mouth is more appealing (Adams, 2015). Digital word-of-mouth is done through social media or website such as, *Zomato*. *Zomato* is a platform in which the users can share their experiences and give reviews or recommendation toward restaurants or cafes in Indonesia. From *Zomato*, user can access information regarding the restaurant such as, their location, schedule, menu, photos, until the rating given by other users. This platform enables users to select the best coffee shops based on others' recommendation and review.

As a growing industry, local coffee shops must carefully select the most suitable and efficient digital branding strategy to build a sustained customer engagement. Customer engagement is not only focus on attracting customers, but also to create long-term demand and good relationship with customers (Fernandes & Esteves, 2016; Anderson *et al.*, 2004; Gruca & Rego , 2005; Rego *et al.*, 2009; Van Doorn *et al.*, 2010). Customer engagement is necessary in business to assure a sustained and profitable growth (Gupta, 2012). As explained before, the owners of local coffee shops have social media and brand community as part of digital branding which can be used to engage with the market, particularly millennials.

Given this phenomenon, the research is designed to mainly focus on social media, brand community, and customer engagement towards millennials. The purpose is to find the factors of social media and brand community based on millennials perspective and to what extent does these medias support the customer engagement. Thus, the main concern of the research is social media and brand community as digital branding media toward millennials, to later on provide the most engaging strategy for the local coffee shops industry.

This particular study is inspired by some previous researches which discuss about social media, brand community, and customer engagement. From the research by Constanza Bianci and Lynda Andrews (Bianchi & Andrews, 2018; Calder *et al.*, 2009; Chang & Fan, 2017), engaging customers is confirmed as important in building strong connection to brand as well as motivating customers to participate in a brand community. As the research done quantitatively, the result shows that there is a positive correlation between customer engagement through social media and the purchase intentions. Another research that inspires this study is done by Brijesh Shivatanu (2016), which points out the importance of digital branding in customers buying behavior. Moreover, for this study, researcher adds more variable; brand community and millennials, which will be examine qualitatively to explore deeper findings.

## **1.2 Research Question**

1. What is/are the factor(s) of social media that support millennials' customer engagement in local coffee shop industry?
2. What is/are the factor(s) of brand community that support millennials' customer engagement in local coffee shop industry?
3. To what extent does/do the factor(s) of social media support millennials' customer engagement in local coffee shop industry?
4. To what extent does/do the factor(s) of brand community support millennials' customer engagement in local coffee shop industry?

## **1.3 Research Objectives**

1. To identify the factor(s) of social media that support millennials' customer engagement in local coffee shop industry.
2. To identify the factor(s) of brand community that support millennials' customer engagement in local coffee shop industry.
3. To identify the extent in which social media support millennials' customer engagement in local coffee shop industry.
4. To identify the extent in which brand community support millennials' customer engagement in local coffee shop industry.

## **1.4 Research Benefit**

The purpose of this research is mainly to produce valuable knowledge for several parties. First, the result can be beneficial for local coffee shops industry in

Indonesia in forming the most effective digital branding strategy to engage with millennials. Secondly, the knowledge from the study can contribute to the study of digital branding and customer engagement. Lastly, the result of the study can be developed for further research.

### **1.5 Research Limitation**

- This research is focusing on millennials as the target market therefore, the result might be different for customers from another generation.
- This research is focusing on one industry therefore, the result could not be generalized to all industries.

### **1.6 Research Outline**

#### **CHAPTER I INTRODUCTION**

This chapter begins with research background that urge researcher to conduct the study. There are four main points of the study that stated on the research question and later on explained on the research problems. The next section is research benefit which expected to contribute on greater purpose, followed with some limitations that occurred during the study. Finally, the chapter is closed with each chapter outlines.

## CHAPTER II LITERATURE REVIEW

This chapter includes all theories and literatures that relevant to the study and may support the findings, in which consists of major topics such as, marketing, branding, social media, brand community, millennials, and customer engagement. Each major topic is well explained as required to support the study.

## CHAPTER III RESEARCH METHODOLOGY

This chapter elaborates the methodology used in the study, in which includes research approach and research strategy. The research methods are explained in both data collection and data analysis. The reliability and validity of the research is discussed in the next section. Further details regarding the research process is reported at the end of the chapter.

## CHAPTER IV ANALYSIS AND DISCUSSIONS

This chapter provides analysis of the result that found during the study. The model of the research is shown at the end of the chapter.

## CHAPTER V CONCLUSION AND RECOMMENDATION

This chapter presents the conclusion drawn from the overall study. It also provides the answer of the research question that presented in

the first chapter. Recommendations are also listed as suggestions to overcome and improve further research.