

# CHAPTER 1

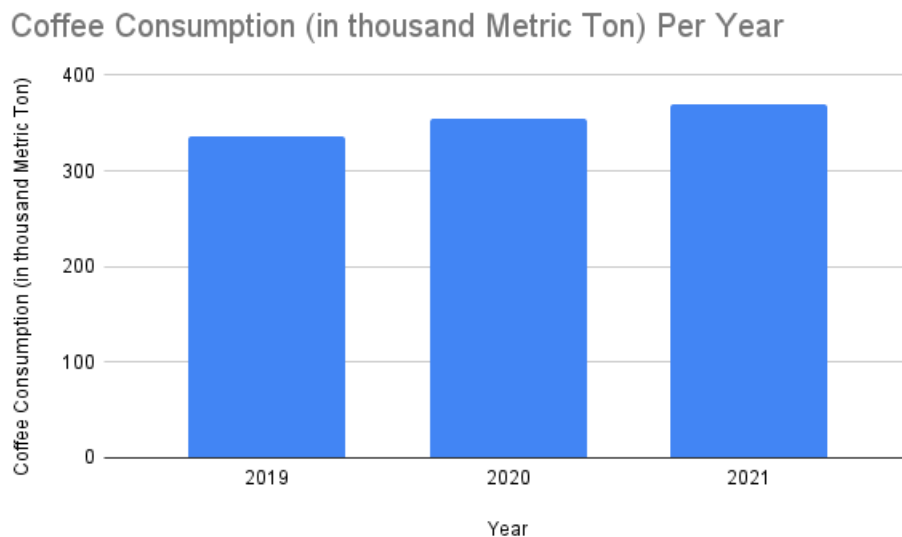
## INTRODUCTIONS

### 1.1 Research Background

One of the main objectives of conducting marketing activities is to entice customers into buying their products (Alalwan, 2018). As there is a fierce competitive nature in the business world, organisations must find a way to attract and retain customers in order to survive and thrive in the long run. If an organisation fails to influence its customers, there is a possibility for that organisation to go insolvent. Thus, businesses must promote themselves for customers to purchase the products or services that they are offering. Promotion is proven to be an effective method of attracting customers into buying the products and services that the business is offering (Isoraite, 2016). However, it is a known fact that the competitors will also try to advertise their products in order to gain customers. As customers are bombarded by advertisements, they have plenty of options at their disposal. Therefore, businesses must use a unique approach or strategy to make sure that customers are going to them instead of the competitors. By doing this, it can trigger the potential customers to buy from the company instead of the competitors.

Food and beverage industry in Indonesia is significant contributors to Indonesia's gross domestic product (Widodo, 2019), there is fierce competition between players in the industry. Moreover, as there is a lack of barrier to entry to enter the food and beverage industry (Hasan, 2018) there are new brands entering

the market and competing with existing brands for market share. It becomes critical for food and beverage companies in Indonesia to innovate to survive and thrive in the competitive landscape of the industry.



*Figure 1. 1 Coffee Consumption in Indonesia*

*Source: The Economics (2021)*

Since Indonesia is one of the largest coffee producers in the world, drinking coffee is part of Indonesian culture (Yuliati & Purnomo, 2019). As drinking coffee is part of Indonesian culture, coffee shops or cafes become a place where people meet their friends, conduct business meetings or even work (Rahma et al., 2019). Based on the table 1.1, the trend of national coffee consumption amongst Indonesian people is increasing year by year. In 2021, the national coffee consumption reached 370 thousand metric tonnes. As these figures are growing year on year, coffee shops in Indonesia become a lucrative business.

However, as it is a lucrative industry, it is getting more competitive each year as it attracts an new players as well as the innovation of existing coffee

shops. In 2017, there was a disruption in the coffee industry when there was the establishment of affordable coffee shop brands such as Kopi Kenangan, Fore Coffee, Kopi Janji Jiwa and Kedai Kopi Kulo. Due to the success of the new business models of affordable coffee, it attracted foreign capital from private equity and venture capital firms that were willing to invest in these coffee shops.

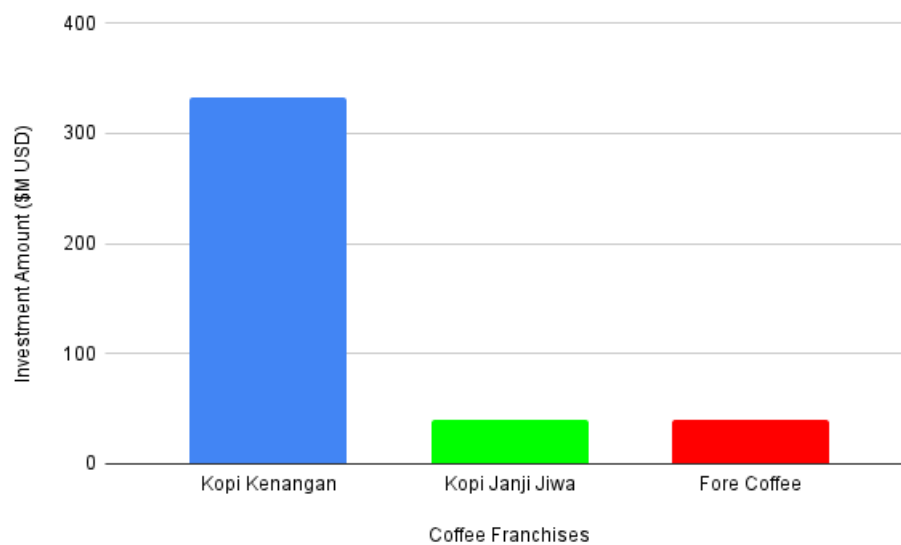


Figure 1. 2 The Amount of Investment that Coffee Brands Received  
Source: CNBC (2022) & Techinasia (2021)

Based on the figure 1.2 above, the new disruption in the coffee business model in Indonesia brought a lot of foreign capital to the nation. As of Kopi Kenangan, they have received \$333M USD in funding from foreign investors and while other coffee franchises such as Kopi Janji Jiwa and Fore has received approximately 40 Million US Dollars from investors. As they received a huge amount of capital, they can invest those funds into acquiring customers and increase their market share by expanding their number of outlets and advertisements.

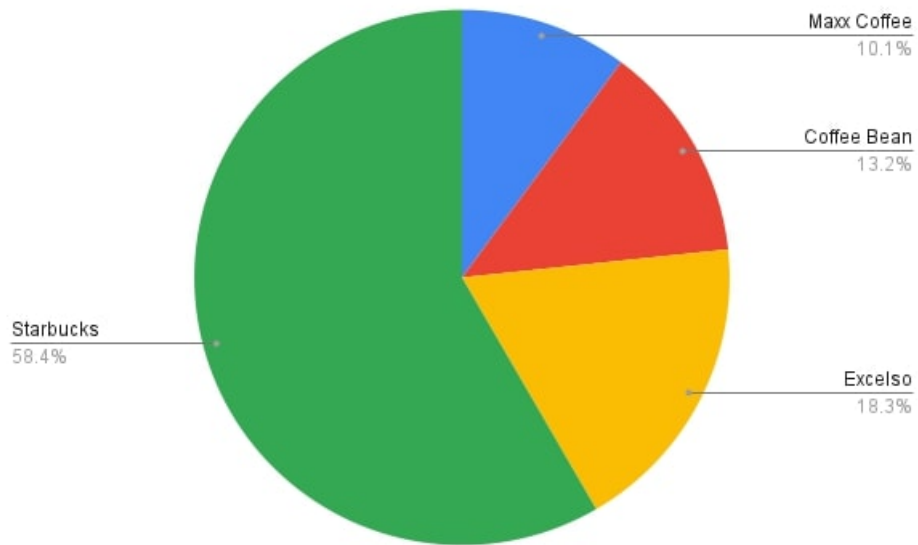


Figure 1. 3 Market Share of Coffee Chains in Indonesia  
 Source: Dailysocial (2021)

Maxx Coffee is a local Indonesian coffee brand that was established by Lippo Group in 2015 (Rahmah et al., 2018). The idea of Maxx Coffee was inspired by the American coffee chain, Starbucks, where Maxx Coffee offered similar products and experiences to Starbucks. Even though Maxx Coffee offered similar products to Starbucks, their offer is 10-15% below their competitor. Since its inception, Maxx Coffee has grown into a recognizable brand in the café franchise industry.

Market share of a coffee franchise can be calculated from the number of outlets that the franchises have (Han et al., 2018). Based on the table 1.3 above, Maxx Coffee has the lowest market shares compared to its direct competitors. The low amount of market shares that Maxx Coffee can be traced from the competitors establishing earlier than them that sells similar product and the disruption in the Indonesian coffee industry where there are a lot of new

establishment of affordable “to-go” coffee shops (Saputra et al., 2020).

It is argued that there is a huge problem for a business to maintain its brand loyalty and market share when there are plenty of other choices (McMullan & Gilmore, 2008). As there are plenty of alternatives, this becomes a challenge for Maxx Coffee to strengthen its position, increase their market share and have loyal consumers in a competitive landscape.

One of the strategies that can be used by Maxx Coffee is an experiential marketing. Experiential marketing is defined as an integration of brand experience towards as a part of their marketing approach (Smilansky, 2017). The primary goal of experiential marketing is that the consumers can feel the experience engaging and interacting with the brand. Experiential marketing is an effective marketing tool because customers can receive the brand schemas such as emotion and the feeling that the brand is trying to portray.

It is argued that the main purpose of conducting a marketing activity is to send a message towards their potential or existing customers (Reid, Luxton & Mavondo, 2005). The messages that are constructed by the brand are the beginning of the interaction between customers and them. Those perceptions based on the interactions that customers had are the basic of brand image (Ashton, 2014). Achieving brand loyalty is one of the main purposes in brand building (Mazodier & Merunka, 2012). Brand loyalty brings continuous revenue to the business, thus that is why brand loyalty is a very important goal for any brand (Bennett & Rundel-Thiele, 2005)

This research was conducted to prove the impact of experiential marketing

on the brand image and brand loyalty of Maxx Coffee amongst customers in JABODETABEK. As customers are bombarded by choice, it is important for businesses to conduct promotion that builds image towards their brand amongst customers and the loyalty between both parties. Zaini et al. (2020) argues that experiential marketing will strengthen the brand image for a product in the eyes of Indonesian customers. Another research study stated that brand loyalty can be effectively built using experiential marketing (Irawan & Hadisumarto, 2020). When a brand has schemas such as sense, perception, and image in the eyes of consumers, they are more likely to stay loyal to the business over its competitors (Sen & Bhattacharya, 2001). Based on the previous research, researcher would like to conduct a research project with a title of **“The Influence of Experiential Marketing on Brand Image and Brand Loyalty amongst Maxx Coffee Consumers In JABODETABEK”**.

## **1.2 Problem Statement & Research Question**

As it was argued by McMullan & Gilmore (2008), it is increasingly difficult to maintain brand loyalty and market share when there are alternatives towards the consumers. The landscape in the coffee industry in Indonesia becomes more competitive year by year which then created a problem for a company like Maxx Coffee to retain its customers. Thus, a strategy must be implemented to ensure that marketing objectives is achieved.

Experiential marketing is a contemporary marketing strategy, this modern approach must factor in the traditional marketing intentions which are to build

brand image and brand loyalty that will lead to recurring revenue towards the organisation. As brand loyalty leads to a recurring revenue, market share will also increase. The business that wants to integrate experiential marketing into their marketing mix must know what factors are to be considered in order to build a successful marketing campaign.

The research questions for this project are:

1. Does experiential marketing positively influence brand loyalty?
2. Does experiential marketing positively influence brand image?
3. Does brand image positively influence brand loyalty?

### **1.3 The purpose of the study**

1. To determine if experiential marketing positively influences customers' brand loyalty.
2. To determine if experiential marketing has a positive influence on brand image.
3. To determine if brand image has a positive influence on brand loyalty.

### **1.4 Research Benefits**

The benefits of this research study are:

1. For people that are considering investing their resources to advertise, this research paper is intended to give them an understanding of how experiential marketing can affect the brand image and brand loyalty. This allows them to build an engaging marketing strategy.

2. For companies that want to get into the modern approach of marketing, this research paper is useful for them to integrate experiential marketing into their marketing technique which may affect their customers' loyalty.

### **1.5 Research Contribution**

1. For theoretical contributions, this research can provide information on how experiential marketing can strengthen brand image in the eyes of customers engagement which will help their loyalty.
2. For practical contributions, this research can contribute towards:
  - I) On the business level, this research can be used to guide businesses that conducting experiential marketing towards their brand can benefit them as it impacts their customers' loyalty.
  - II) For the consumers level, this can help them make a better decision when buying a product on how marketing activities can impact their perception and loyalty towards the brand.

### **1.6 Systematic Outline**

The research paper is split into five different chapters which are:

#### **Chapter I: Introductions**

This chapter will discuss the background of the study, problem statement, research questions, the purpose of the project, the benefits, contribution and outline of the paper.

#### **Chapter II: Literature Review**

This chapter will discuss regarding the theories regarding the dependent



and independent variables that are being discussed on the paper. This chapter will also discuss the research model that connects the independent and dependent variables into getting the final hypotheses.

### **Chapter III: Methodology**

This chapter will discuss the process of the research project. Factors that are included are the method of research, the sources of the data that includes the population and sample. Lastly, this chapter will test the hypothesis.

### **Chapter IV: Findings and Analysis**

This chapter will reveal the results of the research and discuss in detail the findings of the research. Based on the theories of the previous chapter, we will analyse on how the results matched with the past literatures and the results of the hypothesis testing.

### **Chapter V: Conclusion**

This section of the paper would talk about the conclusion of the research, the suggestion for practitioners, the limitations and how this paper can be improved for future research.