

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

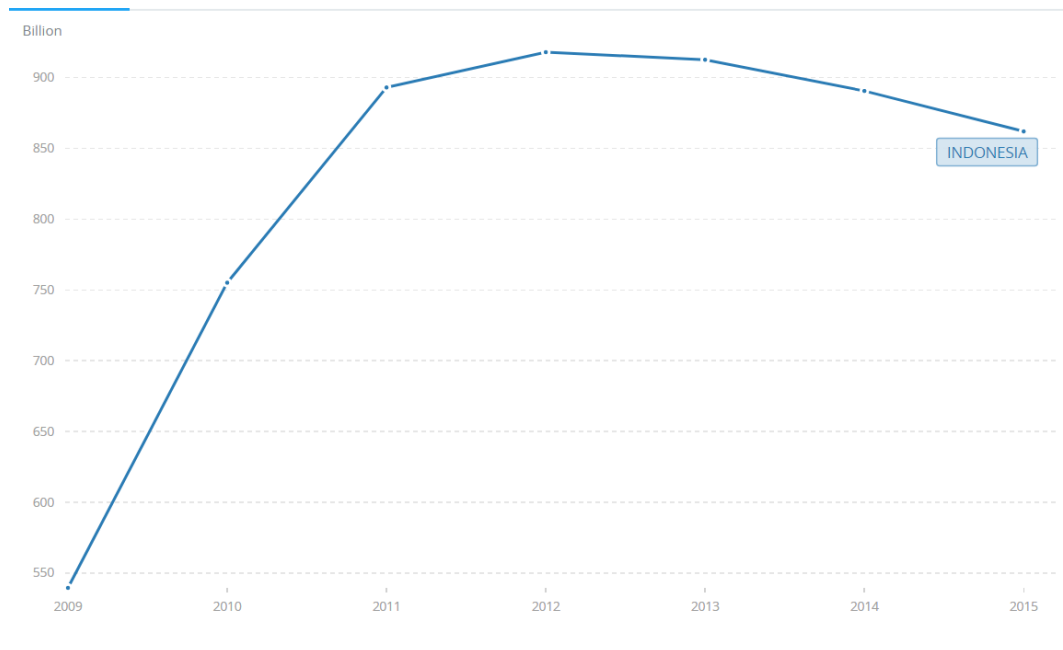
Indonesia is a very big country. Starting from the area, natural resources, diverse cultural art, and the total population. Indonesia awarded the fourth Most populous country, with the population of 263,510,146 in 2017 (Internetworldstats.com, 2017). Abundant Human resources that available in Indonesia also can creating market opportunities that can drive Indonesia economy. Not only rely on Indonesia's natural resource factors, Indonesia also growing supported by large domestic consumption and even future growth of the new middle class is even more enlarged. (Rofiq, 2017)

Indonesia under the leadership of President Joko Widodo (the seventh President of Indonesia) continuously trying to improve the economic position of Indonesia. This proven by the several government activities such as the Tax amnesty program that conducted in 2016 - 2017. Tax amnesty is forgiveness program that provided by the Government to the Tax Payer. ("Amnesti Pajak | Direktorat Jenderal Pajak", 2017). The Government hope that the tax amnesty will increase the tax revenue, increase the taxpayers' compliance rate and pull more offshore assets back to Indonesia.

Then the fund gathered from Tax Amnesty program will be used for funding massive infrastructure constructions across Indonesia. ("Tax Amnesty: What is It and Why Does It Matter?" 2017). Infrastructure is a vital component to economic growth and development of a country, which is the key to raising living standards. (Henckel, & McKibbin, 2010)

Worldeconomics.com stated that Gross Domestic Product (GDP) measures the total value of all final goods and services produced in the economy during a specific period of time. ("Why GDP data should be used with extreme caution at World Economics", 2015) GDP is widely used as one reference point to for analyze the health of national and global economies. When a country's GDP is growing over time, especially when the inflation is not an issue, then it means that the

workers and businesses in that country are generally better off than when the GDP growth is declining. (Callen, 2012)



**Figure 1.1 (GDP of Indonesia in US Currency from 2009 – 2015, source: <http://data.worldbank.org>)**

From what we can see in the Figure 1.1, The Gross Domestic Product or usually called GDP of Indonesia growing rapidly from 2009 until 2012. However, from 2012 until 2015 the GDP of Indonesia is declining. This means that the economic growth of Indonesia starting to slow down.

The Fomer Head of BPS (Indonesia statistics Center bureau), Suryamin said, the slowing economic growth tends to be influenced by external factors, where the global economy is still not stable so that the impact to Indonesia. Head of BPS, Suryamin said, the slowing economic growth tends to be influenced by external factors, where the global economy is still not stable so that the impact to Indonesia. However, he also said that there is also internal factors that influence the slowing economic growth of Indonesia that is inflation. (Himawan, & Hapsari, 2016)

One important components of Gross Domestic Product formula is the Balance of Trade (Balance of Trade). The basic formula for calculate GDP is summing the private consumption spending, investments, government spending and Balance of Trade (Exports minus by imports). The GDP will be higher when there are substantial surplus in Balance of Trade, but will be lower if there are

substantial deficit in balance of trade. Surplus in the Balance of trade happen when the total value of goods and services that the domestic producers sell to the foreigners higher than the total value of foreign goods and services that the domestic consumers buy and vice versa. So, to be able to Increase the GDP and their economy position, Indonesia need to encourage the export and discourage the import. (Ross, 2015)

The world's second most valuable traded commodity - Coffee was traditionally developed as a colonial cash crop, planted by serfs or wage laborers in tropical climates on large plantations of landowners. Then they sell it in colonial countries. There are approximately 25.000.000 farmers and coffee workers in over fifty countries take part in producing coffee all over the world. (Global Exchange, n.d.)

Moreover, Coffee believed have a lot of healthy benefit for body. Coffee loaded with antioxidants and beneficial nutrients that can improve health. Coffee believed can improve energy level and make people smarter, can help burn fat, can drastically improve physical performance, may lower the risk of type II diabetes, may protect from Alzheimer's Disease and Dementia, may lower the risk of Parkinson's, have protective Effects on the liver, can fight Depression and make a person happier and many more. (Gunnars, 2013)

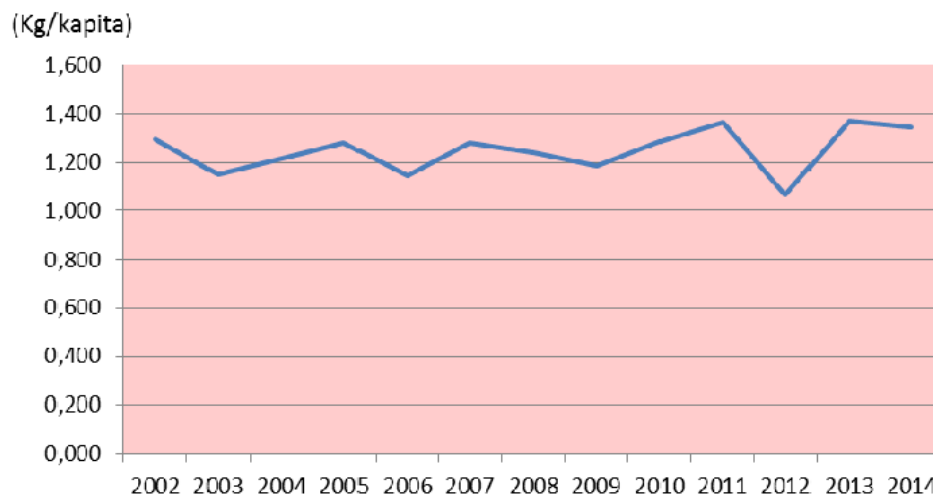
Indonesia is one country that famous with its Coffee beans industry. Indonesia placed in the fourth place in both top coffee bean producers in crop year 2014 with producing 9,350,000 (in bags of 60 kilogram) and top coffee bean exporting countries in 2014 with exporting 5,977,000 (in bags of 60 kilogram). Indonesia also well-known have a lot unique variety of coffee such as luwak coffee (kopi luwak), Toraja coffee, Aceh coffee and Mandailing coffee. (Indonesia Investments, 2015)

From several unique Indonesian Coffee, Luwak coffee is one of the most well-known and unique type of coffee that Indonesia have. This coffee possibly be the world-famous type of coffee as it is known as the world's most expensive coffee. Luwak Coffee brewed from coffee beans that have passed through the digestive system of the Asian palm civet, Indonesian people usually called this animal Luwak. Because of the special fermentation process in the Luwak's stomach

(and also because the facts that Luwak can choose the juiciest coffee fruit) this coffee is believed to have a richer taste. The production process that requires a lot of manpower and scarcity in the international market causes the price to be expensive. (Indonesia Investments, 2015)

However, Indonesia still import coffee from some country, such as Brazil, Vietnam, Malaysia, East Timor, United States, etc. Based on data from BPS Foreign Trade Statistical Bulletin (Wednesday, May 3, 2017), The cumulative Indonesian coffee imports on January-February 2017 was recorded at 1,309,456 kg with a value of 4,751,113 US dollars. The largest imports of coffee came from Brazil as much as 806 tons with a value of 2.86 million US dollars, followed by Vietnam as 247 tons with a value of 585 thousand US dollars. The rest are imported from Malaysia, Timor Leste, and the United States. (Sukmawijaya, 2017)

Deputy for BPS Distribution and Service Statistics, Sasmito Hadi Wibowo said that the Indonesian customers, including foreigners, are still wanting to taste coffee from various countries, the example is Starbucks in Indonesia still have to use Brazilian coffee or African coffee and so on because of consumer demand. (Sukmawijaya, 2017)



**Figure 1.2 (The Growth of Per Capita Coffee Consumption per Year 2002 – 2014, Source: Kementerian Pertanian Republik Indonesia, 2015. p.31.)**

Based on the result of SUSENAS (Indonesia National Socio - Economic Survey) by BPS, Coffee demand for household consumption is generally coffee powder and coffee beans. During 2002- 2014, coffee consumption is seen did not change significantly (Figure 1.2). In 2002, per capita coffee consumption per year

was 1,298 kg and only increased by 3.78% or to 1.347 kg in 2014. During that period, there was a biggest decline in Indonesia coffee consumption in 2012. In 2012, Indonesia's coffee consumption recorded 1.064 kg / capita / year or decreased by 22.14% from the previous year, where in 2011 coffee consumption of Indonesia reached 1.366kg/ capita/ year. However, after the decline in coffee consumption in 2013 increased again with growth reaching 28.92% or increased to 1,371 kg/ capita/ year. (Kementerian Pertanian Republik Indonesia, 2015)

Indonesia Minister of Industry Saleh Husin said, reflecting from the Indonesia coffee consumption data, the prospect of developing the coffee processing industry in Indonesia is still wide open. Because, as one of the largest coffee producer in the world, the average Indonesian coffee consumption only can just reach 1.2 kg per capita per year. This consumption is far below the other coffee importing countries such as United States 4.3 kg per capita, Japan 3.4 kg per capita, Austria 7.6 kg per capita, Belgium 8.0 kg per capita, Norway 10.6 kg per capita And Finland 11.4 Kg per capita per year. (Deny, 2016)

Saleh Husin also encourage the development of Coffee industry in Indonesia from upstream to downstream, thus increasing the added value and competitiveness of Indonesian coffee in the international market. This also will help Indonesia to keep up with the Coffee bean export flows that still dominant compared to processing coffee inside Indonesia. (Deny, 2016)

Indonesia government have been trying to encourage the development of coffee industry in Indonesia. Director General of Agro Industry of the Ministry of Industry (Kemenperin), Panggah Susanto said that his side has facilitated the development of coffee industry in Industry through several strategic policies such as including the coffee processing industry in the food industry and the priority to be developed. The government also harmonized the import duty tariff (MFN) of processed coffee products (roasted coffee, ground coffee, instant coffee, coffee mix) from 5 percent to 20 percent through Minister of Finance Decree No.132 of 2015. (Deny, 2016)

In the production side, Saleh Husin requested the Indonesian coffee producers such as Santos Jaya Abadi to more diversify coffee and the type of product promotion to fit the demand of Indonesian consumers especially in

technology process and product packaging design. He also requested that Santos and another coffee producers to produce and market Indonesia specialty coffee, which is geographically indicated. Then include the name of Indonesia specialty coffee in their product name, such as Kapal Api Mandailing, Kapal Api Manggarai, Good Day Kopi Toraja. (Kementrian Perindustrian Republik Indonesia, 2015)

There are a lot of company in Indonesia that engaged in the coffee sector. Some of the big company are PT. Javaprima Abadi that owns kopi Luwak white coffee; PT Santos Jaya Abadi that owns Kopi Kapal Api, ABC, and Good Day; PT. Mayora Indah Tbk that owns kopi Torabika; and PT. Sari Incofood Corporation which owns Indocafe.

From all those Coffee Company in Indonesia, the one that very famous is Kapal Api. Kapal Api is coffee brand owned by PT Santos Jaya Abadi under PT Kapal Api Global. This is a brand of coffee that has been known to the people of Indonesia since 1927. This brand also was awarded Indonesia Best Brand Award to the 14th time in 2015. (Prahadi, 2015). Kapal Api Coffe also managed to reap more than 50% of the Indonesia national coffee market. In fact, Kapal Api also widened the wings to international market. (SWA Online, 2011)



**Figure 1.3 (Kapal Api logo – 2014, Source: [https://twitter.com/kapalapi\\_id](https://twitter.com/kapalapi_id))**

PT. Kapal Api Global was established in 2009 and act as strategic and investment holding at Kapal Api Group. The company which is famous with the ship logo (figure1.3) have vision “To be a dominant and well-respected food and beverage company in Asia”. The mission statement of this company is to aim to

achieve a sustainable market leadership position by delivering excellent value to our customers through continuous innovation, world class processes, financial strength and great people. (Kapal Api Global, 2016)



**Figure 1.4 (PT Santos Jaya Abadi Products – 2017, Source: <http://kapalapiglobal.com/index.php?ourbusiness>)**

PT Kapal Api Global also have 7 business units, that are PT Sulotco Jaya Abadi, PT Weisstech, PT Exelso Multi Rasa, PT Santos Premium Krimer, PT Fastraya Buana, PT Agel Langgeng and PT Santos Jaya Abadi. This Indonesian

based company have more than 12,000 total employees and more than 2000 product appointed. (Kapal Api Global, 2016)

PT Santos Jaya Abadi is a multinational company that based in Indonesia and under the group of PT Kapal Api Global. This company builds the largest coffee processing Industry in Indonesia. PT Santos Jaya Abadi also owns Kapal Api, ABC, Good Day, Kaptan, Ya, Fresco (figure 1.4) that owns the largest market share for processed coffee product in Indonesia. (Kementrian Perindustrian Republik Indonesia, 2015).

Founded by the first generation of Go Soe Loet, the brand name of Kapal Api began to be pinned in 1930. The name was used at that time to commemorate the Go Soe Loet journey that came to Indonesia using a coal-powered vessel or known ship. The lack of quality coffee is good enough at that time to 'booster' the spirit of the development of Ship business that attach importance to quality (SWA Online, 2011)

PT Santos Jaya Abdi is growing over years. This shown from the need of PT Santos Jaya Abadi for raw coffee material that is increasing every year. In 2013, the raw coffee material need of PT Santos Jaya Abadi is 82.800 Ton, 2014 become 85.200 ton and throughout the year 2015 becoming 94,060 tons of coffee raw materials. (Kementrian Perindustrian Republik Indonesia, 2015)

The first variable is Repurchasing Intention. Repurchasing Intention or usually called purchasing intention has been referred as a consumer's intention to buy a product, or to patronize a service firm (Shao et al., 2004).

The second variable is consumer ethnocentrism. Shimp and Sharma (1987) define the consumer ethnocentrism as "the beliefs held by consumers about the appropriateness, indeed morality, of purchasing foreign-made products" (p.280). Consumers that are ethnocentric believe that purchasing foreign-made products is unpatriotic, causes loss of jobs, and huts their domestic country economy. The opposite Consumer who are non-ethnocentric judge foreign product on their merit without consideration of where there products are made. Ethnocentrism, therefore, is likely to be a factor in a consumer preference for domestic products over imported foreign products



The third variable is Product Quality. According to Kotler and Armstrong (2010) Product quality is a unified characteristics of products and services that have the ability to meet the needs consisting of durability, reliability, accuracy, convenience, maintenance, and other attributes in a product. Being consistent in taste, aroma and product innovation is becoming more and more practical is one of the requirements to win the hearts of consumers. This is the key to the success of the Fire Ship that has for many years been the market leader of roast & ground coffee in Malaysia and already exists in more than 20 countries. (Prahadi, Y.,2015)

The fourth variable is Product Value. The general concept that can be understood is that perceived value involves the relationship between customer and the product (Holbrook, 1996) which is strongly related to the utility or benefits the customer get in return for the money or any other cost they spend (Zeithaml, 1988) including both cognitive and affective aspect. (Holbrook and Hirschman, 1982).

The fifth variable is Product Image. Martineau (1957) define brand image as The total set of attitudes, the halo of psychological meanings, the association of feeling, the indelibly written aesthetic messages over and above the bare physical qualities. Kapal api is one of the awesome brands. Based on Top Brand survey results for 13 years, Kapal Api always occupy the top position. Remarkably, the index achieved, far left the competitors. Another greatness is its main competitor in the achievement of Top Brand index is ABC coffee which is also a brand of the same group of companies. (Irawan D, 2012)

The sixth variable is Product availability. Aaker (1997) states that availability is an interest factor based on logic or considerations of how the product is easily obtained. When consumers feel will get satisfaction from a product, then consumers will try to remember the product and aware of the product. The availability of products will make consumers aware of the brand to be purchased.

The seventh variable is Product Promotion. Product Promotion Communication by marketers that informs, persuades, and reminds potential buyers of a product in order to influence their opinion (Lamb CW, et al., 2010). Kapal Api also try their best with promotion, Kapal Api even work together with Citilink to promote their product. Citilink is one of Indonesian Airlines. The way that is done

by installing the logo of the Kapal Api on the fuselage of the Garuda Indonesia subsidiary.

The eighth variable is Country Image. Nagashima (1970) defined country image as the picture, reputation, and stereotypes that consumers attach to products from a specific country (p. 68). e. Spread across a chain of thousands of islands between Asia and Australia, Indonesia has the world's largest Muslim population and Southeast Asia's biggest economy. Ethnically it is highly diverse, with more than 300 local languages. The people range from rural hunter-gatherers to a modern urban elite. Sophisticated kingdoms existed before the arrival of the Dutch, who colonised the archipelago but gave in to an independence struggle in 1949. Indonesia has become one of the world's major emerging economies. The country faces demand for independence in several provinces.

## **1.2 Research Problem**

Based the background that has been elaborated, the research problems are:

1. Does the product quality significantly affect Consumer ethnocentrism of Kopi Kapal Api product in Surabaya?
2. Does the product Value significantly affect Consumer ethnocentrism of Kopi Kapal Api product in Surabaya?
3. Does the product image significantly affect Consumer ethnocentrism of Kopi Kapal Api product in Surabaya?
4. Does the product Availability significantly affect Consumer ethnocentrism of Kopi Kapal Api product in Surabaya?
5. Does the promotion value significantly affect Consumer ethnocentrism of Kopi Kapal Api product in Surabaya?
6. Does the country image significantly affect Consumer ethnocentrism of Kopi Kapal Api product in Surabaya?
7. Does the Consumer ethnocentrism significantly affect Repurchasing intention in Surabaya?

### **1.3 Research Objectives**

The objectives of this research are to reveal which factors between product quality, product value, product image, product availability, product promotion, country image that could affect repurchasing intention through consumer ethnocentrism for Kapal Api in Surabaya, this research wants to:

1. Analyze the effect of product quality towards Consumer ethnocentrism of Kopi Kapal Api product in Surabaya
2. Analyze the effect of product value towards Consumer ethnocentrism of Kopi Kapal Api product in Surabaya
3. Analyze the effect of product Image towards Consumer ethnocentrism of Kopi Kapal Api product in Surabaya
4. Analyze the effect of product availability towards Consumer ethnocentrism of Kopi Kapal Api product in Surabaya
5. Analyze the effect of product promotion towards Consumer ethnocentrism of Kopi Kapal Api product in Surabaya
6. Analyze the effect of country image towards Consumer ethnocentrism of Kopi Kapal Api product in Surabaya
7. Analyze the effect of Consumer ethnocentrism towards repurchasing intention in Surabaya?

### **1.4 Research Contributions**

Based on the background that has been explained, this research is aim to make contribution to:

1. PT Santos Jaya Abadi

The result of this research is expected to help giving knowledge about how big the factors of product quality, product image, product availability, product promotion, product value, country image that could affect repurchasing intention through consumer ethnocentrism for Kapal Api in Surabaya. These research findings can be used to improve the strength and fixed the weakness of Kapal Api for establish more better-quality marketing strategy.

## 2. Future Research

With this research is expected to be a reference in the development of service systems for further researchers who are interested to examine about how big the influence of related factors (product quality, product image, product availability, product promotion, product value, country image) could affect repurchasing intention trough consumer ethnocentrism

## 3. Author

This research expected to increase knowledge and insight of author in the application of theories that have been obtained in college.

### **1.5 Research Limitations**

This research is focusing on customer repurchasing intention trough customer ethnocentrism of Kapal Api in Surabaya by identifying how big the impacts of related factors. To arrange this research, the limitation set for Indonesian 18 – 65 years old and only in Surabaya area. The variables that used are product quality, product image, product availability, product promotion, product value, country image.

### **1.6 Research Outline**

#### Chapter I: Introduction

This chapter explains the research problems. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

#### Chapter II: Review of Related Literature

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has been already studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

### Chapter III Research Methodology

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

### Chapter IV Results and Discussion

This chapter starts with explaining the object of the study, organizing the findings that address the research questions, and explain more on how these data collected are related to the theory and prior researchers presented at the beginning of the study.

### Chapter V Summary and Recommendation

This chapter consists of the summary of the research, conclusions and recommendation that can be used to advance the study of the research topic by its theoretical, methodological, substantive contributions that may be necessary to overcome the limitations of existing empirical facts in the future.