

CHAPTER I

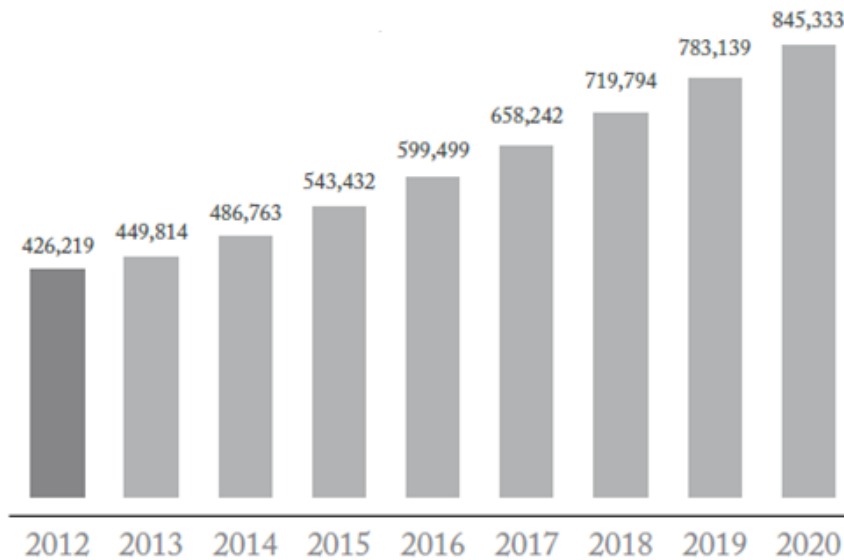
INTRODUCTION

1.1 Background of the Study

Household appliances are categorized into two sectors such as large appliances and small appliances. Based on the Pro Mexico Trade and Investment (www.promexico.gob.mx, retrieve on 21 May 2014), large appliances are those used in a stationary position, such as air conditioners, water heaters, washing machines and refrigerators. On the other hand, small appliances are appliances that can be easily lifted and moved, such as vacuum cleaners, blenders, coffee makers, and portable room heaters. One of the most commonly used appliances by people or consumer is the air conditioner. The air conditioner is a popular appliance in Indonesia. The foreign air conditioner manufacturers who sell their products in Indonesia are Samsung, LG, Panasonic, and Sharp among others. Jasmine Lim, director of home and lifestyle, as Growth From Knowledge (GFK) Asia said that the 22% growth in household appliances business happened in the markets of Indonesia, Cambodia, and Thailand (www.jagatreview.com, retrieved on 2 June 2014). Because of hot weather that occurred during March to April 2010, the sales of air conditioner in the Indonesia increased to 33.6% from only 32% in 2009 (www.finance.detik.com, retrieved on 2 June 2014). Furthermore, the sales for air conditioning in Indonesia continue to increase, especially during the middle of summer when the need for air conditioning increases (www.jagatreview.com, retrieve on 2 June 2014).

Figure 1 further shows that future global consumption of household appliance will rise steadily from year to year. It assume that high demand in the household appliances market will also cause high competition among household appliance manufacturers. Well-know brand of household appliance from all over the world are Samsung (Korea), LG (Korea), Panasonic (Japan), Sharp (Japan), Haier (China), Changhong (China), Bosch (Germany), Indesit (Italy) and Ariston (Italy), among others. Mantaining and sustaining are the main aim in every electronic industrial

company considered. These companies must up-to-date of the latest technological program and research. However, latest technology program and research does not mean that company could win the competition, if the consumer did not trust the products.



Source: Global Insight

Figure 1.

Projections for the Global Consumption of Household Appliances 2012-2020 (Million USD)

Note: Global Insight (2013)

Indonesia is a country with a population of almost 253.60 million people and ranks the fourth largest in the world in the most populous countries in the world (www.finance.detik.com, retrieved on 22 May 2014). With the fourth largest most populous country in the world, high resources, and the high buying power of consumers, Indonesia became a favorite countries target market for foreign company and importers of goods to sell their products, and for investments (www.bisnis.liputan6.com, retrieved on 22 May 2014). The Indonesian deposit insurance agency noted that bank accounts belonging to residents who own a number of funds over 5 billion rupiah jumped to 66.567 in the end of December 2013. This situation shows that the rich people in Indonesia are increasing and leads to an

increasing consumer purchasing power (www.tribunnews.com, retrieved on 22 May 2014). Therefore, Indonesia became the world's famous prospect for doing business and investments including the household appliances industry. Indonesian people tend to trust foreign goods production such as Japan production and import more products from foreign countries than creating or using their own local products (www.bisnis.liputan6.com, retrieved on 22 May 2014).

Table 1
Top Global Brand Awards for air conditioner 2012-2014

Air Conditioner						
No	Brand	Year	Brand	Year	Brand	Year
		2012		2013		2014
1	LG	31.3	LG	28.9	LG	29.5
2	Sharp	14.9	Sharp	16.0	Panasonic	14.1
3	Panasonic	12.5	Panasonic	13.1	Sharp	12.6
4	Toshiba	7.0	Samsung	10.1	Samsung	10.6
5	Samsung	5.8	Toshiba	5.9	Toshiba	6.9
6	Changhong	3.7	Changhong	3.5	Sony	4.1
7	Sony	3.4	Sony	3.4	Changhong	2.4

Note: Top Brand Award (www.topbrand-award.com, retrieved on 2 June 2014)

According to Ganesan and Hess (1997) as cited in Hanzaee and Norouzi (2012), issues on trust has been of high interest in the marketing and organizational sectors of business. Moreover, trust is the core principle of in a 'doing business' relationship. In marketing, trust acts as the image of the company's product to the consumer. It is, thus very important that consumer trusts the products. There are various of well-known brands of manufacturers of air conditioners, but only few brands are recognized by the consumer and has gained trust from the consumer. Table 1, shows the rank of several well-known air conditioning brands globally from 2012 to 2014. The highly ranked Air conditioning products are made from Japan and South Korean.

LG is a South Korean multinational electronics company founded in 1958 with headquarters in Yeouido-dong, Seoul. The company operates its business through divisions such as Mobile Communications, Home Entertainment, Home Appliances, Air Conditioning and Energy Solutions, and Vehicle Components. The commonly sold air conditioning model in Indonesia is the split-type air conditioner. LG has many variants of air conditioners. These include the inverter air conditioning (which gives outstanding performance with minimized power consumption by up to 60%), low-watt air conditioning (which is a small electric power, and able to work optimally with minimal power consumption), and standard air conditioning (www.lg.com/id, retrieved on 21 August 2014).

Panasonic Corporation formerly known as Matsushita Electric Industrial Co., Ltd is a Japanese multinational electronics corporation founded in 1918 in Japan. Its headquarters is in Kadoma, Osaka, Japan. Panasonic's operations are organised into three broad "business fields" such as consumer, solutions and components and devices. There are nine domain companies such as networks, eco solutions, appliances, industrial devices, systems and communications, automotive systems, energy, healthcare, and manufacturing solutions. Panasonic has many variant types of air conditioning systems. The split-type air conditioning system is also commonly sold in Indonesia. Panasonic also serves different usage and variant types of air conditioning starting from the low-watt usage, ecosmart usage, and many more (www.panasonic.com/id, retrieved on 21 August 2014).

Both LG and Panasonic are two well-known brands and considered to be in the top 100 most reputable companies. It is proved by the fact that Panasonic ranked 32 which LG ranked 63 in the top 100 most reputable companies in 2013 (www.forbes.com, retrieved on 23 August 2014). To maintain their ranking, LG and Panasonic continuously build consumer trust to their brands and products.

Based on a preliminary interview with Budiono Tio and Ationg Dermawan CEO and Sales Manager of PT. Mayer Sukses Jaya, respectively, Indonesian consumers previously are more likely to purchase electronic products made in Japan. Consumers show a high trust with Japanese products. However nowadays, with the Korean wave trends, consumer preference has changed slightly to Korean products. This “Korean Wave” trend became popular in Indonesia and led LG to capture 28 percent market share. Eventually, LG became a market leader in electronic industries in Indonesia (www.suaramerdeka.com, retrieved on 10 June 2014). This makes an issue on how to manage and maintain consumer trust on their electronic products. Through cognitive and affective images, the company can measure consumer’s trust for the product (Ayyildiz, Turna & Eris; 2013). Lee (1997) in had stated that since the mid-1960s, numerous studies had been conducted on the product-country images. General studies on country images found that consumers have significantly different country images or general perceptions about the products made from different countries. According to Bloom (1956), cognitive image involves knowledge and the development of the intellectual skills through the people’s knowledge, comprehension application, analysis, synthesis, and evaluation, while affective image involves the feelings or attitude of a person through the receiving phenomena, response to the phenomena, valuing, organization, and internalizing the values.

Based on all the information gathered, the researcher conducted a study entitled: **“Influence of Cognitive and Affective Images on Consumers’ Trustworthiness towards LG and Panasonic Air Conditioner products in Surabaya”**.

1.2 Research Problems

The research problem are as follows:

1. What are the characteristic of customers of
 - a. LG air conditioners?
 - b. Panasonic air conditioners?

2. Does affective image influence customer trustworthiness towards
 - a. LG air conditioners?
 - b. Panasonic air conditioners?
3. Does cognitive image influence customer trustworthiness towards
 - a. LG air conditioners?
 - b. Panasonic air conditioners?
4. Are there difference between customer of LG air conditioners and Panasonic air conditioners in term of:
 - a. Affective image?
 - b. Cognitive Image?
 - c. Product Trustworthiness?

1.3 Research Objectives

This research aim to determine the customer trustworthiness in the purchase of LG and Panasonic air conditioners. Specifically, the objective of the study are:

1. To describe the customer of LG and Panasonic air conditioners;
2. To determine the influence of affective image towards customer trustworthiness of:
 - a. LG air conditioners;
 - b. Panasonic air conditioners;
3. To identify the influence of cognitive image towards customer trustworthiness of:
 - a. LG air conditioners;
 - b. Panasonic air conditioners;
4. To identify differences between customers of LG and Panasonic air conditioners in terms of:
 - a. Affective Image
 - b. Cognitive Image
 - c. Product Trustworthiness

1.4 Research Contributions

These researches are expected to make contribution towards:

1. Future Researchers

The findings of this research identify the effect of affective image and cognitive image on product trustworthiness, specifically air conditioners. These information may serve as inputs for further research on consumer preferences for large household appliances.

2. The Company

The findings of this research can further determine the market of large household appliances especially air conditioner products in Surabaya-Indonesia regard on consumer trust.

3. The Researchers

The findings of this study are significant inputs to the researcher's plan to set up a business related to importation of household appliances to Surabaya, Indonesia.

1.5 Research Limitations

This research is limited to the air conditioner appliances as part of household appliances. Whereas the household appliances range are wide and each appliances has a different superiority or competitive advantage that cannot be conclude as one in general. Second, this research focuses only to the customer trustworthiness of LG and Panasonic air conditioner users. Whereas, LG products will be represent as the South Korea brands and Panasonic products as the Japan brands. Third, this research limited to the following variables such as the cognitive and affective images towards the consumer trustworthiness. Fourth, the respondents of this research and data are limited to the LG and Panasonic consumer that had or had bought used to this air conditioner products. This research will be conducted at the period from May 2014 to November 2014.

1.6 Research Outline

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

- Chapter I: This chapter sets up the research problems for the reader. 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: 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 already been studied. This chapter also states a clear description of cognitive and affective image together with product trustworthiness 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: 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: This chapter organizes a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.
- Chapter V: This chapter outlines the implications, conclusions, and recommendations supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.