

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Companies all over the world are looking to expand businesses into foreign markets. According to Sivakumar (2002), with the dropping of trade barriers and improvements in communication, many firms aspire to “go global”. Those companies compete to take as wide as possible of the market by offering an attractive price to customers and beat competitors out hardly. With increasing globalization, consumers are presented with a greater array of product choices, and potential product selection will include a higher proportion of products from non-domestic sources. In such a competitive scenario, branding is used extensively to differentiate one’s product from the competitors.

As more companies based in industrialized countries move the production of its goods to foreign locations, the way its brands are perceived by consumers changes (Cordell, 1993; Tse & Gorn, 1993). Lower costs of labor, the reduction of transportation costs, and the achievement of global presence of the company have been the main reasons for such decisions.

The death of Mao Zedong in 1976 heralded the beginning of a period of economic reform led by Deng Xiaoping. Beginning in late 1978, China decided to move the economy away from a centrally-planned system to a more market-driven approach. China has experienced rapid economic, political, and social development in the past two decades. During this period China adopted an “open door” policy for encouraging trade and technology transfer. This policy result in high sustained economies growth rates (Glover & Siu, 2000).

China has an image and reputation of a low-cost producer in the global marketplace. Now, China is used by Western companies as a low-pay, low-skill manufacturing base. Consequently, manufacturers have been paying little

attention to the effects of a product's new country of manufacture on consumers' perception of its quality.

China also has a reputation as low-cost wage employees, China is one of the favourite destinations by famous and big companies to open a new manufacturing plant. Most of China's exports of manufactures have been simple labor-intensive goods of low price and modest quality. Unfortunately, those advantages influence people to consider any "made in China" products as bad quality with cheap price. According to Ramo (2007), people around the world see Chinese products as low-tech and poor quality, and that China's greatest strategic threat today is its national image. There are many brands that are made in China, one of those brand is Guess which has already move its production into China (www.reviews.ebay.com). That's why in this research, the researcher will use Zara products that are made in China as the object of the research to tell that Zara is also made in China.

As more companies based in industrialized countries move the production of its goods to foreign locations, the way its brands are perceived by consumers have been changed (Cordell, 1993; Tse and Gorn, 1993). In today's globalized markets, a favorable Country-of-Origin Image (CoI) has a considerable impact on consumers' evaluation of products originating from different countries and the subsequent buying decisions (Roth, 2008). Country Of Origin (COO) is the country (often referred to as the home country) with which a manufacturer's product or brand is associated (Saeed, 1994).

One of the companies that had moved its production to a foreign location such as China is Zara. Zara is one of the Inditex Groups based in Spain that has a very good reputation in fashion especially in consumer perception right now. Spain normally conjures up images of bullfights, flamenco and sangria. But now, both Spanish men and women put a huge emphasis on style. It means that Spain can be considered as one of fashion country in the world right now. (www.fashionfromspain.com). Thus, this fact offers a new attraction become an

object since Spain's image is not as strong as other top fashion countries such as France and Italy.

According to Ghemawat & Nueno (2006), Zara was the largest and the most internationalized of Inditex's chains. At the end of 2001, it operated 507 stores in countries around the world, including Spain (40% of the total number for Inditex), with 488,400 square meters of selling area (74% of the total) and employing €1,050 million of the company's capital (72% of the total), of which the store network accounted for about 80%. During fiscal year 2001, it had posted EBIT of €€ 441 million (85% of the total) on sales of €€ 2,477 million (76% of the total).

With a lot of successful strategies, Zara claimed to have overtaken Gap to become world's largest clothing retailer in 2008. Even though its major manufacturing operation is still in Spain, the company moved 24% of the manufacturing operation to Asia including China. Meanwhile, Indonesia is also one of the Zara's market in Asia-Pacific region. Currently, there are 10 stores operating in Indonesia since the first store opened in 2005. (www.zara.com)

About 40% of finished garments of Zara are manufactured internally, and of the remainder, approximately two-thirds of the items are sourced from Europe and North Africa, and one-third from Asia. The most fashionable items tended to be the riskiest and produced in small lots internally or under contract by suppliers located close-by, and reordered if sold well. The basic items are more price-sensitive than time-sensitive, and particularly likely to be outsourced to Asia. Production in Europe was typically 15%–20% more expensive for Zara (Ghemawat & Nueno, 2006).

A study by Wang and Yang in 2008, revealed that both brand personality and COO image exert significant positive main effects on purchase intention. Previous studies found that the COO affected the buying intention of the customers (Schooler, 1965). According to Roth (2006), COI is an important driver

of consumers' evaluation of products originating from different countries. Furthermore, COO image is found to be a positive moderator in the relationship between brand personality and purchase intention. Specifically, a positive COO image could enhance brand personality's positive impact on purchase intention, whereas a negative COO image could significantly decrease the positive brand personality effect on purchase intention. Companies with both weak brand personality and a negative COO image achieve a higher purchase intention than those with weak brand personality, yet a positive COO image.

1.2 Research Problems

The research problems are:

1. What is the description of Zara's buyers?
2. Does brand personality significantly affect the intention to purchase Zara products in Surabaya?
3. Does COO image significantly affect the intention to purchase Zara products in Surabaya?
4. Does brand personality significantly affect on COO image Zara products in Surabaya?
5. Is COO image an intervening variable between brand personality and intention to purchase Zara products in Surabaya?

1.3 Research Objectives

The objectives of the study are:

1. To describe the buyers of Zara products sold in Tunjungan Plaza Surabaya;
2. To determine the effect of brand personality on intention to purchase Zara products sold in Surabaya;
3. To determine the effect of COO image on intention to purchase Zara product Surabaya;
4. To determine the effect of brand personality on COO image Zara products in Surabaya; and

5. To determine whether COO image is an intervening variable with significant effect on the relationship between brand personality and intention to purchase Zara products in Surabaya.

1.4 Research Contributions

1.4.1 Theoretical Contribution

This research will help to support the previous study which was conducted by Wang and Yang (2008) with title of “*Does country-of-origin matter in the relationship between brand personality and purchase intention in emerging economies?*”. The author does some modification on the place, the product and the number of respondent in this research. This research also enriches study in Global Marketing especially about the effect of country of origin into the buying intention of the customers through brand personality. This research will give another point of view from customer side that will strengthen the theory. By doing this research, the reader could only get the theoretical, but also the practical side.

1.4.2 Company Contribution

This research can also help any company with strong brand personality in deciding to move the manufacturing, operation, and facilities into other countries especially in China. This research can also give some contribution for Zara to know customer intention to purchase Zara products especially those that are made in China.

1.4.3 Author Contribution

This research can guide the author for future business opportunities that related to the fashion industry. The author can understand the consumer behavior related with country-of-origin image effects and brand personality.

1.5 Research Limitations

There are three variables namely: country of origin image, brand personality and purchase intention will be studied. The scope of respondent was be Zara’s visitors in Tunjungan Plaza Surabaya. The study were done only to

Zara's product that are manufactured in China. The research took time from September until November 2012.

1.6 Research Outline

CHAPTER I - INTRODUCTION

This chapter sets up the research problem for the reader. It also provides the background of 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

The chapter summarizes the major studies and finding that have been published on the research topic and how this study contributes or adds to what has already been studied. It also states a clear description of the theory that applies 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 explains the detail of the result after calculation that was conducted. It includes the company profile, description of survey respondents and variables, pretest, classical assumption and hypotheses testing.

CHAPTER V – SUMMARY, CONCLUSIONS, AND RECOMMENDATION

The authors summarizes the result from this research and gives conclusions. There are also recommendation for the company and future research.