

# CHAPTER 1

## INTRODUCTION

### 1.1 Research Background

It has been known that the development of technology within the car industry has become more advanced. Car technology was dominated by United States and European countries. Nowadays, there are more car industries in numerous countries, like in Asia, that has technology involved in developing their cars (Soejachmoen, 2016). This improvement in the car industry leads to economic growth.

By looking at the automotive industry it shows to be a vital part in the country's manufacturing sector, as various companies are rapidly increasing their production units in Indonesia, Indonesia has proven to be the country with the best economy in the Southeast Asia region and also the country that has the biggest car buy record in Southeast Asia. (Susilo, 2018).

Additionally, Indonesia encountered a stimulating progress since it went from being only an area of production of cars for export (especially for the Southeast Asian region) to a big (domestic) vehicle sale especially car deals market in order to increase in gross domestic product (GDP) per capita. In this part, the researcher will discuss the car industry in Indonesia.

Indonesia is the second biggest vehicle manufacturing industry in Southeast Asia especially car industry and the ASEAN after Thailand which controls roughly 50 percent of car manufacturing in the ASEAN. Nevertheless, due to Indonesia's development in recent years, Indonesia will dynamically undermine Thailand's prevailing position over the moving forward years. However, to outperform Thailand, Indonesia require significant efforts and breakthroughs. As of now, Indonesia is greatly dependent on FDI, particularly from Japan, for the establishment of vehicle manufacturing facilities especially car industry. Indonesia additionally still necessary to grow a car spare-part industry which will support the car industry

(S. Syahyono & L.A Wibowo, 2020). Nowadays, the total production capacity of cars assembled in Indonesia, remains at around two million units yearly. The automotive industry is one of the backbones areas that have a significant within the national economic growth. It's obviously visible from its commitment to Gross Domestic Product (GDP) reaching 10.16% in 2017 and ready to unutilized direct labor of 350,000 individuals and indirect labor of 1.2 million individuals (Susilo, 2018)

**Car Sales in ASEAN:**

Country	2014	2015	2016	2017
Thailand	881,832	799,632	768,788	871,650
Indonesia	1,208,019	1,013,291	1,062,716	1,079,534
Malaysia	666,465	666,674	580,124	576,635
Philippines	234,747	288,609	359,572	425,673
Vietnam	133,588	209,267	270,820	250,619
Singapore	47,443	78,609	110,455	116,148
Brunei	18,114	14,406	13,248	11,209
<b>ASEAN</b>	<b>3,190,208</b>	<b>3,070,488</b>	<b>3,164,742</b>	<b>3,331,468</b>

Figure 1.1 (Automotive Industry ASEAN)

Source: [www.indonesia-investments.com](http://www.indonesia-investments.com)

According to Indonesia Investments, the data above shows that Indonesia has become one of the greatest contributors of car sales in ASEAN. Additionally, Indonesia become the main destination for investment especially in the automotive industry sector. According to Macro Environment Analysis of Automotive Industry in Indonesia, Indonesia enormous population makes Indonesia as an engaging business sector, particularly within the context of market of automotive. Among South East Asian nations, Indonesia is the biggest vehicle market followed by Thailand with the second biggest market share. In the production segment, Indonesia's is still lacking behind Thailand for the capacity of production, especially for car production. In 2017, Indonesia's car industry has 1,1 million per year for sales, while Thailand

is only 800,000 units (Wanna Yangpisanphob, 2017). However, in terms of market size, Indonesia is the biggest car market in Southeast Asia, followed by Thailand in the second position. This is due to the fact that Indonesia has a large population (258 Million), making Indonesia controlling approximately one third of total annual car sales in the ASEAN region. It is also important to note that Indonesian population are characterized by having a fast-growing middle class. (Syahyono, 2020). Due to the large population in Indonesia, the automotive industry can grow successfully. This market size strengthens consumer strength. In recent years, the national automotive industry has shown a reasonably appealing development. This is part of the positive impact of the growing number of Indonesia's middle class over the past decade. According to the Central Statistics Agency (BPS), the middle-class group accounts for at least 45 percent of total domestic consumption. In addition to high relative income, the middle class is moreover described by its consumption behavior which tends to be arranged towards meeting secondary needs or even tertiary necessities. One of them is the need for private vehicle ownership, regardless whether it's a motorcycle or a car. It is characteristic that motor vehicle sales projections in Indonesia have encountered an exceptional surge in recent years.

Positive trends also occur in car sales. The production of car segment in Indonesia through the government policy "Low-Cost Green Car" (LCGC) accounted for 13.52 percent of total sales. The increasing demand for cars has caused intense competition among car manufacturers in Indonesia, where most of the market share is still dominated by car manufacturers from Japan. This large population and increasing demand for car attract two well-known brands from China, Wuling Motors or Liuzhou Wuling Automobile Industry Co., Ltd and DFSK Indonesia or PT Sokonindo Automobile to start targeting Indonesia as their market.



Figure 1.2: Wuling Logo and Wuling Car  
Source: <https://otomania.gridoto.com>

Figure 1.3: Wuling Logo and Wuling Car  
Source: <https://otomania.gridoto.com>

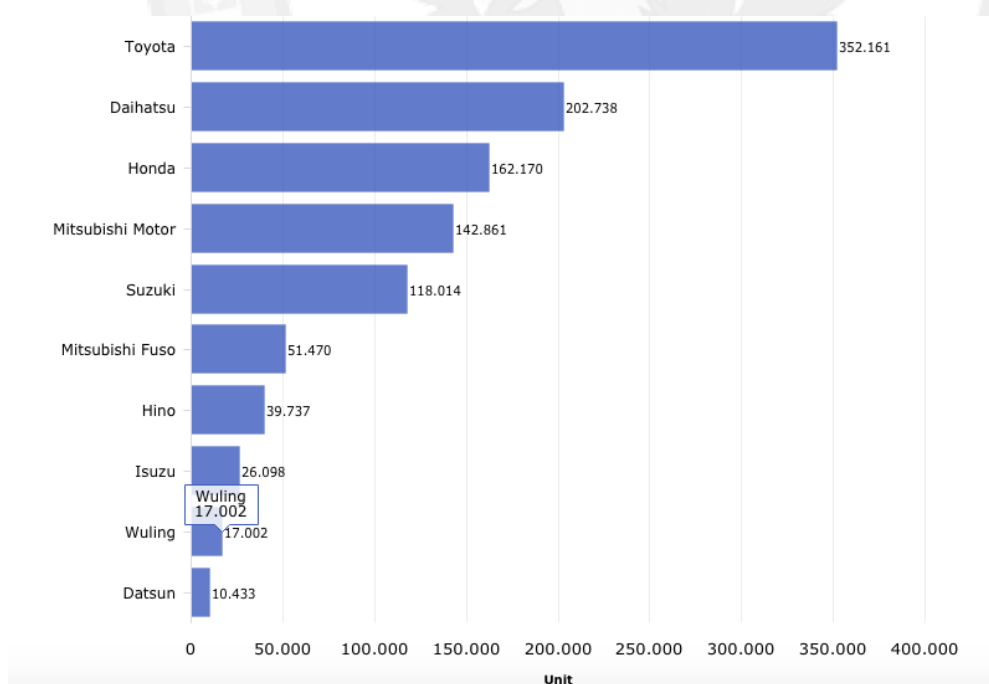
Wuling Motor itself is a subsidiary of the SAIC-GM-Wuling Vehicle brand, which was founded in 2002. In 2015, Wuling received permission to set up a factory within the Delta mas Zone in Bekasi Regency. In 2017, they opened their deals in Indonesia. In Indonesia there is stigma of a Chinese's car or motorcycle brand, where the Chinese's brand is relatively seen as a lower brand compared to brand from other countries, such as Japan and Europe. This point of view creates a new challenge for brand from China, which just started doing their business in Indonesia, they need additional work and effort to build and improve their brand image.

Wuling Motors became the first car brand from China, which wanted to invest in by a tremendous number in Indonesia, reaching 700 million dollars or Rp 9.4 trillion. (Indonesia Investement, 2017) however, there is a gap in understanding with regard to the perceived value in low-cost car industry, which may become a common and popular business model with a high-tech system experiencing growth in Indonesia. Businesses that has a product differentiation or using a low cost will have a competitive advantage. Enterprises using the low-cost strategies also will have a qualified standard such as standard employment job, good quality in workforce, even the economy scale will be maximized because the enterprise produce a product that has a good standard. With these qualities, low-cost enterprises use an incorporated structure, making significantly particular occupation job functions and

normalized working strategy with standard. At the same time, these techniques must be supported within the current market by a suitable control framework, a clear organizational structure, and management system information (Jermias & Gani, 2004).

There's not one structure or a single definition, despite the fact that there's understanding in its characteristics. however, low-cost enterprises offer low rates because of their wide knowledge and information, in this way getting proficiency in their structures of cost by reducing unnecessary components. With this, Wuling Motor offers an additional restricted service and, in a couple of cases, charges complementary services independently. With the intent to simplify the term and reduce incorrect theory of low-cost enterprise (Kachaner, 2011) a low-cost business doesn't mean a low edge margin, it's a potentially a productive model. Accordingly, low-cost isn't low rate or quality, yet it proposes way better benefits. And low-cost is hard to imitated but such an innovation.

Figure 1.4 Automotive sales Indonesia



Source : GAIKINDO (2019)

Based on the figure 1.4, Wuling Motors sales still in the lower level compare to other brand such as Toyota, Honda, etc. Since the establishment in 2017 until 2019 in Indonesia, Wuling Motors is only sold 17,002 product which the company still build the brand image as a low-cost car with high-tech.

### **1.1.1 Wuling Motors Global Expansion Strategy**

The strategy applied by SGMW in entering the International Market. Strategy can be viewed as a pattern of decision-action program objectives allocation of resources that defines how the organization is, what being done and why the organization is doing. Management strategy itself is a set of decisions Managerial and long-term decision making within the company. (Wheelen and Hunger, 2012)

Seen from the level of strategic tasks can be classified into three point, as follow:

1. Generic strategy, is a strategic approach in order outperforming competitors in similar industries.
2. The main strategy, is a strategy focus on the operational and follow-up of generic strategies.
3. Functional strategy, is a derivative of the main strategy and is more specific as well as details about the management of certain functional areas such as marketing sector, finance sector, human resources sector, service sector, and etc. (Charity et al, 2016)

After successfully marketing products in their home country, Wuling Motors expanding to several countries and one of them is in Indonesia. The expansion action carried out by Wuling Motors is like the one done with other automotive industry. Given that the Indonesian automotive industry is still dominated by Japanese manufacturers, Wuling also tried to challenge domination Japanese manufacturers with cheap cars. This is done because of the potential at Indonesia is still the largest automotive market in Southeast Asia.

The research gap is all the more significant due to the major growth in the car industry in Indonesia especially the sales of Wuling motors which has an incredible value but then has been underestimated because of the brand image itself as a result of perceived price of car industry that's become the strategy of Wuling Motors in order to attain goals and also became a perceived value that attract Indonesian. The development of low-cost car industry could be because of the combination of economic conditions, globalization (Kokolakakis, 2012), and different elements, consumer assessment towards inheritance clubs, changes in customer needs, affordability, simplicity, and digital infrastructure.

In addition, the researcher sees the gap from the perceived trust itself could influence the purchase intention of Wuling Motors. The researcher is interested in analyzing how Indonesians see Wuling Motors as a product. Since Wuling Motors was released in Indonesia, Wuling Motors have been underestimated by Indonesians because Wuling is still creating its brand image. Even in spite of the fact that Wuling's products have a incredible value, advanced technology, and lower cost, Indonesian buyers still don't recognize its brand as a product. Brand image is very important because it is exceptionally difficult if the consumers do not recognize the brand as well. The researcher believes that Wuling Motors can eventually grow in Indonesia since Wuling differentiates its products from other competitors. Perhaps, Wuling Motors Indonesian's point of view about the brand image in order to increase Indonesian's purchase intention. The researcher will identify that the purchase intention of Indonesian. The researcher will identify that the purchase intention of Indonesians could be influenced by the brand image of Wuling Motors.

## **1.2 Purpose of the Study**

The purpose of the research as follow:

- a. To determine the Indonesian purchase intention of Wuling cars.
- b. To analyze the influence of perceived trust of Wuling towards Indonesian purchase intention.
- c. To recognize the influence of perceived price of Wuling towards Indonesian purchase intentions.
- d. To see how important of brand image effect towards purchase intention

## **1.3 Research Problems**

The researcher formulate the problems based on the background of the study, as follow:

- a. Does the brand image of Wuling influence the Indonesian purchase intention?
- b. Does the perceived price of Wuling influence the Indonesian purchase intention?
- c. Does the perceived trust of Wuling influence the Indonesian purchase Intention?
- d. Does the perceived value of Wuling influence the Indonesian purchase intention?

## **1.4 Scope of Study**

This study aims to identify Indonesian's purchase intention of Wuling cars which are cars made by Chinese manufacturers, and this study is forecasted approximately 5 months to have sufficient time to see the viewpoint of Indonesian towards these Chinese automotive brands. The data expected will be collected from respondents from any kind of car brand users whose age is over 17. The sample of this study will be taken in west java region in Indonesia.



## **1.5 Thesis Systematic Structure**

### **CHAPTER I: INTRODUCTION**

In this chapter, the researcher will mention and explain about the background of the study, purpose of the study, research problem, scope of the study, and the thesis outline.

### **CHAPTER II: LITERATURE REVIEW**

In this chapter, both the dependent and independent variables, the linkages, propositions, models, and hypotheses will be mentioned and explained along with the theories that support the variables.

### **CHAPTER III: RESEARCH METHOD**

This chapter describes the analytical methods used in the research that are attached with data and data sources.

### **CHAPTER IV: DISCUSSION AND ANALYSIS**

This chapter outlines the result of data analysis which have been obtained and explained about the result of statistical calculations of the relationship of each variable including the testing of hypotheses.

### **CHAPTER V: CONCLUSION AND SUGGESTION**

This chapter contains the conclusions of the result of analytical calculations and the implications which appropriate with the problem