

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

A business that engages in international economic activities can be considered as conducting international business. Today in a competitive market, numerous companies are making its entrances into worldwide business – either by exporting and importing – which presents them with opportunities to grow and helps them to enhance their development prospects. Moreover, one of the purposes of having international business is to connect people and companies around the world.

In the period of market globalization, the global business or market growth also increase the competition between companies internationally. By looking from companies' perspective, decades ago, most of domestic companies did not have to worry about foreign competition. However, in the present day, since many companies start to venture in overseas market to gain advantages from a bigger market share and smaller production rate, it is common to see competition among the companies as the products that manufactured in one country are marketed in other countries. On the other hand, by looking from consumers' perspective, consumers are now faced with to a wider range of foreign products and broadening their range of choices, while decades ago, consumers only have limited range of product to choose from (Kalicharan, 2014).

Numerous amount of choices and options available in circulation affect consumers' purchase decision, hence, consumers will do some evaluations before purchasing a product. Costa et al (2016) states that in the process of evaluating products, consumers may take into consideration several signals, being one of those is the Country-of-Origin of a product. Tulipa and Muljadi (2015) described Country-of-Origin as a concept that can be interpreted as the country by where the product is produced or manufactured. Perceptions that consumers have in terms of the country

where the products are manufactured can be different. Magier-lakomy and Boguszewicz-kreft (2015) mentioned that when consumers start to differentiate the product from one country to the product from another country, the phenomena called as Country-of-Origin Effect (COE) take place. The term Country-of-Origin Effect – in this research it will be abbreviated with the abbreviation of COE – mainly explain on how consumers value a product from a certain country that often influences the purchase decision of consumers. In general, Purchase Decision can be defined as individuals' choice to purchase a particular product which they have selected for themselves after several evaluations.

PT Nutrimax Prima Perkasa, as the research object, is one of limited liability companies in Indonesia that engages in international business activities by importing products from several countries. This company was founded by Mr. Eduardo Sindyangga on July 10, 2007 with its Head Office located at Jalan William Iskandar No. 55 – 57 (Komplek Imperial Court) in Medan, North Sumatera, Indonesia, as well as its Branch Office located in Springville Residence No. B-8 RT 04 / RW 06, Baturan Colomadu, Karanganyar, Central Java, Indonesia (PT Nutrimax Prima Perkasa, 2018).

PT Nutrimax Prima Perkasa imports high quality animal feeds and animal feeds nutrition from foreign suppliers around the world, which are from Malaysia (Yenher Agro Products, Sdn. Bhd and Rhone Ma Holdings Berhad), the U.S.A (Special Nutrients, Inc. and Citrex, Inc.), and the Netherlands (Joosten B.V.) (PT Nutrimax Prima Perkasa, 2018).

The reason why the writer becomes interested in doing this topic is because since the “Made in” label has a great deal on consumers. COE is believed to establish consumers' trust on products that leads to reduction of the risk in making a purchase decision. Moreover, it is also common to see that many companies put the label of origin on the products' packaging with an attempt to offer consumers some information regarding where the products originate from.

In this research, since PT Nutrimax Prima Perkasa imports product with “Made in” label from different countries, the writer wants to find out whether COE has influence on Consumer Purchasing Decision at PT Nutrimax Prima Perkasa. Following is the sales performance of PT Nutrimax Prima Perkasa from the year of 2014 – 2018 depicted in table and figure is as follows:

Table 1.1
Annual Sales Performance of PT Nutrimax Prima Perkasa

Year	Sales Amount (IDR)	Percentage of Change (%)
2014	38.9 billion	–
2015	42.1 billion	8.23
2016	43.5 billion	3.33
2017	44.7 billion	2.76
2018	46.3 billion	3.58

Source: Prepared by the writer (Sindyangga, 2019)

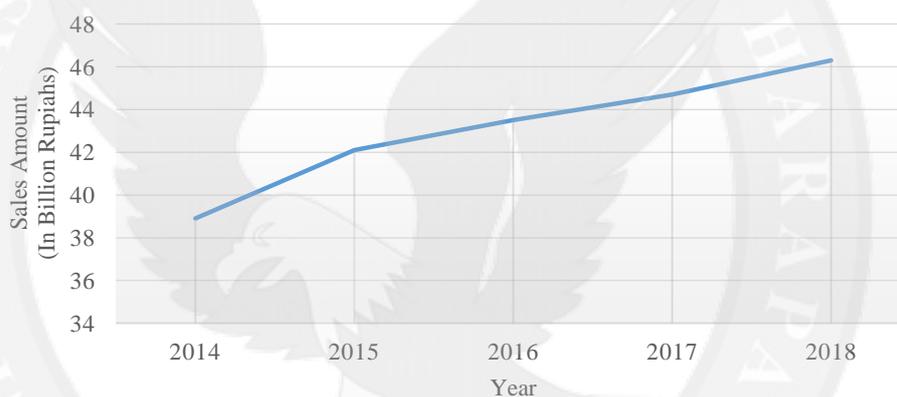


Figure 1.1 Annual Sales Performance of PT Nutrimax Prima Perkasa

Source: Prepared by the writer (Sindyangga, 2019)

It can be seen that the sales of PT Nutrimax Prima Perkasa is increasing year by year. However, the percentage of change in the annual sales is decreasing from year of 2015 – 2017. There exists some year that the percentage of change in the annual sales changes rapidly and there also exists some year that the percentage of change in the annual sales change in a slow pace.

The inconsistency in the changes indicates that there might be something happening that year. Based on the interview with the director of PT Nutrimax Prima Perkasa, it might be caused by the existence of competitors of the company that sell similar product that consequently

make the consumers prefer to purchase the products from the competitors of the company. Not only that, since PT Nutrimax Prima Perkasa imports product from various countries, it might also be caused by the product imported by the company were not suitable with the consumers' preferences (Sindyangga, 2019).

Since consumers of product sold by PT Nutrimax Prima Perkasa contribute the most on the annual sales performance, the writer is curious to find out whether or not the consumers use Country-of-Origin of a product as a factor in making their purchase decision.

Based on the interview with Mr. Eduardo Sindyangga, he mentioned that all the consumers of PT Nutrimax Prima Perkasa have their own preferences of products. By referring to sales amount of year 2018, the sales figure of PT Nutrimax Prima Perkasa comprises of products sold from Yenher Agro Product Sdn. Bhd from Malaysia (25 – 30%), Joosten B.V. from the Netherlands (20 – 25%), Rhone Ma Holdings Berhad from Malaysia (15 – 20%), Special Nutrients Inc. from the U.S.A (15 – 20%), and Citrex Inc. from the U.S.A (10 – 15%) (Sindyangga, 2019).

The percentages indicate that products imported from Malaysia (Yenher Agro Product Sdn. Bhd and Rhone Ma Holdings Berhad) appeal the most to the consumers of PT Nutrimax Prima Perkasa. The second country that appeals the consumers the most is the Netherlands (Joosten B.V.), followed by the U.S.A (Special Nutrients, Inc. and Citrex, Inc.) as the third country.

In addition, based on the interview, Mr. Eduardo Sindyangga also mentioned that there are not many competitors exist in Medan, North Sumatera, Indonesia (Sindyangga, 2019). By referring to the statement, it means that since PT Nutrimax Prima Perkasa import products from many foreign countries and have few competitors in Medan, North Sumatera, Indonesia, it resulted in consumers of the company have to be selective in choosing the products from which country to be purchased.

The grand theory of this research is derived from Solomon (2015, p. 91) in which stated that “In many cases, people engage in surprisingly little search. Instead, they rely on various mental shortcuts, such as brand names or price, or they may simply imitate others’ choices. We may use heuristics, or mental rules-of-thumb, to simplify decision making. We develop many market beliefs over time. One of the most common beliefs is that we can determine quality by looking at the price. Other heuristics rely on well-known brand names or a product’s country-of-origin as signals of product quality.”

By referring to the grand theory above, product’s country-of-origin is one of the heuristics that can be used by consumers to simplify their decision making. As a result, the writer decides to conduct a research with a title of **“The Influence of Country-of-Origin Effect (COE) on Consumer Purchasing Decision at PT Nutrimax Prima Perkasa”**.

1.2 PROBLEM LIMITATION

In this research, the writer sets several limitations to have clear boundaries in order to prevent the problem discussed being too broad. Therefore, this research contains several problem limitations as follows:

- a. The writer conducts this research at the head office of PT Nutrimax Prima Perkasa which is located at Jalan William Iskandar No. 55 – 57 (Komplek Imperial Court) in Medan, North Sumatera, Indonesia.
- b. Due to geographical, cost and time constraints, the data of respondents were only taken from the consumers of PT Nutrimax Prima Perkasa that are located in Medan, North Sumatera, Indonesia. Thus, it leads to relatively smaller sample size.
- c. The writer only uses two (2) variables in this research which comprises of: Country-of-Origin Effect (COE) as Independent Variable (Variable X) and Consumer Purchasing Decision as Dependent Variable (Variable Y).

- d. The dimensions for Independent Variable (Variable X) are: Innovativeness, Design, Prestige, and Workmanship. Whereas, the dimensions for Dependent Variable (Variable Y) are: Cultural, Social, Personal, and Psychological Factors.

1.3 PROBLEM FORMULATION

Analyzing the influence of COE on Consumer Purchasing Decision is the purpose of this study. Therefore, this research attempts to appropriately answer some of the following questions:

- a. How is Country-of-Origin Effect (COE) at PT Nutrimax Prima Perkasa?
- b. How do consumers make purchase decision at PT Nutrimax Prima Perkasa?
- c. How does Country-of-Origin Effect (COE) influence Consumer Purchasing Decision at PT Nutrimax Prima Perkasa?

1.4 OBJECTIVE OF THE RESEARCH

Identifying the influences of COE that consumers' at PT Nutrimax Prima Perkasa have in their mind on their purchase decision is the broad aim of this research. Thus, this research is particularly timely for three reasons:

- a. To find out the Country-of-Origin Effect (COE) at PT Nutrimax Prima Perkasa.
- b. To assess how consumers make purchase decision at PT Nutrimax Prima Perkasa.
- c. To measure the influence of Country-of-Origin Effect (COE) on Consumer Purchasing Decision at PT Nutrimax Prima Perkasa.

1.5 BENEFIT OF THE RESEARCH

The benefit of this research comprises both of theoretical benefit and practical benefit.

1.5.1 Theoretical Benefit

In respect with academic setting, this research can function as the way to provide more understanding regarding the influence of COE on Consumer Purchasing Decision. Therefore, it will improve the knowledge of the writer and improve the academic discussions on equivalent topics within the future.

1.5.2 Practical Benefit

Three (3) benefits that the writer expects in term of what would this research provide are as follows:

- a. For the writer, this research is expected to broaden the knowledge and experience in real-life setting in terms of the influence of COE on Consumer Purchasing Decision.
- b. For the company, this research can be used as a platform to discover the influence of COE on the purchasing decision of their own consumers.
- c. For other researchers, this research will be appropriate for their references when they conduct a research on an equivalent topic.

1.6 SYSTEMS OF WRITING

A systematic system of writing is very important in doing a research. Therefore, the systems of writing for this research are as follows:

Chapter I : Introduction

The first chapter introduces the topic by highlighting the COE and Consumer Purchasing Decision concept in the background of the study, together with brief research object's background. It continues with the problem limitation and the scope of the research. It also explains the major issues to be dealt with as well as the statement of problems on the topic, the objectives, as well as both theoretical and practical benefits that the writer wants to attain.

Chapter II : Literature Review and Hypothesis Development

The second chapter covers all related theories as well as educational literatures associated to COE and Consumer Purchasing Decision. Not only that, the writer also summarizes several previous researches that have been conducted in the relevant field and develops this research's hypothesis and framework of thinking.

Chapter III : Research Methodology

The third chapter covers research design data, techniques and methods, along with the population and sample used for conducting this research. The data collection method is specifically described in detail accompanied by the operational variable definition and variable measurement of each variable used. The last section of this chapter will be focusing on the data analysis method description.

Chapter IV : Data Analysis and Discussion

The fourth chapter primarily contains the discussion concerning on the general view of the object of research and the analysis of data. Moreover, this chapter includes an extensive discussion on the data quality result and hypothesis testing.

Chapter V : Conclusion

The fifth chapter comprises both conclusion and the implication of the research derived from the findings. Not only that, this chapter also includes the writer's recommendations for research problems and for future research.