

## **Chapter 1**

### **INTRODUCTION**

This chapter outlines the entire framework of this. It covers research background, research problem, research question, research objective, research scope, and research online.

#### **1.1 Research Background**

The new global economy of the 21st Century has transformed the economic, social, educational, and political landscape in a profound and indelible manner. Never before in human history has the pace of structural change been more pervasive, rapid, and global in its context. The new economy is composed of a trilogy of interactive forces that include globalization, trade liberalization, and the information technology and communications revolution. Globalization has melted national borders, free trade has enhanced economic integration, and the information and communications revolution has made geography and time irrelevant. Furthermore, the new economy is built on a culture of innovation. Indeed, the signature mark of the new global economy is new ideas, new technologies, and new initiatives (Hasan, 2019).

Globalization is not a new concept. It has evolved and mutated over the centuries to reflect the priorities and ambitions of different generations. The global outreach of nations for geopolitical, economic, military, and trade benefits has transgressed the centuries and embraced almost every country in the world. From time immemorial the process of globalization has taken different forms and

proceeded in different directions. A working definition of economic globalization is the global integration of economies through trade and investment flows, as well as the production of goods and services in order to enhance international competitiveness (Cleveland et al., 2011).

Urbanization is a global phenomenon and one of the main drivers increasing demand for consumer goods, especially footwear. The rapid pace of urbanization and the constantly-changing consumer preferences are affecting footwear markets. Companies in this sector should be prepared to face these challenges. Demand for shoes and other related products will continue to increase in the majority of international markets. Nonetheless, producers should pay special attention to developing countries such as Indonesia, where a larger increase in demand is expected. Countries that aren't currently attractive markets for footwear may become so, in a short period of time (Samimi & Jenatabadi, 2014).

Changing lifestyles in Indonesia are expected to generate particularly strong demand growth for athletic footwear, giving manufacturers in this segment an appealing alternative to exports. Providing that costs are kept under control, the country has all it takes to secure or even improve its position as one of the leading footwear exporters, much to the benefit of local companies and global investors.



**Figure 1.1 Indonesia Footwear Market**  
Source: Ministry of Industry (2021)

Indonesia's footwear market was estimated to be worth 29.3 trillion rupiah in 2012, with household spending on footwear increasing by 47% over the 2007-2012 period (Euromonitor International). Based on the record of Ministry of Industry, the foreign exchange of footwear industry amounted to 4.11 billion US dollars or 2.33 percent of the total national exports in 2019. Indonesian footwear exports to the world market increased by the average of 8 percent per year (Kementerian Perindustrian Republik Indonesia, 2021). The domestic shoe market in Indonesia amounted to 2.7 trillion rupiahs per month, is dominated by imported shoes, and the average of imported shoes entering Indonesian market increases 8.5 percent per year (Kementerian Perindustrian Republik Indonesia, 2021).

To be a global business chain, one should have a brand, a trademark that is well known by people across the globe (Urboniene, 2017). Trademarks provide the main legal platform for the brand-based marketing of products. Along with patents and copyrights, trademarks are one of the three most important forms of intellectual

property rights. A trademark is a distinctive sign or indicator which can be used to identify to the consumer the unique source of the goods or services bearing the mark (Jeon, 2017). There are three distinct qualities of a trademark: it must be a sign, which is capable of being represented graphically and is capable of distinguishing goods or services of one undertaking from another. They may consist of words, designs, letters, numerals or the shape of goods or their packaging (Joshi & Garg, 2021). Foreign footwear brands are still the primadona of footwear market in Indonesia as follows:

**Table 1.1 Sports Shoes Top Brand Award**

<b>Year</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
1	Nike	Nike	Adidas	Adidas
2	Converse	Adidas	Nike	Nike
3	Adidas	Converse	Reebok	Puma
4	Puma	Air Walk	Converse	Converse
5	Reebok	Reebok	Puma	Reebok

Sources: [www.topbrand-awards \(2021\)](http://www.topbrand-awards.com)

One of those foreign brands is Converse. While it is a big brand but right now Converse is declining, globally as well as in Indonesia. Converse brand's sales fell 16% year over year on a constant currency basis to \$483 million during the quarter ending Aug. 31. The decline in Converse sales came in spite a 2% increase in revenue for the Nike flagship brand, which totaled \$8.6 billion in the quarter. The full company's revenue for the quarter, \$9.07 billion, was flat from last year, shy of analysts' expected \$9.085 billion, while earnings of 57 cents per share exceeded the consensus estimate of 46 cents per share (Berman, 2021). Growing domestic demand has seen footwear imports to Indonesia grow, while foreign brands are still dominating, but it is an opportunity first and foremost for local manufacturers.

Some products may be perceived as global brands even though nearly 100 percent of components were produced locally, while other products would be perceived as local brands even though nearly 100 percent of the components used in the production process were imported. This perception of consumers will be reflected in both the brand and corporate image of respective products and companies. On the other hand, having a global brand may not necessarily be a good thing for a product. (Shimp, 2014) points out negative emotions that might be felt by consumer toward products perceived to be “foreign”. They coined the term “Consumer Ethnocentrism” to describe these negative emotions which showed consumer tendencies to give less favorable evaluation toward foreign brand as opposed to local brands. These negative emotions might arise from a sense of patriotism or nationalism which compels consumers to feel disloyal when purchasing foreign brands, especially if local alternative is available (Shimp,2014).

The government has tried to encourage society to purchase local products by issuing the policy to raise taxes on imported products and encourage society to love local products like Ventela, Compass and Saint Barkley shoes which was introduced by President Joko Widodo. This is very important, especially in the condition where foreign-made products are free to enter Indonesian market and promote their products very vigorously. One of the factors that influence the society to buy local shoes is ethnocentrism. Consumer Ethnocentrism is the tendency of consumers to accept or reject foreign-made products. The previous researches have shown that in developing countries, consumers assume that products made by local producers are not as good as imported products (Arslandere & Yusuf, 2020).

Another factor that can affect consumers in the attitude towards the foreign brand by consumers is the country of origin. Country of origin was first defined by Nagashima (Foroudi et al., 2017), namely the description, reputation and stereotypes of the products of a country that are built from product variables, national characteristics, economic background, politics, history and traditions. The influence of country of origin image on consumer perceptions of products has been a very broad study in International Marketing. Country of origin image is the belief, idea, and impression that a person has about a country formed from associations and informational indications connected to a place. Country of origin will reflect the characteristics of a product that will shape the perception of the product in the eyes of consumers (Schiffman & Kanuk, 2015). Products offered to consumers will have a label where the product comes from so that products with a good country image will have a good perception too. This perception will form a thought process that will shape purchase interest (Kotler et al., 2017).

## **1.2 Research problem**

Several foreign global brands are also associated with sneakers, with several brands like Nike, Converse, Reebok, Under Armor and others. Additional factors on presentation and personnel. In their research they found among 50 shoes attributes, most desired attributed for consumers are “comfort, durability, odorless, value, and quality” in Thailand. In second stage, these 50 attributes were grouped into 5 factors using Exploratory Factor Analysis and named as “well trained and experienced salesforce”, “product quality and functions”, “attractive store and

product presentation”, “price and perceived value”, “health and comfort”, and “fashion and trends” (Wang, 2014). According to Aaker, Batra, and Myers (Yan et al., 2019) an important attribute is one that offers an important benefit towards the satisfaction of consumer needs. Aaker (1991) adds that because most product attributes provide consumer benefits, there is usually a one-to-one comparative between brands. (Kotler & Armstrong, 2014) explains that the most salient attributes or features of a product to the consumer do not necessarily always imply that they are the most important ones. Manufacturers must view product attributes from consumers’ point, understand their specific needs to reduce the lost opportunity to sell or raise the level of customer satisfaction. herefore, identification of those important factors will help the shoe-making companies to tailor their marketing and manufacturing strategies to take advantage of these influences in a way that will satisfy both the consumers and marketers.

According to previous research by (Arslandere & Yusuf, 2020), consumer ethnocentrism negatively influences attitude towards the foreign brand, country of origin effect positively influences attitude towards the foreign brand, and finally attitude towards the foreign brand has a strong and positive effect on the purchase intention of foreign brand products. Although the pressure of consumer ethnocentrism on the the country of origin effect is variable, studies reveal that consumers with high levels of ethnocentrism prefer products of local origin (Arslandere & Yusuf, 2020). However, the domestic shoe market in Indonesia amounted to 2.7 trillion rupiahs per month, is dominated by imported shoes, and

the average of imported shoes entering Indonesian market increases 8.5 percent per year (Kementerian Perindustrian Republik Indonesia, 2021).

Converse shoes are a popular shoe brand today, which many teens and young people like as well as their favorites. Converse shoes may be the oldest, most sought after, and best-selling of all time. It has been revealed that Americans at least 50% of the population have at least a pair of Converse shoes. Converse is a shoe company based in America that has been known for its expertise in manufacturing sportswear and lifestyle shoes. Even in Indonesia, shoe entrepreneurs both offline and offline have sold many Converse shoes. Its main products from Converse focus on the production of sporting goods and also other items. Converse is actually the sister of another popular shoe-making company, Nike athletic shoes. The problems of Converse is this brand has been declining for the past few years.

**Table 1.2 Converse's Global Brand**

<b>Year</b>	<b>Rank</b>
2017	43
2018	66
2019	64
2020	84

Sources: [www.rankingthebrands.com](http://www.rankingthebrands.com) ( 2021)

According to table 1, Converse's Global Brand is declining for several years which falling from #43 until #84 in ranking. This trend is almost the same as hypebeast ranking which saw Converse fall 1 place from #9 to #10. In Indonesia, according to Top Brand Award for sports shoes, Converse keeps falling from year to year as follows:



**Table 1.3 Sports Shoes Top Brand Award**

Year	2017	2018	2019	2020
1	Nike	Nike	Adidas	Adidas
2	Converse	Adidas	Nike	Nike
3	Adidas	Converse	Reebok	Puma
4	Puma	Air Walk	Converse	Converse
5	Reebok	Reebok	Puma	Reebok

Sources: [www.topbrand-award.com](http://www.topbrand-award.com) (2021)

According to table 2, Converse's brand is declining through years which corresponds with the purchase intention of Converse shoes because of the attitude towards the foreign brand by consumers. This phenomenon leads this research to further investigate this topic and studies the impact of consumer ethnocentrism and country of origin effect affect on attitude towards the foreign brand and purchase intention of foreign brand products on Converse shoes . This research will be based on replication of the studies done by Arslandere and Yusuf (2020) with the title "The impact of Country of Origin Effect and Consumer Ethnocentrism on Purchase Intention of Foreign Brand Recreational Materials Used in Sports Activities : An empirical Researchs, using structural equation modeling to analyze data collected from 335 participants in total ( 195 women (58%) and 140 men (42%) with the aims to finds out whether there is a "relationship between consumer ethnocentrism and attitude towards the foreign brand, the country of origin effect and attitude towards the foreign brand, and attitude towards the foreign brand and the purchase intention of the foreign brand".

### **1.3 Research question**

The questions this research project sets out to answer is as follows:

1. Does consumer ethnocentrism affect on attitude towards the foreign brand on Converse shoes ?
2. Does country of origin effect affect on attitude towards the foreign brand on Converse shoes ?
3. Does attitude towards the foreign brand affect on purchase intention of foreign brand products on Converse shoes ?

#### **1.4 Research objective**

Following the previous description of the Research Question, this research aims to determine consumer's purchase intention of Converse shoes with the influence of consumer ethnocentrism, country of origin effect, and the mediating role of attitude towards the foreign brand. The objective of this research is as follows:

1. To examine and analyze if consumer ethnocentrism has an affect on attitude towards the foreign brand on Converse shoes.
2. To examine and analyze if country of origin effect has an affect on attitude towards the foreign brand Converse shoes.
3. To examine and analyze if attitude towards the foreign brand has an affect on purchase intention of foreign brand products on Converse shoes.

#### **1.5 Research Contribution**

This research aims to provide knowledge and contribution for readers to be able to have a deeper understanding of what impacts have prompted based on the discussion:

## 1. Theoretical Contribution

This research is expected to contribute theoretically to the nature of consumer ethnocentrism, country of origin effect, attitude towards the foreign brand, and also purchase intention of foreign brand products on Converse shoes in Indonesia. It is hoped that by reading this research, readers can broaden their knowledge and develop appropriate explanations, and also provide insights and references for future research.

## 2. Practical Contribution

This research is expected to contribute practically, provide new perspectives, and help readers to get ideas from research results, and help evaluate purchase intention of foreign brand products in the case of Converse shoes. It is hoped that this research can also be a reference for companies and individuals to consider in their business.

### 1.6 Research Outline

This research contains a systematic framework arranged into five chapters.

The contents of each chapter in this research is as follows:

- **Chapter I: Introduction**

This chapter explains the research background, research problem, research objectives, research questions, research contribution, and research outline.

- **Chapter II: Literature Review**

This chapter explains the existing theories and literature review of the variables in this study, the relationship between each variable, and the research hypothesis derived from other research, journals, and books.

- **Chapter III: Research Methodology**

This chapter explains the research methodology used to answer the research questions and gives more depth in knowledge and understanding of this research. This chapter describes the research design, measurement, unit analysis, sample design and size, data collection methods, questionnaire preparation technique, and data analysis technique.

- **Chapter IV: Data Analysis and Discussion**

This Chapter will show and describe the result of the research done, provide the analysis and discussion of the results obtained.

- **Chapter V: Conclusions and Recommendation**

This Chapter explains the managerial and theoretical application, recommendations for further and future research, limitations of this research, and conclusions of the research.