

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Globalization has completely altered the way in which the world operates. The barriers that once hindered people ability to communicate and interact with people across the world have diminished. Globalization has become ingrained in all fields: business, government, economic, social. There is no specific event or timeline that marks when modern globalization began, because it was a gradual progression, but what needs to be remembered is that globalization means worldwide integration not just of social systems, but of political, cultural and business systems as well. One of the most beneficial aspects of globalization for businesses is that companies can now take skills and knowledge from across the globe and widen their horizon which leads to increased collaboration and breakthrough innovations. The ability to communicate and transfer information all around the globe lets companies focus on their main core competencies which in turn leads to better collaboration and innovation (<http://digitalcommons.bryant.edu>, retrieved on 13 September 2017).

Unlike in the past when communication was limited to letter writing and waiting for those postal services to deliver people message. Today technology has made the field of communications so easy. There are technologies such as instant messaging that allow people to communicate instantaneously, and they can be located anywhere around the world as long as they have a running internet connection and a messaging service. In this way companies can communicate with clients and employees who are around the world and give them the latest news that they may need to know in order to do business with clients or other companies. In other words, technologies have become an inseparable part of people daily life. It has become very difficult for the overwhelming majority of people to go through the day without using a cell phone or a laptop (<http://digitalcommons.bryant.edu>, retrieved on 13 September 2017).

Smartphones have clearly transformed the lives of many across the world. They offer so much in one small package, making them a must have for millions of people. People can do nearly everything on a smartphone, and that is truly remarkable. Since mobile phones are so common now, they can be found in nearly every mobile phone dealership. Smartphones allow people to get news and updates immediately, whether it is through an application or the browser. Important weather updates, school closings, important emails, and many other notifications can all be received much faster. With these phones, sharing photos, videos, audio, and more online and between friends or family is even easier. Smartphones also have allowed communication to reach a whole new level, keeping friends and family in much better contact than ever before. Bonds are very important; and they are helping to strengthen them. Smartphones have touched so many different areas of people lives, and have made them much easier in the process. As mobile technology continues to become smarter and more helpful, smartphones will only continue to make a huge impact on lives across the world (<https://www.geekdashboard.com>, retrieved on 13 September 2017).

Furthermore, according to the Association of Internet Service Providers in Indonesia (APJII), Internet penetration in Indonesia has now reached 40 percent of the population, or 100 million Internet users. Jamalul Izza, Chairman of the APJII, said this milestone is the result of the joint efforts the government, internet services providers and other stakeholders to make internet access available across the archipelago and create a conducive regulatory environment. However, it also implies that 60 percent of the population - some 150 million people - still live without Internet. In using internet people need a devices to connect and smartphone is one of the devices (<https://www.indonesia-investments.com>, retrieved on 14 September 2017).

iPhone was the world's most popular smartphone last year, in terms of global shipments. iPhone 6s took the top spot as the most-shipped smartphone in the world in 2016, trailed by the iPhone 7, iPhone 7 Plus, and iPhone 6s Plus, based on research from IHS Markit's Smartphone Shipment Database, which tracks quarterly

shipment data for more than 350 smartphone models (Macrumors, 2017). The iPhone gets its name because it can be customized to suit the user. Its screen and applications can be altered to individual taste. It highlights the 'i' — individuality of the user. The iPhone is a multimedia-enabled smartphone, which made its appearance a couple of years ago. It combines email, 3D graphics, camera, a portable media player which can edit and mail videos, post them on a gallery, news, music, and stock market updates. The iPhone can also be rotated for a wider screen to get more information (<https://www.timesofindia.indiatimes.com>, retrieved on 14 September 2017).



**Figure 1**  
**iPhone 6**

*Note:* <http://cdn.mos.cms.futurecdn.net> (retrieved on 6 November 2017)

Global sales of smartphones to end users totaled 432 million units in the fourth quarter of 2016, a 7% increase over the fourth quarter of 2015, according to Gartner, Inc. The fourth quarter of 2016 saw Apple leapfrog past Samsung to secure the No. 1 global smartphone vendor position (see Table 2). In 2016 overall, smartphone sales to end users totaled nearly 1.5 billion units, an increase of 5 percent from 2015 (see Table 1). In 2015 the global sales of smartphone to end users totalled 403 million units in the 4th quarter of 2015, a 9.7 % increase over the same period in 2014, according to Gartner, Inc. In 2015 as a whole, smartphone sales reached 1.4 billion units, an increase of 14.4 percent from 2014 (Gartner, 2017).

Vendor	2016 Units	2016 Market Share (%)	2015 Units	2015 Market Share (%)
Samsung	306,446.6	20.5	320,219.7	22.5
Apple	216,064.0	14.4	225,850.6	15.9
Huawei	132,824.9	8.9	104,094.7	7.3
Oppo	85,299.5	5.7	39,489.0	2.8
BBK Communication Equipment	72,408.6	4.8	35,291.3	2.5
Others	682,314.3	45.6	698,955.1	49.1
<b>Total</b>	<b>1,495,358.0</b>	<b>100.0</b>	<b>1,423,900.4</b>	<b>100.0</b>

**Table 1**  
**Worldwide Smartphone Sales to End Users by Vendor in 2016 (Thousands of Units)**  
*Note: Gartner (2017)*

Vendor	4Q16 Units	4Q16 Market Share (%)	4Q15 Units	4Q15 Market Share (%)
Apple	77,038.9	17.9	71,525.9	17.7
Samsung	76,782.6	17.8	83,437.7	20.7
Huawei	40,803.7	9.5	32,116.5	8.0
Oppo	26,704.7	6.2	12,961.5	3.2
BBK Communication Equipment	24,288.2	5.6	11,359.4	2.8
Others	185,921.1	43.1	191,708.4	47.6
<b>Total</b>	<b>431,539.3</b>	<b>100.0</b>	<b>403,109.4</b>	<b>100.0</b>

**Table 2**  
**Worldwide Smartphone Sales to End Users by Vendor in 4Q16 (Thousands of Units)**  
*Note: Gartner (2017)*

According to Wathne et al., (2001) (in Olaru, 2008) the intention of repurchasing depends on the value earned in previous transactions and prior experience. In other words, Customers could be very satisfied with their experience and quality of the service or product and be loyal, and will purchase it again due to some factors like the value customers' gained. According to Chaniotakis et al., (2010), factors that influencing consumers' purchase intention are consumers' attitudes, extrinsic factors and intrinsic factors of the products.

Intrinsic is defined as being part of the natural of something (Longman Dictionary, 2004). Intrinsic factor is related to physical product characteristics where it includes perceived quality and value. Extrinsic is defined as not an inherent part of the thing or not contain in something (Free Dictionary, 2011). Research

shows that extrinsic cues play an important role in influencing consumers' purchase intention than intrinsic cues (Richardson, 1997). Extrinsic factors of the product includes perceived price and store image. Consumers' attitude is an important factor in influencing consumers' purchase intention towards private label product (Chaniotakis et al., 2010). Consumers' attitude includes trust and familiarity.

In intrinsic factor, perceived quality is one the most important factors influencing purchase intention (Hoch & Banegi, 1993; Sethuraman, 1992). High quality, low risk with greater value of the product can increase confidence of consumers in purchasing. The higher the perceived quality of the product, the more likely consumer has intention to purchase a product.

The quality of iPhone can be seen from the failure rate of the iPhone, according to State of Mobile Device Performance and Health report in 2017 reveals that the failure rate worldwide for Android devices was 25 percent. While this is not necessarily high, it is important to note that it is more than double the failure rate worldwide of iOS devices in the same period. The data also indicates that the failure rate for Android devices was highest in Europe, at 32 percent, followed by Asia (28 percent) and North America (24 percent) (<https://www.blancoco.com>, retrieved on 7 November 2017).

The quality of iPhone also can be seen from the battery life or how long they can last in a day. The iPhone 7 plus for example has only 2900 mAh, while Samsung Galaxy has 3500 mAh (see Figure 2). From the battery test result (see Figure 3), even though Samsung Galaxy S8 (3500 mAh) has more capacity of battery than iPhone 7 plus (2900 mAh), iPhone 7 plus' battery life is the longest one compare to other smartphone like Samsung Galaxy S8 plus. iPhone 7 plus can last for 9 hours 5 min while Samsung Galaxy S8 can only last for 8 hours.

	Samsung Galaxy S8	Apple iPhone 7	Samsung Galaxy S8+	Apple iPhone 7 Plus
Battery capacity	3,000 mAh	1,960 mAh	3,500 mAh	2,900 mAh
Internet use 3G	11	12	13	13
Internet use LTE	12	12	15	13
Internet use Wi-Fi	14	14	15	15
Video	16	13	18	14
Audio	67	40	78	60
Talk time	20	14	24	21

**Table 3**  
**iPhone specs vs. Competitors**

Note: <https://boygeniusreport.files.wordpress.com> (retrieved on 7 November 2017)



**Figure 2**  
**Battery life test**

Note: <http://www.pricebook.co.id> (retrieved from 7 November 2017)









The greater the perceived value on provide of a product, the more likely the consumers purchase on that product itself. The general concept that can be understood is that perceived value involves the relationship between customer and the product (Holbrook, 1996) which is strongly related to the utility or benefits the customer get in return for the money or any other cost they spend (Zeithaml, 1988) including both cognitive and affective aspect (Holbrook & Hirschman, 1982).

One of the most value people can get from the iPhone is the Touch ID itself, the rapid growth of technology has enabled us to make protection on smartphone by using fingerprint. It becomes the most sophisticated protection system at the moment. But although various Android smartphones have applied this protection system on the product certainly can not compete with fingerprint protection owned

by the iPhone that is Touch ID. In the level of protection, Touch ID is still the best on fingerprint-based protection system. This makes the iPhone daring to launch its new feature is Apple Pay which is a technology-based payment feature only with via iPhone (<http://daftarhargahp.co.id/>, retrieved from 7 November, 2017).

Extrinsic attributes are aspects that are related to the product but are not physically a part of it, such as its name or the brand image. According to Chen (2008) one of the factor of extrinsic is perceived price. Perceived price shows a positive relationship with consumers' motives (Munusamy & Wong, 2008) and this motive will drive their behavior together stimulate their responses and bring them to the store (Kim and Jin, 2001).

iPhone is an exclusive gadget so when people have it, will feel proud. Moreover, the price is very expensive and not everyone can get it. Therefore, when carrying a phone with a cool Apple logo will certainly make people appearance level up and considered top class. Apple annually releases only some of the latest iPhone versions so that the exclusive impression is deeply felt. Another case with other smartphone brands that can annually spend more than 3 products at once. iPhone has a strong upper middle market share (<https://www.zopini.com> retrieved from 7 November 2017).











MODEL								
Base Price Off Contract	\$649	\$769	\$399	\$549	~\$650	\$499	TBD	\$624

**Table 4**  
**iPhone's price comparison**

*Note:* <http://www.businessinsider.sg> (retrieved from 7 November 2017)

According to Hsieh et al., (2004), a successful brand image makes it possible for consumers to determine the needs that the brand fulfills as well as differentiate the brand from the competitors. Successful brand image also helps to increase the likelihood that the consumers will consequently buy the products or services of the company.

In 2015, Apple has reclaimed the title of World's Most Valuable Brand with an increase of 67% in value to \$246.9 billion. Not surprisingly, the iPhone maker surpassed rival Google for the title. Google nabbed the coveted number one spot last year, its fourth win in five years. Although many firms calculate their own lists of the most valuable brands in the world, market research company Millward Brown conducted this particular World's Most Valuable Brand survey ValueWalk, 2015 (<http://www.valuwalk.com>, retrieved from 7 November 2017).

	Brand	Category	Brand Value 2015 \$M	Brand Contribution	Brand Value % change 2015 vs 2014	Rank change
1		Technology	246,992	4	67%	1
2		Technology	173,652	4	9%	-1
3		Technology	115,500	4	28%	1
4		Technology	93,987	4	-13%	-1
5		Payments	91,962	4	16%	2
6		Telecom Providers	89,492	3	15%	2
7		Telecom Providers	86,009	3	36%	4
8		Soft Drinks	83,841	5	4%	-2
9		Fast Food	81,162	4	-5%	-4
10		Tobacco	80,352	3	19%	-1

**Table 5**  
**Top 10 World's Most Valuable Brand Title**  
*Note:* Value Walk (retrieved on 7 November 2016)

Consumers' attitude includes trust on the product and familiarity. Trust on the product is influenced by perceived benefit and later on will affect consumers' attitude (Bettman, 1979). Consumers who trust on the product will think the product is worth to buy and thus will recommend the product to others. Negative experience on purchasing will give a negative impact for their future purchase.

The trust of customers can be seen by the sales of the iPhone. In 2015 the global sales of smartphone to end users totaled 403 million units in the 4<sup>th</sup> quarter of 2015 (see Table 2), Apple leads with 77,038 units at the end of 2015 followed by Samsung, Huawei, etc. Apple leads the sales of its smartphone (iPhone) with the highest sales at the 4<sup>th</sup> quarter in 2015, it shows that customers' trust in this product of Apple is still high.



In order to prevent making mistake during purchasing, consumers will choose products which are more familiar to them (Cox, 1967). The more familiar consumers to a product, the higher the tendency consumers' purchase intention is towards a product. As Apple has reclaimed the title of World's Most Valuable Brand with an increase of 67% in value to \$246.9 billion (see Figure 5), automatically people become aware or familiar with its products which is iPhone because the company itself become World's Most Valuable Brand, so if people or the customers become more familiar to a product, the higher the the tendency consumers' purchase intention.

## **1.2 Research Problems**

1. Does Perceived Quality have a significant effect on Consumers' Repurchase Intention for iPhone user in Surabaya?
2. Does Perceived Value have a significant effect on Consumers' Repurchase Intention for iPhone user in Surabaya?
3. Does Perceived Price have a significant effect on Consumers' Repurchase Intention for iPhone user in Surabaya?
4. Does Brand Image have a significant effect on Consumers' Repurchase Intention for iPhone user in Surabaya?
5. Does Trust have a significant effect on Consumers' Repurchase Intention for iPhone user in Surabaya?
6. Does Familiarity have a significant effect on for iPhone user in Surabaya Consumers' Repurchase Intention?

## **1.3 Research Objectives**

1. To examine the effect of Perceived Quality towards Consumers' Repurchase Intention for iPhone user in Surabaya.
2. To examine the effect of Perceived Value towards Consumers' Repurchase Intention for iPhone user in Surabaya.
3. To examine the effect of Perceived Price towards Consumers' Repurchase Intention for iPhone user in Surabaya.

4. To examine the effect of Brand Image towards Consumers' Repurchase Intention for iPhone user in Surabaya.
5. To examine the effect of Trust towards Consumers' Repurchase Intention for iPhone user in Surabaya.
6. To examine the effect of Familiarity towards Consumers' Repurchase Intention for iPhone user in Surabaya.

#### **1.4 Research Contributions**

The result of this research is expected to provide more information to the existing theory about perceived quality, perceived risk, perceived price, brand image, consumer's attitude (trust and familiarity) and consumers' repurchase intention. Specifically, the research will be beneficial to the following:

1. Current and future researchers

This research may help current and future researchers to have more understanding on the relation of perceived quality, perceived risk, perceived price, brand image, and consumer's attitude (trust and familiarity)

2. The author

This study gave the author the opportunity to enhance the theoretical knowledge gained from lectures, textbooks, and other literature, as well as practice the analytical skills in solving managerial problems.

3. iPhone

This research can be used as reference to improve or increase iPhone's sales to ensure iPhone user's attitude toward perceived quality, perceived risk, perceived price, brand image, and consumer's attitude (trust and familiarity) in Surabaya.

#### **1.5 Research Limitations**

This research uses several variables. They are perceived quality, perceived risk, perceived price, brand image, and consumer's attitude (trust and familiarity) towards consumers' repurchase intention. The research was being conducted and target iPhone users' in Surabaya.

## **1.6 Research Outlines**

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 problem 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 problems.

### **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 theories that apply to the research problem, an explanation of why it is relevant, and how the modelling 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 the logical presentation of all findings in the research questions, and focus on how these key findings relate back to the theory and prior researches presented in the beginning of the study.

### **Chapter V**

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topics by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.