

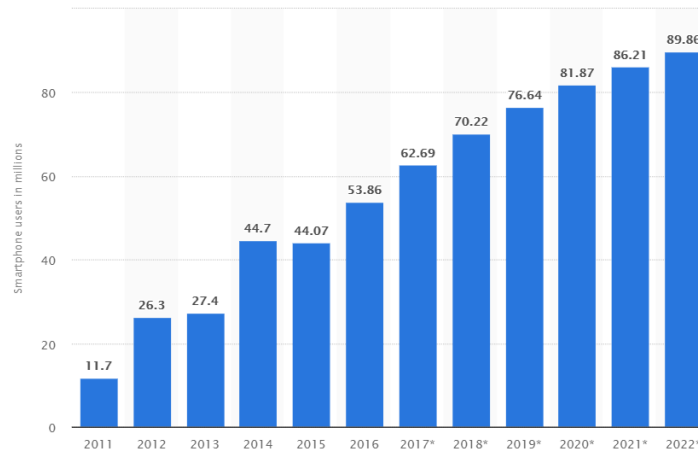
CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Right now, Indonesia has entered the industrial era 4.0. The entrance of Industry 4.0's into Indonesia is marked by increased connectivity, interaction, and boundaries between machines, people and other resources that are focused on information and communication technology. The revolution of technology has built the need for communication in this era as a part of humans' necessity. So, there is no doubt that Smartphone has become a necessity for everyone in the world, including in Indonesia.

Smartphone is one of the tools that has functions which resemble computers and it is used to support the communication process in the societies. Smartphone is also useful for obtaining information and entertainment through an internet connection. The rise of smartphones has become one of the most lucrative opportunities in the information technology field, also the availability of internet network infrastructure and social media trends make smart phone users grow and keep increasing from year to year.



Source: statista.com (accessed on September 9th, 2019)

Figure 1.1 Number of smartphone users in Indonesia from 2011 to 2022 (in millions)

China is known as one of the countries which most introducing the latest technology. The strict censorship regulations there are often seen by outsiders as an obstacle for technology companies in China. However, the technology companies there are highly onward, even this factor has triggered China to bring out Chinese tech giants. China's strong competitor in producing smartphones is Korea. South Korea which create several smartphone brands that are highly valued. The quality of Korean products has always improved so that the image is very positive in the mind of the world's societies. The products created by Chinese and Korean tech giants has spread further across the national borders, moreover in Southeast Asia, including Indonesia which has the biggest population compared to other Southeast Asian countries. Indonesia certainly is one of the main target of China to market its products.

 Comparison of Top 5 Smartphone Companies in Indonesia 2017 vs 2016 by Market Share			
2017 Top 5 Smartphone Companies		2016 Top 5 Smartphone Companies	
Company	Market Share	Company	Market Share
1. Samsung	31.8%	1. Samsung	28.8%
2. OPPO	22.9%	2. OPPO	16.6%
3. Advan	7.7%	3. ASUS	10.5%
4. ASUS	6.5%	4. Advan	6.8%
5. vivo	6.0%	5. Lenovo	5.6%
Others	25.1%	Others	31.6%
Total Shipment Volumes (in millions)	30.4	Total Shipment Volumes (in millions)	30.3
Source: IDC Asia/Pacific Quarterly Mobile Phone Tracker, 4Q17			

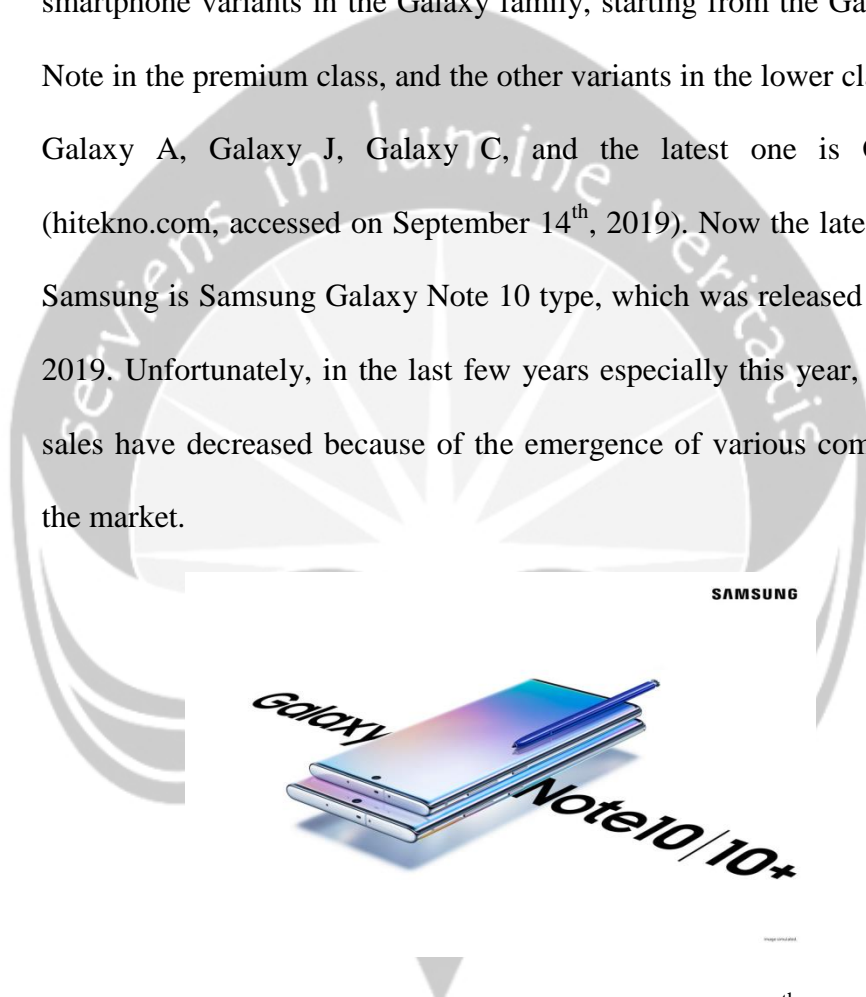
Source: id.priceprice.com (accessed on September 6th, 2019)

Figure 1.1 Comparison of 5 Smartphone Companies in Indonesia in year 2016 and 2017 based on Market Share

One example of a well-known Korean smartphone product in Indonesia is Samsung. For more than five years, Samsung has become one of the biggest technology companies because of the successful sales of its smartphones and tablets.

Samsung is currently known as the largest Android mobile phone manufacturer in the world. However, Samsung's journey to become the largest smartphone manufacturer in the world is quite long. Samsung Group began to issue mobile phone during the year 1990s. In the beginning Samsung Group released mobile phone products only to keep up with the changing time, but it is unexpectedly attracted world market. The beginning of Samsung's success in the smartphone world began on April

27, 2009. At that time, Samsung launched its first Android phone, the Samsung i7500 (beritateknologi.com, accessed on September 14th, 2019). Furthermore, Samsung's success in the Android platform began with the launch of the Samsung Galaxy S in 2010. Currently, Samsung has various smartphone variants in the Galaxy family, starting from the Galaxy S and Note in the premium class, and the other variants in the lower class such as Galaxy A, Galaxy J, Galaxy C, and the latest one is Galaxy M (hitekno.com, accessed on September 14th, 2019). Now the latest series of Samsung is Samsung Galaxy Note 10 type, which was released on August 2019. Unfortunately, in the last few years especially this year, Samsung's sales have decreased because of the emergence of various competitors in the market.



Source: arstechnica.com (accessed on September 14th, 2019)

Figure 1.3 Samsung's newest series, Galaxy Note 10 which is launched in August 2019.

As a rival, a smartphone brand from China, Oppo is a new player in the Indonesian market managed to attract attention with significant business growth. Oppo is one of the best-selling brands in the Indonesian

smartphone market and it is aggressively expanding its market in Indonesia. Oppo is one company that manufactures smartphones with prices that are quite affordable or relatively cheaper when compared to its predecessor. The high enthusiasm in the society makes Oppo Electronic come to enliven the Smartphone market.

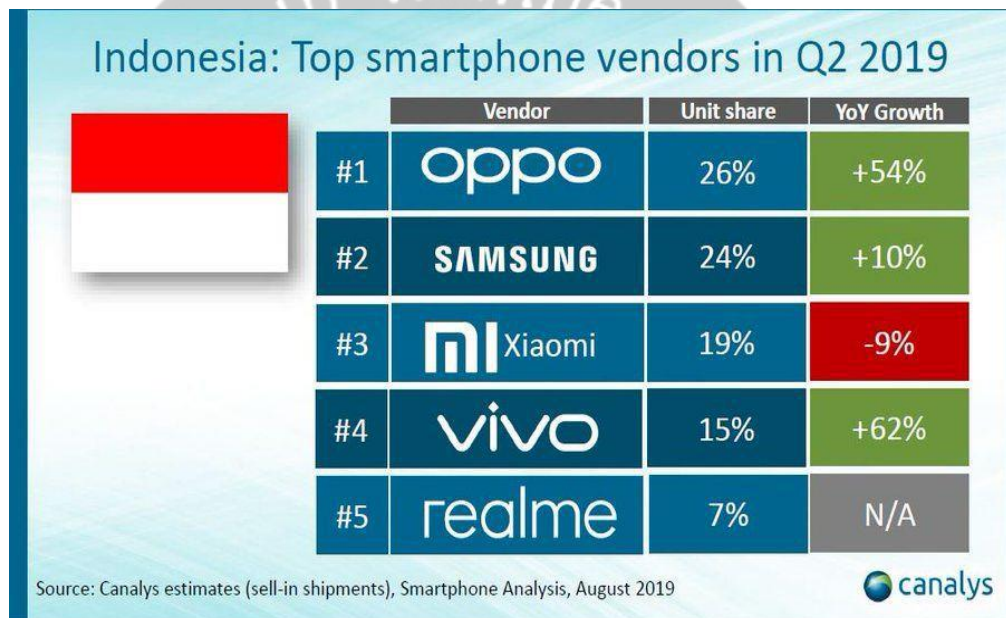
Oppo was founded in 2004 as a smartphone brand produced by Chinese company. Oppo launched the first mobile phone, the Smile Phone in 2008. After that, from year to year Oppo prepares many brand-new smartphones by paying attention on customers' current needs, for example by presenting the selfie expert feature in 2016. In 2018, OPPO was ranked the fifth largest smartphone brand globally, leading the Chinese domestic market and with a growing presence in India, Southeast Asia, Africa, Australia and Europe (pentagram.com, accessed on September 21st, 2019)

However, the main objective of Oppo to make the best selfie smartphone as top of mind in Indonesian consumers' perspective has been achieved. F11 Pro which is released in the beginning of 2019 was a tool that carried the mission of introducing Oppo's new identity as Portrait Master (tribunnews.com, accessed on September 14th, 2019). Market research institutes that focus on gadget products, Canalys, mentioned that for the first time, Oppo sales overtook Samsung in the second quarter of year 2019. Oppo shifts the position of Samsung which for years dominated the smartphone market share Indonesia.



Source: tribunnews.com (accessed on September 15th, 2015)

Figure 1.4 Oppo’s newest series, Oppo Reno which is launched in September 2019.



Source: tribunnews.com (accessed on August 31st, 2019)

Figure 1.5 Top smartphone vendors in Q2 2019 according to Canalys

The consumers in Southeast Asia and Indonesia certainly have considered a lot of things until finally made the purchase decision. There are five purchasing decision processes based on Kotler and Keller (2012), those are needs recognition, information retrieval, alternative evaluation, purchasing decision, and post purchase behavior. There are many other

factors affecting purchasing decision. Country of Origin (COO) and Country of Origin Image (COI) are the most important factors.

A positive country of origin image (COI) should be built in consumers' outlook to strengthen the brand association, and to gain consumers' loyalty towards the brand from a specific country. If country of origin (COO) is a specific country that produce a product, country of origin image (COI) is more focusing to the image of the producing country itself.

According to Setyaningsih (2007), Country of Origin is defined as a country where a product be produced. The impact of the COO on consumer perceptions or consumer ratings of a product affects the equity of a brand. Meanwhile, according to Javed and Hasnu (2013), COO image influences purchasing decisions, but the effect is different for each product category is different, and brand image is one of those things considered in the purchasing decision process when consumers evaluating various brand alternatives.

Country of origin image often be used as the quality benchmark by the consumers. Degoma and Shetemam (2014) also state that country of origin image is one of the factors used by consumers in evaluating the quality, performance, and other attributes of a product. Cheron and Propeck (1997) have done a research about the relationship between country of origin, country image, and quality perception from consumers and the result is perceived quality is significantly affected by country of

origin and country image. This finding is also supported by Laroche et al. (2003), who stated that country of origin image has a direct effect on consumers' perception of product quality. Consumers usually have a positive perception of quality to the products from developed countries (Ramsaran, 2015).

The statements above concluded that country of origin and its image truly plays an important role in consumers' purchasing decision. Seeing this encourages author to do a further research about how customers consider the importance of country of origin when making decision to purchase smartphone products, so author chose two different products which are Samsung and Oppo to be compared since they are produced from different country of origin and those two countries must have different image in consumers' view. In addition, this study will also analyze the differences in customers' purchase intention towards Samsung and Oppo smartphone products based on their demographic segmentation.

Finally, this research will be done under the title **“The effect of Country-of-Origin Image towards Purchase Intention with Perceived Quality as Mediating Variable on Oppo and Samsung Smartphone.”**

1.2 Identification of the Problems

1. Does Samsung's country of origin image have positive influence in perceiving quality of its products?
2. Does Samsung's perceived quality have positive influence on purchase intention of its products?

3. Does Samsung's country-of origin image have positive influence on purchase intention with perceived quality as mediating variable?
4. Does Oppo's country of origin image have positive influence in perceiving quality of its products?
5. Does Oppo's perceived quality have positive influence on purchase intention of its products?
6. Does Oppo's country-of origin image have positive influence on purchase intention with perceived quality as mediating variable?
7. Is there any difference on country of origin image, perceived quality, and purchase intention of Samsung and Oppo's customers?

1.3 Research Objectives

Based on the identification of the problems that have stated above, the objectives from this study are:

1. To examine the influence of country of origin image in perceiving the quality of Samsung smartphone products.
2. To examine the influence of perceived quality on customers' purchase intention to Samsung smartphone products.
3. To examine the influence of country-of origin image on customers' purchase intention to Samsung smartphone products with perceived quality as mediating variable.
4. To examine the influence of country of origin image in perceiving the quality of Oppo smartphone products.

5. To examine the influence of perceived quality on customers' purchase intention to Oppo smartphone products.
6. To examine the influence of country-of origin image on customers' purchase intention to Oppo smartphone products with perceived quality as mediating variable.
7. To examine whether there is any difference on country of origin image, perceived quality, and purchase intention of Samsung and Oppo's customers.

1.4 Research Scope

To avoid some things that are not suitable for this study, author has targeted specific respondents and limited several purposes that will only matter for this research:

1. The respondents who ever use Oppo or Samsung smartphone products within one year.
2. The objects chosen to be inspected in this study are Oppo as the representative of Chinese brand and Samsung as the representative of Korean brand because these two brands are originated from different country of origin, but they are chasing each others to dominate the smartphone market in Indonesia.
3. There are 3 variables in this study. The first one is country-of-origin image of Oppo and Samsung which are China and Korea as independent variable. The second one is perceived quality as the mediating variable, and the last one is purchase intention of the

customers when considering those two products as the dependent variable. The framework adapted from Journal of Accounting & Marketing with the title ‘The Effect of Country of Origin Image on Purchase Intention: A Case Study on Bahir Dar University Instructors’, written by Degoma, A. and Sheteman, E. (2014).

1.5 Research Benefits

There are some benefits that can be got from this study, such as:

1. Research Contribution

The result of this study is expected to be used to increase knowledge and insights about economics, especially about marketing. The result also can help the companies or firms who want to import their smartphone products to Indonesia, so they can understand whether the country of origin has effects or not to the Indonesia customers’ purchase intention when buying smartphone products. After that, they can come out with good strategies to face the challenges and grab the opportunities ahead.

2. Academic Contribution

This study will be beneficial for any academicians or institutions as the reference for further study about effect country of origins toward purchase intention, especially in Indonesia. This study can be used as the reference for other researchers who want to apply the main concept in other places and using other objects.

1.6 Writing Structures

There are total five chapters in this thesis:

CHAPTER 1: INTRODUCTION

In this chapter, author wants to explain about some basic parts such as background, identification of the problems, research objectives, benefits of the research, and the writing structure of the study.

CHAPTER II: LITERATURE REVIEW

This chapter explains about the supporting theories which are importantly related to the topic that author has chosen, hypothesis of the research, and research frameworks.

CHAPTER III: RESEARCH METHODOLOGY

In this chapter, author wants to explain about the method that will be used in conducting the research.

CHAPTER IV: DATA ANALYSIS

In this chapter, author will analyze the data result which is obtained from the conducted research. Author will also conduct a deeper and detailed discussion about the topic.

CHAPTER V: CONCLUSION

This last chapter contained the findings of the research. It will also describe about the conclusion of the study which hold the answers of the research objectives. Research limitation and suggestion for future study will also be written in this part.