

CHAPTER I

INTRODUCTION

1.1. Research Background

In this era of globalization, many industries have sprung up in Indonesia, mostly food and beverages. These industries come from local and global companies. Not only the local brand that try to gain a lot of benefits in Indonesia market, but also the global brand that desire to reach Indonesia Market. According to Steenkamp *et al.* (2003), cited in Porral and Mangin (2013) global brand is consumer perceptions about a brand that is global, a perception which make the consumers believe that the brand is marketed in multiple countries.

Talking about global brands, it will not be separated from the franchise. Franchise is a new business format that currently grows a lot in Indonesia. This phenomenon can be proved with the increasing number of franchise businesses in Indonesia. Franchising in Indonesia currently has nearly 2,000 brands with 300 of them are foreign brands. This amount increase significantly from 2016. Business synergy like this is considered profitable. Network marketing and turnover can develop faster so that there is widespread trust from the public in the image of the franchise without having to spend their own capital. Franchises will also get benefit in the form of management fees and royalty fees. Start with cheap or even expensive prices which are often referred to as premium prices, these companies compete fiercely in their markets. For example, coffee company.

In the past, Indonesian people usually enjoy coffee in the stall. However, with the development of the times, many coffee shops began to appear in Indonesia. Nowadays, coffee shops are often found in major cities and even sub-district in Indonesia, that makes Indonesia

people easier to enjoy a glass of coffee other than in stalls. Because of this trend, this also affects the lifestyle of Indonesian people especially middle and upper class people.

Coffee shop or many people call it cafe, comes from French which means coffee. However, the meaning of the cafe itself has been transformed into a place to drink coffee or a place just to hang out and do work or tasks. The existence of cafes in Indonesia has also penetrated to the mall and star hotels. Therefore, hanging out in a cafe or just buying coffee has become a lifestyle of today's society, especially in Yogyakarta which is of particular concern for this research.

Seeing the prospect of existing cafes in Indonesia at this time is quite good, then this situation also benefits coffee producers or companies both domestically and abroad. Sometimes, coffee producers also have their own cafes, and even become franchise businesses such as Starbucks and Excelso. Starbucks and Excelso are coffee shops or cafes that dominate the market in Indonesia and are often found in major cities. Since the tendency of Indonesian people to always buy product that already have a “name” in the society, no wonder that Indonesian people also prefer to come to the cafe that are already popular or familiar to their ears which means it is very beneficial for those company or other coffee shops that already exist in Indonesia.

Starbucks is a coffee company and coffee shop chain originating from the United States and based in Seattle, which first opened in 1971. With 20,336 stores in 61 countries, including 13,123 in the United States, 1,299 in Canada, 977 in Japan, 793 in the United Kingdom, 732 in China, 473 in South Korea, 363 in Mexico, 282 in Taiwan, 204 in the Philippines, 164 in Thailand and 326 in Indonesia, it can be said that Starbucks is the largest coffee company in the world. Starbucks sells a variety of processed hot and cold drinks from coffee and non-coffee,

coffee beans, hot and cold sandwiches, sweet pastries, cookies, and merchandise such as glasses and tumbler.



First logo, 1971–1987
The green logo which is still used as a secondary logo, 1987–2010.



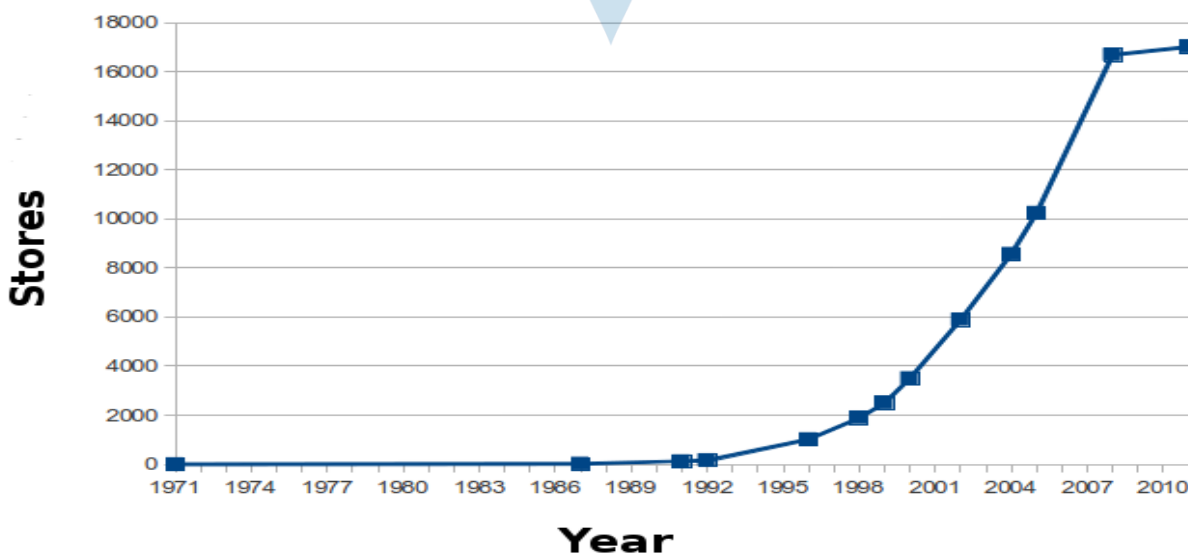
New design logo, 2011–now

Figure 1.1.

Starbucks Logo

Source: <https://globalassets.starbucks.com> (accessed 17 August 2019)

In Indonesia, Starbucks is operated by PT. Sari Coffee Indonesia and opened its first store on May 17, 2002 at Plaza Indonesia, Jakarta. Since January 2018, Starbucks has had 326 outlets



in various regions in Indonesia, including 22 major cities in Indonesia.

Figure 1.2.

Graph of Starbucks Store Growth Across The Country from 2010-2016

Source: <https://www.telegraph.co.uk> (accessed 17 August 2019)

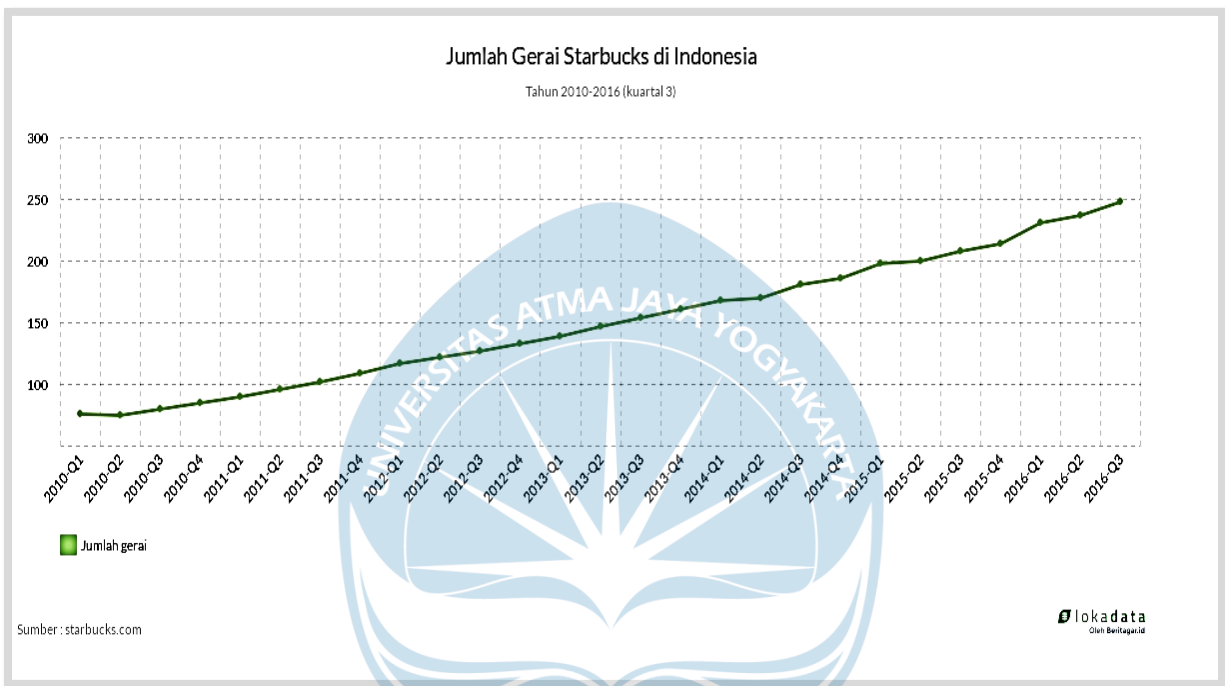


Figure 1.3.

The Number of Starbucks Outlets in Indonesia from 2010-2016

Source: <https://lokadata.beritagar.id> (accessed 17 August 2019)

As mentioned earlier, the menu served by Starbucks is diverse. Ranging from coffee and non-coffee drinks and even souvenirs, such as glass or tumbler. For the taste, there is no doubt about the enjoyment, various flavors of coffee that have been adapted to the tongue of the Indonesian people, make Starbucks become the top choice of Indonesian people coffee shops ranging from teenagers to adults though. There are three size of cup of Starbucks menu, which are tall (small size), grande (medium size) and venti (large size). Starbucks sets prices starting

from Rp 22.000,00 for tall size – Rp 63.000,00 for venti size, but the average price is Rp 50.000,00/cup.

The domestic market is so large, it encourages competition between global brands and local brands. The size of the domestic market, will encourage entrepreneurs and local marketers to lift local brand products. The marketing phenomenon in Indonesia shows that foreign products still dominate the Indonesian market (Kuncoro, 2016).

Do not want to lose competitiveness with Starbucks, coffee companies from Indonesia such as Excelso also participated in the competition of the coffee business in Indonesia. Excelso is run by PT. Santos Jaya Abadi which is part of the Kapal Api group, the largest coffee company in Indonesia. The first Excelso Café was opened in September 1991 in Plaza Indonesia, Jakarta, which is earlier compared to Starbucks. Excelso has grown to become one of the strongest and recognized coffee shop brands in Indonesia. More than a decade later, it has now becomes a chain with up to 100 stores in around 28 cities in Indonesia.



Figure 1.4.

Excelso Logo

Source: www.excelso.co.id (accessed 21 August 2019)

Quoted from the company's website, by selecting the upper middle class market, Excelso coffee can only be found in certain supermarkets and in Excelso's own cafe. The store concept

offered by Excelso has 3 models, namely de'Excelso, Excelso Cafe and Excelso Express. The de'Excelso model was built with the concept of a café restaurant with a more luxurious and different design at each outlet, more personalized service, better serving and more food and beverage choices. Cafe Excelso is a booth with a cafe concept. And Excelso Express is a mini cafe or small outlet. In addition, Excelso is also responsible for selling coffee beans and coffee machines for hotels, restaurants, cafes, and F&B companies.

Nama	Jumlah Gerai	Cakupan di Indonesia	Pemilik	Tahun Berdiri
Starbucks Indonesia	> 200	12 kota besar	PT Sari Coffee Indonesia	2002
Excelso	100	28 kota besar	PT. Excelso Multirasa	1991
Coffe Bean & Tea Leaf	56	Jakarta, Tangerang, Bandung, Surabaya, Makassar and Bali.	PT. TRANS Coffee	2001
Bengawan Solo	44	Jabodetabek, Bandung, Jogja, Surabaya, and Medan.	PT Bengawan Solo Coffee Indonesia	2003
JCo Doughnuts	> 100	21 kota besar	Johny Andrean Group	2005

Figure 1.5.
Data of Cafes in Indonesia

Source: <https://www.eastspring.com> (accessed 19 August 2019)

For the menu offered by Excelso is also diverse and almost like Starbucks, the difference is that Excelso also sells Indonesian coffee, such as Kopi Luwak, Kalosi Toraja, Kopi Lanang Toraja, Sumatra Mandheling, and Java Estate. The price is also not much different from Starbucks, starts from Rp 31.800,00-Rp 110.000,00.

Judging from the price, these two brands are quite expensive when compared to other local franchise coffee shops, such as Janji Jiwa and KULO, which recently also have many outlets in Indonesia. The price offered by Janji Jiwa coffee shop ranges from Rp.18,000.00-Rp. 30,000.00/cup, for KULO the price offered ranges from Rp. 12,000.00 - Rp. 27,000.00/cup. The prices are much cheaper compared to Excelso and Starbucks.

Following the theory from Homburg *et al.* (2005: 85), willingness to pay premium price is defined as the highest price level at which the consumer is willing to pay for the goods or services that can be achieved by the positive comparison of the value that consumers will bear against the costs they endure. This can be said that the prices offered by Starbucks and Excelso are premium price, since there is no fixed price benchmark. The target markets of Excelso and Starbucks are clearly for the upper middle class.

Although the prices offered by Starbucks and Excelso are fairly expensive, the Indonesian people's purchase intention in their products remains high. This is influenced by various factors, such as age, income, and also the social environment. Poh *et al* (2015) define purchase intention is a feeling who motivate customer to buy goods or services again and again. This is because they feel satisfied of the products. In addition to these demographic factors, there are several factors that also affect Indonesian people's purchase intention and their willingness to pay premium price products.

There is one factor that affect the Indonesian' consumer purchase intention and willingness to pay premium price in purchasing coffee, which is brand equity. According to Aaker (1991) in Tjiptono (201:96), brand equity is a set of assets associated with a brand name or logo, and affects the value of a product or service to the company or its customers, which can be decreases or incorporates the value. Brand equity has been conceptualized as a multidimensional construct.

According to Aaker (1991) cited in Porral and Mangin (2013) incorporates four dimensions of brand equity, which are awareness, perceived quality, associations and brand loyalty. Furthermore, in this research incorporates two consequences of brand value, which are purchase intention and willingness too pay a premium price.

Durianto *et al.*, (2013) state brand awareness is the ability of a buyer to recognize or recall that a brand is part of a particular product category. While Shimp in Kumalasari (2013) defines brand awareness as a part of basic dimension in brand equity. Based on the perspective, if a buyer is aware of the brand, so the brand has equity. According to Aaker (2014), perceived quality is a quality perception of a product built by the brand, so that it is considered quality and useful as well as the best in its class specifically for premium price products. While, brand association is everything related to the memory of a brand. Brand associations have a certain level of strength and will get stronger along with increasing consumption or exposure experience with specific brands (Tjiptono 2011:97). And brand loyalty is preference of consumer to buy specific products on the same brand or services categories consistently (Bougenville and Ruswanti, 2018).

Brand is the main attraction on a product judged from various aspects, one of them is price. Product brands with premium prices are considered to have advantages over other brands which set lower prices. The perception raised by the brand that is displayed causes consumers to be willing to choose the product even though the brand price is relatively expensive. Other than that, in today's competitive marketplace, brand equity is a key source of strategic intelligence for marketers, since it will enable managers to diagnose why one brand is considered superior or better valued than another brand (Lee *et al.*, 2010).

In marketing, brands have very important meanings. Brands are not just the identity of a product, but provide the image and selling power of a product (Kotler and Armstrong, 2007). To be able to lift the product image, an appropriate branding policy is needed. Branding is the use of names, terms or designs or combinations to identify a product (Kotler and Armstrong, 2007). The brand is a combination of features (what is product), customer benefits, (what needs and

wants the product meet) and value (what customer associates with the product). Brands are created to add value to products and differentiate from other products that have the same features (Kotler and Armstrong, 2008).

Many marketers or entrepreneurs use foreign branding in order to attract the customer to buy their products. This is because the perception of the image of a product is expected to increase so that the product will have more appeal, compared to the use of local brands. This foreign branding strategy is used to avoid negative perceptions of a product, or improve the image of a product. Negative perceptions of a product are usually influenced by one's poor perception of a product, which is associated with a particular country or culture (Dube *et al.*, 1994) cited in Bougenvile and Ruswanti (2017). According to Schiffman and Kanuk (1995) in Kussudyarsana (2016), attractive brands will have an impact on perception of quality. For example is Excelso, many Indonesians do not know that Excelso is actually a local brand. This is because the use of the name Excelso is often considered as a global product, because there is no Indonesian term in it.

Different from the general perception that is formed about Indonesia brand, as disclosed by Temporal (2000) in Kussudyarsana (2016) which has an image or perception that poor and cheap, Khasali (2003) stated in Kussudyarsana (2016) found that the existence of a local brand is getting stronger. However, according to Khasali (2003) cited in Kussudyarsana (2016), in developing countries including Indonesia local brands are usually identified with low prices. In some types of products such as cigarettes, cosmetics, coffee, detergents, and medicines where the use of products with local brands turns out to be able to match foreign brands produced by global companies. They are not only able to compete not only in market share, but also in price. Despite the belief that global brands create consumer perceptions of brand superiority (Porral and

Mangin, 2013) it can be challenged. There is also evidence that many consumers prefer brands with local connection (Riefler, 2012), leading to some authors state that consumer have no intrinsic preference for global over local brands.

Therefore, it is important for marketers to analyze how consumers make this choice and to understand whether consumers prefer global or local brands (Ozsomer, 2012), cited in Porral and Mangin (2013). However, there is little research and a lack of studies conducted on the food & beverages consumer's preferences between global foreign brands and local brands, and more specifically in Yogyakarta area. For this reason, this research focusses on the Indonesian food&beverages franchise market, by using Starbucks and Excelso as the object of the research and in order to grasp how consumers perceive and value global and local brands, and with the aim of analyzing the existence of relevant differences on brand value between them.

1.2. Research Questions

Based on the description of the background, the following are the formulations of the problem prepared in this study:

1. Does brand awareness influence positively on brand equity, for local brand Excelso and for global brand Starbucks?
2. Does perceived quality influence positively on brand equity, for local brand Excelso and for global brand Starbucks?
3. Does brand associations influence positively on brand equity, for local brand Excelso and for global brand Starbucks?
4. Does brand loyalty influence positively on brand equity, for local brand Excelso and for global brand Starbucks?

5. Does brand equity influence positively on purchase intention, for local brand Excelso and for global brand Starbucks?
6. Does brand equity influence positively on consumer willingness to pay a premium price, for local brand Excelso and global brand Starbucks?
7. Are there any difference on consumer perceived of brand dimensions (brand awareness, perceived quality, brand associations, brand loyalty, and brand equity) and brand value (purchase intention, and willingness to pay premium price) between global brand (Starbucks) and local brand (Excelso) coffee?

1.3. Research Objectives

Based on the research question compiled above, the objectives to be achieved in this study are:

1. To examine the influence of brand awareness on brand equity, for local brand Excelso and for global brand Starbucks.
2. To examine the influence perceived quality on brand equity, for local brand Excelso and for global brand Starbucks.
3. To examine the influence of brand associations on brand equity, for local brand Excelso and for global brand Starbucks.
4. To examine the influence of brand loyalty on brand equity, for local brand Excelso and for global brand Starbucks.
5. To examine the influence of brand equity on purchase intention, for local brand Excelso and for global brand Starbucks.
6. To examine the influence of brand equity on consumer willingness to pay a premium price, for local brand Excelso and for global brand Starbucks.

7. To examine the difference on consumer perceived of brand dimension (brand awareness, perceived quality, brand associations, brand loyalty, and brand equity) and brand value (purchase intention and willingness to pay premium price) between global brand (Starbucks) and local brand (Excelso) coffee.

1.4. Scope of the Research

This study aims to identify the influence of brand awareness, perceived quality, brand associations, brand loyalty, brand equity, purchase intention, and willingness to pay a premium price to global and local brand. In order not to be too broad and the problem more focused, the researcher limits the scope of the research as follows:

1. The subject of this research are people who have ever bought Starbucks and Excelso's products at least two times on the last six months.
2. The object of this research are Starbucks and Excelso's products. Starbucks is an international coffee shop and franchise and already had more than 20,000 cafe in more than 61 countries. While Excelso's is a local coffee shop and franchise from Indonesia, currently, Excelso already had more than 100 outlets in Indonesia. Their price offered for their products are relatively expensive, this can be said as premium price, and also their target market is upper middle class.
3. The variable are used in this research are brand awareness, perceived quality, brand associations, loyalty, brand equity, purchase intention and willingness to pay premium price adapted from Porral and Mangin (2013).

1.5. Research Benefit

This research is expected to give both managerial and academic contributions, which are stated below:

1. Managerial Contribution

The results of this study are expected to provide practical contributions, useful for Starbucks and Excelso and become an input for the continuity and progress of the business especially for Starbucks and Excelso and can formulate marketing strategies to maintain competitive advantage and continue to develop innovation new in the future that is more innovative, inexpensive, attractive and trustworthy. Furthermore, the study could help marketers to adapt or to improve their products to be more favorable between Indonesian consumers.

2. Academic Contribution

Not only that, the study also beneficial for any academicians or institutions as the reference for further study. This study can be used as the reference for other researchers who wish to apply the main concept in other places and using other brand sample.

1.6. Writing Structure

The thesis divided into five chapters:

CHAPTER I: INTRODUCTION

This chapter presents the research background of this study, research question, research objective, research scope and benefits of this study.

CHAPTER II: LITERATURE REVIEW

This chapter describes theories related to research topic such as Awareness, Perceived Quality, Brand Association, Brand Loyalty, Brand Equity, Purchase Intention, and Willingness to Pay Premium Price. Conceptual framework is also explained by developing the concept from the chosen literature review to be suitable for research. The table of previous researches is also written in this chapter. Moreover hypothesis was developed in this chapter and pilot study.

CHAPTER III: RESEARCH METHODOLOGY

This chapter aims to explain in detail the methods which will be employed for data collection and analysis.

CHAPTER IV: DATA ANALYSIS

This chapter will what the result of this research is and will be describing about the discussion of it.

CHAPTER V: CONCLUSION AND MANAGERIAL IMPLICATIONS

In this last chapter will be describing about the conclusion, managerial implications, limitations, and suggestion for future study.