

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the study**

The globalization trends and the generalized shift of the multinational company operations from the “developed nations” to the “emerging nations” have obliged the international marketers to study more deeply the characteristics of those economies. Indonesia alongside with several emerging countries in Asia has been performing very well in terms of economic growth these last years. Being a member of the G20 (20 major economies of the world), an active member of international clustering like ASEAN (Association of South East Asian Nations) has put the country further in front of the international scene. Good economic performance increased the purchasing power of Indonesian consumers and the number of middle class is also increasing accordingly.

According to the World Bank the number of the Indonesian middle class by 2009 has reached fifty million. While all income groups have benefited from Indonesia’s accelerated growth, the middle class has enjoyed the most rapid advances in terms of spending increases and quality of life improvement, and increased demand in a range of consumer categories from home electronics and appliances to health and beauty products (Nielsen, 2012). Due to that huge market that is the middle class; new opportunities have been seen by multinational corporations to market their products and services. Many foreign companies entered Indonesian market in order to sell their products and services. Foreign brands is everywhere in the country, whether in the field of automotive or daily goods, different brands are presents, the foreign ones alongside locals. The Indonesian consumer

has more and more choices every day and new brands are entering the country continuously. In order to reach Indonesian consumers, companies need to promote intensively. Though communication tools are used to achieve that goal, advertising through different methods and different Medias is one the most traditional way of promoting the company product. According to the result of survey made by Nielsen Indonesia in 2009, advertising spend in Indonesia Jumped 23% to hit 60 trillion rupiah in 2010, there is no doubt advertising is a large portion of firm expenses. Consequently a well managed advertising plan is important for the firm in order to increase the effectiveness of these actions. In today's competitive market, marketing executives are constantly trying to innovate their way to advertise in the market where they operate.

Television advertising particularly is one of the major and most available media for global advertisers. There are actually eleven free on air TV channels that transmit throughout Indonesia tenths of local TV stations and several cable TV suppliers which offer hundreds of International channels. Therefore advertising on Television is important to reach the millions of Indonesian middle class consumers. Statistics has showed that Indonesian advertisement spending in the third quarter of the year 2011 reached its highest growth rate with more than US\$2 billion(18 trillion Rupiah)spent, making Indonesia the highest spender in Southeast Asia (Nielsen survey, 2011). This same survey showed that during the third quarter of 2011, advertisement spending increased by 24 percent, driven largely by high spending on television and newspaper ads. Television ad spending in the country in July-September 2011 jumped 25 percent to US\$1.4 billion. While marketers throughout the region grapple with the challenge of spreading advertising budgets across a growing number of media platforms, television continues to demonstrate its unmatched ability to reach the masses (Nielsen, 2011).

It is demonstrated by these findings that multinationals must advertise on TV if they want to reach masses but also capture the potential customer attention by producing effective advertising strategies. International advertisers often meet the dilemma of adopting standardized or customized advertising's strategy to promote their products in one market. Company must know which strategy to adopt for what specific products. Wrong strategy could bring unexpected effects and companies may fail to market their products. Indonesia as similar to other Asian markets has strong home culture that has differences from the markets where the company used to operate. In this consumer perceptions may differ to those from different markets. Such as a research that has been undertaken before by Tai & Pae (2002) in China from which this study is based, this study will describe consumer perceptions of both customized and standardized commercials in Indonesia, and examine the moderating effects of product type, brand origin, level of brand familiarity, and advertising execution styles.

## **1.2 Problem Statement**

Based on what has been said earlier in the background part, this study focuses on the effect of TV advertising on Indonesian consumers. It aims to analyze the behavior of the consumers after they have been exposed to or seen a specific commercial. From the problem discussed in the background, the purpose of this study could be known by answering the following questions:

1. How does product type affect consumer perception of its commercial?
2. How does the brand origin affect consumer perception of a commercial?

3. How does the level of brand familiarity affect consumer perception of a commercial?
4. How does the quality of ads in term of execution styles affect the consumer perception of a brand?

### **1.3 Purpose of the research**

The purpose of this study is to investigate consumer's perceptions of customized and standardized TV advertisements in Indonesia. These perceptions as already discussed earlier lead to several factors which are investigated independently. These are:

1. To determine when company must standardize or customize their TV ads.
2. To determine if the product type affect on consumer perceptions of its commercial.
3. To investigate if the brand origin affect consumer's perception of a commercial.
4. To find out if the level of brand familiarity affects the consumer's perception of a commercial.
5. To determine the importance of execution styles on the consumer's perception of the brand.

### **1.4 Scope of the research**

The field of advertising itself is too broad and too wide to be described in details in this study only. Therefore it is necessary for the author to define some limits for his research in order to provide more accurate results. The author limits his research only to some of the following:

- This study analyses the effect of TV ads on consumers on the variables of brand origin, product type, execution styles and Brand familiarity.
- The commercials that will be used include, international standardized, adapted (language modification or whatsoever) and customized ads. The brands include several global brands.
- The respondents are students living in the special province of Jogjakarta Indonesia.

### **1.5 Benefits of the study**

In the professional sphere, this study will help advertisers to identify the preferences of Indonesian consumers (in this case represented by students of the province of Jogjakarta) in terms of ads strategy to adopt, execution styles that can lead managers (advertisers) to a better decision making accordingly to the product that is marketed. The results can be used as information's source to improve the strategy of the companies which operates in Indonesia or as preliminary information for the ones that plan to start operations in Indonesia.

Academically, this research is a replication of a previous research undertaken by Tai & Pae (2002) in China. This study serves as a medium to provide information to the other researchers interested on the specific subject.