

CHAPTER I

INTRODUCTION

1.1. Research Background

Brand's country-of-origin (COO) has been revealed as one important factor underlying brand equity, consumer judgments, and choice processes (Samiee, Shimp, and Sharma, 2005). Many researchers on country-of-origin effect has found that foreign brands are preferable than local brands especially for consumers in developing countries (Verlegh and Steenkamp, 1999, cited in Zhuang, Wang, Zhou, and Zhou, 2008, p. 442). Consumers in developing countries use the COO to determine the brand's overall quality and brand's desirability for symbolic, status-enhancing reasons (Batra, Ramaswamy, Alden, Steenkamp, and Ramachander, 2000).

This status-enhancing reason is even more important for consumers in developing countries like Indonesia. In developing countries, people live in communities and how people think about others are so important. In the other words, interpersonal relationship plays an important role in society (Ger, Belk, and Lascu, 1993). Moreover, consumers in developing countries are experiencing economic transition, income disparities and high status mobility which bring positional values in high importance (Batra *et al.*, 2000). In order to satisfy status-enhancing desire, nonlocal brands are chosen. Foreign brands acquiring higher status than local brands because of some reasons, such as higher price, scarcity,

and showing Western lifestyle (Bearden and Etzel, 1982, cited in Batra *et al.*, 2000, p. 85; Singh, 1982, cited in Batra *et al.*, 2000, p. 85)

Having the fact that consumers in developing countries prefer foreign brands to local brands, more and more local companies are using foreign characteristics in their marketing strategy in order to make their brands being perceived as foreign brand. Corporations take advantage of such image-enhancing effects by positioning their brands as global in their communications, using foreign message elements such as brand name, logo, advertising visual and themes, etc. (Steenkamp, Batra, and Alden, 2003).

In Indonesia, there are many local companies which take an advantage of the equity of foreign country image, and build the appeal of their products by using foreign-sounding brand names, foreign symbols in advertising or using foreign language on product labels. These firms believe that foreign characteristics bring about a higher quality perception and increase social status for their brands. For instance, there are many brands such as The Executives, Lea, Terry Palmer, Country's Choice, Shinzui and Peter Says Denim which are using foreign-sounding name for the product and/or using foreign elements in advertising. They want to highlight the connotation of something foreign in their product.

However, these uses of foreign brand names and foreign advertising elements by local companies have brought consumers into confusion about the origins of brands in terms of local or foreign brands. Zhuang *et al.* (2007) argued that local brands had received advantages by this confusion (perceived as foreign

brand). As it was said earlier that for consumers in developing country, COO is used to determine the brand's overall quality and brand's desirability for symbolic, status-enhancing reasons (Batra *et al.*, 2000). Consumers in developing countries perceive foreign brands as having higher quality, high status and prestige. Therefore, if local companies have been using foreign characteristics in their brand, it would bring confusion or a misjudgment to the consumers about the brand origin. This phenomenon had brought Zhuang *et al.* (2008) to argue that consumer preference for and purchase of local brands with foreign characteristics might be increased. However, at the same time, this condition might decrease the market share of foreign brands.

Zhuang *et al.* (2007) examined the asymmetric effects of brand origin confusion (BOC) on consumer preference and the purchase of local versus foreign brands. It was found that BOC positively affected consumer preference of local brands and negatively affected the preference of foreign brands in China. Therefore, this study would like to confirm whether there are the same effects found in different country, Indonesia or even has a greater effect than it was in China. The consumer knowledge moderating role to the effect of brand-origin-confusion toward the brand preference for local brands also discussed in this study.

This study will be helpful for both local and foreign companies in formulating their branding strategy and marketing strategy in Indonesia. The local Indonesian company may take advantage of this BOC effect and foreign companies could take some strategies in decreasing the BOC effect to consumers' preference of foreign brands.

1.2. Research Questions

Based on the literature, some questions which arose related to the brand origin confusion effects are:

1. What is the effect of brand origin confusion to the consumers' preference for local brands?
2. What is the effect of brand origin confusion to the consumers' preference for foreign brands?
3. What is the effect of brand knowledge to the consumers' preference for local and foreign brands?
4. How does the consumers' knowledge of local brands affect the relationship between consumers' confusion about the origin of local brands and preference for local brands?
5. What is the effect of brand preference to the consumers' purchase likelihood of local and foreign brands?
6. What is the effect of brand origin confusion to the consumers' purchase likelihood of local brands?
7. What is the effect of brand origin confusion to the consumers' purchase likelihood of foreign brands?

1.3. Scopes of Research

The scopes of the research to capture the exact phenomenon that would like to be obtained are:

1. This study was a modified replication of an article titled, “Asymmetric Effects of Brand Origin Confusion” by Zhuang *et al.* in 2008. There were some differences in the variables and the effect among variables which were studied:
 - a. One variable in conceptual model which was “brand value” was not included in this research because the original article did not mention the meaning of “brand value” in their context and also did not describe how to measure it. Nevertheless, this variable did not directly affect the hypotheses listed in the research.
 - b. The variable of “purchase of local or foreign brands”, different from the original article, was measured based on the consumers’ intention or likelihood, not based on the actual purchasing. The reason for this decision was also described in the original article’s limitation of measurement, which made their second hypothesis, was not supported. Different product categories might have different standard frequency of buying in certain period that could make a bias in analysis. Moreover, the effect BOC might decrease if consumers just recently buy the product, and it would affect the analysis.
2. This study used the samples from Daerah Istimewa Yogyakarta, where the author conducted this research.
3. This study used 5 categories of products which comprised 24 brands, with each category containing equally distributed 4 or 6 local and foreign

1.4. Objectives of Research

This study, which examined the effect of consumers' Brand Origin Confusion to the preference and purchase likelihood of the brands in Indonesia, had several objectives of research. Those objectives are:

1. To analyze the effect of brand origin confusion to the consumers' preference for local brands.
2. To analyze the effect of brand origin confusion to the consumers' preference for foreign brands.
3. To analyze the effect of brand knowledge to the consumers' preference of local and foreign brands.
4. To analyze the effect of consumers' knowledge of local brands to the relationship between consumers' confusion about the origin of local brands and preference for local brands.
5. To analyze the effect of brand preference to the consumers' purchase likelihood.
6. To analyze the effect of brand origin confusion to the consumers' purchase likelihood of local brands.
7. To analyze the effect of brand origin confusion to the consumers' purchase likelihood of foreign brands.

1.5. Benefits of Research

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

1. Managerial Contribution

The result of this study could be used by both local and foreign companies in formulating their branding strategy and marketing strategy especially in developing countries. The local company may take advantage of this Brand origin confusion effect in increasing the consumers' preference toward their product, and in the other way around, foreign companies could develop some strategies in decreasing the BOC of consumers to increase the preference of their product. Both local and foreign companies could enhance their "foreign element" of their brands to increase the preference and purchase likelihood of the brands.

2. Academic Contribution

This study could contribute to the literature of COO effect which nowadays has been moved from made-in label to the perceived brand origin. Although there are so many studies in perceived brand origin effect, studies which focus on the effect of consumers' confusion to consumers' preference are very limited. The similar studies mostly conducted in the context of consumer level, while this study was conducted in the context of brand level. There are many contradictions about this topic in the literature. By conducting this research, the result of research by Zhuang *et al.* would be

confirmed and in further, a bigger scope of research related to this brand origin confusion would be opened by this study.

1.6. Research Report Outline

This study was divided into five chapters; each chapter explained different part of the study.

Chapter 1: Introduction

This chapter consisted of the research background of this study, research question, limitation of research, objective of research, benefit of research, and research report outline.

Chapter 2: Literature Review

This chapter described the theoretical background of the study, previous research, and the development of the hypotheses.

Chapter 3: Research Methodology

This chapter explained the population and sample used in this research, data and data gathering, measurement of variables, and method of analysis.

Chapter 4: Data Analysis

This chapter presented the finding of the study, data analysis, and comparison between previous and present study.

Chapter 5: Conclusion

The last chapter of this study contained the conclusion of the research, managerial implications, limitations of the research, and further research direction.

