Chapter 1

Introduction

1.1. Background

Customer equity is the “combined customer lifetime values of all of the company’s current and potential customers.” (Kotler, Armstrong, Ang, Leong, Tan, & Hon-Ming, 2009), hence, this places “Customers at the centre of a firm’s activities” (Holehonnur, Raymond, Hopkins, & Fine, 2009) and this makes it essential to understand the consumer behavior and how customers make decisions upon purchasing in Marketing.

Customer equity itself has been discussed in various journals, including the original paper which this thesis replicates. The research paper “Examining the customer equity framework from a consumer perspective” sets the customer framework made by Rust, Zeithaml and Lemon (2009) as the basis, and explores how drivers of value and brand equity, e.g. quality of a product, brand awareness and attitude, convenience in buying a product, and other factors could actually impact the intention of a customer in purchasing a product. That being said, two brands of energy drinks were chosen in the original journal, due to the fact that they were the brands that the samples (students in a Southeastern university) were the most aware of.

According to Rust, Zeithaml and Lemon, the Customer Equity is composed of the Value Equity (the drivers of this are quality, price, and convenience), brand equity (brand awareness, attitude towards the brand, and the customer’s perception of brand ethics), and retention equity (loyalty programs, affinity programs, community programs and knowledge-building programs)

However, this thesis, like the original paper which it replicates, excludes the third composition, which is retention equity, and focuses on the factors affecting the customers' initial purchases (in this case, the brand equity and value equity) rather than re-purchase intention, mainly due to the fact that according to Rust, Zeithaml and Lemon, retention equity is the extent at which a customer stays loyal to a brand (customer retention), and not one of the components that would lead to a customer's first purchase intention, hence, retention should be separated from acquisition (Wortman, 1998).

In order to put the framework into practice in this study, the researcher needed to find out the brands which grabbed the most of the customers attention, or the brands which have the most awareness, and use these brands as an example during the main survey later in the research, and since there are different brands of different categories of products that might be in the minds of the customers, the researcher chose to narrow the choices of customers' answers down to non-alcoholic beverage industry to compare results or outcome of the framework with the original paper, where Red Bull and North Face are the two non-alcoholic beverage (or non-alcoholic beverage) brands that become the units of analysis, and in the process of this narrowing down, Packaged Mineral Water was removed from the options of units of analysis because the researcher wants to find out the high-awareness brands from beverage types and brands which had significant product differentiation from each other (in taste, smell, color, features/benefits).

Secondly, researcher also wants to test, whether or not this framework, having been applied in the energy drink category in the original paper, can be applicable as well in tea and coffee categories in that industry.

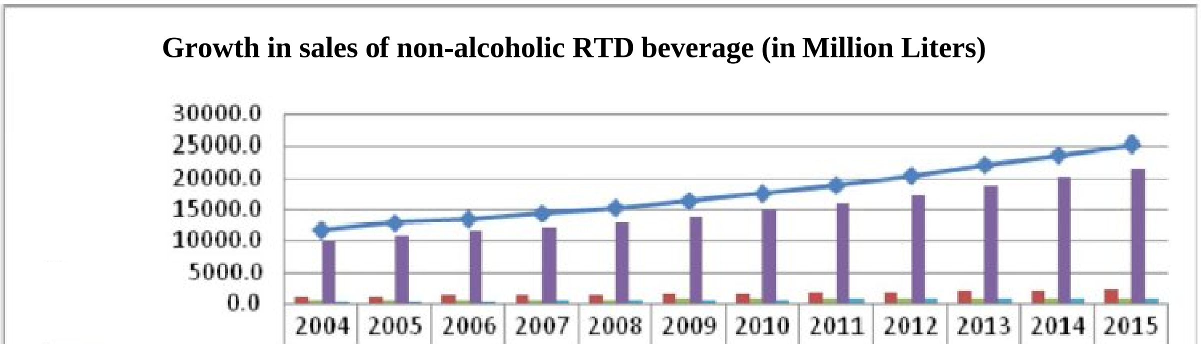
1.1.1. Non-Alcoholic Beverage Industry

Non-alcoholic beverage itself has become the daily consumption of the consumers in Indonesia, being one of the most valuable markets in the FMCG industry in Indonesia. This part of the thesis will discuss about the growth of this industry in this country and the value of the whole industry itself, along with the market shares of the brands that play in this industry.

The non-alcoholic beverages market is one of the markets that have a very high value, contributing up to 60% of the total value of the National drinks market, according to Adhi S. Lukman, the Head of the Association of Food and Beverage Businessmen in Indonesia in an article in Indonesia Finance Today (Nurmayanti, 2011). In monetary value, the non-alcoholic beverage market industry in Indonesia reaches up to US$ 6,5 Billion according to Kontan (Prasetya, 2011).

Even in 2013, it is estimated that there will be a rise in 8.3% to 22 billion liters, compared to 2012’s 20,3 billion liters, for the non-alcoholic RTD beverage sales volume alone (depicted in figure 1.1) because of the increase in income per capita and the growth of the population (Saksono, 2013).

Figure 1.1: Total sales volume overtime, distributed amongst the RTD categories.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
RTD Tea	995.2	1046.	1110.	1218.	1327.	1439.	1554.	1672.	1792.	1914.	2048.	2191.
RTD Carbonates	571.7	588.6	546.7	587.1	611.3	625.7	634.8	642.1	647.9	652.5	698.2	747.0
RTD Water	9897.	10879	11462	12073	12837	13717	14735	15901	17237	18769	20086	21496
Others	264.8	322.2	330.5	440.9	506.5	560.0	607.0	644.1	679.4	712.0	758.6	808.2
Total NARTD	11729	12836	13450	14319	15282	16342	17531	18860	20357	22048	23591	25243

Source: Euromonitor

It is shown from the graph above, that RTD beverages have much higher sales, with RTD (Ready-to-drink) Water, another term for Packaged Mineral Water (Air Minum Dalam Kemasan or AMDK), has the most volume of sales, with 17 billion liters in 2012 and a projected sales volume of up almost reaching 19 billion liters, while this number is followed by RTD Tea with almost 1,8 billion liters in 2012 and a projected sales volume of 1,9 billion liters in 2013.

This industry of non-alcoholic beverage still has the potential to grow even further in the future, due to the fact that although the growth is significant, the size of the consumption of non-alcoholic beverage in Indonesia, compared to the consumption of non-alcoholic beverage in other countries such as Thailand, Philippines and Singapore, is still low, according to Suroso Natakusuma, the Secretary General of Indonesian Association of Light Beverage (ASRIM), and with the growth of population in Indonesia, there is space for the non-alcoholic beverage industry to further expand.

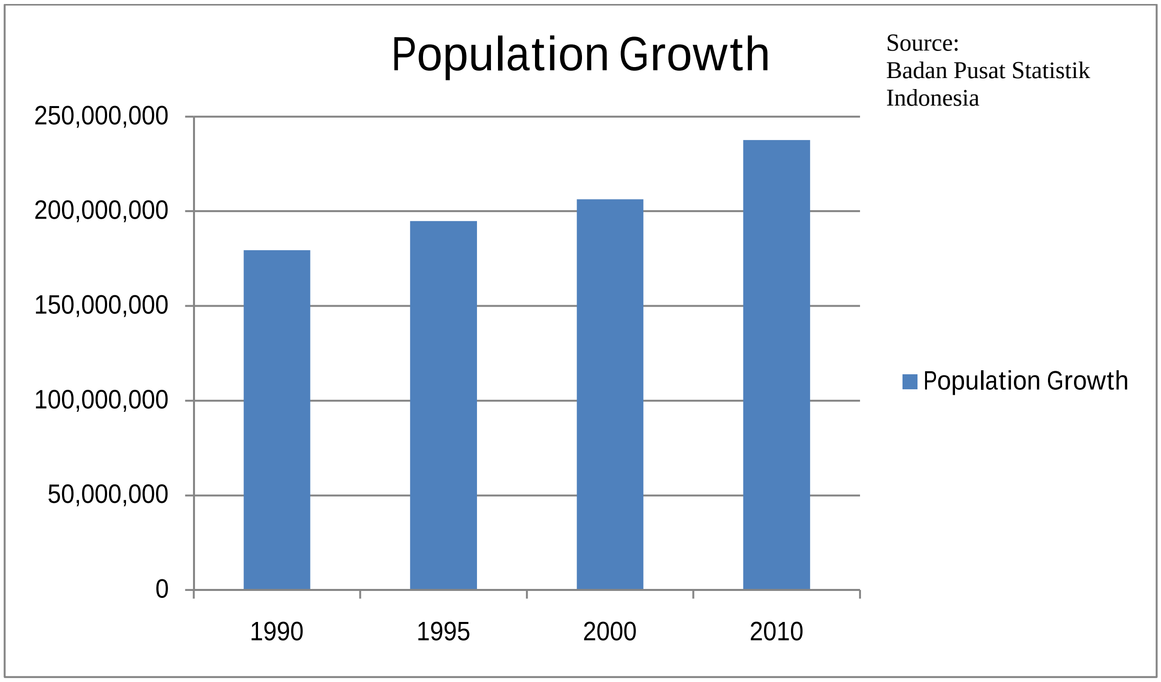
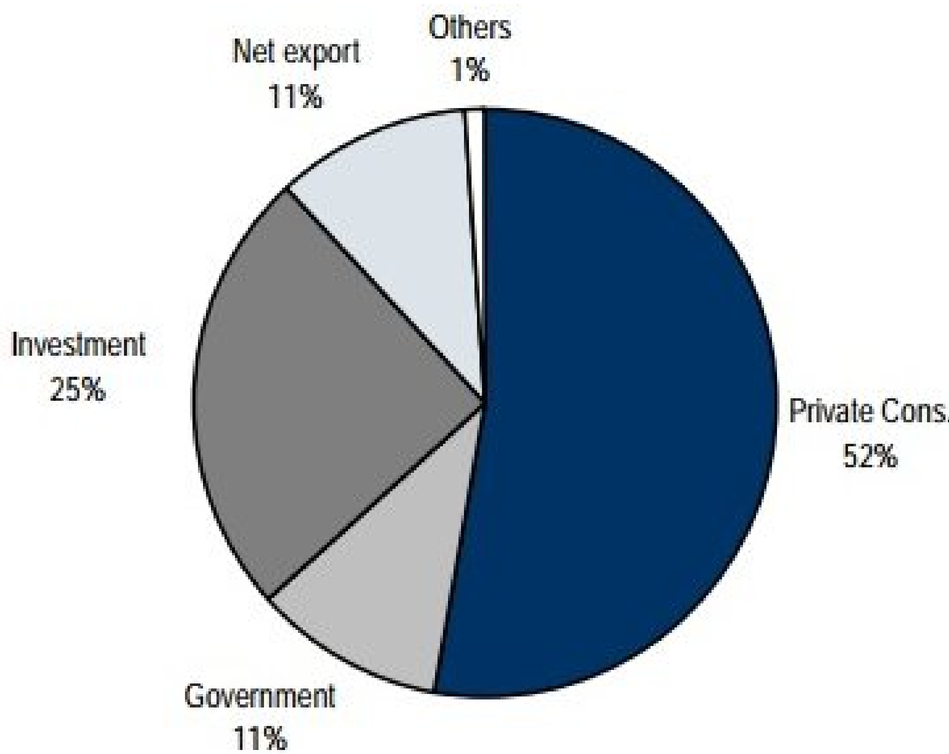


Figure 1.2: Population Growth in Indonesia through the Years

Shown in the figure above, is the growth of the population in Indonesia. In 1990, the population was 179,378,946, while in 2010; it grew reaching 237,641,326 people, showing 25% of growth through the years, supporting Saksono's statement of the population growth in Indonesia.

To add to this, the increase of population is also followed by increase in consumption of Indonesian people. In the figure, it is shown that 52% of GDP is accounted for private consumption.

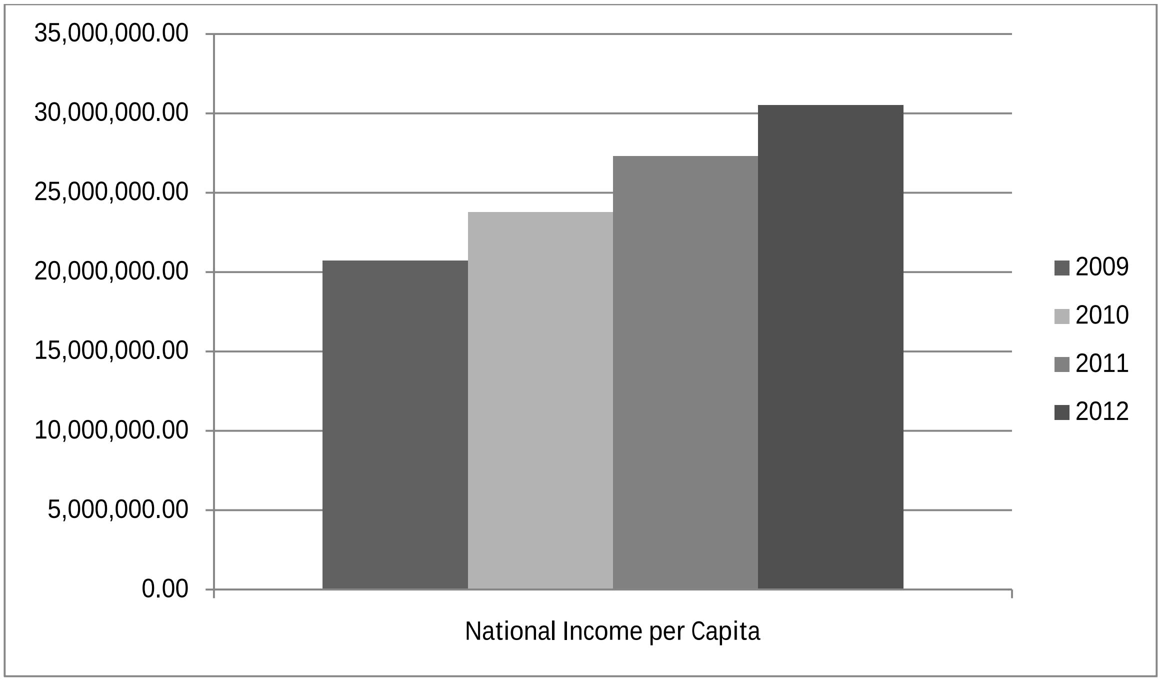
Figure 1.3: GDP Contribution in Indonesia



Source: Bloomberg, as of Dec 2011

Saksono's statement was supported as well by the fact that Income per capita of Indonesia has really risen overtime, as depicted in Figure 1.4, about National Income per Capita Through the Years.

Figure 1.4: The National Income per Capita through the Years



Source: Badan Pusat Statistik Indonesia

The figure above shows that from the year 2009 to 2012 Income per Capita has been increasing, that by 2012, it has even reached to over 30 Million Rupiah.

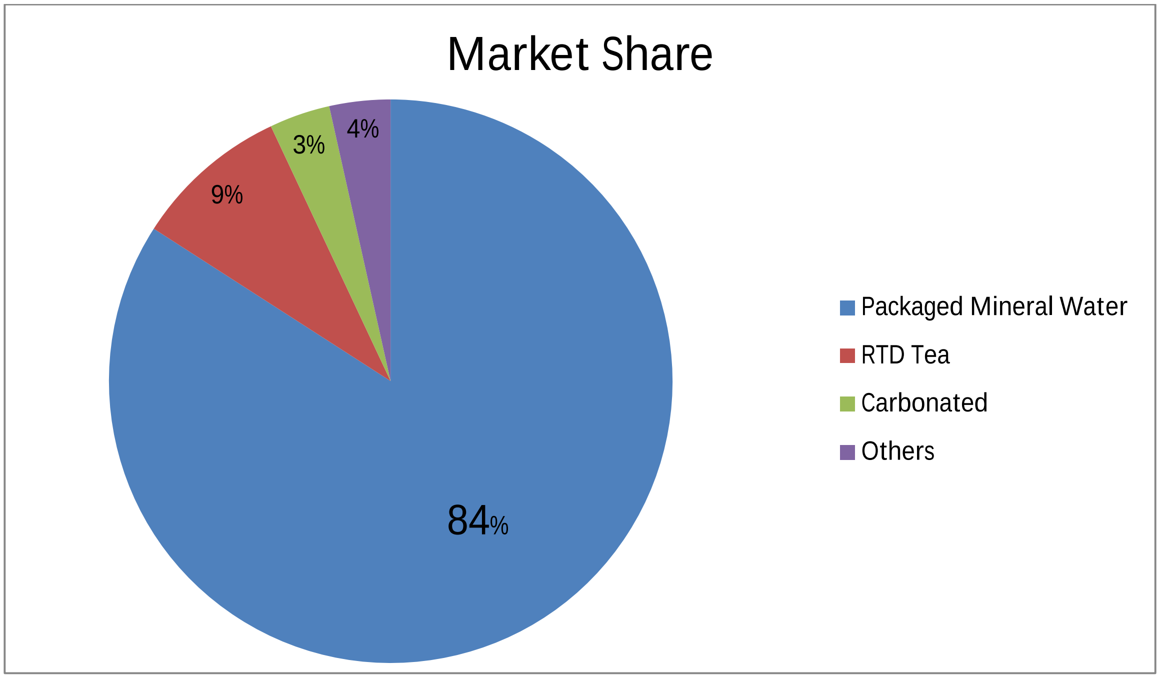
With such potential and consistent growth of the non-alcoholic beverage industry, Indonesia would hold one of the biggest market shares of the non-alcoholic beverage industry in the world, according to Richard Clemens, the Vice President of VDMA, a German association of processed food and beverage (Mohamad, 2013).

1.1.2. Categories of Non-Alcoholic Beverage Industry

The non-alcoholic beverage industry, in general, has a number of categories that compete against each other in the total market share in Indonesia.

These categories include Chocolate/Malted drinks, coffee (non-RTD), Dairy Based Drinks, Dairy Substitute Drinks (Flavored/unflavored), Dilutables & Concentrates, Drinkable Yogurts, Juices, Carbonated Beverages, Ready-to-drink (RTD) Non-Carbonated beverages, Sports/Energy Drinks, Tea (non-RTD), and packaged mineral water (AC Nielsen, 2006), although the packaged mineral water has taken most of the market share of the whole non-alcoholic beverage market in Indonesia. This is shown in the figure 1.5 about the market share distribution amongst the categories, taken from Spire Research.

Figure 1.5: Market share of non-alcoholic beverage in Indonesia in 2011



Source: Spire Research

From a list of categories of non-alcoholic beverages, it has been shown that Packaged Mineral Water (Air minum dalam kemasan or AMDK) has taken most of the market share, with 84,1%, while this number is followed by RTD Tea (short for Ready-to-drink tea) with 8,9% of the whole market.

1.2. Problem Statement

As mentioned previously, the researcher needed to find out the brands which grabbed the most awareness and mind of the customers, in order to put the framework into practice in this study, and since there are different brands of different categories of products that might be in the minds of the customers, the researcher chose to narrow the choices of customers' answers down to a category of the products. Seeing the facts and graphs that showed the background to non-alcoholic beverage brands, its potential growth, its monetary value, and the fact that it is more generalizable because it is a fast moving goods that have become the daily consumption of consumers in Indonesia, have become the reasons why the researcher believe that it was possible to see how the brand equity and value equity depicted by Rust, Zeithaml and Lemon can determine the purchasing intention of the customers in the non-alcoholic beverage market in Indonesia.

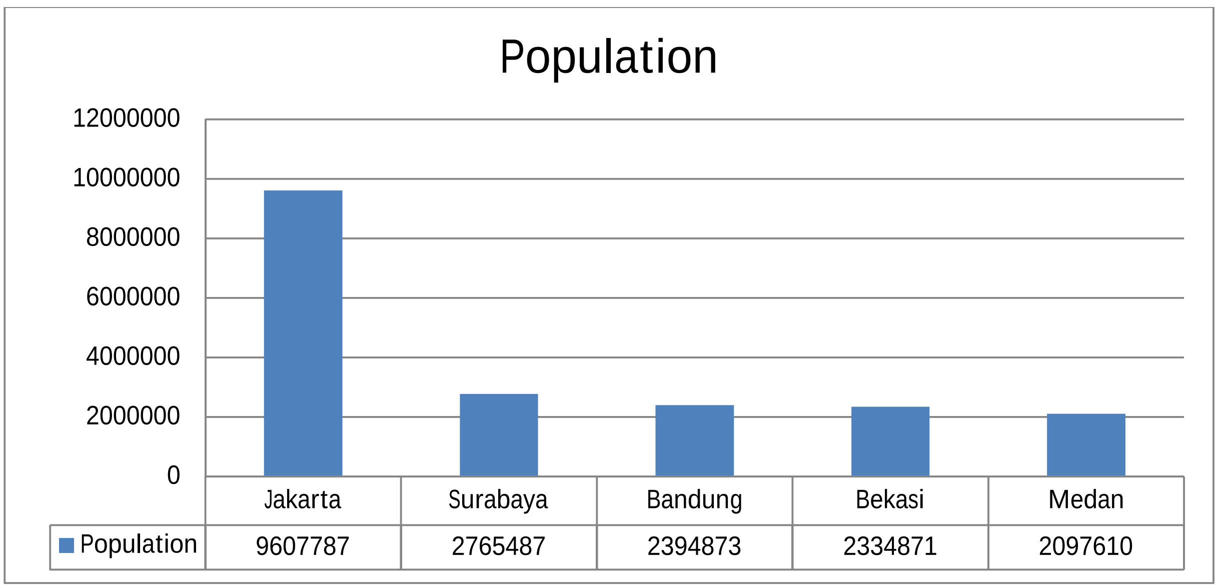
Non-alcoholic beverage products have been consumed by consumers in various occasions and for different reasons, namely the perceived quality of the product, the taste, the availability of the products, and the awareness of the products as the most general reasons.

However, the customer equity framework proposed by Rust, Zeithaml, and Lemon suggests that there are more drivers that contribute to the value equity and overall brand equity perceived by customers that will in turn determine the purchase intentions, namely the quality, price-prestige relationships (the price of the product), and convenience (availability) that drive the Value equity, and Company attitude, brand awareness, and brand attitude that drive the overall brand equity. In the original journal, the results showed that quality and price-prestige relationships have proven to drive the value equity and brand awareness and attitude drive the perceptions of overall brand equity. With this thesis, the researcher would want to test whether or not this framework also is applicable and moreover, shows the same results when applied in Indonesia, particularly in non-alcoholic beverage industry.

1.3. Scope of the Study

The researcher intends to test whether or not the consumer equity framework proposed by Rust, Zeithaml and Lemon can be applied in Jakarta, being the capital city of Indonesia with the population of 9,607,787 (as per 2010), and depicted in table 1.1. is the comparison of populations of five major cities in Indonesia, with Jakarta being the most populated.

Table 1.1: Total Population of Jakarta and other cities



Source: Badan Pusat Statistik Indonesia

Jakarta is also ranked 17th in the list of 200 fastest growing metropolitan areas in the world, with a 5.5% increase in income from 2010 to 2011(Istrate, Berube, & Nadeau, 2012), depicted in table 1.2.

Table 1.2: Jakarta ranked as the 17th in the list of 200 fastest growing metropolitan areas.

		Highest	Change, 2010-2011 (%)	
	Metro Area	Region	Income	Employment
1	**Shanghai**	Developing Asia-Pacific	9.8	5.8
2	Riyadh	Middle East and Africa	7.8	6.3
3	Jiddah	Middle East and Africa	7.0	5.5
4	**Izmir**	Eastern Europe and Central Asia	5.5	5.6
5	**Hangzhou**	Developing Asia-Pacific	5.8	5.5
6	**Ankara**	Eastern Europe and Central Asia	5.4	5.7
7	**Istanbul**	Eastern Europe and Central Asia	5.3	5.6
8	**Shenzhen**	Developing Asia-Pacific	6.5	4.9
9	**Santiago**	Latin America	5.7	4.9
10	**Shenyang**	Developing Asia-Pacific	11.6	1.7
11	**Wuhan**	Developing Asia-Pacific	9.8	2.5
12	**Nanjing**	Developing Asia-Pacific	9.3	2.7
13	**Mumbai**	Developing Asia-Pacific	6.2	4.3
14	**Tianjin**	Developing Asia-Pacific	8.4	2.2
15	**Foshan**	Developing Asia-Pacific	6.7	3.0
16	**Buenos Aires**	Latin America	7.3	2.5
17	**Jakarta**	Developing Asia-Pacific	5.5	3.0
18	**Casablanca**	Middle East and Africa	3.3	3.8
19	Houston	North America	5.5	2.5
20	**Kuala Lumpur**	Developing Asia-Pacific	1.0	4.9

Source: Global Metromonitor 2011

Geographically, this study involve the distribution of 200offline questionnaires to major parts of Jakarta, from malls across the city to grab the upper class up to common little stalls for low class, to grab general sample from all range of classes. This offline distribution was accompanied with online distribution as well.

The reason of reaching the general public in crowded areas of the city is to go beyond the limitations of the original Research Paper, where the sample was only marketing students in a large Southeastern university. This thesis, however, aims to capture a wider scope and a generalized view of the brand with the most significant awareness in the minds of the general population in this city.

In other words, this means that this study will cover respondents living across the city, which is the West Jakarta, Central Jakarta, North Jakarta, East Jakarta, and South Jakarta, however, to help in classifying respondents, questions will also be asked about which region of the city the respondents live in.

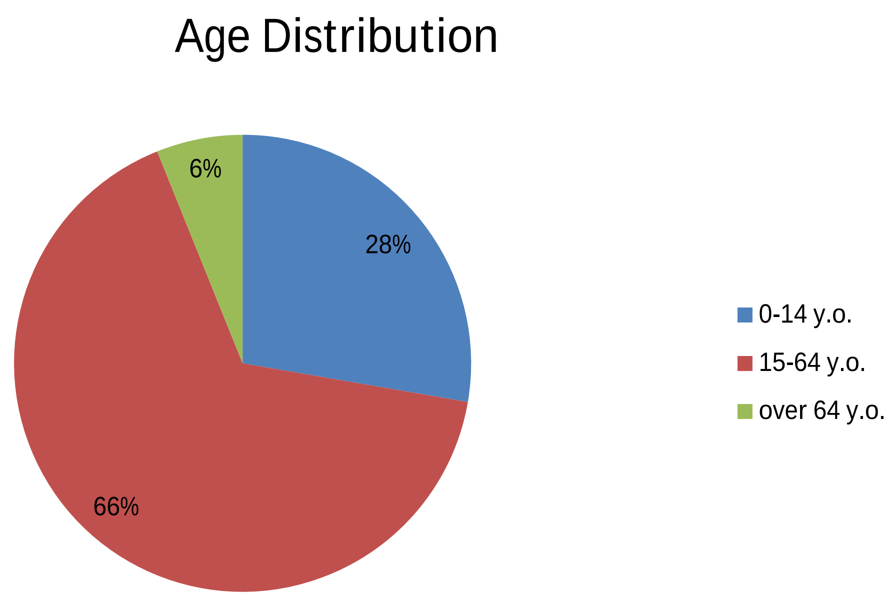


Figure 1.6: Age Distribution of Indonesian Population

According to a research by CIA World Factbook (2012), the age distribution in Indonesia is dominated by those age 15-64 years old, with 66.2%. Which means that this age group is the most common in Indonesia, and the researcher believes that the opinions and input from this age group sample, being the most common (and reflect the general public, who this study covers), will reflect whole population of the nation.

Hence, this age group will be the sampling frame of the respondents in this research, and they can be both male and females, to classify the respondents during the results analysis, and of all professions, and since the respondents will be from the general public, the respondents will be chosen regardless of their income level.

It was mentioned in the earlier part of this research paper, that the researchers needed to discover the brand (s) of non-alcoholic beverage that had the most awareness in the minds of consumers in order to be used as an example in the main survey.

To find out what these brands were, a qualitative preliminary survey in the form of a short interview was done to a general sample of 40 random people in Jakarta.

The location of the preliminary survey was in the different types of Food Retailers that mostly sell food and beverage, and they are Supermarkets, Hypermarts, Warehouses, and Convenience Stores (Levy & Weitz, 2009), and the researcher also added Food Stalls and Office/College Canteens to the list to adjust with Indonesian traditional retailers of Food and Beverage.

Hence, the interview was done through intercepts in the designated target areas, which were Hari-Hari (Supermarket), Carrefour (Hypermart), IndoGrosir (Warehouse), and Seven Eleven & Alfamart (Convenience Stores) for the middle to upper class, and Food Stalls and Canteen in Pacific Place (Office Canteen) for the middle to low class samples, to cover the general sample from all range of classes.

In this preliminary survey, the respondents were given a choice of types of non-alcoholic beverage drinks, which are Chocolate/Malted drinks, coffee (RTD and non-RTD), Dairy Based Drinks, Dairy Substitute Drinks (Flavored/unflavored), Dilutables & Concentrates, Drinkable Yogurts, Juices, Carbonated Beverages, Sports Drinks (commonly known as Isotonic), Energy Drinks, Tea (RTD and non-RTD) based on AC Nielsen (2006), and were asked of 2 brands of the chosen beverage type that the respondents have the most awareness of.

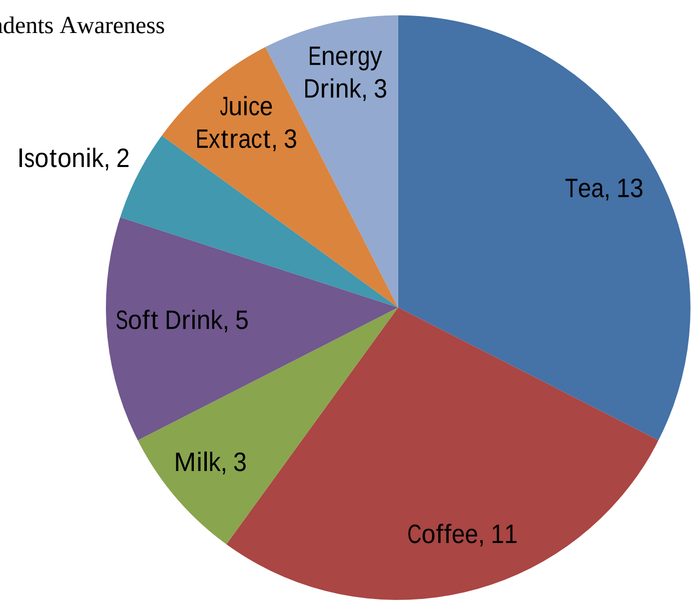
Below are the two preliminary survey questions:

1. Sir/Madame, which one of these non-alcoholic drinks is your favorite? (choices are given)
2. What are the two brands of (chosen answer) that straightaway pop into your mind?

As mentioned before, Packaged Mineral Water or Air Minum Dalam Kemasan (AMDK) was excluded from the choices because the researcher wants to find out the brands with high-awareness from beverage types and brands which had significant product differentiation from each other (in taste, smell, color, features/benefits).

From that pre-test qualitative research, it was found that out of the sample of 40 people, 13 people preferred tea, and out of that 13 people, 10 mentioned the brand Teh Botol Sosro, and this number was followed by Kapal Api (coffee), with 8 people having the most significant awareness.

Figure 1.7: Respondents Awareness



In other words, Teh Botol Sosro was the most familiar, due to the fact that, according to the respondents, readily available everywhere and hence can be consumed at any occasion, and all of the respondents that chose Teh Botol Sosro mentioned about the taste being most suitable. And Kapal Api is the second most popular, and the reasons being the aromatic taste, the price, and the large availability and awareness of the brand.

The result of this preliminary survey, being Teh Botol Sosro and Kapal Api was the most preferred and aware of, was also supported by the fact that both of the brands was awarded the Top Brand for each their category (coffee and tea), sponsored by Frontier Consulting Group and Majalah Marketing in 2013, as depicted in table 1.3.

Table 1.3: Top Brand Index category

RTD Tea		**Non-RTD Coffee**		
Brand	**TBI**	**Brand**	**TBI**	
Teh Botol Sosro	***59.5%***	***Kapal Api***	***52.9%***	**TOP**
Frestea	***10.4%***	***ABC***	***24.8%***	**TOP**
Mountea	5.0%	Torabika	6.5%	
Ultra Teh Kotak	4.8%	Luwak	3.8%	
ABC Teh Kotak	4.5%	Sidikalang	2.3%	
Fruit Tea	3.9%	TOP	1.9%	
Tekita	3.8%			

Source: (Top Brand Award Survey Result, 2013)

This tableshows that even though Kapal Api has a high awareness in its own category, being on top of the chart, supporting the fact that it is the brand that the coffee drinker respondents are most aware of (according to the result of the preliminary survey).

Hence, the researcher of this thesis decided that it would be appropriate to use both of the more popular brands in this research (Teh Botol Sosro and Kapal Api)

1.4. Research Questions

This thesis, focusing on how brand and value equity can affect the customer purchase intention, from the customers' own perspective, tries to answer the following research questions:

RQ1: Does higher perceived quality of a beverage result in higher consumers' value equity?

RQ2: Does favorable perception of price-prestige relationship of a beverage result in higher consumers' value equity?

RQ3: Does higher perceived convenience of purchasing a beverage result in a higher consumer's value equity?

RQ4: Does more positive company attitude result in a higher consumer's brand equity?

RQ5: Does higher brand awareness result in higher consumer's brand equity?

RQ6: Does more positive attitude toward the brand result in higher consumer's brand equity?

RQ7: Does higher consumer's value equity result in higher consumer's purchase intention?

RQ8: Does higher consumer's brand equity result in higher consumer's purchase intention?

1.5. Aims and Benefits

The aims of this research are

1. To understand further the factors (value and brand equity) in the consumer perspective that eventually would lead to purchase intention,
2. To test whether or not this framework can be thoroughly applied in the Indonesian market.

The benefits are:

1. The framework elaborated in this study may provide companies a more systematic view of the factors that lead to consumer purchase intention.
2. The results of this study may help give an idea for the company on how to allocate the resources for the right marketing activities to grab the customers in a more effective way, focusing more on the factors that have been proven effective in impacting the overall consumer purchasing intention.
3. The result of this study may also become essential in the development of other marketing activities such as retention strategies, since it also provides an additional view on consumer perceptions upon purchase.

1.6. Structure

This research paper will be brought in 5 different sections:

Chapter 1: Introduction

Here, backgrounds of the case is being discussed and elaborated, from the non-alcoholic beverage market and its growth, shown in graphs and tables, and the problem statement along with the scope of study, including an explanation of a small pre-test qualitative interviews, and the aims and benefits of this research.

Chapter 2: Theoretical Foundation

Theories that become the foundation and basis of this research will be discussed in this chapter that will help in the flow of the research

Chapter 3: Research Methodology

Here, Methods of the research are being elaborated, along with the hypotheses that will be one of the guidelines to be followed in the development of the questionnaires, and methods of data collection and sampling frames, and also the methods of the analyzing of the data is discussed.

Chapter 4: Results Analysis

In this chapter, results will be discussed, analyzed, and evaluated using the program SPSS, showing graphs and tables to help in explaining the final results of the research.

Chapter 5: Conclusion and recommendation for further research

In this final chapter, limitations of this research will be discussed, along with the summary and lessons learned from the study, and how companies can use the results in creating the most effective way of communication and gaining more market share. Recommendations for improvements in further researches arealso being elaborated in order for the next researches to avoid mistakes or problems faced in this research.