

CHAPTER 1

INTRODUCTION

1.1 Background

This research is a replication from the original journal by Hye Jung jung, Yuri Lee, Hae Jung Kim and Heesoon Yang titled “Impacts of country images on luxury fashion brand: facilitating with the brand resonance model”.

On the previous study, Jung et al. (2014) stated that the objective of their research is to identify the dimensionality of country image for luxury fashion brand and examine the impacts of country image on brand awareness, followed by perceived quality and brand loyalty. This study demonstrates the relevant country image impacts on luxury fashion brand resonance in addition to exposing the cultural differences between Korean and US samples. 466 samples of respondents gathered from the USA and Korea to identifies the value of the country images such as cultural assets, fashion equity and technology advancement. Findings also showed that all the hypothesized relationship among the country image and brand resonance are all supported. In results, different group of samples have different value for country image that leads to brand awareness, along with brand perceived quality and brand loyalty. According to the results of the previous study by Jung et al. (2014), when perceiving the country image, Korean group are more attracted to technology advancement of a country. Meanwhile fashion equity and cultural assets are more attracted for the US group. We can see from the results on the previous study that country image for luxury fashion brand have an important role in creating brand awareness for consumers. Therefore, further research will be conducted in

Jakarta, Indonesia to know if there is an effect of country image for luxury fashion brand among Indonesian consumers within the generational cohorts differences.

Country of origin effect and customer purchase intention has long been debated between the researchers. Effort have been tried in a various ways to prove that the hypothesis that the country associated with the origin of product is perceived by consumers “as a substitute for information, for example is as a summary indicator of the product characteristic, which will become the basis for consumer’s analysis of the purchasing alternatives available” (Bertoli et al., 2005)

In the first place, idea of CoO was only considered as the made-in-country (Nebenzahl et al., 1997) or the country of manufacture. Namely, it was the country which appeared on the ‘made-in’ label, which the country where final assembly of the goods took place. Nowadays, CoO is increasingly considered as a key factor if consumers want to buy products, which mean the country image for where the product was made must have good reputation as well. This is especially involved for the luxury market, in which brands heavily embed in building their image in order to profit from a good reputation.

Country Image (CI) points to place-related images, which consumers may link a product or a brand (Pappu et al. 2007). Each country has a different historical background, geographical situation, as well as the economic situation. Therefore, the country image of each luxury fashion brands creates a different effect of consumer’s perceptions and attitude. Some luxury fashion brand may perceive valuable in one country than in others because the economic and social of the brands might differ based on collective ideas about the brand. When a suitable country image resonates with a brand, it leads to greater awareness, higher perceived quality and stronger brand loyalty (Baldauf et al., 2009)

Global luxury industry is now growing as well as the global economy recovers. A recent research by Euromonitor (2013) shows that the market for luxury goods is expected to exceed \$ 381 billion until the end of 2013 with the majority of the revenues coming from emerging markets such as India, Indonesia, China and Malaysia (Euromonitor, 2013). It was stated that European customer has lost their interest towards luxury goods, which makes them difficult to target.

While we all recognize luxury, it has never been something easy to define what luxury means. Some people define luxury based on the price aspects, others by a list of attributes, and also there are some people define luxury by exclusivity of distribution. According to Heine (2012), Luxury products have more than necessary and ordinary characteristics compared to other products of their category, which include their relatively high level of price, quality, aesthetics, rarity, extraordinariness, and symbolic meaning. In order to deliver the authentic value, a luxury brand has to possess a strong identity, a high level of creativity and closely controlled quality along with premium price. Kapferer & Bastien (2009) stated, “The DNA of luxury is the symbolic desire to belong to a superior class”. Hence, all luxury brands have to own a high level of standards, which they also have to represent at least to some extent.

According to Euromonitor (2013), the amount of middle class and prosperous consumers in Indonesia are increasing. Euromonitor (2013) also stated that prosperous consumers, which are the main consumer base of luxury goods still has high disposable incomes and therefore rising purchasing power during 2014. Global luxury brands increase consumer awareness continually in 2014. They wear such luxury products to distinguish themselves from other people; therefore it helps to push the trends of luxury products in Indonesia.

It was reported by Euromonitor (2013) that the competitive scenery within luxury goods remains fragmented, despite the fact that leading global luxury goods companies have a more prominent presence and sales in Indonesia than other brands. International brand owners such as Kering SA and LVMH Moët Hennessy Louis Vuitton SA continued to manage luxury goods in Indonesia during 2014, with a various range of luxury brand portfolios. Therefore, it is very important to find out about the consumers of luxury fashion brands in Indonesia and how they actually perceive the luxury goods for themselves.

As we can see, a lot of global luxury fashion brands open a store in upscale shopping mall at Jakarta, which is the capital city of Indonesia. People from outside the city come all the way to Jakarta to visit or buy luxury goods. Luxury fashion brand that were not exist in Jakarta such as Hermes and Prada is now opening their store at one of the biggest high-end shopping mall in Jakarta with another luxury fashion brands such as Hugo Boss, Tod's, Gucci, Roberto Cavalli, etc. This would be the prove that Indonesia has a big market potential for the luxury fashion goods, with the result that the luxury fashion retailer keep opening a store in Jakarta.

1.1.1 Preliminary research

In order to know the trends of luxury goods in Indonesia, the researcher created a preliminary research using freeonlinesurvey.com, which gathered from 30 Indonesian respondents from both male and female with various occupations in Jakarta. Mostly respondents are from age 18-54. Other purpose is to know what are the top-two list luxury fashion brands that become favorites among Indonesian consumers, so the researcher can use those two favorite brands for the following empirical studies.

Respondents were asked if they ever buy luxury goods or not and the result is most of the respondents ever buy luxury goods.



Figure 1.1 - Preliminary Research

Respondents were asked what is the most favorite luxury fashion brand for them (respondents can choose more than 1 brand). Result showed that 48.3% of respondents choose Louis Vuitton as their favorite brand.

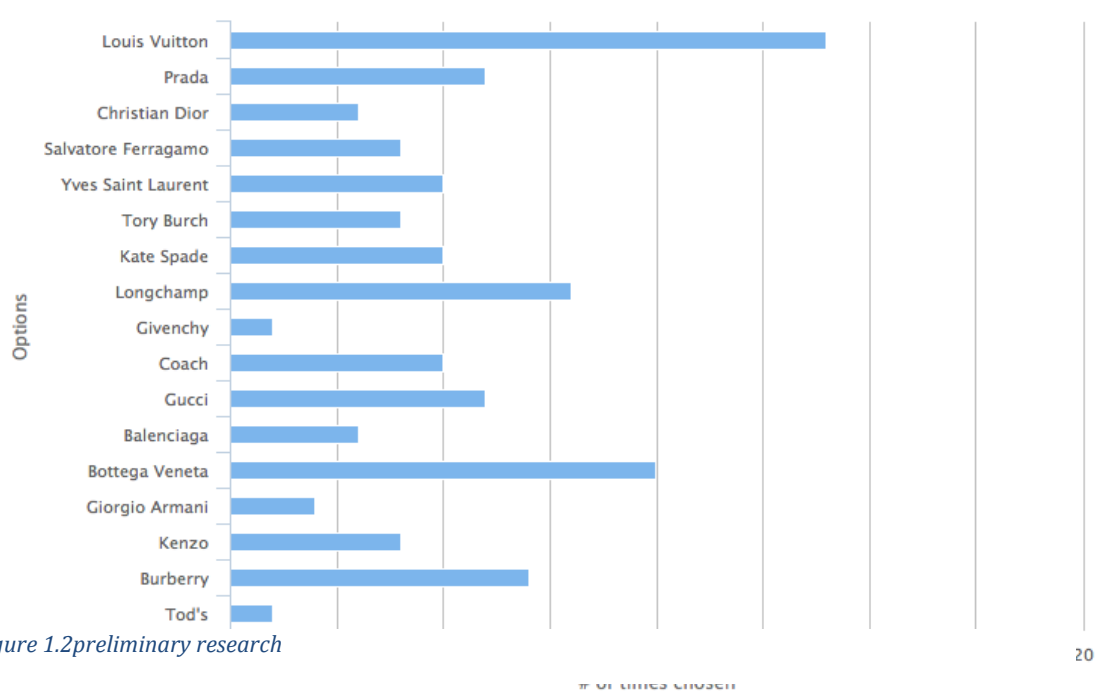


Figure 1.2 preliminary research

Conclusion from the table above is majority of the potential respondents knows and ever buys some luxury goods, which mean the trend of luxury goods in Indonesia is high. Based on a the preliminary research above, two luxury fashion brands Louis Vuitton and Bottega Veneta were selected as the list of top two brands that become

Indonesian consumer's favorite. Therefore, two luxury fashion brands, Louis Vuitton and Bottega Veneta were selected for the following empirical study.

Louis Vuitton

Based on the preliminary research above, Louis Vuitton, with France as the country of origin was chosen to be the most favorite luxury fashion brand among Indonesian consumers. Louis Vuitton sells various kind of product from accessories such as bracelet, watches, shoes, sunglasses, and jewelry to handbag for both men and women. As cited at Louis Vuitton Website, Louis Vuitton recently has 4 physical stores in Indonesia, 3 stores in Jakarta city and 1 at Surabaya city, which all located at high-end shopping malls in Jakarta and top hotel at Surabaya. The fourth and most famous store just re-opened in Plaza Indonesia 4 years ago, replacing their previous store that opened years ago. The store of Louis Vuitton in Plaza Indonesia also has a new concept, which they provide VIP room for those who need privacy in their shopping and this is the first concept for Louis Vuitton in Indonesia in order to create better service for their loyal customer.

Bottega Veneta

Bottega Veneta from Italy is in the second position for the brand preference among Indonesian respondents. Bottega Veneta also sells various kinds of luxury products for both men and women such as handbags, accessories, wallets, sunglasses, shoes, jewelry and fragrances as well. Distribution of Bottega Veneta products is global, encompassing Europe, Australia, Asia, North and South America, where wholesale distribution in select specialty and department stores is complemented by a growing number of Bottega Veneta owned boutiques. In Jakarta, Bottega Veneta has opened 2 stores in Plaza Indonesia and Senayan City along with other luxury fashion brands such as Balenciaga, Chanel, Salvatore Ferragamo, etc. Based on the Bottega website, every element of the boutique interior in Indonesia was designed by Tomas Maier as creative director of Bottega Veneta.

1.2 Scope

On the previous study, Jung et al. (2014) focused in the context of two consumer groups, which are the Korean and the US samples. However, since this research is only conducted in 1 country, which is in Indonesia, researcher will limit the samples between two generational cohorts. According to Anders (2011), generational cohorts have experience differences, which affect their values, along with their preferences and shopping behavior as well. The differences of experience and preference between generational cohorts could be assumed by the researcher to result in different buying behavior and the level of buyer involvement for different type of products. Therefore, researcher would like to know if there is a differentiation value of country image for luxury fashion brand that leads to brand awareness among generational cohorts in Indonesia.

Research was conducted in Jakarta with the first group of samples, which is generation X that includes both male and female within age 34-54. The second group of samples will be generation Y that includes both male and female within age 18-33. Actually, according to Strauss & Howe (1991), generation Y is people who are born between 1982-2003, which is age 12-33. However, in this research we will start with the samples from age 18 from generation X because it is more suitable for the topic.

1.3 Problem Statement

Unlike non-luxury products, promoting luxury product requires resonating the brand identity of the home country, which is the country image. When we talk about luxury, of course we all know that luxury fashion brand have a niche target market. According to Riley et al. (2004), luxury goods are targeting their products at small market segments and the distributions of their product are exclusive. When buying mass goods, usually consumers prioritize the functionality and price; meanwhile, when consumers purchase luxury goods, they are mainly influenced by prestigious names and status (Riley et al., 2004). The luxury target audience is mostly people with less-price sensitive and actually they expect luxury goods to be more expensive than other goods. The marketers of luxury fashion brand are more like focusing to build relationship with loyal customer because in luxury, quality is more important than quantity. For luxury goods, after-sales service is very important to keep the relationship. However, due to the high potential in Indonesia, a lot of luxury fashion brand retailers open their flagship store in Jakarta. Since the number of luxury fashion brands that open their store is increasing, it creates competitiveness among the brands. In order to compete, luxury fashion brands want to build a good image to gain brand awareness through the country images. Therefore, it is important to know what are actually the dimensionalities of the country images that are relevant with the brand resonance for luxury goods.

Another problem is to know whether if there is a differentiation between generational cohorts in perceiving country images that lead to luxury fashion brand awareness.

1.4 Aims and benefits

This study aims to show what are the dimensionalities of the country image for luxury fashion brand that affect awareness of the consumers along with perceived quality and brand loyalty.

The benefit of this research is giving some knowledge to producers of the luxury fashion brand manufacturer regarding to the potential market of luxury fashion brand in Indonesia. The benefits of this study also give knowledge to the marketers of luxury fashion brands for creating marketing strategy by using the value of country image. Since the researcher also compare different unit of analysis, which is generation X and generation Y, this research can help marketers of luxury fashion brand to develop and create different marketing strategy for different market segment.

1.5 Research Question

The followings research questions were addressed that will be used to guide the research:

RQ1: Do country images (cultural assets, fashion equity technological advancement) positively affect luxury brand awareness?

Three dimensions of country images; cultural assets, fashion equity, technological advancement were tested to show whether each of these variables is positively related to the luxury brand awareness or not.

RQ2: Does luxury brand awareness positively affect luxury brand perceived quality?

Luxury brand awareness was tested to show whether that variable is positively related to the luxury brand perceived quality.

RQ3: Does luxury brand perceived quality positively affect luxury brand loyalty?

Luxury brand perceived quality was tested to show whether that variable is positively related to the luxury brand loyalty or not.

The researcher had conducted a research methodology that will be discussed in the following chapter to answer the research question.

1.6 Structure

Chapter 1: Introduction

Introduction consists of the background of the research, scope, problem statement, aims and benefits, and research question formulated to guide the research. Moreover, there will be analysis on current exploratory studies to support the background of the research.

Chapter 2: Theoretical Background

Literature review discussing all related theories on luxury fashion brands as well as all of the independent variables involved. It included literature review on the relationship of each of the independent variables with brand loyalty of the luxury fashion brand as well. The resulting hypotheses are then being presented after all the existing literature has been reviewed.

Chapter 3: Research Methodology

All things related to the research method. How the research is designed, how the questionnaire is designed, what sampling method is applied, and how the survey is being administered.

Chapter 4: Research Findings

The research results being examined. It started with the pretest results of the reliability and validity test and continues with the basic information, which is the respondents' demographic profile. Other information's were given in the multiple and simple regression analysis as well as additional hypothesis testing with the confirmatory factor analysis. Discussions on these results were being examined.

Chapter 5: Conclusion and Recommendation

The research report ended with the conclusion, discussion on the managerial implication, limitation of the research, and recommendations for future research.