Chapter 1
Introduction

This chapter aims to provide background information about the research; including the importance of conducting this research subject. This chapter also discusses about problem identification and the main reason of choosing the problem. Furthermore, author also presents research scope, problem statement, aim and benefits, research questions and also structures that contain general

This research is a replication of previous studies by Johan Anselmsson, Niklas Vestman and Ulf Johansson (2014) entitled "Brand image and customers' willingness to pay a price premium for food brands" and descriptions to cover for each chapter within the research.

1.1   Background

The main objective of this study is to examine brand image and customer's willingness to pay a price premium for Fast Moving Consumer Goods (FMCG).

Fast Moving Consumer Goods (FMCG) are products that can be sold quickly at a low price level (Amartnath et al, 2009). FMCG became one of the industry categories that were growing rapidly in the world competition in the industry up to 11.8% in 2011; the development is in the line with the rapid growth of consumer spending behavior (Karina, 2011). In Indonesia, FMCG has become one of a trend in retail industry and it is considered as one of the main attraction for investors around the world to invest. In fact, based on the survey conducted by Global Business Indonesia, in 2014 the consumer goods

price index grew by 22,2% and it was categorized as the third highest in Indonesia's stock exchange (Kantal World Panel, 2014). The potential of Indonesia's consumer sector for mid-term and long-term can be said very strong or promising because according to AC Nielsen (2015), 48% of Indonesia's total spending on FMCG comes from the middle class and the proportion of the middle class in Indonesia expected to rise from 68,4 % in 2015 to 76,1% in 2020. The other thing of the Indonesian consumers purchasing habit, they have culturally specific shopping behavior which are risk averse and brand loyal. Based on the McKinsey's survey, 63% of Indonesia consumers are only purchasing the brands that they already aware and they unwilling to buy the products that they don't know to minimize the risk (Global Business Guide Indonesia, 2016). This condition makes Indonesia consumers as late adopters and they won't buy or try new products unless other people give suggestion to try the products.

Therefore, one of the ways to make a product to be recognized by consumers is by creating a good brand image because brand image is one of the important concept in consumer behavior research since the early 1950s (Dobni & Zinkhan, Associaton for Consumer Research, 1990). Since 1950s, the idea of brand image has been discussed along with the consumer behavior research and most of the researchers agree about the idea of importance of brand image for a product (Aaker, 1991). Brand image creates value in many variant ways, helping consumers to gather information, giving brand differentiation, giving reasons to buy the product, giving positive feeling for the products and also providing basis for the extensions (Dobni & Zinkhan, 1990). A positive brand image is created by marketing programs that link

strong, favorable, and unique associations to the brand in customers' memory (Keller, 2003). Therefore, marketers need to understand that a brand's value was not to be underestimated, since a strong brand is possibly the most valuable asset for a company (Keller, 2002). The brand image can be explained by how the consumers perceive the brand. It is the key how the consumers make their own choices after gathering information for particular brands and the alternatives brand (Ataman & Ülengin, 2003).

In the global industry, there are many companies that already created good brand image such as Apple, Adidas, Nike, etc.
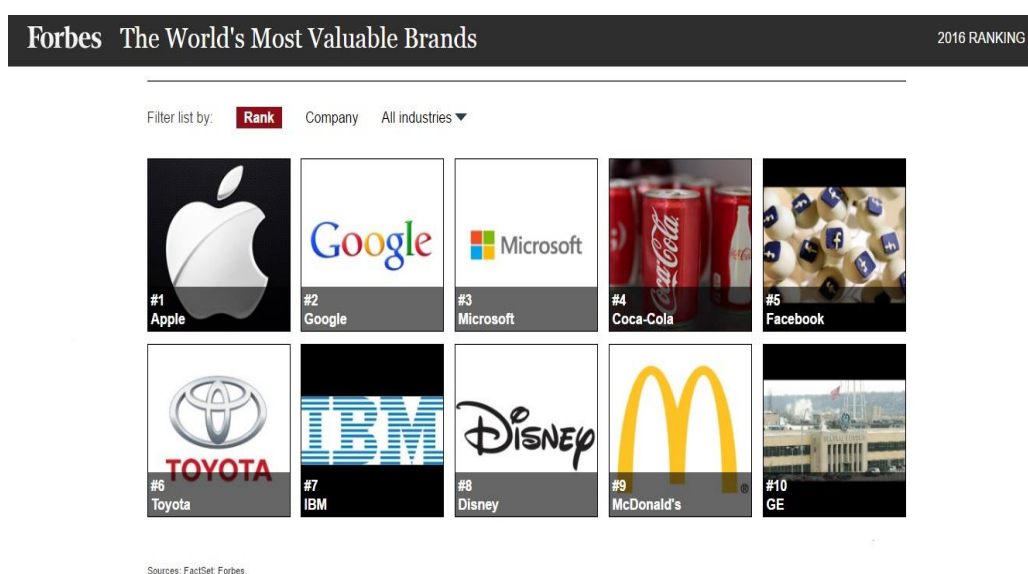

Figure 1.1 The world's most valuable brands

Source: www.forbes.com

As we can see from Figure 1.1, these are the top 10 world's most valuable brands that succeed in creating their brand image through the world. These kinds of brands are easily recognized by many people in the world, for example if people are talking about apple the first thing they know is their technology or talking about McDonald people can easily recognizing about

the fast food. Brand image is very important and powerful for a company; so many marketers nowadays compete with each other to make the company brand the best brand in the world.

In Indonesia, we also have many brands that quite popular and have good brand image such as Indomie, Bimoli, Rinso, etc.

Figure 1.2 FMCG Brands lead Brand Contribution in Indonesia

Source: www.millwardbrown.com

Figure 1.2 shows that these are the top 10 FMCG leading brands in Indonesia and most of them are easily recognized by the consumers because of their good brand image and also good product quality. People do not really recognize about brand image are the activities that they made to build the brand image and how the brand can stick in our memory. Take an example from Aqua, the top leading brand for mineral water in 2016. Aqua has made many kinds of activities to be the top brand for almost 5 years in a row since 2012. Aqua has created many good CSR activities, social campaign, good advertising, and customer services with fast respond (Pantouw, 2013).

As we can see, due of the many well-known brands on the market; many companies are creating private label brands in order to compete with the manufacture brands to increase their market selling. These companies certainly have made some consideration to sell the products to the consumers and most of them are retailers that have a good image in selling quality products. Private label is a brand that manufactured by a firm and offered under the company's brand (Sarfaraz & Pratik, 2012). Moreover, private label products can be used as substitutes for national brands which generally offer a higher price. Profit margin per unit of private label products is usually lower because it sells in cheap price, but with the high level of sales will be gain a huge margin. Currently, the development of private label products in the world increase rapidly. Globally, growth in sales of private label products exceeded the growth of the brand national 5% versus 2% and over the last 30 years, the share of private label in the world continues to increase from 12% to 34% (Kumar, Nirmala & Jan Benedict, 2007). There are many private labels products in Indonesian market, but every market has their own differentiation in the private products they produced. Based on author preliminary research, most of the retailers only have a few similar items such as mineral water, tissue, jam, syrup and rice. Retailers also have the other private labels products that different with other retailer to give them an advantage. For example Alfamart is selling "kacang atom", karage and "abon that other stores are not selling. Otherwise, other retailer like Indomaret is selling "bagelen" and wafer which Alfamart doesn't sell.

1.1.1 Retail Industry

Retail industry has experienced major progress in revolution since 1990's due of changing consumer habits and transformation in the competitive landscape. Both consumer goods and retail markets are having an unprecedented disruption. Consumers nowadays are more demanding and hard to predict more than before and success today means that retailer can engage the customers through every channel (Belderok, n.d.). Due of changing patterns in customers shopping habit, retailers need to be more focus on how they reach the customers and also understanding the products that demanded by the customers. In Indonesia, BPS (Indonesia Statistic Centre Bureau) stated that retail industry began in 1970 and for the previous 10 years, Indonesia was one the biggest importer in SEA (South East Asia. In Indonesia, an Indonesian Retail Merchants Association (Aprindo) stated that Indonesia retail business grows 10-15% every year which makes retail business is very good in Indonesia. Retail markets in Indonesia were divided into two groups which are traditional retail business and modern retail business (Soliha, 2008). Traditional business in Indonesia can be categorized such as "warung" or "toko" that can easily locate along the roadside or traditional market where we can meet and do the transaction directly with the seller. In this traditional market, the price is not fix and buyers can ask the seller to reduce the price. These types of traditional retail business are easy to find in Indonesia and most of them are located nearby the residential areas in order to make customers easier to reach the market. Furthermore, these kinds of markets are selling daily needs such as fresh vegetables, fishes, meats and many other daily items. In the other hand, modern retail businesses are quite

similar with tradition businesses except for the place, price and several items. Modern retail business can be divided into three groups which are: Minimarket, Supermarket, and Hypermarket. In Modern retail business, they are using fix price with barcode and price tag system. In addition, modern retail businesses sometimes are offering some promotional price by giving discount and bundling the items to make the price cheaper and attract consumers that traditional retailers cannot give so the consumers. On the other hand, the advantage of the modern retailers is the private label they made. Most of the retailers in Indonesia have their own private labels (Figure 1.3) for example, Carrefour has their private label mineral water under the company's name or Giant has their private label vinegar.

Figure 1.3 Modern retail Store Brands

Source: Compiled from various source (www.google.com)

1.2 Research Scope

This research examines whether brand image can influence consumers' willingness to pay price premium for fast moving consumer goods (FMCG) in modern retail business, especially in Jakarta area. In order to understand if the brand image has an impact with the customer's willingness to price premium, 2 categories of brands are selected which are market leading brand, me too brand and private label brand. The products that will be used in this research are mineral water and tissue. These 2 items selected because based on the author pre research, all the retailers produce these products using their own private labels and the products are also chosen from the selected winners from top brand awards 2016, published in Majalah Marketing (2016). The reason of choosing this top brand award is because the survey taken from this award is from Frontier Consulting Group which is the leading and the largest marketing consulting and research firm in Indonesia, so the data will be very valid. According to Global Network Research (2012), Frontier Consulting group has been working for more than 15 years and it becomes an expert in the field of research for national and international companies. This research only conducted in Jakarta areas which are West, East, South, North and Center Jakarta. The author will be distributing based questionnaires to total target of 80 respondents that fill 3 questionnaires for each product categories and the total of the questionnaires will be 480 questionnaires. The respondents will be limited to respondents with the minimum age of 18. The respondents should have the experienced for using the products and shop at the minimarket in order to participate in this research.

1.3 Problem Statement

Many retailers in Jakarta (Carrefour, Indomaret, Hypermart, Giant, Alfamart and Lotte Mart) began to create private label products to be a substitute for national brands with lower price because private label products have lower cost, lower packaging cost, and lower advertisement cost (Purwati & Kurniawati, 2009). With these kinds of products, consumers nowadays have more choices in selecting their own products. Therefore, the competition between the leading brands, me too brands and private label brands will getting more competitive than before. However, the national top brands 2016 shows that, mostly the leading brands are the national brands and none of the private label brands become the leading brands. According to The Jakarta Post Article, even though promotions for FMCG products are still effective, most of Indonesian consumers are only responding to offer for the brands that they're already within their preferred FMCG category to purchase products and promoted brands that they have already known (Rastogi, Utama, & Choudhury, 2016). Furthermore, Rastogi, Utama & Choudhury (2016) also stated that "Indonesians are also willing to trade-up more expensive product version within their preferred brand category". With this kind of issue, author wants to know if the brand image of a brand can really affecting customer's willingness to pay more expensive for certain products and what kind of brand image elements that affecting the most in customer's buying willingness to pay price premium such as brand awareness, product quality, product uniqueness, product value, social image and country origin.

1.4 Aims and Benefits

This aims of this research are:

1. To understand customers' willingness or unwillingness to pay a price premium in the market for Fast Moving Consumer Goods (FMCG).

2. To understand what kind of brand image can be used in order to achieve price premium.

Aside from the aims, author will also provide the benefits of conducting this research such as:

1. Helping retailers to understand what the consumers expecting from them and what kinds of strategies that they can use in order to facing the competition with the national brands.

2. The result of this study will also guide retailers on which drivers they can prioritized to attract more customers

3. Helping customers to broaden their minds between leading brands, me too brands and private label brands.

4. Helping marketers to understand if brand image can affecting customers buying behavior and their willingness to pay more expensive price for the products that have good brand image.

1.5 Research Questions

The following is the research questions for the research that author conducted:

Q1: Does brand image between leading brand, me too brand and private label brand affecting customers' willingness to pay a price premium for national brand over follower brand and private label brand?

Q2: Does perceived awareness has a positive impact on customers' willingness to pay a price premium?

Q3: Does perceived quality has a positive impact on customers' willingness to pay a price premium?

Q4: Does perceived value has a positive impact on customers' willingness to pay a price premium?

Q5: Does perceived home country has a positive impact on customers' willingness to pay a price premium?

Q6: Does perceived social image has a positive impact on customers' willingness to pay a price premium?

Q7: Does perceived uniqueness has a positive impact on customers' willingness to pay a price premium?

1.6 Structure

This research is divided into five main chapters in which will give detail explanation about the introduction, literature review, research design, result findings, and conclusion & recommendation of the study.

Chapter 1: Introduction

The first chapter contains the background of the research and general information and facts about FMCG, brand image and retail industry. Furthermore, this chapter also provides research scope, problem statement, aims & benefits, research questions and also structures of the research.

Chapter 2: Theoretical Foundation

This second chapter will support this research with theoretical foundation and frameworks of the propose model used with detail explanation of each variable. In this chapter, author explains each variable by using literature review as the basic theories and relevant findings from the other similar studies that will input in supporting the design of problem solution.

Chapter 3: Research methodology

This chapter is demonstrating the methodologies that will be conduct in this research. It covers research objective, data collection method, questionnaire model, sampling method, and data analysis method for supporting this study to get conclusion.

Chapter 4: Research Findings

In this chapter, author will discuss about the research findings of the study. The data will be process using SPSS after author gather all the survey data after the survey conducted. Furthermore, author will describe the reliability, validity, and the analysis of the data result.

Chapter 5: Conclusion and Recommendation

This last chapter contains all the result and findings that already conducted by the author. It also covers the research limitation for the study. The most important thing, author will give conclusion and recommendation that can help future researchers, marketers and retailers in Indonesia.