

# CHAPTER 1

## INTRODUCTION

### 1.1. Background

**This thesis is a replication from the original journal titled “Loyalty Influence on the Consumer Satisfaction and (Re)purchase Behavior Relationship” written by Thaweephan Leingpibul, Sunil Thomas, S. Allen Broyles, and Robert H. Ross.**

Over the past few years, the phenomenon of satisfaction has always been associated with consumers (re) purchasing behavior. Studies by Oliver (1999) suggested that the defection rate between satisfactions and (re) purchasing behavior could be as high as 90%. The fact that satisfaction plays huge role in consumers repurchasing behavior, enhance companies to develop more effective marketing strategies (Leingpibul, Thomas, Broyles, Ross 2009). However, according recent studies showed that loyalty also play apart between satisfaction and repurchasing behavior. While, many study has proven that satisfaction would lead to loyalty, Oliver (1999) implies that loyalty can be a commitment of customers to make (re)purchase towards product or services despite the situational factors or competitors attraction. Through the implication that loyalty intermediate between satisfaction and (re)purchasing intention, implies that loyalty also plays apart in consumer buying decision and it is important for many companies especially FMCG companies that rely on (re)purchasing to make sales.

Fast moving consumer goods (FMCG) market could be defined inexpensive frequently purchased and rapidly consumed item that has minimal purchasing effort (Dibb et al., 2006). One key driver that allows FMCG industry to grow is the shopping frequency, the more often consumers purchase the product the more opportunity for the industry to grow (Europanel, 2010). In other words, consumer-repurchasing behavior played a huge part of FMCGs companies' well being.

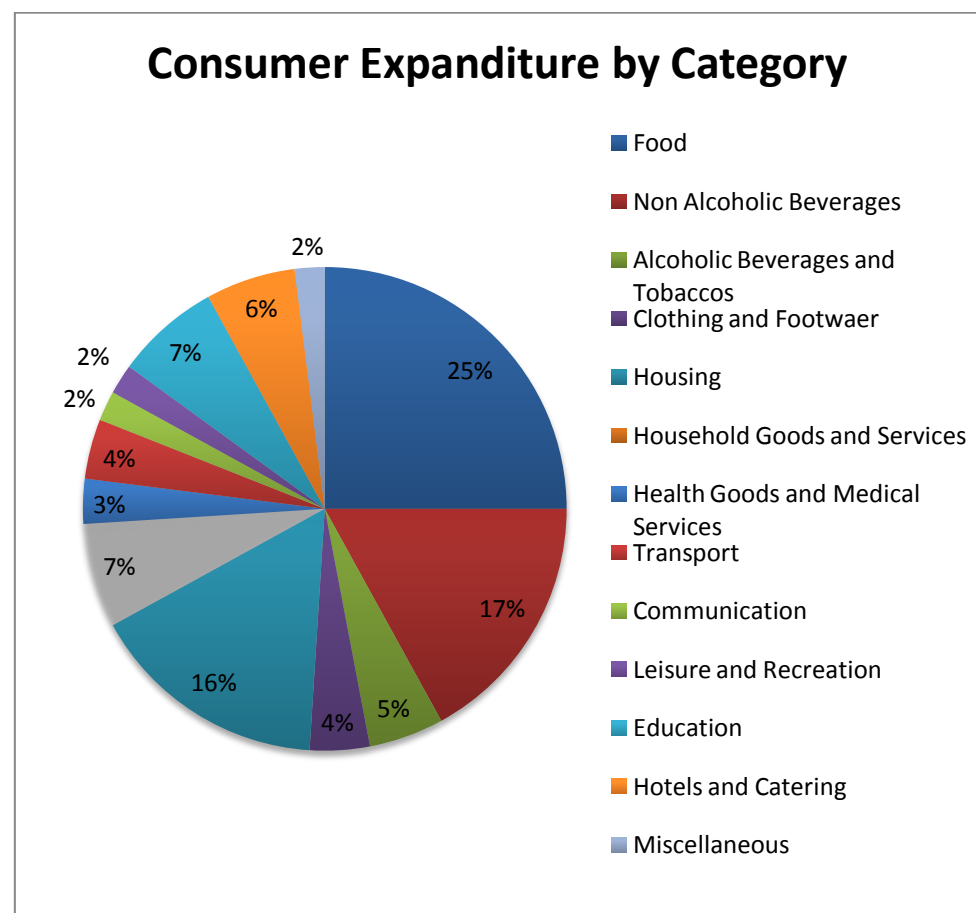
Therefore, this study aims to analyze the consumer behavior in regards to repurchasing intention of isotonic drinks in Indonesia. In addition, this research will like to find out the difference behavior between 2 brands. By conducting this research the author aims to help Indonesian isotonic drinks industry to compete by providing knowledge of Indonesian consumer behavior based on satisfaction, loyalty and strategies to improve sales through repurchasing.

### **1.1.1. Light Beverages Industry**

One of the categories of FMCG that rely on repurchasing is the light beverages industry. Light Beverages in Indonesia is categorized as drinks that does not contain any alcohol substance including Hot Tea, energy drinks, hot coffee, carbonated drinks, isotonic drinks, Milk, Yogurt, flavor water, fruit juice, fruit drinks, sports drinks, syrup and sparkling water (Poeradisastra, 2011). Light Beverages is part of the consumer daily consumption. In fact one of the significant driving

forces of Indonesian economics is their consumer expenditure, it contribute up to 60% of Indonesia's GDP (Euromonitor International, 2010). To be more specific based on the figure 1.1 16.8 % of consumer expenditure comes from the consumption of beverages including light beverages.

Figure 1.1 Consumer Expenditure in Indonesia



Source: Euromonitor International, 2010

Furthermore, Light beverages is a growing industry in Indonesia, in fact the market in 2012 has reach up to IDR 294,25 million according to Finance Today Indonesia, a steady growth over 5% - 7% compare to the previous years. This growth trend from time to time in light beverages industry is driven by many aspects such as, the fact that Indonesia has

one of the highest population growth economic growth in the world also influence consumption over light beverages according to Suroso Natakusumah, Sekretaris Jenderal Asosiasi Industri Minuman Ringan Indonesia, Indonesia recorded over 30.1% population growth from 1990 to 2010 number 4 largest growth aside from China, India, and United States according to the UN statistics. Furthermore, the growth of population is also accompanied by solid economic growth.

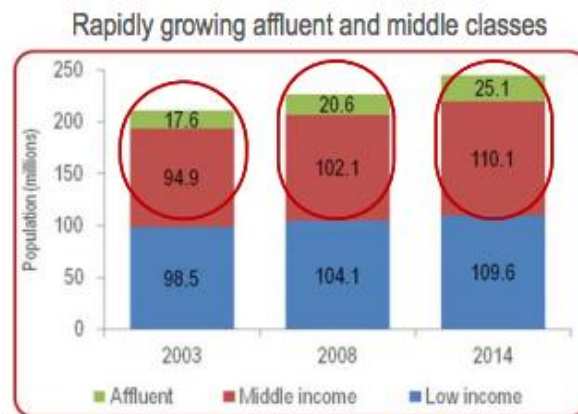
Figure 1.2 Indonesia Economic growth rate



Source: Badan Pusat Statistik Indonesia

The light Beverages industry has a strong growth due to the fact that Indonesia has a stable and one of the strongest GDP Growth rate in the world according to figure 1.3 Indonesia has an average of 6.4% growth. It influences many things such as of the following:

Figure 1.3 Middle Class Consumer and



Source: AC Nielson

Strong economic growth rate brings about increasing number of middle class incomers according to figure 1.3 in 2003 the number of middle incomers are 94.9 million population, due to the stable economic growth the number rose to 102.1 million population in 2008 over 9.2% increase in 5 years' time, and it will continue to increase based on prediction up to 110.1 million population in 2014. It influences the consumer confidence shown in figure 1.3 over 110 optimism in other words, people would rather spend than to save money.

Figure 1.5 Disposable income



Source: Euromonitor

Rapidly growing disposable income Figure 1.5 the level of disposable income increase from 3400 IDR per person in 2003 to 4500 IDR per person in 2008, it goes to show that other than the needs to spend on basic necessities Indonesia consumers have a high level of disposable income and the trend of disposal income are still increasing. These factors have a direct effect on the growth consumption of light beverages according to Coca Cola AMITAL Terry Davis.

### **1.1.2. Background of Isotonic Drinks in the Light Beverages Industry**

One of the gaining popularity drinks in light beverages category are isotonic drinks. This light beverages are perceived as healthy drink and usually consumed during sports activates.

Isotonic Drinks was first introduced in the early 1989, selling approximately 7 million can per month. In the year 2000 the sales of isotonic drinks has reached up to 700 million – 800 million rupiah per year. The substantial growth of Indonesian economy and health concerns has boost the sales of isotonic drinks into 7.5X within 11 years (IDR 3.5 billion). Now days, isotonic drinks are one of the most common categories of light beverages. Although, isotonic drinks only contributed 1.4% of the market of light beverages (IDR 4.2 billion) However, currently it is growing at a fast rate at 20% each year, which is faster than the average growth of light beverages in general.

Other than the influence of the growth population and solid economic background, isotonic drinks are also influence by the increasing trend of healthy life style in Jakarta. Recent years more and more people going

to the gym and work out and the increasing popularity of cycling every Sunday. These activities are very close to consumption of isotonic drinks.

Currently in Indonesia there are many players in the isotonic drinks industry such as, Pocari Sweat (PT Amerta Indah Otsuka), Mizone (Danone Aqua), Vitazone (PT Mayora Indah Tbk.), Fatigon Hydro (PT Kalbe Farma Tbk.) and etc. However, in total There are over 25 players in Indonesia's isotonic drinks industry.

Table 1.1 Top Brand Isotonic drinks

<b>Minuman Isotonik</b>		
<b>Merek</b>	<b>TBI</b>	
<b>Pocari Sweat</b>	<b>50.1%</b>	<b>TOP</b>
<b>Mizone</b>	<b>41.7%</b>	<b>TOP</b>
<b>Vita Zone</b>	<b>3.6%</b>	
<b>Fatigon Hydro</b>	<b>2.1%</b>	

Source: Top Brand Index

Aside from its many players in the industry the market share are dominated only by Pocari Sweat and Mizone and the rest of the brand has less than 1% market share. As shown in the Table 1.1 isotonic drink industry is dominated by 2 major players in the market, which includes Pocari Sweat at 50.1% of market share, and the second largest market share is Mizone with 41.7%. Players like Vitazone has only 3.6 % of the market and Fatigon Hydro only 2.1% of the market, the rest of the players has less than 1% of the market.

## **1.2. Problem Statement**

Knowing that light beverages are still growing and determined by the fact that demand for beverages is still high. Companies must learn how to grab the demand for isotonic drinks, by understanding first the consumption behavior of light beverages among Indonesian.

In a course of time people believed that satisfaction is one of the main reasons why people repurchase beverages, based on what it tastes like or based on things that the drink does good to you. Many companies thrive to gain market by communicating the brand through their cognitive aspects of the drinks. However, there are currently no studies that explore outside the cognitive aspects of the isotonic drinks. A study by Thaweephan Leingpibul, Sunil Thomas, S. Allen Broyles, and Robert H. Ross (2009) implied that repurchase intention is not only influenced by satisfaction but, also catered by attitudinal loyalty and behavioral loyalty. The implication that loyalty factors play a part in the consumer decision-making process allows companies to shift to a more efficient strategy by maintaining consumers instead of finding new ones.

## **1.3. Scope of Study**

This thesis investigates the effects of satisfactions and affective feeling states towards consumer's loyalty, and also how behavioral loyalty also influences loyalty to repurchase intent. The research will be conducted in Jakarta thus, analyzing the consumer's behavior of the emerging markets of isotonic drinks.



In order, to obtain the data for this research, the author will conduct the research in a form of survey by handing questionnaires to the respondents. The author decided to choose Jakarta to distribute the survey because Jakarta has one of the most highest population among other province in Indonesia over 9.607.787 (BPS, 2010) people live in Jakarta not to mention the people who live near Jakarta (Jabotabek). The fact that Jakarta is one of the province that has the highest disposable income that has spending of US\$14,323 in 2010 (Euromonitor, 2011) and considered the highest in the country consumption due to the high population. Therefore, it is an attractive market for light beverages industry that includes isotonic drinks.

The author decided to choose two of the most recognized and popular brand based on their market share for this study. According to the figure 1.2 Top Brand the most significant brands that outshined the rest of isotonic drinks are Pocari sweat (50% of market share) and Mizone (41.7%) will be the subject of this study.

The questionnaires would be conducted offline. The questionnaire will be distributed amongst people, who have already tried isotonic drinks of author's choice before. There will be over 150 questionnaires and broken into 2 parts; 75 questionnaires on who ever Mizone and 75 questionnaires on Pocari Sweat.

#### **1.4. Research Questions**

This research is conducted to find out how satisfaction would lead to loyalty and repurchase of light beverages goods in Indonesia. In order, to do so there are several questions that needs to answered as of the following:

RQ1. Does meet expectation has a positive impact on attitudinal loyalty on the isotonic drink brand?

RQ2. Does affective feeling has a positive impact on attitudinal loyalty on the isotonic drink brand?

RQ3. Does attitudinal loyalty has a positive impact on repurchase intent on the isotonic drink brand?

RQ4. Does attitudinal loyalty has a positive impact on behavioral loyalty on the isotonic drink brand?

RQ5. Does behavioral loyalty has a positive impact on repurchasing Intention on the isotonic drink brand?

### **1.5. Aims and Benefits**

The aims of this research are as follows:

1. To investigate the behavior of Indonesian consumers (re) purchasing of isotonic drinks through their affective feeling state, and meets expectation through attitudinal loyalty and behavioral attitude.
2. To unveil necessary action strategy that allows local light beverages company to compete in the industry

Furthermore, the benefits of this research are:

1. For the Light beverages industry, the findings and the results of this thesis will provide clear understanding about consumer behavior in Indonesia.
2. For Marketers, this research will allow Indonesian marketers to make better strategy approach that encourage consumers to repurchase the product.
3. For light beverages companies this research will help companies to alter better strategy to retain consumers by repurchasing the product. So, that they could achieve more sales.

## **1.6. Structure**

The structure of this research will be divided into 5 parts:

### **CHAPTER 1: INTRODUCTION**

This chapter will discuss about the foundation of light beverages industry in general followed by the increasing trend of isotonic drinks in Indonesia. Furthermore, this chapter will define the problems at hand and elaborate the purpose of this research including research questions, scope of study, aims and benefits.

### **CHAPTER 2: THEORITICAL FRAME**

This chapter will discuss the key theoretical framework that is going to be used for this research. Furthermore, this chapter consists of all relevant theories that support the key theoretical frameworks in accordance to solve the problem of this research.

### CHAPTER 3: RESEARCH METHODOLOGY

This chapter will explain about the research objectives and how to achieve findings by providing research questions and, hypothesis, research design, data collection method and sampling plan, and the analysis method used in this research.

### CHAPTER 4: RESULTS AND ANALYSIS

After implementing the survey, this chapter will discuss about the results and analysis of the findings. The results of the findings will be processed using SPSS and the results will be evaluated.

### CHAPTER 5: CONCLUSION AND RECOMMENDATION

This chapter will summarize and conclude the results of the findings by pointing out several important aspects. Furthermore, this chapter will discuss on how this research will help light beverages industry to attain market share by providing recommendations and managerial implications.