CHAPTER II

Literature Review

2.1 Indonesia Shariah Banking

2.1.1 Shariah Bank Development and History

In the beginning, the shariah banking practice began in the early 1980s as a process to look for an alternative banking system that is colored by transparent principles, fairness, balance, and ethics. This condition is also based on the presence of the dynamics of aspiration along with societal needs for an alternative banking system that applies a profitable system for account holders and the bank.

Early in establishing the concept about a banking system which applies a system that can apply profitable results for account holders and the bank, a test was done by society along with academicians. This practice was done on a small scale, like establishing Bait Al-Tamwil Salman at the Bandung Technology Institute and Ridho Gusti Cooperative in Jakarta. Although in the beginning the enterprise that was built was a non-bank enterprise, its presence showed that society needed the presence of an alternative financial institution besides the present conventional banking.

The majority of Indonesian citizens who are Islamic was one of the strong reasons to build a banking system by applying a sharing earnings system. As is known, a conventional banking system gives interest in certain percentages as a return for account holders. Islam society considers interest as something forbidden, especially with the religious regulation from the Indonesia Islam Council regarding bank interest as being forbidden in December 2003. There was a religious regulation from the Indonesia Islam Council that forbids interest or usury, making a financial institution with a system of dividing profit even more of interest to society.

To further societal actions about a banking system other than conventional banking, religious leaders of the Indonesia Islam Council did insight about shariah concepts, including a shariah banking system.

From August 18-20, 1990, the Indonesia Islam Council held a Banking and Bank Interest Seminar in Cisarua, Bogor, West Java. The results of the seminar were then explained more in depth in the Indonesia Islam Council Fourth National Conference in Jakarta from August 22-25, 1990, which produced a mandate to form a work group to establish the first Islamic bank in Indonesia. The work group was called the Indonesia Islam Council Banking Team, who was assigned to concretely further the societal aspirations and needs along with do various preparations and consultations with all related parties.

The work result of the Indonesia Islam Council Banking Team was the establishment of PT Indonesia Muamalat Bank (BMI). The BMI establishment certificate was signed on November 1, 1991, and BMI began operating on May 1, 1992. Besides BMI, other shariah banking pioneers were Bank Perkreditan Rakyat (BPR) Dana Mardhatillah and BPR Berkah Amal Sejahtera which were established in 1991 in Bandung, which was initiated by the Institute for Sharia Economic Development (ISED).

Government support in developing this shariah banking system was then seen by passing legal legislation which supported a shariah bank operational system, which is Amendment No. 7, 1992, about banking and PP No. 72, 1992. This decision signaled the beginning of a dual banking system in Indonesia; that is the operation of a conventional banking system and a banking system with a principle of dividing profit. In this dual banking system, both banking systems equally and together fulfill societal needs for banking services and products, along with support financing for the economic sector.

Next, through changes to Amendment Number 7, 1992, about banking to become Amendment Number 10, 1998, the presence of a shariah banking system was increasingly encouraged to develop. Based on Amendment No.10, 1998, the Conventional General Bank was allowed to engage in business based on shariah principles that is through opening shariah business units. In these business units for the first time the name “shariah bank” was replaced with the term “diving funds bank”, which has been used since 1992.

Over time, experience has shown that the shariah banking system is one of the solutions to help support the national economy from the economic and monetary crisis of 1998. The shariah banking system is proven to be able to become national financial system stability buffers when undergoing fluctuations. This ability increasingly affirms the position of a shariah banking system as one of the national economic support potentials that is suitable to be considered. In the end, the shariah banking system that wants to be realized by Bank Indonesia is modern shariah banking that is universal and open to all Indonesian citizens without exception. With special shariah banking as "beyond banking", which is banking that provides more various financial services and products along with is supported by a more various financial scheme, it is certain that in the future Indonesian society will show more interest to use shariah banks (*republika.co.id*).

2.1.2 Definition of a Shariah Bank

According to the Banking Amendment and Shariah Banking Amendment what is meant by a bank is a business agency which collects funds from society in the form of savings and channels them to society in the form of credit and/or others to improve societal standard of living (*Hakim, 2009*).

Meanwhile, the definition of a shariah bank according to the Shariah Banking Amendment is a bank which carries out its business activities based on shariah principles and according to its type consists of Shariah General Bank and Shariah People's Financing Bank. Thus, at its basis a shariah bank has the same activities as other general banks (conventional banks), but a shariah bank applies shariah principles in conducting its activities.

Based on this understanding, the basic banking activities which are done by conventional banks or shariah banks are as follows:

a. Collect funds from society

b. Channel lending/financing to society

c. Provide financial services and other payment systems

Although they conduct the same basic banking activities, a shariah bank is different from a conventional bank. The differences can be seen in the table below.

Table 2.1: Differences between Conventional Banks and Shariah Banks

Explanation	Conventional Bank	Shariah Bank
System that is used in a product	Interest based	Non interest (divide earnings, margins, rent, fees)
Organizer arrangement	Just a commissary board and management	Commissary board, management, and shariah overseeing council
Kinds of arrangements / contracts	Just one kind	Various kinds of contracts
Monthly investment yields	Constant	Fluctuates, depends on bank work performance
Fund allocation	All businesses profit	Only businesses profit according to shariah principles
Work performance reports	Not very transparent	Transparent
Social function	None	Can play a role as Tithe Collecting Organization (LAZ)

2.1.3 Kinds of Contracts for Shariah Banking

As has been explained above, at their foundations the basic activities done by conventional banks and shariah banks are the same. The difference is in the contracts or agreements done in the two banking systems. In conventional banks there is only one agreement or contract for every product offered, while for shariah banks there are several contracts offered based on the products.

The kinds of contracts found in shariah banks are as follows (*Hakim, 2009*):

a. Fund collector

1) Wadiah (deposited asset): credit transfer, savings

   A deposited asset contract is a deposit contract where the money deposited can be taken at any time and the party who receives the deposit can ask for a service to guarantee and invest the money which is deposited.

   There are 2 kinds of deposited assets:

   a) Wadiah Amanah (trustee deposited asset) → The party who receives the good cannot take advantage of the good that is entrusted (example: safe deposit box).

   b) Wadiah Yaddhamanah → The party who receives the good can take advantage from the good that is entrusted (example: credit transfer & savings).

2) Mudharabah : savings, deposits

   A mudharabah contract is a two-party business contract where one of the parties provides financial capital (Shahibul Maal), while the other one provides fairness (Mudharib). In this contract 100% of the financial capital comes from shahibul maal. Meanwhile, the profit ratio is agreed upon up front by the two parties, including determining revenue or profit sharing.

Whenever the profit is divided according to the ratio agreed upon and whenever the overall losses are held accountable by (if the losses are not because of carelessness mudharib), the financial capital can be returned to shahibul maal in installments.

There are 2 kinds of mudharabah:

a Mudharabah Mutlaqah → Mudharib is given freedom in managing shahibul maal funds (as long as it meets Islam shariah).

b. Mudharabah Muqayyadah → Mudharib is obliged to manage funds according to the needs of shahibul maal, for example for certain projects/clients. In banking it is referred to as channeling (in this manner, the bank receives a fee).

b. Channeling Funds

1. Credit: Qardh, Murabahah, salam, istishna

a. Qardh

Qardh is a money debt and credit contract, without interest and generally used for employee goodwill loans. This kind of contract is also channeled as part of the shariah bank social function (in this matter the qardh must be mustahiq).

b. Murabahah

Murabahah is a buying-selling contract where a bank acts as a seller and the client acts as a buyer. In this contract the buying price is known together and the profit level for the bank is agreed upon up front. For that the bank can ask for money up front from the client.

In classic fiqih, murabahah is done in cash. In the banking practice, the client pays in installments. Because the client does not pay in cash, he/she can be asked to provide collateral. Whenever the client pays the obligation in full before the time period is over, then he/she can get a discount based upon the prearranged agreement.

Within classic fiqih, the buyer buys goods directly from the first seller, while in shariah banking, generally the application is as follows:

- The bank orders goods to the supplier, but the goods are sent directly to the client. This is done because the bank does not have a storage facility for the goods.
- The client buys directly from the supplier as if it is a bank representative. For this, the bank conducts a wakalah contract with the client.

c. Salam

The buying selling contract is postponed / ordered where the payment is done up front and the good is received a short time later. In this financing the bank acts as the buyer while the client acts as the seller. The financing money is given up front to the client. The good that is ordered must have specifications and unit numbers which are clear and standard. Usually it is applied for financing farming products (agro-based industries) or standardized products. The bank can sell the good before the time period has expired to another party in the same way (salam), but it cannot be related with the first salam. This product is called parallel salam. Parallel salam is forbidden to the same client, because the client could be subject to profit penalty.

Whenever the client fails (defaults) to surrender the good ordered, the responsibility to the bank does not change. This means that the good still must be surrendered, although it is delayed because of failure.

d. Istishna

An istishna contract resembles a salam contract. The difference lies in the object that is paid and the way it is paid. For istishna an object that is paid is customized, so that it must be made first. For salam, the object that is bought/paid is standardized.

For salam payment by the bank is done up front at once, while for istishna, payment by the bank can be done in installments/stages. It is generally applied for construction service products like financing building/renovating a house.

2. Investments: Mudharabah, Musyarakah

a. Mudharabah

It is the same with the explanation of a fund saving contract.

b. Musyarakah

A musyarakah contract is a joint venture contract, where the bank and client together provide financial capital for the business that will be undertaken. The profit ratio is agreed upon up front by both parties, including determining revenue or profit sharing. The ratio portion can be different with the financial capital portion, as long as it is agreed upon together. The profit is divided according to the ratio that is agreed upon. The loss is held accountable according to each financial capital portion. As a business partner, the bank has the right to take part management organization.

3. Rent: Ijarah, Ijarah Muntiyyah Bittamlik

   a. Ijarah

      Ijarah is a renting contract, where the bank acts as the rent provider (mu'jir) and client acts as the renter (musta'jir). In general, the bank does not own goods, but rents them from another party and then rents them again to a client with a higher rent value. This is allowed as long as there is no relationship between the first rent contract and the second one.

      As mu'jir, the bank is responsible for managing the assets it rented.

   b. Ijarah Muntiyyah Bittamlik

      An Ijarah Muntiyyah Bittamlik contract is a renting contract, where the renter (musta'jir) is given the option to choose the object that he/she has rented (financial lease). It is possible whenever the bank owns the object that is rented. Ijarah Muntahiyyah Bittamlik at its basis consists of two contracts, which are a renting contract and ownership guarantee (option) contract. A shift in ownership cannot be done whenever the renting contract is not yet finished. As long as the ownership has not transferred hands, the bank is responsible for managing the assets it has rented.

c. Banking services

A contract for shariah banking services is: Rahn, Wakalah, Kafalah, Hawalah, and Sharf.

1. Rahn

   Rahn in shariah has two meanings:

   a) **Fiducia**: surrendering a good, but only the document is held. The good is still used by the owner.

   b) **Gadai**: handing over the good physically, so that the owner no longer can use the good.

   In general, it is used as a binding guarantee for borrowing what has been given.

2. Wakalah (delegation)

   Product: Transfer, Payment, Debit Card, L/C

3. Kafalah (guarantee)

   Product: Bank Guarantee, L/C, Charge Card

4. Hawalah (Divert credit)

5. Sharf (Exchange currency)

   Product: Buy sell foreign currency

2.2 Company General History

2.2.1 Company History

The economic and monetary crisis since July 1997, which was followed by a national political crisis, has brought big effects in the national economy. The crisis has resulted in the Indonesia banking which was dominated by conventional banks to experience extreme difficulties. This condition caused the Indonesia government to be forced to take action to restructure and recapitalize some of the banks in Indonesia.

This resulted in the passing of Amendment No. 10, 1998, about changes to Amendment No. 7, 1992, about banking in November 1998. It has already provided good opportunities for the growth of shariah banks in Indonesia. The amendment made it possible for banks to operate completely in a shariah way or by opening a shariah special branch.

PT. Bank Susila Bakti which is owned by the Employee Prosperity Foundation (YKP), PT. Bank Dagang Negara, and PT. Mahkota Prestasi tried to get out of the crisis from 1997 - 1999 with various ways. It started by steps towards merging until in the end they had a conversion to become a shariah bank with an injection from owner financial capital.

With the merger of four banks (Bank Dagang Negara, Bank Bumi Daya, Bank Exim, and Bapindo) into PT. Bank Mandiri (shareholder) on July 31, 1999, the plan to change PT. Bank Susila Bakti to become a shariah bank (with the name Bank Shariah Sakinah) was put into effect by PT. Bank Mandiri.

PT. Bank Mandiri acting as a new owner fully supported and continued the plan to change PT. Bank Susila Bakti to become a shariah bank, in line with the desire of PT. Bank Mandiri to form shariah units. The first step was by changing the basic consideration about the name of PT. Bank Susila Bakti to become PT. Bank Shariah Sakinah based on a notary contract: Ny. Machrani M.S. SH, No. 29, on May 19, 1999. Then through contract No. 23, on September 8, 1999, notary: Sutjipto, SH name PT. Bank Shariah Sakinah Mandiri was changed to become PT. BSM.

On October 25, 1999, Bank Indonesia through a Governor Declaration Letter Bank Indonesia No. 1/24/KEP BI/1999 was given permission to change its conventional business activities to become business activities based on shariah principles to PT. Bank Susila Bakti. Next, with the Senior Deputy Governor Declaration Letter of Bank Indonesia No. 1/1/KEP.DGS/1999, on October 25, 1999, Bank Indonesia agreed to change the name PT. Bank Susila Bakti to become PT. BSM.

Monday Rajab 25, 1420 H or November 1, 1999, was the first operational day of PT. BSM. The beginning of BSM was the result of a business together from the shariah bank pioneers of PT. Bank Susila Bakti and management of PT. Bank Mandiri, who recognized the importance of having a shariah bank under the auspices of PT. Bank Mandiri.

PT. BSM presented itself as a bank which combined business idealism with spiritual values which were based on its operation. Harmony between business idealism and spiritual values is one of the superiorities of PT. BSM, as an alternative banking service in Indonesia.

2.2.2 Company Vision and Mission

BSM has a vision to become the Business Partner Choice Most Trusted Shariah Bank. Meanwhile, the mission of BSM is as follows:

- To realize growth and profit that is continuous.
- To prioritize accumulation of consumer funds and channel payments to the UMKM segment.
- To recruit and develop professional employees in a healthy work environment.
- To develop universal shariah values.
- To run bank operations according to healthy banking standards.

Within the operation of BSM through a process that involves all levels of employees since the middle of 2005, new company values were created which were agreed upon together to be shared by all BSM employees, which is called BSM Shared Values. BSM shared values can be abbreviated with the word “ethics”.

- **Excellence**

  It is an effort to reach perfection though improvements which are integrated and continuous.

- **Teamwork**

  It is developing a work environment that is integrated.

- **Humanity**

  It is holding human and religious values in high esteem.

- **Integrity**

  It is adhering to a professional ethic code and thinking along with having commendable behavior.

- **Customer Focus**

  It is understanding and fulfilling customer needs to make BSM a trusted and profitable partner.

2.2.3 BSM Services and Products

BSM services and products are divided into financing, funding and other services. The financing products owned by BSM are as follows:

a. BSM Murabahah Financing

   BSM has a kind of Murabahah financing, where in this kind of financing BSM acts as a seller and the client acts as a buyer.

b. BSM Mudharabah Financing

   In Mudharabah financing, BSM acts as a financial capital provider (shahibul maal) and the client acts as a financial capital recipient (mudharib).

c. BSM Musyarakah Financing

In BSM Musyarakah financing, BSM gives financial capital to the client who also contributes financial capital. .

d. Education Financing

BSM Education financing is a short and middle term financing which is used to pay for school fees, upper educational institutions, other educational institutions, or for educational money at the time of registration for the new school year followed with diploma contract.

BSM funding products are as follows:

a. BSM savings account

A BSM savings account is a savings in rupiah currency that is withdrawn and deposited at any time while the BSM counter is open or through ATMs.

b. A BSM Investa Cendekia savings is a special term investment savings product to help one in planning early funding needs for one's children's education.

c. BSM credit transfer is fund saving advice that is provided in the form of rupiah currency or foreign currency by managing based on the principle of *Wadiah Yadh Dhamanah*.

Other iB BSM products are as follows:

1) BSM Call

BSM Call service is one of the services given by BSM to facilitate clients in obtaining service information.

2) BSM Mobile Banking

   Mobile banking service is provided by BSM to give access to clients to do transactions through cellular phones.

3) BSM Western Union Transfer

   BSM is a cooperative effort with Western Union to do money transfers domestically and internationally.

2.2.4 Service Understanding

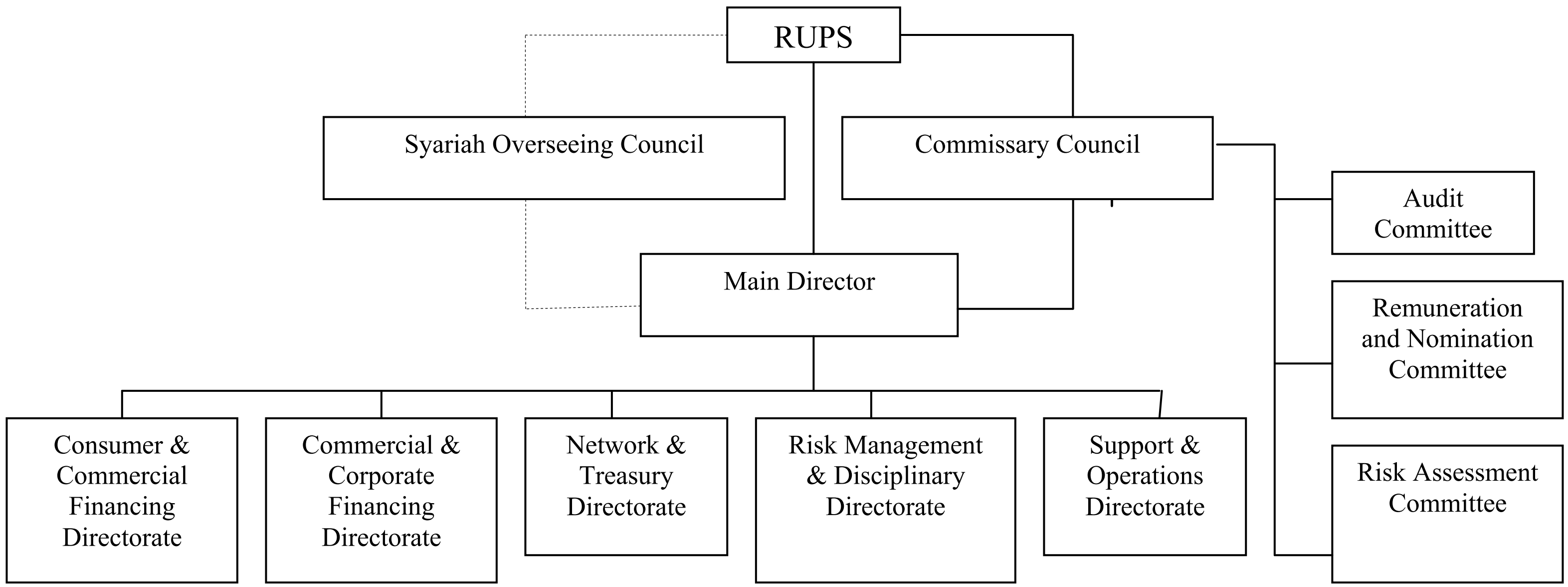
Service is the biggest part of the world economy. This sector is the work field growth producer in advanced countries. Modern society today heavily relies on the service sector, starting from educational service, health service, until financial service. However, unfortunately modern citizens as customers are not always satisfied with the quality and services they receive. People complain about late shipments, bad work performance, unnecessary and complicated procedures, and a number of other problems.

There is a definition of service itself that approaches this essence (Lovelock and Wright, 2005: 5):

A service is an action or work performance that is offered by a certain party to another party. Although the process might be related with the physical product, the basic work performance is not real and usually does not produce ownership over production factors.

A service is an economic activity that creates and provides advantages for customers at certain times and places, as a result of acting to realize desired changes from within or on behalf of the service recipient.

Figure 2.1: BSM Organizational Structure



2.3 Perception Understanding

Customer perception occurs based on several activities or processes which are done by customers. The process of observing and selecting happens every time our five senses (sense of sound, touch, taste, sight, and smell) are faced with environmental stimuli. However, we are not aware of all these stimuli, because if all of these are perceived it will cause us to become confused and overwhelmed.

The definition of perception according to Kotler (2000) is, “Perception is a process an individual chooses, organizes, and interprets information input to create a Figure.”

Perception understanding was also put forward by Lovelock (2000: 370-371), “Perception is the difference between that which is actually delivered and what customers perceive they have received.”

Perception understand was also suggested by Sabri in Lestari (2008), who defined perception as an activity which facilitates humans to control stimuli they encounter through their sensory system, it is possible for individual to control that ability in their social environment. The perception process consists of three phases. The first phase happens in the disorganized senses based on certain principles. The third phase is stimulation of the senses is interpreted and evaluated (Lestari, 2008). Because of that, there is a perceptual selection to prevent this confusion and make our environment more meaningful. A number of factors influence perception towards environment stimulus, among them are:

a. Size. The bigger the size of a physical object, the bigger the chance the object is perceived.
b. Intensity. The bigger the intensity of a stimulus, the bigger the chance it is observed. A loud sound, for example, will be paid attention to more than a soft sound.
c. Frequency. The greater the frequency a stimulus is passed on, the greater the chance the stimulus is used in advertising to attract consumers' attention.
d. Contrast. The more contrasting something is with its environment, the chance that it will be chosen to be observed is greater compared with the same stimulus in its environment.
e. Movement. A stimulus that moves will get more attention than a stimulus that remains still or does not move.
f. Change. A stimulus will be more paid attention to if the stimulus or object changes shape.
g. The present. A new and unique stimulus will gain attention more quickly than a stimulus that is commonly observed.

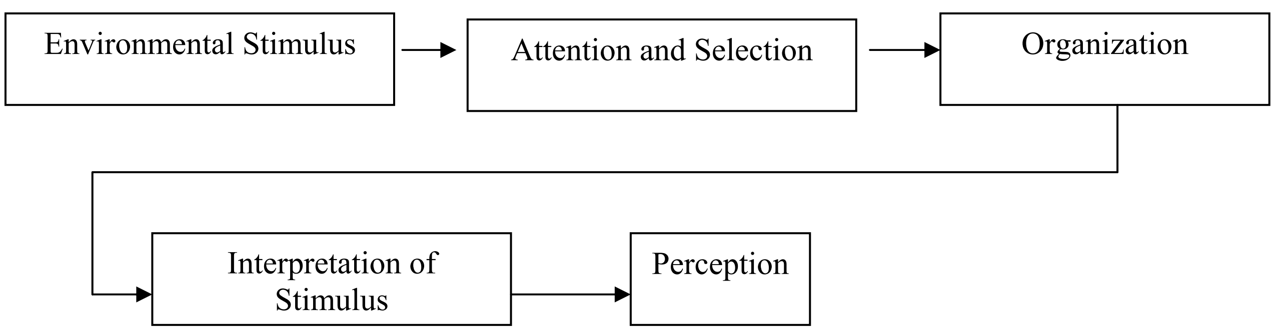
Organizing and interpreting a person toward an environmental stimulus is influenced by one's past experience. Each person has different past experiences that influence the individual to percept environmental stimuli.

2.3.1 Process of Perception

People can appear with different perceptions towards the same environmental stimulus because of three processes that are connected with perception, which are: receiving stimuli selectively, changing the meaning of information selectively, and remembering something selectively (Sumarwan, 2002).

a. By using selective attention, a person will receive a large number of stimuli in one's daily life. It is impossible for a person to perceive all of these stimuli. Most of these stimuli are filtered.
b. By using selective retention, a person will forget most of what has been learned. The person will tend to retain information that supports one's attitude and beliefs, because this kind of memory is selective.

Figure 2.2: Process of Perception



Source: Sumarwan, 2002

Figure 2.2 above shows that consumer perception starts from the presence of stimulus in a certain environment. In this condition, consumers always receive the same stimulus repeatedly. This can be obtained through advertisements in printed or electronic media. In its process, consumers will choose stimuli and only choose the stimuli which attract their attention. Next, consumers will organize the stimuli they have chosen and interpret the stimuli. In the end, the interpretation of the results that has been done by consumers will produce consumer perception.

These three factors that are connected with this perception have a meaning for marketers in that they must work hard to relay their messages to buyers. Perception according to Kotler (2002: 156) is as follows: “It is a process that is undergone by a person in choosing, organizing, and interpreting useful information in the form of a figure that is meaningful about the world.”

As an example, a company that gives a free gift to consumers will obtain different perceptions from consumers depending on the way consumers interpret the stimulus that has been received. Consumers create their perception about a company that gives a free gift based on a process of choosing, arranging, and interpreting incoming information about the gift that is given by the company.

According to Tjiptono (1997: 28), consumer perception towards a company that gives a gift can be measured from the opinions and consumer trust of things as are listed below:

1) In general, manufacturers are sincere in their bonus pack offers.

   This means that in general companies place interest in offers toward gifts.

2) Manufacturers offer bonus packs to get rid of old excess inventory.

   This means that companies strive to reduce their excess stock in their companies by offering gifts.

3) Manufacturers raise prices slightly when offering bonus packs.

   This means that companies will take a slight profit from bonus offers.

Other factors that are used to measure consumer perception toward a company that gives free gifts are:

a. Consumer trust toward a company in offering a bonus as a promotional strategy.
b. Interest from a company in giving bonuses to satisfy consumers.

2.3.2 Understanding Consumer Perception

In choosing and buying a product, consumers will always be influenced by consumer perception itself, whether influenced by external or internal factors. The general definition of perception is a viewpoint or opinion that is considered by consumers about something that is seen or felt.

Meanwhile, according to Swasta and Handoko (1997: 81), they state that:

> "Perception is a certain process where consumers realize and interpret their environmental aspects."

From the definition above, it can be concluded that perception is a consumer action to receive available information and try to filter the information to become a meaningful interpretation for them.

According to Kotler (2000: 249), people can have different perceptions toward the same stimulus object because of three processes that are connected with perception, which are:

a. Selective attention

People will interact with a large amount of stimuli every day. It is impossible that a person will be able to clearly remember all stimuli. Therefore, selective attention is needed, which means marketers need to design stimuli (advertising, promotion etc) to attract consumers' attention.

b. Selective change in meaning (selective distortion)

The stimuli that are observed by consumers are not always according to what is meant. Every person tries to filter information received. This can depict a person's tendency to find meaning from information according to one's own understanding.

c. Selective retention

People will forget much of what they have learned. They tend to retain information that supports themselves and their self-interests.

According to Schiffman and Kanuk (2007: 148), the definition of perception is:

"Perception is defined as the process by which an individual selects, organizes, and interprets stimuli into a meaningful and coherent Figure of the world."

According to Mowen (2001: 63), perception is:

"Perception is the process through which individuals are exposed to information, attend to that information, and comprehend it."

From the definitions above, it can be said that consumer perception is a process where a consumer grades, organizes, and interprets information to become a complete Figure.

The stages in processing information by consumers are (Sumarwan: 2002):

a. Explanation

   An explanation is the first step in the processing of information and activities done by marketers to relay stimuli to consumers. A stimulus is an input from a marketer that is relayed through various media like advertisements, packaging, products, brands, among others. A stimulus can be felt by one of consumers' senses, which is called a sensation. A stimulus that is felt by one of the senses is called a sensation. A sensation is a direct and quick response from a sense to the present stimulus.

b. Attention

   Attention is the second step from the information processing process, because not all stimuli that are explained and received by consumers will get attention. Consumers select which stimuli and information will be paid attention to and then processed. This process is called perceptual selection. There are two primary factors which influence perceptual selection: the private factor and stimulus factor.

c. Understanding

Understanding is a consumer effort to find meaning in or interpret stimuli. In this third step, consumers do perceptual organization.

d. Reception

The fourth step in the information processing process is reception. After consumers look at, observe, and understand the stimulus, then they come to a conclusion about the stimulus or object. This consumer perception is the output from consumer reception of a stimulus.

e. Retention

The fifth step in the information processing process is retention, which is a process of shifting information to the long term memory. Memory consists of three saving systems: sensory memory, short term memory, and long term memory. Sensory memory is the place to save temporary memory. This information is received from the senses. Short term memory is the place to save information for a limited period of time and has a limited capacity. The length of time to save it is about 30 seconds. Long term memory is the place to save information for a long period of time and has no capacity limitations. Long term memory saves all consumer knowledge permanently. The information saving process in long term memory involves two important activities that are done by consumers, which are rehearsal and encoding. According to Sumarwan (2002: 87), rehearsal is a consumer mental activity to remember information that is received by them and connects them with other information that is already stored in their memories. Encoding is a process to select a word or Figure to state a perception about an object.

2.3.3 Factors which Influence Consumer Perception

According to Robbins (2001), there are several factors which can influence consumer perception, among them are:

1. The perceiver who is the information receiver is influenced by:
   a. Attitudes are behaviors of two individuals or more who see the same thing, but interpret what they see differently from others.
   b. Motives are needs that are not fulfilled which motivate an individual to fulfill such needs.
   c. Interests are a focus of attention that is influenced by interest, and one person's interests are different from another's. What is observed by someone in a certain situation can be different from what is felt by another person.
   d. Experiences are the focus of an individual's character which is connected with one's past experiences.
   e. Experiences can influence individual perception where the individual can see what he/she expects.

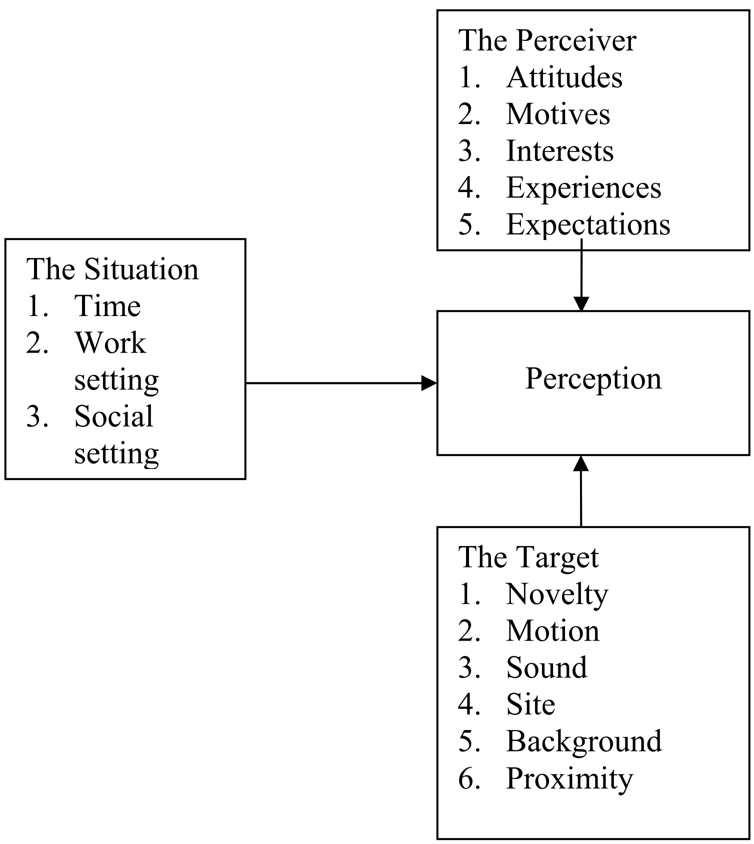
2. The Target

   Characteristics from the target are influenced by what is felt like novelty, motion, sound, size, background, and proximity. These all can form target (consumer) perception.

3. The Situation

   Time, work environment, and social environment can or will influence consumer perception. To be clearer, factors which influence consumer perception can be seen in the following section:

Figure 2.3: Factors Influence Consumer Perception



Source: Robbins, Consumer Behavior, 2001, p. 91

2.4 Positioning

2.4.1 The Definition of Positioning

Positioning is an important activity for marketing people at the end of the 20th century. At this time, in almost seminars, marketing practices, and advertising bureau meetings, they mention positioning. The definition of positioning according to Ries and Trout (1986) in Kasali (2000: 506) is, “Positioning is not what you do to a product. It is what you do to the mind of the prospect.” This statement reveals that positioning is related with how consumers place products in their minds, in their brains, so that potential consumers choose certain values and identify them with the product. Based on an opinion from Ries and Trout in Kasali (2002), “Positioning is how to differentiate oneself in potential consumers’ minds.

A different understanding about positioning was found by Stanton, Etzel, and Walk (2000: 375). “Positioning is strategies and actions designed to formally distinguish itself from competitors in the minds (and hearts) of a targeted group of customers.” Furthermore, according to Fredy (2002: 195), positioning is, “a certain way to place a product, until it is implanted in consumers’ minds.”

The definition of positioning was also found by Kotler (2000: 295). “The act of designing the company’s offering and image so that they occupy a meaningful and distinct competitive position in the target customer’s mind.”

According to Kotler, positioning is an action which is done by a marketer to make a product image and things which want to be offered to the market succeed to obtain a clear position and contain a meaning in the minds of its targeted consumers.

Positioning is done because there is competition and done in a similar product or between product categories. This was found by Hiebing and Cooper (1997: 163): "Positioning establishes the desired perception of your product within the target market relative to the competition." According to Hiebing and Cooper, positioning develops product perception in the target market relative to the competition.

An opinion from Trout and Riukin (2002: 54) regarding positioning was, "Positioning is simply concentrating on in idea or even the word that defines the company in the mind of consumers."

From the various opinions about positioning above, in general it can be concluded that positioning is a communication strategy to place a certain product in consumer perception or thinking, which is one of the selling concepts to motivate consumers to choose from various products offered. Positioning is done by companies as one of the forms of competition. To get a strong position, a company must differentiate its product with other products that are already in the market to place its product in a unique marketing position.

Three steps are found that need to be done for company positioning, which are: "understanding the competencies that lead to success in your industry, evaluating your top competitors in relation to those competencies, and defining your space" (Kasali, 2000).

Based on the definition above, several things can be observed about positioning (Kasali, 2000):

a. **Positioning is a communication strategy.**

   Communication is related with physical or non physical attributes of a product, where there is a color, design, writing on the label, and brand name. Communication involves the image that is conveyed through advertising.

b. **Positioning is done in a dynamic way.**

   Consumer perception toward a certain product / brand / name tends to be relative to the market / competition structure. Positioning is a strategy that must be continually evaluated, fostered, and developed.

c. **Positioning is connected with marketing events.**

   Positioning is related with the company image in consumers' minds. A marketer must develop marketing public relations strategies through marketing events that are chosen according to character.

d. **Positioning is related with product attributes.**

   Consumers do not buy products but combine attributes. According to Lancaster (1966), a good cannot provide a utility by itself. "The good has characteristics, and those characteristics arouse utility."

e. **Positioning must provide meaning, and that meaning must be important for consumers.**

   A marketer must find out how attributes are considered important by consumers.

f. **The attributes chosen must be unique.**

   The attributes which are presented must be unique and be able to be differentiated with those of competitors.

g. **Positioning must be expressed in the form of a certain statement (positioning statement).**

   The statement contains the attributes which are important for consumers. It also must be explained easily, easy to catch, and believable.

As one part of a marketing strategy, positioning is an activity which is very important in formulating marketing strategies. According to Freddy (2002), there are several positioning possibilities that can be done, including:

a. Positioning is based on product differences.

   This approach can be done especially whenever one possesses strengths about the product owned, while the competitor does not have the same strengths. These differences must be put forth clearly and consumers must feel there are indeed differences and be able to feel the advantages.

b. Positioning is based on product attributes or advantages from the product.

   This approach tries to identify what attributes are owned by a certain product and the advantages that are felt by consumers about the product. This approach must be applied carefully, because at this time all products must have minimal standards. Only after that can they develop other product attributes that show differences from competitor products.

c. Positioning is based on product user.

This approach is more like targeting, but is specifically referred to in the target market who is the product user.

d. Positioning is based on product usage.

This approach is used by differentiating at the time the product is consumed.

e. Positioning is based on competitors.

This approach is used by comparing the superiorities owned by competitors, until consumers can determine by themselves that this company has a better product compared to that of competitor companies.

f. Positioning is based on product category.

This approach is used to compete directly within the product category, especially to solve problems that are often faced by customers.

g. Positioning is based on association.

This approach associates the product produced with an association of other products. It is expected there are some associations that can give a positive impression toward the product that is produced the company.

h. Positioning is based on a problem.

This approach is usually used by a non profit organization which a relatively few competitors or a few indirect competitors. The goal of this approach is to show to consumers that the product being offered has a positioning that can solve a problem.

According to Jack Trout in Lovelock and Wright (2005: 169) who refines the positioning essence to become four principles:

a. A company must establish a position within the targeted customers' minds.
b. This position must be unique by providing a simple and consistent message.
c. The position must differentiate the company from its competitors.
d. A company cannot provide everything for everyone by focusing on its effort.

According to Cannon, Perreault, and McCarthy (2008: 101) positioning is the way customers think about a brand that is promoted or that is currently in a certain market.

2.5 The duty in determining position involves three steps:

2.5.1 About potential competitive superiority

Competitive superiority comes from a company's ability to create a certain value for buyers that is more than the cost put out by a company to create a certain value for its buyers. Then the value that is obtained is what the buyers are willing to pay for it, and the superior value that is received can bargain for a lower price compared with a competitor's price that is the same or provide a special advantage that is worth more than the high price.

Kotler (2000: 112) formulated six basic alternatives in positioning a product:

1) Positioning based on product appearance.
2) Positioning based on advantage, problem solving, or need.
3) Positioning based on special opportunity.
4) Positioning based on user category.
5) Positioning that opposes other products.
6) Separating itself from a product class.

Many positions are available for a company. A company can chase a low price position, a high quality position, a high service position, or an advanced technological position. Basically, a company tries to establish a certain competitive superiority that is expected to attract a large number of customers in a segment.

Kotler (2000) states that in recognizing competitor superiorities, a company must avoid three primary positioning mistakes:

1) Under positioning. Several companies find that buyers only have an unclear concept about company position. They consider one company to be the same with others.
2) Over positioning. Buyers may look at a company too narrow minded.
3) Confused positioning. Buyers can have a confused image about a certain company.

2.5.2 Using Positioning in Marketing Management

Company positioning can assist company management in beating competition. The use of positioning for company marketing management is to (Lovelock and Wright, 2005: 171):

1) become a diagnostic instrument that is useful to determine and understand the relationship between a product and market.
2) identify market opportunities.
3) make marketing decisions in order to bypass or face competition steps.

2.6 Research Methods

A method is a certain procedure or way to find out something which has systematic steps. Meanwhile, a methodology is testing in studying carefully the rules of a certain method. So the research method is a testing in studying carefully the rules found in research (Usman and Setiady, 2001: 42).

In this research, a descriptive quantitative method is used. The purpose of descriptive research is to depict or to solve problems systematically, factually, and accurately about facts and population characteristics. This method is chosen because the researcher wants to explore the influences of consumer perception to company positioning at BSM.