

## CHAPTER I

### INTRODUCTION

#### 1.1. Background of the Study

In the current situation, the competition in almost all industries have already been rapidly developing. The large amount of new brands has emerged to the market and provided their own uniqueness that cannot be found in other competitor brands. The markets are getting more and more crowded with companies competing with similar products and services (Tripathi, 2009). The increases of middle enterprises became a boomerang for brands that are already developed and exist. Many companies develop marketing strategies in order to improve their sales, to sustain in the market and to make their brands stand out among competitive ones. The high tension of competition makes loyalty from the customers toward brand is important and necessary (Bharatwaj et al., 1993). It is supported by the statement of Allaway et al., (2011) “The increasing power of store brands makes the issue of brand loyalty even more important.” In addition, Pritchard et al., (1999, P. 333) argued that understanding why or how a sense of loyalty develops in customers remains one of the crucial management issues of our day. Aaker (1992) suggested that brand loyalty leads to brand equity, which leads to business profitability. Brand loyalty is very important for the organization to enhance their sales volume, to get premium price, to retain their customers rather than seek. Given the importance of brand loyalty, it is not surprising that it has received considerable attention in the marketing literature since Copeland's seminal work which was published over 70 years ago (Copeland, 1923). Such loyalty

will be beneficial for the brand because ultimately customers will agree to purchase at premium and may also be involved in introducing new customers to the brand (Reichheld, 1990). Brand loyalty also provides the firm with trade leverage and valuable time to respond to competitive moves (Aaker, 1991).

Loyal customers will consistently purchase products from their preferred brands, regardless of convenience or price. Companies will often use different marketing strategies in order to get loyal customers, it can be through loyalty programs (i.e. rewards programs) or trials and incentives (example samples and free gifts). Loyal customers can be and should be the foundation for marketing strategy. Beyond the profit they generate, loyal customers provide the basis for brand development and improvement. The brand that loses sight of its loyal customers has lost its direction, and is vulnerable to losing market share (Assael, 1994)

The importance of brand loyalty makes researchers and marketers are keen to understand the variables that determine loyalty to a company or to a product. In this research, the researcher considers the interplay between product involvement, price perceptions, and brand loyalty. Moreover, this study models the effects of the product involvement on brand loyalty, proposing that involvement has direct as well indirect effects, via price perceptions on brand loyalty.

The concept of involvement is well established within the theory of consumer behavior. Product involvement is a motivational construct (Antón *et al.*, 2007; Celsi and Olson, 1988; Olsen, 2007) that influences consumer information processing and search behaviour (Andrews *et al.*, 1991; Arens and Rust, 2012; Celsi and Olson, 1988; Denstadli *et al.*, 2012; Samuelsen and Olsen, 2012; Thelen *et al.*, 2011). Supporting the definition above, according to Guthrie & Kim (2009), brand involvement is a

motivational state that can be used to understand consumer attitudes towards products or brands. Definitions of involvement vary between researchers, but is most often referred to as degree or intensity of interest that a buyer shows for a certain product or brand (Park & Young, 1983). Andrews et al. (1990) suggested that involvement was influenced by personal needs, goals, characteristics, and situational and decision factors then directed to search behavior, information processing and persuasion. Zaichkowsky (1985) proposed that different people perceive the same product differently and have inherently different levels of involvement with the same product.

The relationship between product involvement and brand loyalty, apart from not being properly understood, is also marked by contradictory findings (Olsen, 2007; Quester and Lim, 2003; Warrington and Shim, 2000). The different dimensions of involvement had differential effects on loyalty, with some having a positive, and others a non-significant and one dimension a negative effect on loyalty for one of the products they investigated.

Several studies (Traylor, 1981, 1983; Park, 1996; LeClerc and Little, 1997; Iwasaki and Havitz, 1998; Quester and Lim, 2003) have examined the the relationship between product involvement and loyalty. It is believed that product involvement is the basic factor that can affect brand loyalty. The central premise of the literature examining the relationship between loyalty and product involvement is that consumers who are more involved (high involvement) with a particular brand are also more committed and hence more loyal to that brand, but the research also showed that low involvement products could have high brand loyalty too. Coulter *et al.* (2003) also obtained a positive relationship between involvement and brand commitment. In the other study, Park (1996), on leisure activities found that involvement and attitudinal loyalty were highly correlated. Howard and Sheth (1969) stated that consumer involvement with brands

affects the extent of their information search, the size of the evoked set and the nature of brand loyalty. Warrington and Shim (2000), in the other hand, found a negligible relationship between product involvement and brand commitment (an attitudinal facet of brand loyalty). These mixed findings make it more important to understand the mechanisms through which product involvement might affect brand loyalty.

Many researchers have noted that price has a complex structure. In every market transaction, price is an important aspect that the brand can consider (Lichtenstein et al., 1988), and form a key element of retailers', and manufacturers' marketing strategy, that aim to maximize profits through optimal pricing. With increasing advertising costs, marketers tend to rely more on the price instrument and on price promotions to influence buying decisions (Krishnamurthi and Raj, 1991). The increase of sales promotions (Ailawadi *et al.*, 2001) has made consumers more price-sensitive in their brand choice (Mela *et al.*, 1997; Kopalle *et al.*, 1999), which needed new research on how consumers react to price and how this reaction impacts on brand loyalty.

It is widely known that consumers react differently to price. Price perception, known as the process of price interpretation and valuation of products or services by consumers, has attracted many researchers for years. Most of the studies have investigated the impact of price on product evaluation and considered the price as unidimensional. However, some studies asserted that price might have more than one role on making purchasing decision (Lichtenstein et al., 1988; Lichtenstein et al., 1990; Lichtenstein et al., 1993; Jin et al, 2003; Sternquist et al., 2004).

Lichtenstein et al.(1993) stated that price has both positive and negative role. In the positive role, it is believed that the higher the price given to a product, the higher the quality of the product, and also may give the more prestigious toward the customers.

In the other hand, the negative role of price is the higher price that can reduce the probability of purchase by the consumers. Furthermore, Lichtenstein et al. (1993) proposed seven price perceptions dimension constructs, i.e., five consistent with a perception of price in its "negative role": value consciousness, price consciousness, coupon proneness, sale proneness, price mavenism, and two consistent with a perception of price in its "positive role": price-quality schema, prestige sensitivity.

According to Lichtenstein et al. (1993), value consciousness is the condition when the consumer concerns with the balance of the price pay and the quality they can get. Lichtenstein et al. (1993) defines price consciousness as the extent to which the consumers tend to buy a product with the low prices. High price consciousness' consumers tend to search more price in the stores (A.L. Bruce et al., 2002). The tendencies of comparing between value and prices, and looking for the lower prices in the market, should thus drive the consumers to collect more information about the prices and quality of the offers in the marketplace, as well to engage in a comparative decision making, and to make sure that they make the best purchase decision.

As to sale proneness, it is defined as an individual's enhanced propensity to purchase an offer due to the sale form through which the price is presented. This is typically a cost-benefit analysis (Doods, 1985; Grewal et al., 1998; Sweeney et al., 1997). Sales influence consumers' price perceptions significantly (Shan.kar et al., 1996; Folkes., 1995). Consumers who are indicated as sale-prone consumers, they have a greater propensity to respond to discounts than to engage in routinized brand choice behaviour (Lichtenstein *et al.*, 1997). Sale-prone consumers have tendencies to compare between the value of the offer with the regular price (Lichtenstein *et al.*, 1993; Alford and Biswas, 2002). The coupon proneness is described as almost the same as the sale proneness, but the difference is that the consumers only tend to buy products

when the brands give coupons for them (Lichtenstein et al, 1993). Then, price mavenism is defined as consumers becoming experts about the lowest price of products and stores and sharing this information to other consumers and by informing them (Feick and Price's (1987). Some consumers tend to gather information consciously on a regular basis in every buying situation. Thus, they can be called as “advisors” by the consumers.

In the positive role of price perceptions, product-quality scheme is the belief that the higher the price indicates the higher the quality (Lichtenstein et al, 1993). The price reflects the quality of the products. Finally, prestige sensitivity. Prestige sensitivity is the psychological dimension. The high priced products can give the customers social status, and certain signal, that it does not come from the quality perceptions (Lichtenstien et al., 1993).

Considering the above background, this study proposes the model explore the relationship between product involvement and brand loyalty directly, as well as indirectly, seven price perceptions established by Lichtenstein et al. (1993), which are value consciousness, price consciousness, sale proneness, coupon proneness, price mavenism, product-quality schema, and prestige sensitivity. However, the results might be different. Since, the previous research was conducted only in Portugal in 2015 with different product categories,. This study will be conducted with the title of the research **“The Analysis of Relationship of Product Involvement, Price Perceptions, and Brand Loyalty.”**

## **1.2. Problem Formulation**

This research study will focus on the effects of product involvement on brand loyalty, proposing that involvement has direct as well as indirect effects, via price perceptions, on brand loyalty. The following are some specific issues that will be investigated in this study:

1. Does product involvement positively affect brand loyalty?
2. Does product involvement positively affect price perceptions with negative role, namely: (a) value consciousness, (b) price consciousness, (c) sale proneness, (d) coupon proneness, (e) price mavenism, as well as with a positive role, namely: (f) price-quality schema, (g) prestige sensitivity?
3. Does the perception of price in its negative role, (a) value consciousness, (b) price consciousness, (c) sale proneness, (d) coupon proneness, (e) price mavenism, negatively affect brand loyalty, whereas the perception of price in its positive role, (f) price-quality schema, (g) prestige sensitivity, positively affects brand loyalty?

## **1.3. Limitations of the Study**

1. The limited research on the relationship of product involvement and brand loyalty has produced a contradictory finding, which needs another research to strengthen these research outcomes.
2. This research only takes Indonesian young adults.

#### **1.4. Research Objectives**

In accordance with the problems that have been formulated, then the specific objectives of this research study are to:

1. Identify whether product involvement positively affects toward brand loyalty or not.
2. Identify whether or not product involvement positively affects price perceptions with negative role, namely: (a) value consciousness, (b) price consciousness, (c) sale proneness, (d) coupon proneness, (e) price mavenism, as well as with a positive role, namely: (f) price-quality schema, (g) prestige sensitivity.
3. Identify whether or not the perceptions of price in its negative role, (a) value consciousness, (b) price consciousness, (c) sale proneness, (d) coupon proneness, (e) price mavenism, negatively affects brand loyalty, whereas the perceptions of price in its positive role, : (f) price-quality schema, (g) prestige sensitivity, positively affects brand loyaty

#### **1.5. Research Contributions**

This study is conducted based on the research conducted by Ferreira et al., (2015). This study contributed to fulfill and to strengthen the limited evidence of the research, about the relations of product involvement, price perceptions, and brand loyalty. The researcher would like to contribute to the study for both theoretical and practical uses.

Those benefits may be useful for the following parties:

##### **1.5.1 Theoretical Contributions**

For theoretical contributions, this research result will enrich the knowledge on the relations of the product involvement, price perceptions, and brand loyalty, and also to know whether product involvement can influence directly toward brand loyalty or



indirectly through price perceptions. This research result also can fill the dilemma that generates from the lackness of evidence and the past research about the relationship of product involvement, price perception, and brand loyalty, which can simplify and strengthen the result from the past.

### **1.5.2 Practical Contributions**

This research is important for the marketers to know whether product involvement affects brand loyalty directly, as well as indirectly, through the seven price perceptions, namely, value consciousness, price consciousness, sale proneness, coupon proneness, price mavenism, price – quality schema and prestige sensitivity. From this research the marketers also can consider what actions can be done to increase the loyalty from the customers toward their brands.

### **1.6. Systematics of the Thesis Writing**

The systematics of the thesis writing consists of five chapters, which each chapter consists of several sections. The formulation of the systematics and explanation of this thesis are as follows:

#### **Chapter I: INTRODUCTION**

This chapter discusses about the background of the research, the formulation of the problems, the limitation of the study, the purpose of the study, the contribution of research, and systematics of the research writing.

## Chapter II: LITERATURE REVIEW

This chapter exhibits the theoretical foundation of the product involvement, price perceptions, and brand loyalty. In addition, there are research hypotheses and framework of the study are also provided.

## Chapter III: RESEARCH METHOD

This chapter explains the models and methods used in this research, population and sample, sampling technique, the variables of the study and the testing methods used.

## Chapter IV: DATA ANALYSIS AND DISCUSSION

This chapter shows data analysis and discussion of the results obtained from statistical calculations using theoretical concepts and interpretation of research on theories that already exist.

## Chapter V: CONSLUSIONS AND RECOMMENDATIONS

This chapter contains the conclusions on the results of the analysis and calculation of data obtained from the research. In addition, this chapter will also describe the weaknesses of the studies conducted and for future research.