

CHAPTER 1- INTRODUCTION

1.1 Background of the study

Jamu is an Indonesia word, which is used by common mass to define herbal medicine or traditional herbal recipes used as health supplements. Jamu is primarily made from natural material like roots, flowers, and seeds, however, animal products like honey and milk are also often used in these recipes. Herbal medicines are often produced from parts of plants or animal products, which are either consumed or applied on the skin of a patient. These are the essential component of alternative medicine used and perfected through generations. Majority of world population use herbal medicines for healthcare, where it is looked upon more as natural extracts with no side effects, culturally bearable and less hazardous. Furthermore, it is a natural form of medicine that is compatible with the human body, which positions it as the most preferred product by consumers. Use of natural recipes with the cultural belief is common practice in developing countries for the treatment of health ailments, immunity boosters or health supplements. People from developed countries has selective use of herbal product e.g. medicine and dietary supplements due to the availability of new products using modern research and technology. Interestingly, alongside the existence of modern medicine in developed countries, herbal medicine still maintains its popularity for historical and cultural reasons.

Market of Herbal Medicine is expected to grow at CAGR OF 7.2 % between 2017 to 2023 (Reuters, 2018). Size of the global herbal Industry in 2018 was USD 111 billion, which is growing at an accelerated pace. In the current era of globalization, the tendency to use herbal medicine has spread throughout the world and is known as trend lifestyle and returns to nature (back to nature). Global consumers have taken note of health benefits and importance of harmless health supplements being provided by these alternative natural products. This is now widely used by current young and affluent

generations, which recognizes the importance of health and wellbeing apart from the belief on natural and fresh products and commitment to support local entrepreneurship.

Jamu products have been used in Indonesia for generations. There has been an accelerated growth of herbal products in the market, which has attracted the interest of major industry players. Indonesia is the second largest biodiverse country in the world, and its ecosystem consists of tropical plants and marine biota (Handayani, 2017). While the use of herbal and traditional products is common in Indonesia, its scale of commercialization is limited.

“The total value of Indonesian herbal medicine products was USD 100 million per year (0.22% of global trade) in 2008, which certainly has significant opportunities to improve. The world herbal market in 2008 was around USD 60 billion with the largest market in Asia (39%), followed by Europe (34%), North America (22%) and other parts of the world by 5%.” (Handayani, 2017)

During the last 10 years, the global herbal market has reached close to USD 100 billion, however, Indonesia is yet to become a major player.

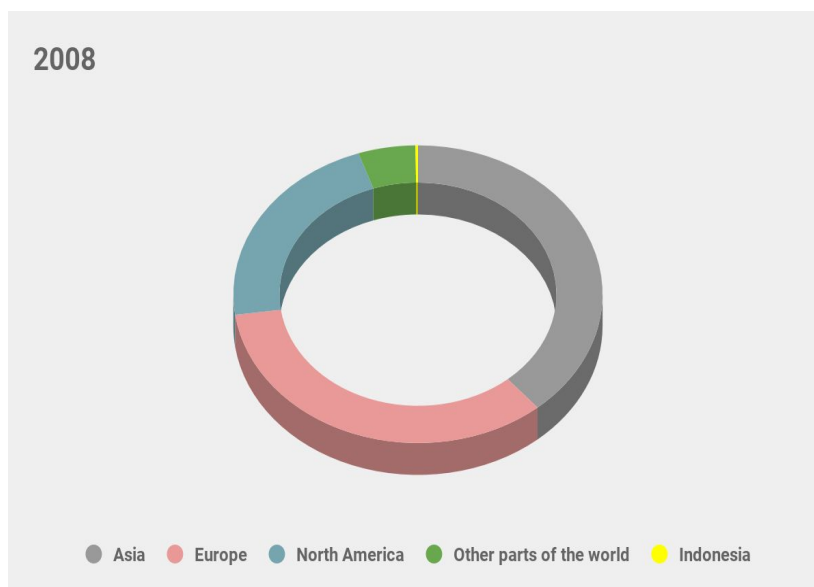


Figure:1 World Herbal Market In 2008

The growth of the herbal medicine market in Indonesia has shown a meaningful increase in 2016. The market value of herbal medicine in Indonesia amounted to 19 trillion rupiahs (about USD 1.3

Billion). The potential for development of Jamu as Industry is very high. Jamu, as traditional herbal medicine, has attracted considerable attention and, several studies have been conducted to examine the development of the brand and its market positioning and growth. However, there is an urgent need for research on, how customers perceive Jamu and measure the level of satisfaction. It is crucial to understand the components of brand equity, through which it can get real insight by evaluating and measuring brand equity. There is limited organized research on Jamu brand equity, therefore, its measurement under the analytical framework is of utmost importance under consideration that the entire industry needs to understand its position in the market.

As Jamu is getting popular in Indonesia, there has been an increasing number of similar products from different firms for the consumer to choose from, which has skyrocketed the market competition. Many firms have shifted their focus to customer satisfaction as a way to compete favorably. In order to analyze consumers behavior and response, the companies must get a better insight of the customer in terms of what they perceive to be the highest level of satisfaction. Previous studies have shown that satisfaction is an ingredient to true brand loyalty, as customers adopt a purchasing behavior. The customers derive the intention to buy the same brand from the satisfaction they get from that brand (Dick and Basu, 1994). Failure to have a satisfied customer base, the brand would continue losing customers. The customer is the decision maker and the target of marketing, whenever they are not satisfied with the product, brand or service, the consumer would not buy it.

The high competition among the market players has propelled a need to have a differentiated market strategy. Brand loyalty remains to be the leading option in growing and sustaining the market shares. Repeat purchases come from loyal customers who also draw new customers by building a positive market image (Tu et al., 2012). With loyal customers, the demand for a product and market share remain high as the customers are not lost to the rivals. Statistics show that a company uses five times fewer revenues on keeping loyal and satisfied customers compared to getting new potential customers (Wills, 2009). It is difficult to get new customers as the amount of trust is usually low

amongst people who are unaware of the given product. By increasing customer loyalty and retention by five percent, the company is able to enhance its profit by 25 to 75 percent (Reichheld and Sasser, 1990). Loyal customer grows strong fondness to a product and the repeat purchases keep on increasing, therefore, increasing the number of sales.

In markets, it is important to understand how satisfaction influence consumers in becoming loyal and repeat customers. When developing market strategies, measurement of consumer perception becomes an important aspect. This is because all marketing domain revolves around customers' dynamics. Although customer perception is an intangible aspect of marketing, it is an influential part of the decision-making process among buyers. It goes in hand with the behavioral component of brand equity used in branding (Keller & Lehmann, 2006; Ailawadi et al., 2001). Studies show that high brand equity of a product is important in realizing long-term positive contributions to revenue flow and future profits.

Brand image, brand fondness, brand association, perceived quality of a brand and brand awareness have a huge influence on product perception among the customers (Foroudi, et al. 2018). Instead of focusing on a single factor by combining these aspects as an element of customer perception and brand equity, there is a realization of a substantial impact on brand loyalty and brand purchasing intention. Although the perceptual components are presumed to affect the behavioral components, it is important to consider other factors such as satisfaction which is equally critical in enhancing the brand equity. When brand perception is more favorable, customer associates the higher property to the product, due to which their perception of the product or brand and overall willingness to purchase gets higher. Although, different buyers may have an entirely different perception due to different expectations and attitude towards particular brand satisfaction.

Study of Jamu brand equity mainly focuses on developing brand performance models. This would enable the measurement of the effectiveness of marketing and predicting Jamu brand

development in the future. Different demographics in the market has led to increasingly different ways, through which companies perceive the market with the aim of maximizing their revenues.

Generation Z, which is people born after 1995 (still disputed) (Chicca, et al. 2018), is now coming of age, and they have wielded a growing power and influence over purchases. However, marketing to them is not an easy business, as this generation is unlike the generation before them, “they are true digital natives: from earliest youth, they have been exposed to the internet” (McKinsey & Company, 2018). Since their approach is influenced by new trends, personal preferences, and availability of competitive options at their doorsteps, it is relevant to analyze their perceptual and behavioral components of brand equity towards Jamu. They can be seen as a big opportunity for marketers as they have growing purchase power. According to Ali , & Purwandi (2016), Gen-Z was the first generation and has become a global citizen. Numbering over 45 million (2016) Gen-Z in Indonesia, this generation will be the decision makers of future preferences, and they may have the ability to change the trends of the marketplaces. Considering the context of this research, the inclusion of Gen-Z is of paramount importance and relevant to understand how they perceive Jamu in current contexts.

Recently, Foroudi et al. (2018) finding illustrates that brand image, brand fondness, brand association, perceived quality of a brand and brand awareness have a huge influence on product perception among the customers. Foroudi et al. (2018) further states that, it is the combinations of various perceptual elements of brand equity rather than any single factor that have strong impacts on brand loyalty and brand purchasing intention.

In this paper, The relationships amongst the dimensions of perceptual components of brand equity, satisfaction and behavioral components of brand equity are critical for Gen-Z in context of Jamu. This research fills the gap of the literature for Jamu over brand equity and satisfaction for Gen-Z in context of Jamu in the setting of an academic institution, Indonesia International Institute for Life Sciences.

1.2 Research problem and research questions

This research paper focuses on the influence of perceptual components of brand equity on behavioral component of brand equity and the role played by consumer satisfaction in influencing brand loyalty and purchase intentions for Jamu amongst Gen-Z in the city of Jakarta, Indonesia.

1. To find out the relationship between perceptual components of brand equity and behavioral components of brand equity for Jamu amongst Gen-Z in Jakarta, Indonesia.
2. To find out the relationship between perceptual components of brand equity and satisfaction for Jamu amongst Gen-Z in Jakarta, Indonesia.
3. To find out the relationship between satisfaction and behavioral components of brand equity for Jamu amongst Gen-Z in Jakarta, Indonesia.

Research questions to be considered in the study are:

1. What is the relationship between the perceptual component of brand equity and brand loyalty for Jamu amongst Gen-Z in Jakarta, Indonesia?
2. What is the relationship between the perceptual component of brand equity and purchase intentions for Jamu amongst Gen-Z in Jakarta, Indonesia?
3. What is the relationship between the perceptual component of brand equity and satisfaction for Jamu amongst Gen-Z in Jakarta, Indonesia?
4. What is the relationship between satisfaction, brand loyalty, and purchase intention for Jamu amongst Gen-Z in Jakarta, Indonesia?

1.3. Justification for the research

Theoretical implications - The fact that this paper suggests and measures several different perceptual components of brand equity and its relationship to brand loyalty, purchase intention and satisfaction, makes it the first significant contribution. The exploration of the concept of

satisfaction and its relation to other concepts such as brand loyalty and purchase intention in the academic setting is essential to understand the level of brand equity associated with Generation Z for Jamu. The results confirm the relationships amongst the dimensions of perceptual components of brand equity (brand association, brand knowledge, brand awareness, perceived quality, perceived value), satisfaction and behavioral components of brand equity (brand loyalty and purchase intention). This research fills the gap of the literature for Jamu over brand equity and satisfaction in the setting of an academic institution of Jakarta. Hence, by examining these components of brand equity in Jakarta, especially in an academic setting amongst Gen -Z, this research offers a unique insight and better understanding on, how they perceive and behave about Jamu and their level of satisfaction. This paper will also develop the measurements, for different perceptual components of brand equity through primary research, and measurements for brand loyalty, purchase and satisfaction will be established from literature review to examine the relationship between the variables.

Managerial implications -

This paper provides several practical implications for marketers in the Jamu industry;

1. Provides practical implications for marketers in the Jamu industry, concerning how to increase satisfaction, and customer loyalty.
2. States that managers of Jamu industry must comprehend the importance of customer satisfaction and loyalty.
3. Recommends managers to recognize the use of brand perception for remodelling consumer's decisions making behaviour.
4. Presents marketers with a better knowledge of perception in Indonesia for the Jamu Industry among Gen-Z.
5. The benefits that managers can bring using this study could lead to an actual, accurate and measurable return on investment.

6. Encourages managers to explore possibilities and encourage long-term development of a company's expansion into future market opportunities for broader market outreach including Gen-Z.
7. Managers can utilize this study as a guide to revise their terms with stakeholders like vendors, distributors depending on how customers perceive about the product and how loyal they are to the product or brand which will provide companies an insight regarding their bargaining power.
8. The results of this study allow managers to recognize the advantages of customer perception, satisfaction and behavior, hence they will recognise the level of Jamu's brand equity and use it to obtain a more significant margin and which will help them to reduce marketing costs.

1.4. Methodology

The study focuses on the perceptual components of brand equity and its influence on satisfaction and behavioral components of brand equity including the extent of satisfaction and its influences on behavioral components of brand equity. As it can be observed in research problems, this study requires mix-methodology,

This research needs qualitative research as an approach because measurements for perceptual components of brand equity for Gen-Z in the context of Jamu has not been established in the existing literature. Research questions of this research explain the need to establish the measurements for perceptual components of brand equity for Gen-Z in context of Jamu whereas the measurements for behavioral components of brand equity and satisfaction has already been established in previous studies and has been utilized in this paper from the literature review. Use of existing instrument provides an advantage to the research as they have been tested already (De Vaus, 2002). Henceforth, validity and reliability tests are administered to all of the variables. Therefore, in the second stage quantitative methodology is utilized, as observed from the research question there is a need to

examine the relationship between the variables which is established from interview and literature review.

Both qualitative and quantitative method is required for the study, which provide a fundamental basis for the collection of concrete data. According to Bell, et al. (2018), the combination of these two methodologies for research purposes is essential, as it provides a basis for data validation and authentication; hence, notifying the methodology of the study.

The data is collected from the Indonesia International Institute for Life Sciences in Jakarta. The use of student respondents from i3L ensures the validation of using Gen-Z respondents as 97% of the students in the institute belongs to Gen-Z.

Data analysis in this study is done to test the correlation and patterns between the data measures and variables. For qualitative data analysis NVIVO is utilised to establish the measurements for perceptual components of brand equity for Gen-Z in context of Jamu. In the second stage of quantitative data analysis SPSS is utilised. Quantitative data analysis has been done in two stages which involves preliminary analysis and regression analysis. The preliminary data analysis presents the characteristics of the respondents, an analysis of the reliability of the measures and provides the exploratory factor analysis of the variables. Factor matrix analysis encompasses the testing of the correlation between factors and components in a research study (Pituch & Stevens, 2015). To examine the relationship between variables, regression analysis is conducted for the data, which will show the significance of the suggested relationship, and the magnitude of the relationship.

1.5. Definitions

There are several definitions for brand equity as various scholars have proposed. According to the perspective of the consumers, Keller (2003) defined brand equity as, “the power of a brand lies in what customers have learned, felt, seen, and heard about the brand as a result of a customer's experiences over time”.

In this research, brand equity is acknowledged as a multi-dimensional entity perceived by customers, which helps to enhance their brand loyalty and purchase intentions. This approach of brand equity creates a difference between perceptual and behavioral outlooks of the customer.

Delassus and Descotes (2012) pointed out that "brand equity is comprised of symbolic and functional aspects. The symbolic aspect comprises of non-physical aspects such as brand image, perceived quality, brand associations, and brand awareness. The functional aspect comprises the physical aspects including consumer satisfaction, that is if the product satisfies consumer needs".

Feldwick (1996) and Chernatony, et al. (2003) have identified six kinds of brand attributes: awareness; image; perceived quality; perceived value; personality; and organizational associations, whereas Foroudi, et al. (2018) stated that "brand awareness, perceived quality, brand association, brand fondness, brand image, and product-country image have a strong impact on the management of brand perception".

Keller's customer-based brand equity model stated that "how the customer perceives and evaluate brands by investigating specific knowledge structures such as brand awareness, and image" (Aaker, 1991; Aaker, 1997; Keller, 1993). It transpires that there are two separate kinds of brand knowledge: brand awareness and image.

Keller and Kevin (1993) defined brand awareness as "it is related to the functions of brand identities in consumers' memory and can be reflected by how well the consumers can identify the brand under various conditions in the market." Brand awareness could be separated into brand recognition and brand recall.

Perceived quality refers to "intangible perceptions, judgments, thoughts, and beliefs about the quality of a product" (Ramaseshan & Tsao, 2007).

Zeithaml (1988) proposed that perceived value can be viewed as a "consumer's overall assessment of the utility of a product (or service) based on perceptions of what is received and what is given." Zeithaml (1988) further explained that "some consumers perceive value when there is a

low price; others perceive value when there is a balance between quality and price"; therefore it can be assumed that two elements quality and price have impacts on perceived value.

Brand association is defined as "the meaning of the brand for consumers" (Keller, 1993; Pappu et al., 2005) or "anything linked in memory to a brand."

The customer associated with a brand, over different perceptual components, may have a determined type of behavior resulting in two variables. These variables are the outcome of the influence of brand equity—brand loyalty and willingness to pay as purchase intention. According to Foroudi, et al. (2018) "attitude refers to satisfaction; behavior refers to trends and buying behavior."

Oliver (1999) described brand loyalty as "a deeply held commitment to rebuy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior." However, Rossiter and Percy (1987) exclaimed that brand loyalty is "often characterized by a favorable attitude towards a brand and repeated purchases of the same brand over time."

River et al. (2010) described purchase intention as a "decision-making process where the consumer decides to purchase the brand, where the purpose of the brand's entire communication is that get influence consumer purchase decision."

Marketers understood customer satisfaction as a measure of how products and services supplied meets or surpasses customer expectation. Kameswara et al. (2014) described satisfaction as "the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services exceeds specified satisfaction goals."

1.6. The scope and key assumptions of the study

The scope of this paper is delimited in three aspects. First, In this study Jamu is defined as herbal medicine, not as a particular product or brand of Jamu. Secondly, It is restricted to Indonesia

International Institute for Life Sciences , as the research site for empirical testing. Lastly, the focus of research is on Gen-Z as they arguably wield a growing influence and authority over purchases.

This study mainly focuses on the perceptual and behavioral components of brand equity and satisfaction. The findings of Foroudi, et al. (2018) demonstrated that the combinations of different perceptual components of brand equity have substantial impact on brand loyalty and brand purchasing intention. Hence then, to develop a more meaningful study and created upon the previous study, satisfaction is further combined in the study. Satisfaction requires an evaluation and its relation to perceptual components of brand equity and behavioral components of brand equity.

While the measurements of satisfaction and behavioral components of brand equity such as brand loyalty and purchase intention have been used from the previous works of literature, this study concentrates more on establishing measurements for perceptual components of brand equity for Gen-Z in context of Jamu.

This study involves participants from one of the specific generations. Most Jamu perception and brand equity studies use either older generation or target the participants depending on their economic level. This study adapted Gen-Z knowing the fact of future economic value for the Jamu industry. In this study, the utilization of educational institution as the setting is significant as the participants utilized in this research is from Gen -Z. This study utilizes Indonesia International Institute for Life Sciences as 97% of the students in this institutions belongs to Gen-Z.

1.7. Outline of the report

This research follows a structure which is separated into six chapters. The first chapter introduces the topic of the research and discusses the; background and research question. The elaborate focus of this chapter is to explain the justification for the research, methodology, definitions, the scope and key assumptions of the study and outlined the primary purpose. In the second chapter, the literature terms expressed or associated with the specific research topic are

reviewed, for building the foundation, benefiting the conceptual development. The study of the existing literature in chapter two, elaborates the concepts of brand equity, perceptual components of brand equity and behavioral components of brand equity, satisfaction, establishment, and development of Jamu, and also decisively addresses the development of the hypotheses.

The third chapter is devoted to the research method which is divided sharply and deliberately into four parts; an explanation of the sampling and data collection, measures, questionnaire testing, and the data analysis. Under chapter four, the research findings are accurately analyzed and explained. In chapter five data analysis is correlated and discussed which provides a summary of the discussion at the end. Moreover, lastly in chapter six, the study's detailed and primary findings are efficiently summarised, and research's limitations are identified. In the focus of these findings and their natural limitational boundaries, some directions for future research and testings are also advised.

Figure: 2 Structure of Dissertation

