

THESIS

THE EFFECT OF ADVERTISING, BRAND IMAGE, AND PRICE PERCEPTION ON CONSUMER PREFERENCE: A CASE STUDY ON TRIWALA COFFEE IN MAKASSAR CITY

Compiled and submitted by

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to

MANAGEMENT DEPARTMENT
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THESIS

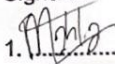



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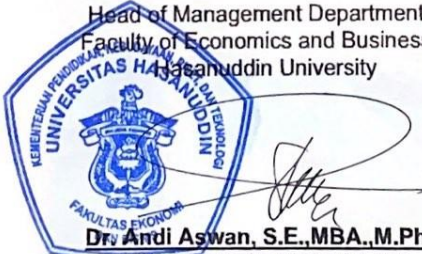
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CONSUMER PREFERENCE:
A CASE STUDY ON TRIWALA COFFEE IN MAKASSAR CITY**

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Makassar, July 2024



Muh Fauzan Putra Firdaus

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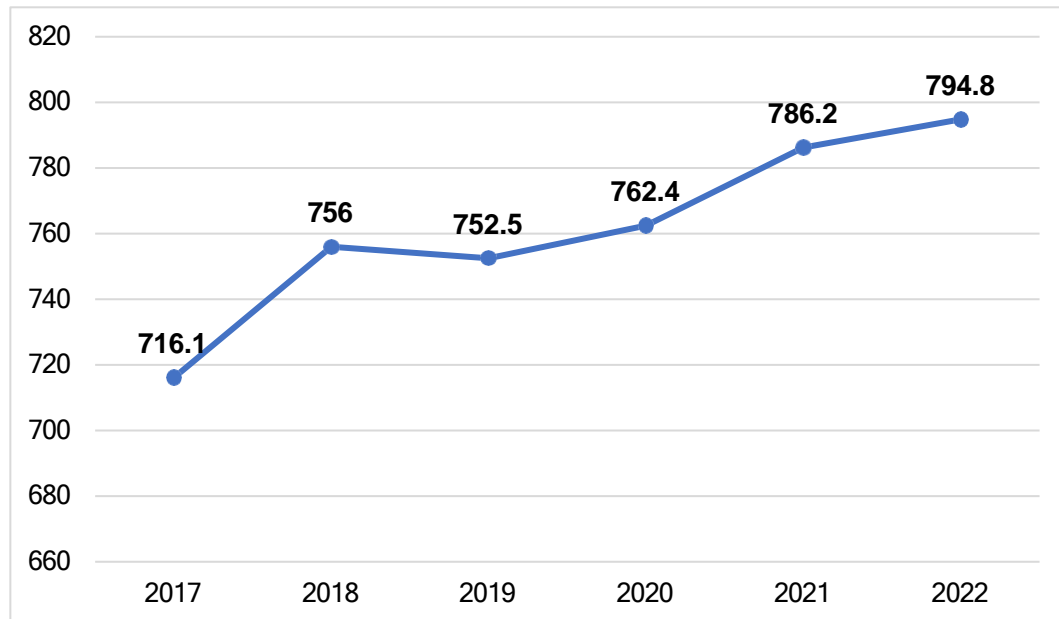
CHAPTER I

INTRODUCTION

1.1. Research Background

Coffee is one of the most popular drinks throughout the world. Apart from tea and drinking water, coffee is one of the most frequently consumed drinks around the world. Even in the 20th century, coffee was one of the most traded commodities in the world (Torga & Spers, 2020). The popularity of coffee is increasing from year to year, the International Coffee Organization report in 2023 shows that world coffee consumption has increased by 4,2% to 175,6 million bags per year 2021/2022, following an increase of 0,6% in the previous year. This consumption includes various types of coffee products, such as Arabica, Robusta, etc.

Indonesia stands out as a nation where coffee holds immense popularity. Coffee even become an integral part of the lifestyle of Indonesians (Subagja, 2022). Data from 2022/2023 indicate that coffee consumption in Indonesia is projected to hit 4,8 million bags, marking a 50.000-bag rise from the previous year (Foreign Agricultural Service, 2022). This makes Indonesia the second-largest consumer of coffee in the Asia Pacific region (International Coffee Organization, 2023). Beyond consumption, Indonesia is ranked fourth among the largest coffee producing countries in the world after Brazil, Vietnam, and Colombia with production levels reaching 600.000 metric tons, roughly equivalent to 661.368,78 tons annually in 2016 (Szenthe, 2020). This output has steadily climbed, reaching around 774.960 tons by 2022, signifying a notable 17,17% annual increase (Badan Pusat Statistik, 2023). Detailed data regarding Indonesia's coffee production levels are outlined as follows.



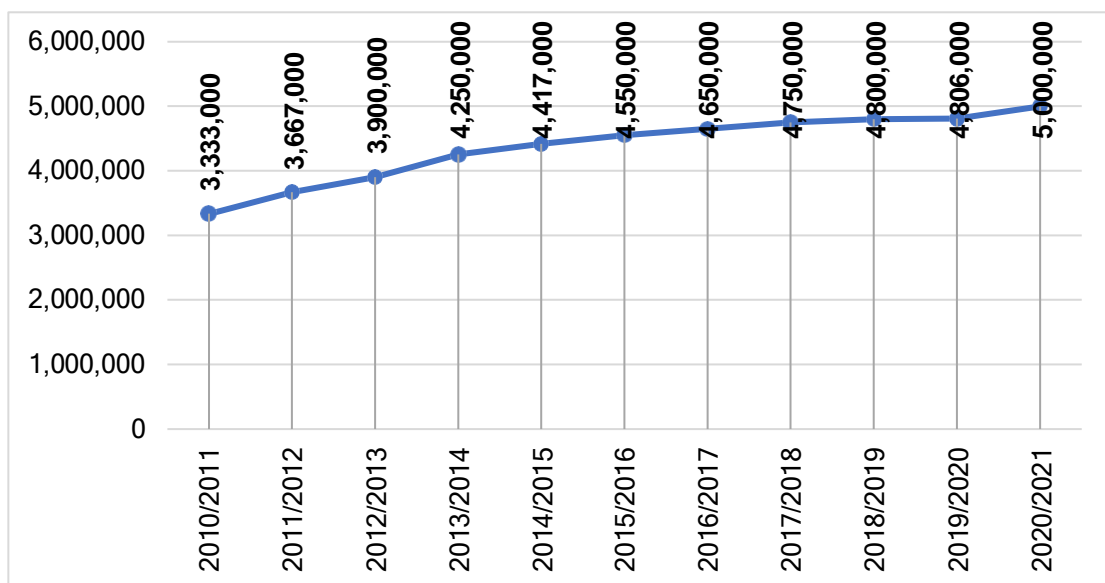
**Figure 1.1 Coffee Production Volume in Indonesia (2017 – 2022)
(in thousands of tons)**

Source: Annur (2023).

The graph above shows the increase in coffee production volume in Indonesia over the years. By 2017, Indonesia had reached a production volume of 716,1 thousand tons. This production volume continued its upward climb, peaking at 794,8 thousand tons in 2022, representing an increase of approximately 10,98%. One of the primary factors contributing to Indonesia's status as one of the world's leading coffee producers is its favorable geographical and climatic conditions, which provide an ideal environment for coffee cultivation. Consequently, Indonesia yields high-quality coffee beans, including Robusta, Arabica, Eksela, Liberica, and more (Utomo et al., 2023).

The substantial coffee production in Indonesia has paved the way for diverse economic opportunities, with the coffee industry emerging as a key sector boasting high value-added (Himawan & Rahadi, 2020). This increase in production is in line with the increasing in coffee drinking culture in Indonesia. This is marked by the increasing number of coffee shops in Indonesia where people usually visit

coffee shops to enjoy various coffee drinks (Himawan & Rahadi, 2020). The rising popularity of coffee shop culture in Indonesia attracts a diverse range of individuals seeking various experience, from casual gatherings to business meetings (Utomo et al., 2023). This trend further fuels the increasing levels of coffee consumption in Indonesia. Data from International Coffee Organization underscores this growing trend in coffee consumption in Indonesia, as illustrated below.



**Figure 1.2 Coffee Consumption Levels in Indonesia 2010 – 2021
(per 60 kg bag)**

Source: Utomo et al. (2023).

The depicted graph illustrated the upward trajectory of coffee consumption levels in Indonesia from 2020 to 2021, measured in 60 kg bags. Notably, in the 2010/2011 period, coffee consumption level stood at 3.333.000 bags. Over subsequent years, this figure steadily climbed, reaching 5.000.000 bags in the 2020/2021 period. This consumption trends are growing in line with the increasing number of new coffee shops, contributing to heightened competition within the industry (Mutiah, 2018). This happens throughout Indonesia, including in Makassar City.

The escalating competition in the coffee shop sector presents various challenges for businesses, particularly in the aspect of retaining customers and attracting new customers. Various efforts that can be made by the coffee shop business. Coffee shops owner must invest in developing innovative concepts, effective marketing strategies, and product's quality to enhance their business performance and sustain competitiveness in the coffee shop industry (Ramadhani, 2023).

Triwala Coffee is a coffee shop located in Kompleks PDAM No. Blk. 3R, Mangkura, Ujung Pandang district, Makassar City, South Sulawesi. This coffee shop has been established since August 27th, 2021. According to Triwala's Coffee report, the monthly income obtained in the last year can be presented as follows.

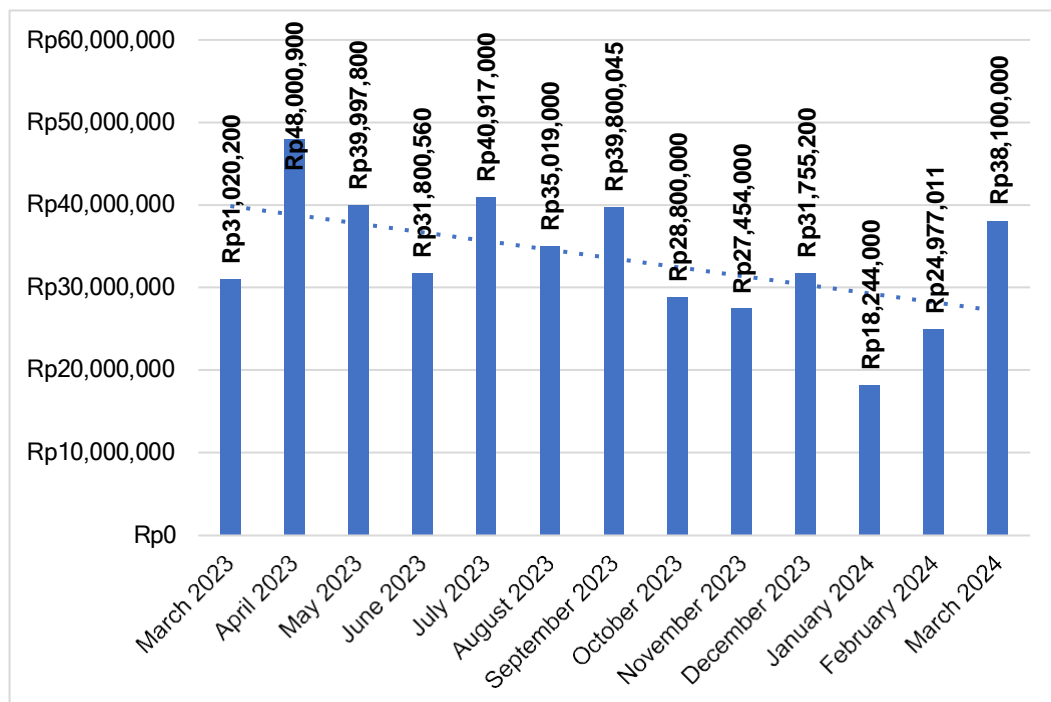


Figure 1.3 Triwala Coffee Monthly Revenue (Maret 2023 – Maret 2024)

Source: Triwala Coffee (2024).

Figure 1.3 illustrates Triwala Coffee's monthly revenue from March 2023 to March 2024. The data reveals notable fluctuations in revenue from month to month.

In April 2023, there was a fairly large spike in revenue, followed by a decline in May 2023. Despite these fluctuations, there is an overall downward trend in Triwala Coffee's revenue during this period. These fluctuations and downward trends in monthly income can be attributed to various factors, including the dynamic competitive landscape of the coffee shop industry in Makassar City.

To navigate the intensifying competition, Triwala Coffee needs to optimize its marketing strategies to maintain the business and expand its market share. One of the strategies that Triwala Coffee can involve aligning strategies with consumer preferences. Consumer preferences, defined as individuals' subjective tastes which is determined by the perceived benefits obtained from a range of products (Ronauli & Indriani, 2020). Consumer preferences are an important element in designing marketing strategies.

Consumer preferences can be influenced by various factors, including product attributes and individual consumer traits such as goals and attitudes (Himawan & Rahadi, 2020). Strategies centered on consumer preferences aim to influence consumer decision-making processes to choose or buy certain products or services (Kontot et al., 2016). By influencing consumer preferences for its products, Triwala Coffee can attract consumers to increase its sales and thrive amidst the competitive coffee shop landscape in Makassar City.

Advertising, defined as any nonpersonal presentation and promoting of ideas, goods, or services sponsored by a specific entity (Kotler et al., 2024), stands as a potent influencer of consumer preferences. Developed to attract and inform audiences persuasively, advertising endeavors to shape consumer desires (Mahaputra & Saputra, 2021). Empirical evidence underscores the influential role of advertising in shaping consumer preferences. Ruth & Isabirye (2024) found that

advertising strategies wield significant influence towards consumer preferences. Chang et al. (2015) also found that attractive and persuasive advertising positively impacts consumer preferences.

Brand image emerges as another influential factors in shaping consumer preferences, refers to how consumers perceive and remember a particular brand (Gómez-Rico et al., 2023). Empirically, there are several prior studies that have proven that brand image is able to influence consumer preferences. Shadrina et al. (2021) discovered that brand image exerts a substantial influence on consumer preferences. Another study by Mulyati (2023) also discovered that brand image was proven to significantly influence consumer purchasing preferences.

Price perception also plays a crucial role in shaping consumer preferences, denoting consumers' assessment of the benefits and quality attainable from certain products or services (Kotler et al., 2024). Empirical evidence underscores the influence of price perception on consumer preferences. Sembiring (2016) revealed that price factors significantly influence consumer preferences. Consistent results can also be found in Bapat et al. (2023) study which proves that price perception significantly influences consumer preferences.

Despite the numerous studies that have investigated factors influencing consumer preferences, there is still a gap in research literature regarding how advertising, brand image, and price perceptions shape consumer preferences, especially within Makassar City's coffee shop industry. Previous research by Utomo et al. (2023) only looked into digital marketing and service quality's impact on consumer preferences for coffee shops in Malang City. Another study by Himawan & Rahadi (2020) also discussed what influences consumer preferences for coffee shops, highlighted taste, product design, ambiance, brand influence,

location accessibility, and price. Hence, this study aims to thoroughly investigate how advertising, brand image, and price perception affect consumer preferences at Triwala Coffee in Makassar City, aiming to fill this research gap and contribute to enhance understanding of what drives consumer preferences in Makassar City's coffee shop industry.

Based on the background of the issues described above which highlight the importance of advertising, brand image, and price perception as factors influencing consumer preferences in choosing certain products over others, the author intends to conduct a study entitled **“The Effect of Advertising, Brand Image, and Price Perception on Consumer Preferences: A Case Study on Triwala Coffee in Makassar City”**.

1.2. Research Problems

Based on the research background previously described, the research questions for this study are as follows:

1. Does advertising affect the preferences of Triwala Coffee consumers in Makassar City?
2. Does brand image affect the preferences of Triwala Coffee consumers in Makassar City?
3. Does price perception affect the preferences of Triwala Coffee consumers in Makassar City?

1.3. Research Objectives

Based on previously formulated research problems, the objective of this study are as follows:

1. To determine the effect of advertising on the preferences of Triwala Coffee consumers in Makassar City.

2. To determine the effect of brand image on the preferences of Triwala Coffee consumers in Makassar City.
3. To determine the effect of price perception on the preferences of Triwala Coffee consumers in Makassar City.

1.4. Research Significances

1.4.1. Theoretical Significances

This study carries substantial theoretical implications within the domains of marketing and consumer behavior studies. By examining the effects of advertising, brand image, and price perception on consumer preferences, this study contributes to a deeper understanding of the relationships among these factors. Moreover, this study aims to enrich the existing academic discourses on advertising strategies, brand communication, and pricing strategies that affects consumer preferences and decision-making processes.

1.4.2. Practical Significances

Practically, this study offers valuable insights that can assist Triwala Coffee in Makassar City in developing effective marketing strategies to attract consumers. The findings and insights in this study will help Triwala Coffee to gain a better understanding of how advertising, brand image, and price perception affect consumer preferences. This, in turn, can lead to enhanced consumer loyalty and an increased market share for Triwala Coffee.

1.5. Writing Structure

The writing structure of this thesis is organized into several chapters which can be explained as follows.

CHAPTER I INTRODUCTION

This chapter discusses the research background, research problems, research objectives, research significances, and writing structure.

CHAPTER II LITERATURE REVIEW

This chapter discusses the theoretical foundations and prior research that serve as the basis for this study.

CHAPTER III CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This chapter discusses the conceptual framework and hypotheses development in this study.

CHAPTER IV RESEARCH METHODS

This chapter discusses the research design, study's location and timeframe, describes the research population and sample, data types and sources, data collection methods, research variables and operational definitions, research instruments, and data analysis techniques.

CHAPTER II

LITERATURE REVIEW

2.1. Theoretical Framework

2.1.1. Theory of Planned Behavior

The theory of planned behavior originating from the theory of reasoned action which was initially developed to provide more detailed explanation of complex human behavior (Ajzen, 1991). The theory of planned behavior starts by clearly defining the behavior of interests, including its targets, action, context, and timeframe, and ensures that other constructs within the theory align with these elements, known as the principles of compatibility (Ajzen, 2005).

The immediate precursor of behavior in the theory of planned behavior is the intention to perform the behavior under consideration. The stronger this intention, the more likely it is for the behavior to occur. According to the theory of planned behavior, there are three factors influencing behavioral intentions, namely attitude toward behavior, subjective norms, and perceived behavioral control (Ajzen, 2020). These three factors can be explained as follows.

1. Attitude Toward Behavior

The theory of planned behavior utilizes an expectancy-value formulation to explain the formation of attitude toward a behavior. Essentially, attitude toward behavior is viewed as a result of readily accessible beliefs concerning the likely consequences of the behavior, known as behavioral beliefs. These beliefs represent a person's subjective likelihood to engaging in a specific behavior that will lead to particular outcome or experiences. Each anticipated outcome or experience, with its positive or negative valence, contributes to the overall attitude proportionally to the subjective likelihood of its occurrence.

2. Subjective Norm

There are two types of normative beliefs, namely injunctive and descriptive beliefs. An injunctive normative belief reflects the expectation or subjective probability that a specific reference individual or group approves or disapproves of the behavior in question. Descriptive normative belief, on the other hand, pertains to whether significant others actually engage in the behavior. Both types of beliefs shape the perceived social pressure to adopt the behavior, known as subjective norms.

3. Perceived Behavioral Control

Perceived behavioral control is thought to be influenced by accessible control beliefs, which focus on factors that can facilitate or hinder the behavior's performance. These factors include required skill, abilities, available resources, time constraints, cooperation from others, and more. A control belief represents an individual's subjective likelihood that a facilitating or inhibiting factor will be present in the relevant situation. Each control belief contributes to perceived behavioral control in conjunction with the perceived efficacy of the facilitating or inhibiting factors.

The author adopts the theory of planned behavior as the theoretical framework for this study due to its relevance in explaining consumer behavior, particularly about consumer preferences. This theory offers insights into the psychological factors shaping an individual's intention to engage in a behavior, such as the preference of Triwala Coffee consumers in Makassar City and the determinants affecting it. Specifically, this study focuses on advertising, brand image, and price perception as key factors influencing Triwala Coffee consumer preferences.

2.1.2. Consumer Preferences

Consumer preferences represent the subjective tastes of individuals, determined by the perceived benefits obtained from a range of products (Ronauli & Indriani, 2020). Consumer preferences encompass the selection of products that individuals either like or dislike consuming from among various options available (Fajarani et al., 2021). Consumer preferences can also be defined as the choices made by consumers for a specific brand or product, formed through the evaluation of numerous brands or products within the available choices (Syam et al., 2022). Therefore, it can be concluded that consumer preferences reflect the subjective tendency of individuals towards particular products or brands based on their assessment of the various options available.

Consumer preferences are crucial elements in designing marketing strategies and are influenced by various factors, including product features and individual attributes of consumers like goals, attitudes, etc. (Himawan & Rahadi, 2020). Psychologically, consumer preferences refer to an individual attitude toward a set of objects that stimulate their behavior in the decision-making process for purchasing a product or service (Kontot et al., 2016).

Measurement of consumer preferences variable is carried out by referring to the indicators outlined in Wahyudi (2019) research, which include:

1. Price: The costs required to obtain benefits from a certain product or service.
2. Quality of products: The ability of the product to provide results in line with consumer needs and desires.
3. Quality of service: The skill of the service provided to consumers.

4. Branding: The overall identity, image, and perception formed in consumers' minds about a certain product, service, or company.
5. Tangibles: The physical appearance, tools, people, and equipment associated with a certain product or service.

2.1.3. Advertising

Advertising is any form of nonpersonal presentation and promotion of ideas, goods, or services paid for by a specific sponsor (Kotler et al., 2024). It can also be defined as any message about a product conveyed through the media, reaching some or all of the public (Mahaputra & Saputra, 2021). Another definition describes advertising as paid, owned, and earned mediated communication, initiated by an identifiable brand, and aimed to persuading consumers to make cognitive, affective, or behavioral changes, both immediately and in the future (Kerr & Richards, 2020). Thus, it can be concluded that advertising serves as a tool utilized by brands or companies to influence consumer perceptions, emotions, and behavior through various media channels.

The stage in developing an advertising program include setting advertising objectives, determining the advertising budget, developing an advertising strategy that consist of message and media decisions, and evaluating advertising effectiveness. Each of these stages can be described as follows:

1. Setting Advertising Objectives

The first stage in developing advertising program is setting advertising objectives. Advertising objective is a specific communication task to be accomplished with a particular target audience within a specified period. These objectives can be categorized based on three main goals: to inform, persuade, or remind. Informative advertising aims to communicate customer value, build a

brand or company image, introduce a new product, explain product functionality, and more. Persuading advertising focuses on building brand preference, encouraging brand switching, altering consumer perceptions of product value, fostering customer engagement, and so on. Lastly, reminder advertising aims to maintain customer relationships, remind consumers of the product's relevance, and reinforce brand loyalty (Kotler et al., 2024).

2. Determining the Advertising Budget

After the establishment of advertising objectives, the next step is determining the advertising budget. The advertising budget typically depends on the product's life cycle stage. New products often require substantial budgets to raise awareness and encourage trial, while mature products typically necessitate lower budgets (Kotler et al., 2024).

3. Developing Advertising Strategy

The advertising strategy comprises two key elements: creating advertising messages and selecting advertising media. Crafting an advertising message entail developing a message strategy, which defines the general message to be communicated to consumers. An effective advertising message possesses three main attributes: meaningful, believable, and distinctive. Meaningful messages emphasize the benefits consumers can derive from the product, making it more appealing. Believable messages instill confidence in consumers regarding the product's benefits. Finally, distinctive messages highlight the superiority of the advertised product over competitors' offering (Kotler et al., 2024).

The next stage is choosing advertising media that involves several stages (Kotler et al., 2024):

a. Determine reach, frequency, impact and engagement

Reach refers to the percentage of the target market exposed to advertisements within a specific period. Frequency indicates the average exposure of individuals in the target market to the message. Media impact evaluates the qualitative value of message exposure through different media channels. Engagement measures the level of audience interaction with an advertisement.

b. Choosing the type of media

Various media types such as digital, social media, mobile, television, newspapers, magazines, radio, etc. offer different advantages and limitations that allowing advertisers to select based on their specific needs.

c. Selecting specific media vehicles

This stage involves choosing the most effective media vehicles within each media type based on factors like cost per thousand impressions, audience quality, audience engagement, and vehicle's credibility.

d. Determining media timing

Advertisers must schedule advertisements strategically, taking into account factors like product type, seasonality, audience engagement patterns.

4. Evaluating advertising effectiveness

Advertising effectiveness can be assessed using two indicators: communication effects and sales and profit effects. Communication effect measurement gauges whether the advertisement and media effectively convey the intended messages. Sales and profit effects can be evaluated using statistical models that analyze sales and profit data alongside advertisement over time.

The indicators utilized to measure advertising variables in this study as outlined by Kotler et al. (2024), are as follows:

1. Engaging consumers: Advertising aims to encourage consumers to interact or engage with a brand or product.
2. Informing consumers: Advertising inform consumers about product details, prices, advantages, availability, and other attributes associated with the product or brand.
3. Persuading consumers: Advertising influence and persuade consumers to make purchases of a product.

2.1.4. Brand Image

Brand image is the view held by consumers regarding how consumers perceive and remember a brand (Gómez-Rico et al., 2023). It can also be defined as the portrayal of a product and consumers' trust in a specific brand (Fasha et al., 2022). Another definition related to brand image was also defined by Lowry et al. in Mbete & Tanamal (2020) that define brand image as a set of views held by consumers towards a brand, both positively or negatively. Thus, it can be concluded that brand image refers to how consumers comprehend, remember, and perceive a brand.

Brand image allows consumers to recognize brands that suit their needs and preferences by establishing certain images, associations, or impression in their minds (Zia et al., 2021). A distinct brand image can help consumers to know the brand specifications and differentiate it from rival brands and can encourage consumers to make purchases of the brand (Dam & Dam, 2021). Therefore, it is important to build a strong brand image with clear positioning to influence consumers' final choice (Kotler et al., 2024).

Brand image can be formed by various factors, including (Hafsari, 2023):

1. Quality offered by a brand.
2. The trustworthiness and reliability of a brand.
3. The usefulness or benefits offered by a brand to meet the needs and desires of consumers.
4. Services provided by the company to meet the needs and desires of consumers.
5. Risks that may be experienced by a consumer when using a particular brand.

The measurement of brand image variable in this study was carried out using the indicators used in Hafsari (2023) research as follows.

1. Company image: Image or perception of consumers of a company that produces certain products or services.
2. User image: Image or perception of consumers towards people who use certain products or services.
3. Product image: Image or perception of consumers of a particular product or service.

2.1.5. Price Perception

Price perception is a form of consumer indicators in assessing the benefits and quality that can be obtained from certain products or services (Kotler et al., 2024). Price perception can also be defined as the level of consumer understanding regarding price information and the ability of consumers to obtain certain products or services (Dwiarta & Ardiansyah, 2021). Another definition related to price perception is also stated by Purwandari et al. (2022) which states that price perception is an assumption regarding the expensiveness, cheapness, or price reasonability of a certain product or service. Thus, it can be concluded that

price perception is consumers' understanding of the value they receive from the price offered by a certain product or service.

Price, on the other hand, represents the monetary amount or value required for consumers to access the benefits of a product or service (Kotler et al., 2024). Price stands as a one of the primary determinant influencing consumer decisions. Hence, consumers' perception of a product's value or price play a crucial role in shaping their purchasing decision (Armstrong et al., 2023). Hence, it is crucial for brands or companies to formulate the right pricing strategy to influence consumer preferences dan behavior when selecting the product or service they offer.

In general, there are three main strategies for setting prices as outlined by Armstrong et al. (2023) as follows.

1. Customer Value-based Pricing

Customer value-based pricing establishing prices based on perceived customer value. This strategy can be categorized into two categories, good-value pricing and value-added pricing. Good-value pricing involves determining prices by balancing quality and service factors, while value-added pricing determining prices by incorporates additional elements such as service enhancements and other value-added features.

2. Cost-based Pricing

Cost-based pricing involves setting prices based on the cost incurred in the production, distribution, and sale of products, along with the associated efforts and risks during the process. This approach considers both fixed costs, which remain constant regardless of production or sales levels, and variable costs, which fluctuate according to production levels.

3. Competition-based Pricing

Competition-based pricing revolves around setting prices in response to competition from rivals, costs, market prices, as well as consumers evaluations of product pricing relative to competitors' offerings.

In this research, the indicators used to measure the price perception variable adopt the indicator proposed by Kotler & Armstrong (2018) as follows.

1. Price affordability for consumers.
2. Price match with product quality.
3. Competitiveness of the price compared to other similar products.
4. Price match with the benefits received by consumers.

2.2. Prior Research

Prior research provides an empirical foundation that serving as references dan comparative insights for this study. The relevant prior research to this study is outlined as follows.

1. The study conducted by Tjizumaue et al. (2023), entitled "Factors Influencing Consumer Preference Among Beverage Product Brands in Namibia", aims to explore the factors that influence consumer preferences for beverage product brands in Namibia. This study adopts a qualitative descriptive approach. The results indicate that factors such as price, taste, packaging, quality, and promotion influence consumer brand preferences.
2. The study conducted by Megananda & Sanaji (2021), entitled "Pengaruh Gaya Hidup Sehat dan Citra Merek terhadap Preferensi Konsumen Minuman Ready-to-Drink (RTD)", aims to analyze the influence of a healthy lifestyle and brand image on consumer preferences for ready-to-drink drinks. This study adopts a quantitative approach and using multiple linear

regression for data analysis. The results indicate that a healthy lifestyle and brand image positively and significantly affect consumer preferences.

3. The study conducted by Bapat et al. (2023), entitled “Examining How Advertising and Price Perception Influence Customer Choices” aims to analyze how advertising and price perception can influence the choices made by consumers. This study adopts a quantitative approach and analyzes data using correlation-regression analysis. The results indicate that advertising and price perception positively and significantly affect consumer choices.
4. The study conducted by Tarro et al. (2022), entitled “The Influence of Location and Price on Consumer Preferences in Traditional Market (Case Study Pasar Bersehati in Manado City)”, aims to analyze how location and price affect consumer preferences in Pasar Bersehati, Manado City. This study adopts a quantitative approach and utilizes multiple regression analysis models for data analysis. The results indicate that location and price have a significant influence on consumer preferences at Pasar Bersehati, Manado City.
5. The study conducted by Ruth & Isabirye (2024), entitled “The Impact of Advert on Consumer's Preferences of Product: A Case Study of Coca Cola Company Uganda” aims to analyze the effect of Coca-Cola advertising on consumer preferences in Uganda. This study adopts a mixed-methods approach that combines survey data and qualitative analysis of advertising content. The results indicate that Coca-Cola advertising significantly influences consumer preferences.