

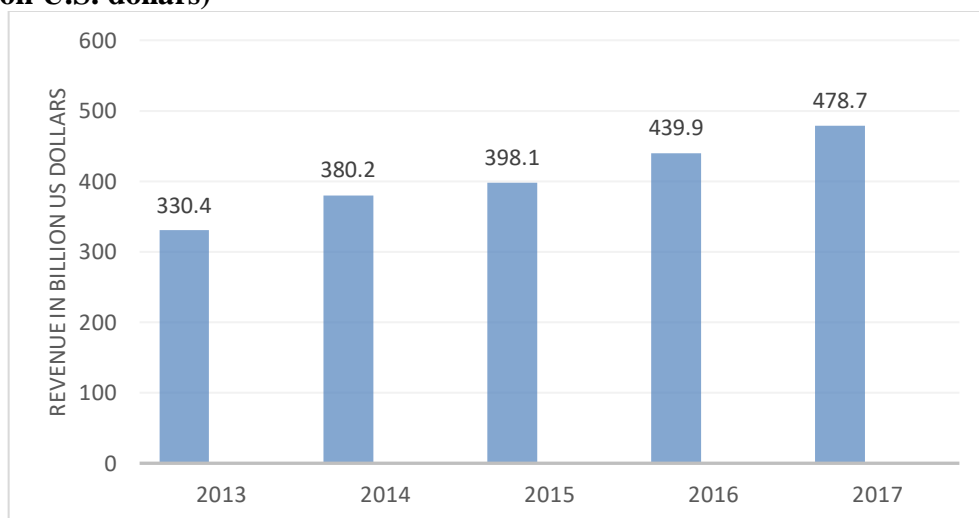
CHAPTER 1

INTRODUCTION

1.1 Background of the Study

In this era of globalization, technology is growing rapidly along with the times. Technology is one of the most important elements in the journey of human civilization, especially technology in the field of telecommunications. The development of technology, especially in the field of communication, is able to make everything more practical. Where the current technology began to shift from mobile phones to smartphones that are able to offer a million advantages that help people in running their daily activities. At first it was inconceivable that how technology is capable of impacting all the joints of human life. The latest generation of mobile phones known as smartphones not only provide mere functionality, but rather as a lifestyle, through a variety of entertainment sources offered by various entertainment sources through games, music, videos and a variety of exciting apps to help our day-to-day.

Graph 1.1 Global revenue from smartphone sales from 2013 to 2017 (in billion U.S. dollars)



Sources: The Statistics Portal (2018)

Based on the survey conducted by The Statistic Portal in 2018 show that the global revenue of smartphone sales in 2013-2017 the total is 478.7 billion U.S. dollars (The Statistic Portal, 2018). Due to increase of demand on smartphone, the

competition of smartphone product in Indonesia is also getting more intense with each and every companies in the same industry strive to be a winner. There are many brand that can be found in Indonesia such as Apple, Samsung, Vivo, Oppo, Xiaomi, etc. This can increase competition and influence consumer decisions.

One manufacturer that producing high quality smartphone is Xiaomi. Xiaomi caught many attention because after they suffered from local competitors they maintain to sustain and as a result in the second quarter of 2017, Xiaomi returned the positions of the world's top five smartphone brands by shipment. According to the most recent data from industry consultancies Canalys, IDC and Strategy Analytics, Xiaomi has shipped 21.2 million units of smartphone worldwide, show a 59% increase from last year (Forbes, 2017). Causes increases in its marketing activity and will affect their sales in many country including Indonesia. Interest and opinion will shape perceptions of the brand image of a product in a person's decision-making process. This will encourage someone to decide on a purchase that ends in loyalty.

Roy et al. (2008) define brand image as as customer's thoughts and feelings towards a brand. Meanwhile, Keller (1993) define brand image as the consumer preception of a brand based on the reflection of brand associations that exist in the minds of consumers. Through brand image, consumers are able to recognize a product, evaluate the quality, lower purchase risks, and obtain certain experience and satisfaction out of product differentiation. Moreover, a positive brand image will raise the possibility of the product being selected (Thakor and Lea, 1997). So this will lead brand image towards customer loyalty.

In the other hand brand love is also one of the factors in affecting customer loyalty. Carroll and Ahuvia (2006) defined brand love as emotional and passionate feelings for any trademark. Based on Carroll and Ahuvia (2006) if the consumer starts loving a brand, then the customer actually becomes very emotional about and passionate for the brand, because of this strong emotional and passionate feeling customer expected to purchase repeatedly the same brand ignoring other competitor brands. Thus the love will tend towards loyalty.

Trust is the willingness of someone to be vulnerable to the actions of another based on the expectation that the other will perform a particular action important to the trustor, regardless of the ability to monitor or control that other party (Mayer et al., 1995). On the other hand according to Ballester (2003) reveals brand trust as safe feeling held by the customer in interaction with brand, that it is based on the opinions that the brand is reliable and responsible for the interests and welfare of the customer. Sahin et al. (2011) said that one of the factors that affect consumer loyalty is brand trust.

Customer loyalty can be defined as a customer's loyal attitude and behaviour towards a particular product or services, despite competitors providing alternative product or services in the market (Chen and Pascale, 2015). Meanwhile Haneef et al (2014) define customer loyalty as customer desire to reuse a particular product or services based on experience and expectancy in the past. In other hand Methaq Ahmed Sallam (2015) stated that loyalty is a strong commitment to repurchase a product or service in the future. Kazemi and Javad (2013) referred that customer's loyalty has strong relationship with customer word of mouth.

Traditional Word-of Mouth (WOM) has been a main study in the marketing major and it is also one of the influential strategies in consumer decision making. Arndt (1967) define WOM as a form of verbal communication from interpersonal non-commercial communication among acquaintances. In the other hand Wu et al. (2011) define WOM as verbal communication from person-to-person between a recipient and the sender, which involves a product, service or brand. Relating word of mouth to the consumer behavior, it can be interpreted that the positive word of mouth increases the likelihood of the consumers in opting for the product, whereas the negative word of mouth does the reverse. The overall effect of the word of mouth is dependent on two factors. The total number of people being exposed to positive word of mouth or negative word of mouth helps in judging the final influence.

Xiaomi is one of the most successful companies to create a strong brand image in the minds of customers. In the second quarter of 2017, Xiaomi re-entered the ranks of the world's top five smartphone brands by shipment, according to latest

data from industry consultancies Canalis, IDC and Strategy Analytics. The company shipped 21.2 million units worldwide, representing a 59% increase from last year (Forbes, 2017).

Table 1.1. Worldwide Smartphone Market, Top 5 Company Shipments, Market Share and Year-over-Year Growth, Q1 2018 (shipments in millions)

Company	1Q18 Shipment Volume	1Q18 Market Share	1Q17 Shipment Volume	1Q17 Market Share	Year-Over-Year Change
Samsung	78,2	23,4%	80,1	23,3%	-2,4%
Apple	52,2	15,6%	50,8	14,7%	2,8%
Huawei	39,3	11,8%	34,5	10,0%	13,8%
Xiaomi	28,0	8,4%	14,8	4,3%	87,8%
OPPO	23,9	7,1%	25,8	7,5%	-7,5%
Others	112,7	33,7%	138,3	40,2%	-18,5%
Total	334,3	100,0%	344,4	100,0%	-2,9%

Source: IDC Worldwide Quaterly Mobile Phone Tracker (2018)

Based on the table above IDC's international market analysis agency, released global sales data as well as some info from the top five smartphone manufacturers with the most smartphone sales in Q1 2018. Based on data from IDC overall, Q1 2018 smartphone sales declined 2.9% compared to the same quarter last year. But there is a unique IDC data that stated the majority of smartphone manufacturers decreased, Xiaomi present a significant increase up to 87.8% compared to the same quarter last year.

In addition to the development of the Xiaomi that makes it the most popular smartphone today, also because Xiaomi favor their smartphone in terms of multimedia or entertainment, and because of Xiaomi technology itself that lures people to use it. The technology is touch screen, fast charging, high pixel resolution camera, HD (high definition) video, geo-tagging feature, and easy access to internet. It is also due to various features sophisticated and applications in it that greatly facilitate the users in using the smartphone.

This is resulted in some Xiaomi users who buy and use their smartphone just for lifestyle, because the brand that has newest technology. This modern lifestyle influences the majority of Indonesian people living in urban areas. The diverse needs of urban people in relation to transportation, communication and daily work

activities even to the entertainment were required to satisfy the user's desires as much as possible. In this case, it can be seen that the mobile phone product was originally for telecommunication equipment, but now it is not enough anymore if only can be used as a tool to communicate only. So nowadays mobile phone product should have a stylish display design in accordance with the character of the owner, and also has various features that can satisfy users (ie games, notepad, internet, camera, video, audio, application for chatting, and so on). This led Xiaomi becomes a very interesting to be researched.

1.2 Research Questions

Xiaomi is one of the most successful companies to create a strong brand image in the minds of customers. In the second quarter of 2017, Xiaomi re-entered the ranks of the world's top five smartphone brands by shipment, according to latest data from industry consultancies Canalsys, IDC and Strategy Analytics. The company shipped 21.2 million units worldwide, representing a 59% increase from last year (Forbes, 2017). And also based on data from IDC overall, Q1 2018 Xiaomi present a significant increase up to 87.8% compared to the same quarter last year. But even Xiaomi present a significant increase, their rank in the worldwide smartphone market still lose from others company.

From this research gap, the questions that will be answered in this research are:

1. Does brand image effect customer loyalty on smartphone Xiaomi in Surabaya?
2. Does brand love effect customer loyalty on smartphone Xiaomi in Surabaya?
3. Does brand trust effect customer loyalty on smartphone Xiaomi in Surabaya?
4. Does customer loyalty effect WOM on smarphone Xiaomi in Surabaya?

1.3 Objectives of the study

The objectives of the study are as follow:

1. Analyze the effect of brand image on customer loyalty on smartphone Xiaomi in Surabaya.
2. Analyze the effect of brand love on customer loyalty on smartphone Xiaomi in Surabaya.
3. Analyze the effect of brand trust on customer loyalty on smartphone Xiaomi in Surabaya.
4. Analyze the effect of customer loyalty on WOM on smartphone Xiaomi in Surabaya.

1.4 Significance of the Study

The significance of this study are as follow:

1. Theoretical:

This research can gives the information about the connection between brand love, brand trust, and brand image, to the customer loyalty that will lead to positive impact of WOM in smartphone product.

2. Practical:

This study can contribute to the development of research literature about the effect of brand love, brand trust, and brand image, on customer loyalty that will lead to postive impact of WOM.

1.5. Writing Systematic

This study was written in five chapters, which were arranged systematically as follows:

1. CHAPTER 1 INTRODUCTION

This chapter discusses the background of the study, problem statement, objectives of the study, significant of the study, and outline of the thesis.

2. CHAPTER 2 LITERATURE REVIEW

This chapter describes the theoretical basis which consists of: grand theory, brand image, brand love, brand trust, customer loyalty, word of mouth, relationship between variables, hypothesis, and research model.

3. CHAPTER 3 RESEARCH METHOD

This chapter consists of: research design, variable identification, operational definition of variables, measurement of variables, types and sources of data, tools and methods of data collection, population, samples and sampling techniques, and analysis of data.

4. CHAPTER 4 ANALYSIS AND DISCUSSION

In this chapter describes the characteristics of respondents, description of the research variables, the results of data analysis which contains a measurement model suitability test, the overall model test, structural model test, hypothesis testing and discussion.

5. CHAPTER 5 CONCLUSIONS AND SUGGESTION

As the final step, this chapter contains conclusions which are a summary of the results of hypothesis testing, limitation of the research, and suggestions that might be useful for the company or future research.