

CHAPTER 1

INTRODUCTION

1.1. Background

In this era, people has become more aware to the value that the get while purchasing something, especially in food and beverage. This value, correlate to the satisfaction of the customers. This “value” is called Customer Perceived Value (CPV).

Usage of the concepts of perceived values been regarded as important condition for business sustainability, importantly in tight market competition and been known as the key of success for companies (Huber et al., 2001). It has turned into a trending topic since long time ago, but the consensus regarding its meaning and definition and the absolute concept has not been achieved and remains unknown (Sanchez-Fernandez and Iniesta-Bonillo, 2007). It’s proven that the usage of the concept of CPV doesn’t only concluding in creating more satisfied customers, but importantly it is also resulted to have direct effect toward customer repurchasing intention and brand loyalty (Lin et al., 2005). In easy words, the more benefits the product or service has offer, the more satisfied the customer will be, thus the higher chances that this satisfaction lead to positive behavior. Unfortunately, with the concept of product characteristic, there are lots of types of value dimensions that can be created or found for one type of product whether it’s good or service. In the end, it may be uneasy to identify what kind of value that companies can offer or deliver to the customer through their product. This reflects to the need and want for the better point of view of perceived value for the sake of identifying its dimensions.

Buyers perceive the value of durable/perishable goods in the consumption process at different points of time. First of all, they make a judgment about the intrinsic value of a product in the moment before purchasing, which leads to decides on the choice of an exact product from a group of related products. In the future utilization step, consumers enhance their value judgment that correlates the

repurchase behavior. At these points of times, the perceived quality of the product has an unmistakable influence on the CPV, which is correlated by the total of product quality characteristics. The reason for the personal perceptions of the similar product is likely due to the different penchant at different moments of the purchasing process. Before purchasing the product, the CPV is characterized by factors including the choice of complementary: "Purchase means choosing". In dealing with alternatives, advantages or disadvantages of the product compared to similar products have an influence on the CPV of buyers. In addition, the consumers' perspective is influenced by the experience that has been gained with similar products.

After purchase moment or during the utilization phase, there be changes on the CPV of the chosen product. In the utilization phase, consumer evaluate the respected experiences. Moreover, consumers must notice if there are new product characteristics that they could not estimate or evaluate adequately before purchasing. An example of a product characteristic is the smoothness or the reliability of a product over a longer term of usage. After purchase, consumers embrace the product much more closely and emotionally than before purchase. It is a mandatory for the companies to know the assessment and the reasons of the CPV deviation. Thereby, companies can try to upgrade the CPV through performance maintenance and accepted high costs of development. Thereafter they endeavor to reduce costs while keeping the product value high, for example by standardization.

In other hand, companies can initially try to minimize costs accepting a low CPV through cost leadership. From then, the purpose is to upgrade the CPV by differentiation in for example perceived quality, keeping the costs low. The analysis of the CPV deviation makes companies to concentrate on the concerned product factors during the product development. By that, the active effect of the CPVs correlates to an effective implementation of user-oriented and an integrated product development. In recent papers, pre-purchase and post-purchase product values are registered only separately. To defying the CPV of perishable goods, an adequate and proper assessment tool is mandatory, which can be used at both points of time

to defy the systematic deviation of pre-purchase and post-purchase value judgments.

To understand and to be able to predict consumers' choices it must be known how they perceive products. One stated hypothesis is that consumers perceive products as bundles of quality attributes with connected attribute performances. On the one hand, the benefits of an attribute result from the degree to which it is assessed as useful for the satisfaction of needs and on the other hand, whether the product-specific, perceived attribute performance has a perceptible difference in benefits compared to alternative products. The product value can be increased by two mechanisms: either by reducing the cost to the consumer or just by an increase in product deliverables, so the benefits. However, it must be ensured that this value is also perceived as such by the consumer, which means, the manufacturer must have an idea of the product value from the consumer's perspective. To design a general instrument for measuring the value of the product before and after the purchase, the trade-off between benefits and costs, as shown in Fig. 1, is the conceptual framework for the scale. In accordance with the literature, this cognitive-rational approach should be extended to emotional, so-called hedonic elements.



Figure 1 Trade-off between benefits and costs as the conceptual framework

Consumers can either sustain the economic benefits of a purchase process, or can get a better service adapted to their own needs (Morar, 2013). Other benefits enjoyed by consumers during their purchase processes are the social ones which arise from the establishment of a specific relationship. Accordingly, keeping a consumer satisfied may be ten times cheaper than acquiring a new one. So, companies need to make efforts for retaining customers and must concentrate on managing value perceived by them (Morar, 2013). Companies must provide the value which will increase the shopping intention of consumers by creating and delivering good shopping experiences. Yang and Peterson (2004) suggest that the effective management of satisfied and faithful customers gains the company an improvement of economic and competitive situation. Thus, providing superior value has become important for a company to maintain long-term relationships with their customers (Ivanauskiene et al., 2012). In the case of perceived value, customers compare benefits and sacrifices, whereas in the case of customer satisfaction they compare expected value with the actually delivered value. So, the two concepts can be viewed as different but complement one another (Korda and Snoj, 2010).

However, CPV is divided by several values. While customer perceived value is figured using perceived costs, these costs don't necessarily mean money. Price is not the most important thing in determining a customer's perceived value. However, it does play a role. There are ways to increase a customer's perceived value when tackling a product's price. In the end, the customer decides whether a product's price is right. Therefore, from a marketing perspective, pricing decisions, like all other marketing mix decisions, must start with customer value. When a customer buys a product, they exchange something of value (the price) to get something of value in return (the benefits of having or using the product or service). Therefore, effective pricing should focus on the value the product provides for the customer: Customer value-based pricing. Effective, customer value-based pricing involves understanding how much value consumers place on the benefits they receive from the product.

Customers always valued products that they want by measuring its functionality. Functional benefit refers to a product's capacity for functional, utilitarian, or physical performance. Functional benefits are derived from the tangible and concrete attributes that a consumer may directly experience when using or consuming the product. This value present to the product by the customers as they have something different toward this product instead of the alternative and varies from one customer to another. The functional value from its name something related to the product or service itself not easily can be identified or to differentiate from others as the competitor easily can copy it and mostly, they rely on the emotional benefits that comes from inside their personalities. So regardless of what anyone says, it's important to focus on the functional attributes of your product and to make sure that they are constantly being improved and are continually satisfying your customers.

An emotional value relates to the ability of the brand to make the customer feel something during the purchase process or use experience. Emotional value add richness and depth to the brand and the experience of owning and using the brand.

Mentioned variables above are likely to lead to behavioral outcomes. Willingness to pay (WTP) a price premium is one of these important outcomes for companies, because of having a challenge for them. Desired advantages of higher profits and necessity to struggle with increased costs will likely to be translated into higher retail prices. It has great importance for companies to be able to gain a premium prices. In this view, conditions under the company's control which raise consumers' WTP more should be determined and then strategically used by the companies (Zemgulene, 2013). Accordingly, Netemeyer et al. (2004), Ligas and Chaudhuri (2012) indicated that consumer's purchase intention is based on the perceived value of the product, and WTP a higher price or repurchase loyalty is obtained when perceived value is considered to be greater. Prior research has found that contextual conditions strengthen the existing risk and value perceptions of consumer (Holbrook, 1999. p. 26). Recent research has explored the effect of value and risk factors on consumers' behavioral proponents (Zemgulene, 2013).

Consumers' tendency to pay a higher price and willingness for this could also be influenced by the factors related to value perception. Dimensions of value and satisfaction are the important contextual conditions that have often been found related to various marketing constructs (Zemgulene, 2013). In marketing research, the relationship between perceived value, satisfaction and behavioral intentions have been widely discussed in relation to consumers' decision making process (Kang and Schrier, 2011. p. 72). However, there is little evidence of the simultaneously viewed effects of perceived value dimensions on the relationship between satisfaction and WTP a higher price (Korda and Snoj, 2010; Zemgulene, 2013).

Then, why family business? Lots of kind of business to be an object, but why family business. First generation of family business usually starts in era of baby boomers. Then become a heritage to their descendants, until it fails in the third generations, the millennials. The term succession in family business, as defined by Massis et. al (2008), refers to the situation where both the current leader who relinquishes a business's managerial control and the successor who takes over are family members. Surdej (2010) points out that succession in family businesses is focused on dealing with the dilemma of how to preserve (and possibly increase) family wealth while at the same time ensuring the positive transformation (in terms of managerial, technical, operational etc. capacity) of a business. According to Brockhaus (2004) succession is a significant phenomenon in a family business's life and an issue that requires analysis from the perspectives of the key stakeholder groups of the business: family members, management, employees, and other non-family owners of the firm.

Chrisman et.al. (2003) argue that success in family business succession has the important implication of affecting and influencing the positive performance of the firm and satisfying its varied stakeholders. Chrisman et.al. (2003) further argue that a successful family succession can help maintain the intrinsic and tacit business knowledge that family members have accumulated and that such knowledge helps family businesses maintain competitive advantage over non-family owned

businesses. Matthews et.al. (1999) argue that one of the main reasons for the high rate of family business succession failure emanates from the business owners' managerial incapacity to cope with the complicated procedure of passing over ownership as well as leadership of the business. These factors that are related to the incapacity and/or reluctance of the owner to enable smooth succession are termed incumbent related factors. Massis et.al. (2008) argue that in a situation where an incumbent is too attached to the enterprise, the likely successor might not be granted the chance to acquire the skills or attain the experience and respect necessary to manage the business.

Using Agogo Restaurant as object in this research provides more real and actual condition that occur since it is researcher's family owned restaurant. Becoming third generation to manage the business put a weight to maintaining and developing the business sales while keeping the brand image and quality as people know. Practical advices resulted by the research hopefully can be implemented to improve and maintaining the quality and image that people know and love.

Being a mature culinary institution means to maintaining quality and service, not to provides new creative or up to date product that may be a challenge for other newly established business (Brockhaus, 2004). Agogo Restaurant provides memories and nostalgia of authentic Middle Java's traditional cuisine that have linger since 1965. Established in the 60's in Jogjakarta Province, and now in Surabaya creates a journey and flavor shifting for being in different culture.

The objective of this study is to use a structural model to examine the casual relationships among dimensions of perceived value, satisfaction, and WTP more. The result of this study will help family businesses identify which value functions can lead to firstly satisfaction and then WTP more. The study tries to gain better insights into consumers' value perceptions on food and beverage industry.

1.2. Problem Statement

Based on the background of the problem, the following research questions can be proposed:

1. Does the Functional Value affect the Willingness To Pay thru the Satisfaction of the Product at Agogo Restaurant in Surabaya?
2. Does the Price Value affect the Willingness To Pay thru the Satisfaction of the Product at Agogo Restaurant in Surabaya?
3. Does the Emotional Value affect the Willingness To Pay thru the Satisfaction of the Product at Agogo Restaurant in Surabaya?
4. Does the Satisfaction of the Product affect the Willingness To Pay at Agogo Restaurant in Surabaya?
5. Could the Satisfaction of the Product be a mediator to determine Willingness To Pay at Agogo Restaurant in Surabaya?

1.3. Objective of the Research

Based on the research problems, the following objectives could be concluded:

1. To examine and analyze the Functional Value effect to the Willingness To Pay thru the Satisfaction of the Product at Agogo Restaurant in Surabaya
2. To examine and analyze the Price Value effect to the Willingness To Pay thru the Satisfaction of the Product at Agogo Restaurant in Surabaya
3. To examine and analyze the Emotional Value effect to the Willingness To Pay thru the Satisfaction of the Product at Agogo Restaurant in Surabaya
4. To examine and analyze the Satisfaction of the Product effect to the Willingness To Pay at Agogo Restaurant in Surabaya
5. To examine and analyze the Satisfaction of the Product as a mediator to determine Willingness To Pay at Agogo Restaurant in Surabaya

1.4. Significance of the Study

1.4.1. Theoretical Contribution

The result of this research can be used as the reference for those who do the similar study research or continual study especially about the influence of Functional Value, Price Value, and Emotional Value to the Willingness To Pay at Agogo Restaurant in Surabaya thru Satisfaction of the Product as a Mediator.

1.4.2. Practical Contribution

This result of this research can give information to the family businesses or food and beverages industry who want to identify about the consumer purchasing decision on food and beverage by understanding the influence of Functional Value, Price Value, and Emotional Value to the Willingness To Pay at Agogo Restaurant in Surabaya thru Satisfaction of the Product as a Mediator.

1.5. Writing Structure

The writing of this thesis is presented in five chapters. Explanation about each of the chapters can be described as follows:

CHAPTER I INTRODUCTION

This chapter describes the background of the study in which this study based of Agogo Restaurant as an object and narrated problem statement, objective of the research, and the significance of the study.

CHAPTER II LITERATURE REVIEW

This chapter describes some base theories about variables researched such as functional value, price value, and emotional value. As well as outlined in previous research, the framework of thought, hypothesis, and variable dimensions.

CHAPTER III RESEARCH METHOD

This chapter describes the research variables and operational definition of the variables, determining the number of samples, types and sources of data, methods data collection, as well as the analytical methods used in this study.

CHAPTER IV DATA ANALYSIS AND DISCUSSION

This chapter outlines the main contents of the study which contain descriptions of objects researched, data analysis from the discussion so that it can be known the results of the analysis examined is about the results of proving the hypothesis up with the influence of independent variables on the dependent variables.

CHAPTER V CONCLUSIONS AND SUGGESTIONS

This chapter contains conclusions from the results of the research discussion and suggestions to the parties involved about the results of the research conducted.