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Analyzing The Impact of Price, Brand Perception, and Flavor Importance on Consumer Switching Behavior: A Case Study of Gudang Garam in The Indonesian Cigarette Market

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ABSTRACT

The Indonesian cigarette industry is a highly competitive and heavily regulated market, where consumer preferences are influenced by various factors, including price, brand perception, and flavor. This study examines the key determinants of consumer switching behavior in the cigarette market, focusing on PT. Gudang Garam, a major tobacco producer in Indonesia. Over the past three years, the company has experienced a decline in market share, raising concerns regarding the effectiveness of its branding, pricing, and product offerings. This research aims to analyze the extent to which price, brand perception, and flavor importance affect consumer switching behavior. A quantitative approach was employed, using survey data collected through structured questionnaires. The data were analyzed using structural equation modeling to test the relationships among these variables. The findings indicate that price exerts the most significant influence on consumer switching, followed by flavor importance, while brand perception plays a comparatively smaller role. The mediation analysis further reveals that price acts as an intermediary between brand perception and switching behavior, as well as between flavor importance and switching behavior, reinforcing the central role of pricing strategies in the industry. The results suggest that Gudang Garam must reconsider its pricing model and explore cost-effective strategies to compete in the price-sensitive segments. Additionally, product diversification, particularly in flavored cigarette offerings, is critical in responding to shifting consumer preferences. Enhancing brand perception through modernized marketing strategies may also contribute to improving customer retention. These findings offer valuable insights for industry stakeholders, highlighting the importance of aligning pricing, product innovation, and brand positioning with evolving market demands.

Keywords: *Consumer switching, price sensitivity, brand perception, flavor innovation, cigarette industry, Gudang Garam.*

ABSTRAK

Industri rokok Indonesia adalah pasar yang sangat kompetitif dan diatur dengan ketat, di mana preferensi konsumen dipengaruhi oleh berbagai faktor, termasuk harga, persepsi merek, dan rasa. Studi ini mengkaji faktor penentu utama perilaku peralihan konsumen di pasar rokok, dengan fokus pada PT. Gudang Garam, produsen tembakau utama di Indonesia. Selama tiga tahun terakhir, perusahaan telah mengalami penurunan pangsa pasar, menimbulkan kekhawatiran mengenai efektivitas *branding*, harga, dan penawaran produknya. Penelitian ini bertujuan untuk menganalisis sejauh mana harga, persepsi merek, dan kepentingan rasa mempengaruhi perilaku peralihan konsumen. Pendekatan kuantitatif digunakan, menggunakan data survei yang dikumpulkan melalui kuesioner terstruktur. Data dianalisis menggunakan pemodelan persamaan struktural untuk menguji hubungan di antara variabel-variabel ini. Temuan menunjukkan bahwa harga memberikan pengaruh paling

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signifikan pada peralihan konsumen, diikuti oleh pentingnya rasa, sementara persepsi merek memainkan peran yang relatif lebih kecil. Analisis mediasi lebih lanjut mengungkapkan bahwa harga bertindak sebagai perantara antara persepsi merek dan perilaku peralihan, serta antara pentingnya rasa dan perilaku peralihan, memperkuat peran sentral strategi penetapan harga dalam industri. Hasilnya menunjukkan bahwa Gudang Garam harus mempertimbangkan kembali model penetapan harganya dan mengeksplorasi strategi hemat biaya untuk bersaing di segmen yang sensitif terhadap harga. Selain itu, diversifikasi produk, terutama dalam penawaran rokok rasa, sangat penting dalam menanggapi pergeseran preferensi konsumen. Meningkatkan persepsi merek melalui strategi pemasaran modern juga dapat berkontribusi untuk meningkatkan retensi pelanggan. Temuan ini menawarkan wawasan berharga bagi pemangku kepentingan industri, menyoroti pentingnya menyelaraskan harga, inovasi produk, dan posisi merek dengan permintaan pasar yang terus berkembang.

Kata kunci: *Consumer switching*, *price sensitance*, *brand perception*, inovasi rasa, industri rokok, Gudang Garam.

INTRODUCTION

Indonesia's tobacco market is among the largest globally. This is driven by the country's high smoking rate and cultural acceptance of smoking. According to Euromonitor International in 2022, Indonesia's tobacco industry is valued at over US$34 billion, making Indonesia the second largest cigarette market in the world. Cigarettes are a thriving market in Indonesia, where close to 34.5% of Indonesian adults (around 70 million people) are active tobacco users. 65.5% of Indonesian males are smokers, compared to just 3% of Indonesian women.

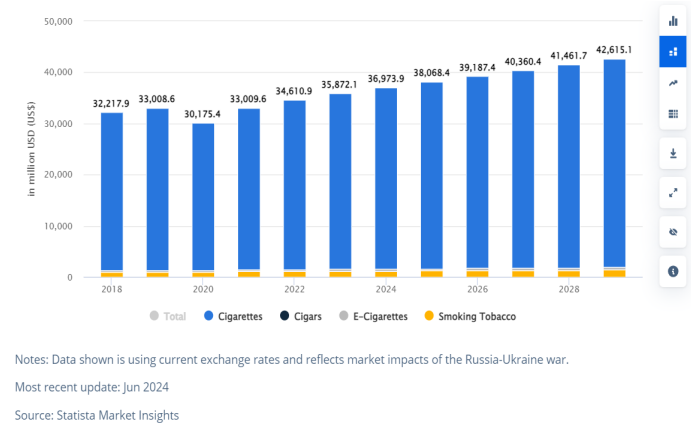

Figure 1. Global Tobacco Products Market Revenue Projections by Category (2018-2028)

Indonesia's tobacco industry is dominated by a few key players, including PT. Djarum, PT. Gudang Garam, and Philip Morris International, the latter of which operates in Indonesia through their subsidiaries, Philip Morris Indonesia and PT. HM Sampoerna (acquired in 2005). According to Statista (2024), Indonesia's tobacco market is projected to grow steadily, with an estimated value of US$42 billion by

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2029. Despite this optimistic forecast of the tobacco industry, PT. Gudang Garam has been experiencing a steady decline in their market share over the years.

In 2021, PT. Gudang Garam controlled 28.6% of the Indonesian tobacco market, yet by 2022, this had dropped to 26.9% and further declined to 22.6% in 2023. In contrast, competitors like PT. Djarum increased in market share from 18.5% in 2021 to 19.5% in 2023, and Philip Morris Indonesia maintained a relatively stable position with 28.8% in 2021 and 28.3% in 2023.

This downward trend for Gudang Garam stands in contrast to their competitors, who either retained their overall position or grew their market presence despite the optimistic positive trend of the tobacco market in Indonesia. Gudang Garam's struggle in maintaining a foothold may suggest that brand loyalty alone may no longer be enough to secure the positions they once held in the industry.

METHODOLOGY

Research Design

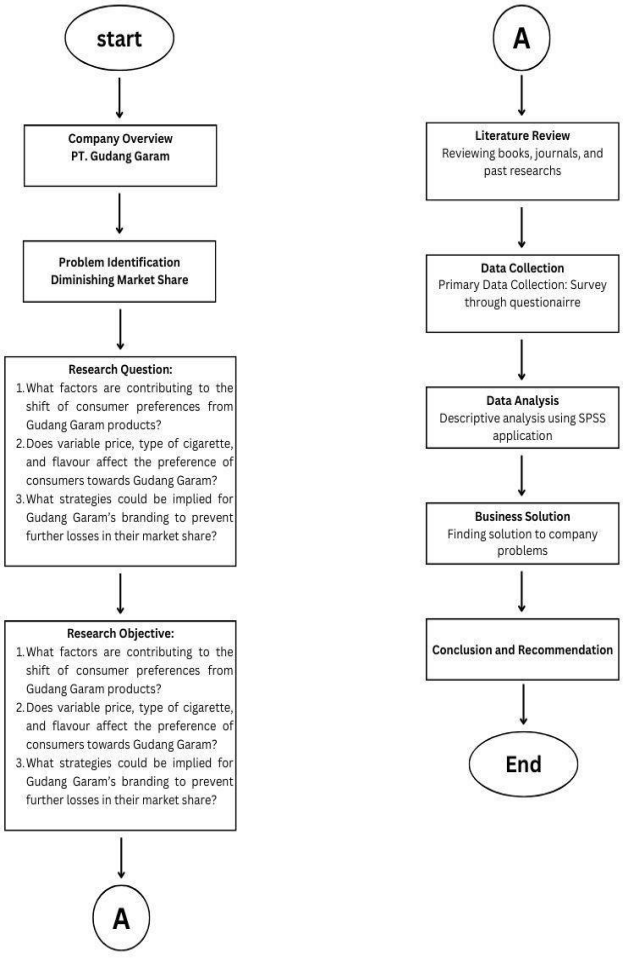

Figure 2. Research Design Flow

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Research design explains the design, development, and evaluation of research to solve solutions to previously unsolved problems (S. Putrawangsa, 2018). Research design contains a series of activities to collect, process, analyze, and present data systematically and objectively. Research design aims to solve a problem or evaluate a hypothesis in order to describe general principles. Researchers apply research design to explain all activities needed in planning and implementing research.

The quantitative approach to be employed is a descriptive research design, aiming to assess and analyze consumer behavior and preference for the product of PT Gudang Garam. The intent of the survey is to uncover important factors that have led to a decline in market share and find a strategic way to bring PT Gudang Garam back to its competitive position within the market. This is an appropriate approach, as it allows the researcher to collect quantifiable data from a large number of respondents and statistically analyze the relationships between variables such as consumer satisfaction, brand loyalty, and purchasing decisions.

(Bryman & Cramer, 2011) Quantitative research focuses on measuring and analyzing numbers to understand social phenomena. They emphasize the importance of collecting measurable data to make statistical inferences. Quantitative research is designed to test theories by collecting numerical data and analyzing it statistically. It emphasizes the use of clear hypotheses to guide research (Creswell, 2014). (Burns & Grove, 2005) Quantitative research as an approach focuses on measuring and analyzing specific variables to produce generalizable results.

RESULT AND DISCUSSION

Validity Test

Table 1. Validity Test

Variable	Pearson Correlation	Sig. (2-tailed)
X1.1	0.657**	0
X1.2	0.564**	0
X1.3	0.690**	0
X1.4	0.590**	0
X1.5	0.646**	0
X1.6	0.705**	0
X1.7	0.638**	0
X1.8	0.553**	0
X1.9	0.656**	0
X1.10	0.591**	0
X1.11	0.710**	0
X1.12	0.669**	0
X2.1	0.908**	0
X2.2	0.907**	0
Z.1	0.834**	0

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Z.2	0.808**	0
Z.3	0.852**	0
Y.1	0.702**	0
Y.2	0.748**	0
Y.3	0.776**	0
Y.4	0.763**	0
Y.5	0.743**	0
Y.6	0.738**	0
Y.7	0.782**	0
Y.8	0.748**	0

From the data listed in the Table, it can be concluded that the R-count value outperforms the R-table value, and the probability value (sig) is less than 0.05 (α = 0.05). Therefore, it can be stated that all variable indicators can be considered valid.

Reliability Test

Table 2. Reliability Test

No	Variable	Coefficient Alpha Cronbach	Information
1	X1	0.869	Valid
2	X2	0.787	Valid
3	Z	0.776551	Valid
4	Y	0.888508	Valid

Based on the information contained in the table, it can be concluded that the Cronbach's Alpha value for all variables exceeds 0.60, indicating that the statement instrument used is reliable.

Normality Test

Table 3. One-Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		101
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	4.60795866
Most Extreme Differences	Absolute	.041
	Positive	.038
	Negative	-.041
Test Statistic		.041
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

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Based on the results of the image calculation, the sig. value is greater than 0.05. So the provision of H0 is accepted, namely that the normality assumption is met.

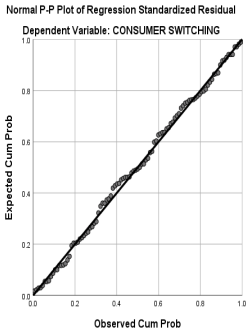

Figure 3. Normal P-Plot of Regression

The figure above illustrates that the data is spread around the diagonal line and follows the trend of the line, indicating a normal distribution pattern. Therefore, it can be concluded that the regression model meets the requirements of normality.

Multicollinearity Test

Table 4. Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	BRAND EQUITY	.605	1.653
	FLAVOR	.749	1.335
	PRICE	.523	1.912

a. Dependent Variable: CONSUMER SWITCHING

Based on the test results, it can be concluded that there is no multicollinearity among the independent variables. Therefore, we can conclude that the classical assumption test, specifically the absence of multicollinearity, has been satisfied.

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Heteroscedasticity Test

Table 5. Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.983	1.440		2.072	.041
	BRAND EQUITY	.034	.036	.122	.948	.346
	FLAVOR	-.142	.139	-.118	-1.027	.307
	PRICE	.038	.117	.045	.323	.747

a. Dependent Variable: ABS_RES

The Glejser test was conducted to detect heteroscedasticity in the regression model. Based on the test results, the significance value for the Brand Equity variable is 0.346, for the Flavor variable is 0.307, and for the Price variable is 0.747. All of these significance values are greater than 0.05, indicating that there is no significant relationship between the independent variables and the absolute value of the residual (ABS_RES). Thus, there is no indication of heteroscedasticity in this model.

Regression Analysis

Regression Equation

Table 6. Regression Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-1.339	2.473		-.541	.589		
	BRAND EQUITY	.204	.062	.253	3.289	.001	.605	1.653
	FLAVOR	.792	.238	.230	3.323	.001	.749	1.335
	PRICE	1.317	.200	.545	6.575	.000	.523	1.912

a. Dependent Variable: CONSUMER SWITCHING

Based on the Table, the regression equation is obtained as follows:

$$\text{Consumer Switching} = -1.339 + 0.204(\text{Brand Equity}) + 0.792(\text{Flavor}) + 1.317(\text{Price})$$

Interpretation:

1. **Constant (Intercept):**
   - The constant value is -1.339 shows that if all independent variables (Brand Equity, Flavor, Price) are zero, then the value Consumer Switching predicted to be -1.339. Although they have no direct practical interpretation, constants are necessary to form the regression equation.
2. **Brand Equity:**

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- Coefficient of 0.204 indicates that every one unit increase in Brand Equity will improve Consumer Switching as big as 0.204 unit, assuming other variables are constant.
- The t value is equal to 3.289 and significance 0.001 shows a statistically significant effect.

3. **Flavor:**
   - Coefficient of 0.792 indicates that every one unit increase in Flavor will improve Consumer Switching as big as 0.792 unit, assuming other variables are constant.
   - The t value is equal to 3.323 and significance 0.001 shows a statistically significant effect.
4. **Price:**
   - Coefficient of 1.317 indicates that every one unit increase in Price will improve Consumer Switching as big as 1.317 unit, assuming other variables are constant.
   - The t value is equal to 6.575 and significance 0.000 shows a statistically significant effect.

Coefficient of Determination

Model 1

Table 7. Coefficient of Determination Model 1

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.691[a]	.477	.466	2.35942

a. Predictors: (Constant), FLAVOR, BRAND EQUITY

b. Dependent Variable: PRICE

The first model shows that there is a strong relationship between Flavor and Brand Equity with Price, with a correlation coefficient (R) value of 0.691. As much 47.7% variability in Price can be explained by Flavor and Brand Equity, while the remainder is equal to 52.3% influenced by other factors outside the model, as indicated by the R Square value of 0.477. After adjustment, Adjusted R Square shows that 46.6% Price variability can still be explained by this model. With a standard error value of 2.35942, this model is quite good at predicting Price.

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Model 2

Table 8. Coefficient of Determination Model 2

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.807[a]	.652	.641	4.67867

a. Predictors: (Constant), PRICE, FLAVOR, BRAND EQUITY

b. Dependent Variable: CONSUMER SWITCHING

The second model shows a very strong relationship between Price, Flavor, And Brand Equity with Consumer Switching, with a correlation coefficient (R) value of 0.807. As much 65.2% variability in Consumer Switching can be explained by the three independent variables, while the remainder is equal to 34.8% influenced by other factors, as shown by the R Square value of 0.652. The Adjusted R Square value is 0.641 shows that this model remains valid after adjustment, with a standard error value of 4.67867. Overall, both models show a strong and valid relationship to be used to explain the influence of independent variables on the dependent variable.

Hypotheses Testing

T-Test

The T test in SPSS is used to test the significance of the influence of each independent variable on the dependent variable individually in the regression model. This test aims to find out whether each independent variable has a significant influence on the dependent variable by testing the null hypothesis (H_0) that the regression coefficient of the independent variable is equal to zero (no effect). If the significance value (p-value) is ≤ 0.05, then H_0 is rejected, which means the independent variable has a significant influence on the dependent variable, whereas if the p-value is > 0.05, then H_0 is accepted, meaning the independent variable has no significant effect. The T test results include the coefficient value (B) which shows the direction and magnitude of the influence, the t value as the test statistic, and the p-value for significance. The T test is important to determine which variables contribute significantly to the regression model. The following are the results of the T test that has been carried out.

Model 1

Table 9. T-Test Model 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-2.789	1.215		-2.296	.024
	BRAND EQUITY	.194	.024	.582	7.948	.000
	FLAVOR	.591	.104	.415	5.673	.000

a. Dependent Variable: PRICE

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Hypothesis for BRAND EQUITY

Brand equity shows high statistical significance with a p value of 0.000, and a beta coefficient of 0.582. This indicates that brand equity has a strong and positive influence on price. With a t value of 7.948, this confirms that brand equity is a very significant predictor in the model.

Hypothesis for FLAVOR

Taste is also statistically significant with a p value of 0.000 and a beta coefficient of 0.415. The t value of 5.673 indicates a significant effect of taste on price, confirming its important role in the model.

Model 2

Table 10. T-Test Model 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.339	2.473		-.541	.589
	BRAND EQUITY	.204	.062	.253	3.289	.001
	FLAVOR	.792	.238	.230	3.323	.001
	PRICE	1.317	.200	.545	6.575	.000

a. Dependent Variable: CONSUMER SWITCHING

Hypothesis for BRAND EQUITY

Brand equity has a very significant p value (0.001) and beta coefficient (0.253) which shows a positive influence on consumer switching. With a t value of 3.289, this confirms that brand equity is a strong predictor in this model.

Hypothesis for FLAVOR

The taste variable also shows high statistical significance with a p value of 0.001 and a beta of 0.230, as well as a strong t value of 3.323, indicating that taste influences consumers' switching decisions significantly.

Hypothesis for PRICE

Price is the variable with the strongest influence in this model with the highest beta (0.545) and a very high t-value (6.575), as well as a p-value of 0.000, which shows that price is very significant in influencing consumer switching behavior.

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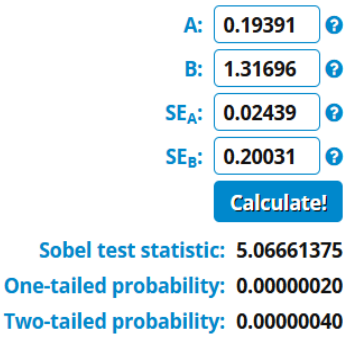
Sobel Test (Mediation)

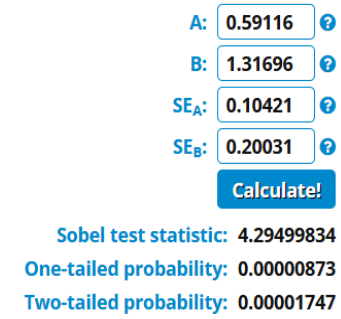
The Mediating Effect of Price on the Relationship between Brand Equity and Consumer Switching



- **Nilai A (Brand equity → Price): 0.19391**
- **SE_A (Standard Error dari A): 0.02439**
- **Nilai B (Price → CONSUMER SWITCHING): 1.31696**
- **SE_B (Standard Error of B): 0.20031**
- **Sobel test statistic: 5.0661375**
- **Two-tailed probability: 0.00000040**

This result is highly statistically significant, indicating that the mediation that occurs through the variable 'Price' is significant in the relationship between 'Brand equity' and 'CONSUMER SWITCHING'. This means that 'Price' is a strong mediator between 'Brand equity' and consumers' tendency to switch brands or products.

The Mediating Effect of Price on the Relationship between Flavor and Consumer Substitution



- **Nilai A (Flavor → Price): 0.59116**
- **SE_A (Standard Error dari A): 0.10421**
- **Nilai B (Price → CONSUMER SWITCHING): 1.31696**
- **SE_B (Standard Error of B): 0.20031**
- **Sobel test statistic: 4.29499834**
- **Two-tailed probability: 0.00001747**

This result is highly statistically significant, indicating that the mediation that occurs through the 'Price' variable is significant in the relationship between 'Flavor'

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and 'CONSUMER SWITCHING'. This means that 'Price' is a strong mediator between 'Flavor' and consumers' tendency to switch brands or products.

First, the direct effects of brand equity, flavor, and price on consumer switching are explored. Brand equity shows a significant positive impact on consumer switching, with a coefficient of 0.204, indicating that an increase in brand equity correlates with a rise in switching behavior when other factors are constant. Flavor has an even stronger positive effect, with a coefficient of 0.792, making it a significant factor influencing consumer decisions. Price exhibits the highest influence, with a coefficient of 1.317, underscoring its critical role in driving consumer switching behavior.

Next, the mediation analysis focuses on the role of price as an intermediary. In the relationship between brand equity and consumer switching, price acts as a significant mediator, as evidenced by the Sobel test statistic of 5.0661 and a p-value of 0.00000040. This confirms that price partially explains the relationship between brand equity and consumer switching. Similarly, price mediates the relationship between flavor and consumer switching, with a Sobel test statistic of 4.2950 and a p-value of 0.00001747, demonstrating its significance as a mediating variable.

Finally, the overall model performance is assessed. The analysis shows that flavor and brand equity account for 46.6% of the variability in price. Meanwhile, price, flavor, and brand equity together explain 65.2% of the variability in consumer switching, with the remaining variability attributed to external factors. These results highlight the strong relationships among the variables, emphasizing the pivotal role of price as a mediator and its strategic importance in influencing consumer behavior.

The hypotheses in this study were developed to explore the relationships between Brand Perception, Flavor Importance, Price, and Customer Switching. The results of the analysis confirm significant relationships between these variables, demonstrating their influence on consumer behavior in the cigarette industry.

The findings revealed that Brand Perception has a positive and significant direct effect on Customer Switching, as indicated by its coefficient and statistical significance. This result underscores the critical role of brand identity and reputation in shaping consumer decisions, particularly in a competitive market where branding often differentiates products with similar attributes.

Flavor Importance also exhibits a strong positive impact on Customer Switching, further solidifying the notion that sensory appeal and product satisfaction are decisive factors for consumers when evaluating alternatives. This effect highlights the role of flavor as a key determinant of customer preference and loyalty, particularly in an industry where product experience significantly influences behavior.

Among the direct effects, Price demonstrated the most substantial influence on Customer Switching. The results suggest that pricing strategies are pivotal in shaping customer decisions, with affordability and perceived value acting as critical

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drivers of switching behavior. This finding emphasizes the importance of price sensitivity in consumer choices within the cigarette market.

The mediation analysis further enriches the understanding of these relationships. Price serves as a significant mediator in the relationship between Brand Perception and Customer Switching. This finding indicates that the perceived value of a brand, as influenced by price, enhances its ability to retain or attract customers. Similarly, Price mediates the effect of Flavor Importance on Customer Switching, suggesting that consumers weigh both sensory appeal and pricing when making decisions about switching brands.

Overall, the results underscore the interconnected nature of Brand Perception, Flavor Importance, and Price in influencing Customer Switching. The significant mediating role of Price highlights its strategic importance in crafting competitive marketing strategies. These insights provide valuable guidance for companies in the cigarette industry, emphasizing the need for balanced efforts in branding, product differentiation, and pricing to influence customer preferences effectively.

CONCLUSION AND RECOMMENDATIONS

Conclusion

It can be concluded from the research that price, type of cigarette, and flavor are the primary factors contributing to the shift in consumer preferences away from Gudang Garam products. Specifically, price emerges as the most significant factor influencing consumer switching, followed by the importance of flavor. This explains why Gudang Garam has been losing market share for three consecutive years, as the brand has not adequately addressed these critical consumer demands. Price-sensitive consumers, particularly younger demographics who form a substantial portion of the market, are increasingly opting for competitors offering more affordable options. Additionally, the lack of diversified flavor offerings has limited Gudang Garam's ability to attract or retain consumers seeking variety and innovation in their smoking experience.

To address these challenges, Gudang Garam must implement strategies that focus on competitive pricing, product diversification, and flavor innovation. By introducing new products that cater to lower price segments and expanding flavor options, the brand can better align with evolving consumer preferences. Furthermore, strengthening branding efforts to emphasize affordability, quality, and innovation could help regain consumer trust and loyalty. These strategic adjustments are essential for Gudang Garam to regain its market position and adapt to the dynamic and competitive landscape of the industry.

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Recommendation

1. It is hoped that the company can address the issues found in this research. Gudang Garam could develop new products to cater to the ever-evolving consumer preference in their cigarettes by developing new lines of products that are cheap and flavorful.
2. For further research, it is recommended to explore additional variables:
   a. Expand the demographic scope:

      Future studies should include a broader demographic profile to understand how consumer preferences vary across different age groups, income levels, and geographic locations. This can help identify niche markets and tailor strategies accordingly. Additionally, expanding the sample size and including consumers from rural and urban settings can provide a more comprehensive understanding of preferences across diverse consumer segments.

   b. Longitudinal Studies:

      Conducting longitudinal research could provide deeper insights into how consumer preferences evolve over time, particularly in response to regulatory changes, economic conditions, and cultural shifts. Such studies could also examine how sustained marketing strategies and product innovations impact long-term consumer loyalty and switching behavior.

   c. Focus on Emerging Trends:

      Investigating emerging trends, such as the impact of e-cigarettes and other alternative smoking products on consumer behavior, could offer valuable insights for strategic diversification. Understanding how these products influence traditional cigarette consumption can guide Gudang Garam in identifying potential threats and opportunities within the market.

   d. Regulatory Impact Analysis:

      Companies that need to work in an environment with a lot of rules might find it useful to look into the direct and indirect effects of Indonesian tobacco laws on consumer behavior and industry strategies. Future research could evaluate the effectiveness of regulatory measures, such as advertising restrictions and excise taxes, in shaping consumer preferences and switching trends.

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