

THE INFLUENCE OF COUNTRY OF ORIGIN ON PURCHASE DECISIONS THROUGH PRICE AS A MEDIATING VARIABLE IN XIAOMI PRODUCTS

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Abstract

This study aims to analyze the influence of Country of Origin (COO) on Price and Purchase Decisions, both directly and indirectly, with Price as a mediating variable, focusing on Xiaomi products. The findings reveal that consumer perceptions of a product's country of origin significantly influence their evaluation of price. However, perceptions of the country of origin do not directly impact purchase decisions, as consumers prioritize product quality and features. Price emerges as the primary determinant of purchase decisions, with competitive pricing aligned with quality driving consumer purchases. Additionally, perceptions of the country of origin indirectly influence purchase decisions through price. This research provides strategic insights for Xiaomi to manage brand image, optimize pricing strategies, and enhance competitiveness in the global market.

Keywords: Country of Origin, Price, Purchase Decision, Xiaomi

INTRODUCTION

The era of globalization presents both opportunities and challenges for businesses operating worldwide. This phenomenon expands market reach but also intensifies competition, leaving companies with no option but to adapt or exit the competitive arena. To thrive, companies must enhance effectiveness and customer value. As Bestari (2003) stated, the best response to protecting market share is through continuous innovation. Businesses strive to improve their competitive edge and perceived value among consumers, especially given the technological advancements accompanying globalization. Over the last decade, technological progress has significantly influenced the communication industry. Modern smartphones, which have evolved beyond simple communication tools to enable video calls, virtual social networking, and more, epitomize this change.

The global smartphone industry continues to experience significant dynamics in terms of shipments and financial performance. According to the International Data Corporation (IDC), global smartphone shipments reached 265.3 million units in Q2 2023, marking a 7.8% year-on-year (YoY) decline from 287.6 million units in Q2 2022. This decline reflects global market challenges, including changing consumer preferences, economic dynamics, and intensified competition among manufacturers. Major players like Samsung and Apple also faced shipment declines of 15.2% and 6.3% YoY, respectively. However, Chinese brands like Transsion demonstrated positive growth with a 34.1% YoY increase in shipments. Conversely, Xiaomi—a prominent Chinese smartphone manufacturer—experienced significant challenges, with a 16% YoY decline in shipments, dropping from

39.5 million units in Q2 2022 to 33.2 million units in Q2 2023. Xiaomi's declining performance is evident in its financial report for Q1 2023, which recorded a revenue of 59.5 billion Yuan, an 18.9% drop from 73.4 billion Yuan in Q1 2022. This downturn underscores the business challenges Xiaomi faces, including competitive pressure in global markets, fluctuating consumer demand, and adverse global economic conditions.

Among the factors contributing to Xiaomi's declining sales is Country of Origin (COO). Simamora (2000) highlighted the significant influence of COO on perceptions of product quality. Similarly, Listiana (2013) defined COO perception as consumers' general evaluation of a product's origin, formed from information received from various sources. This perception comprises three dimensions: beliefs about the country, beliefs about its people, and willingness to interact with the country. According to Parkvithee and Miranda (2016), consumers care about where a product originates and where it is manufactured.

Besides COO, price significantly impacts Xiaomi's sales decline. Known for its competitive pricing strategy—offering high-specification products at relatively affordable prices—Xiaomi faces increasing pressure from competitors like Vivo, OPPO, and Infinix. Rising raw material costs, global inflation, and higher distribution expenses have forced Xiaomi to adjust its pricing, causing middle- and lower-market segment consumers, its primary target, to shift to more affordable brands.

In conclusion, Xiaomi's declining sales stem from critical factors such as COO and price, which directly shape consumer perceptions and preferences. These two variables are pivotal in consumer purchase decision-making, particularly in competitive industries like smartphones.

Consumer purchase decisions reflect responses to multiple factors, including quality, price, brand image, and the product's country of origin. For Xiaomi, it is crucial to understand how consumer perceptions of COO and pricing strategies influence their purchasing decisions. Therefore, this study aims to explore consumer purchase decisions as the research focus. The study will analyze how these variables influence purchase decisions and offer strategic recommendations for Xiaomi to enhance competitiveness and improve sales performance.

RESEARCH METHOD

This study employs a causal-comparative research design to investigate cause-and-effect relationships. According to Sugiyono (2011), a causal relationship reflects the nature of cause and effect. The research identifies independent variables (influencing factors) and dependent variables (affected factors). The hypotheses propose the following relationships: the effect of relational marketing on customer retention, the effect of relational marketing on customer satisfaction, the effect of customer satisfaction on customer retention, and the mediating role of customer satisfaction in the relationship between relational marketing practices and customer retention.

The sampling technique used in this study is purposive sampling, where respondents are identified based on predefined criteria (Sugiyono, 2013). This method ensures alignment with the research criteria, targeting specific respondent characteristics. In this study, the respondents are Xiaomi consumers in Makassar City who meet the following criteria: they have purchased Xiaomi products at least three times and have used a Xiaomi smartphone for at least one year. Based on these criteria, a sample of 100 respondents was obtained.

The data used in this study is primary data collected through online questionnaires distributed via Google Forms to respondents meeting the specified criteria. All variables in the study were measured using a Likert scale, which has five response levels: a score of 5 for strongly agree, 4 for agree, 3 for neutral, 2 for disagree, and 1 for strongly disagree.

The statistical data analysis in this research uses inferential statistics and applies Structural Equation Modeling (SEM) with the assistance of the Smart-PLS software. Prior to data analysis, validity and reliability tests were conducted for each statement related to the research variables. After completing data processing, a discussion of the findings was conducted, culminating in conclusions based on the results of the analysis.

RESULT AND DISCUSSION

In evaluating the model, this study applied Convergent Validity analysis using the Structural Equation Modeling (SEM) approach. This analysis compares the actual factor loading values with standard factor loading thresholds. An indicator is considered to meet the criteria for convergent validity if its outer loading exceeds 0.6, confirming the validity of the research (Ghozali & Latan, 2015).

Discriminant Validity was assessed using the Average Variance Extracted (AVE) method, where each indicator must have an AVE value greater than 0.5 to be deemed valid. Additionally, a variable is categorized as meeting composite reliability if its composite reliability value exceeds 0.70. Finally, the reliability of a variable is determined based on its Cronbach's Alpha value, which is considered adequate if it exceeds 0.70 (Ghozali, 2016).

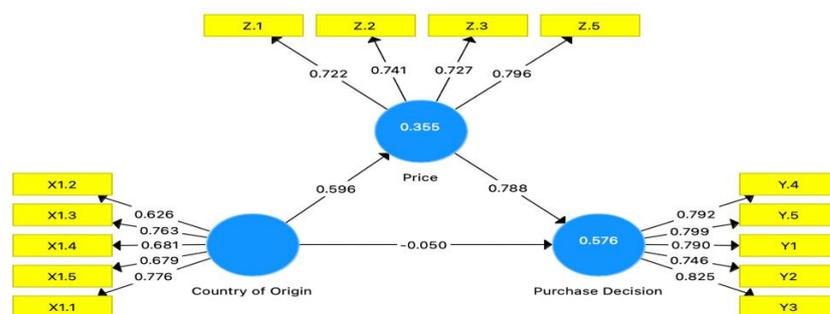


Figure 1. Outer Model
Source: Data processed by SmartPLS, 2024

Based on the results of the **Structural Equation Modeling (SEM)** analysis, it was found that the loading factor values for all variables exceed **0.60**, indicating that each

indicator significantly contributes to its respective construct. This confirms the validity of the measurement model and the appropriateness of the indicators in representing the underlying constructs.

Table 1. Discriminant Validity Using the Average Variance Extracted (AVE) Method

Variable	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Country of Origin	0.753	0.752	0.832	0.500
Price	0.735	0.738	0.835	0.558
Purchase Decision	0.850	0.854	0.893	0.625

Source: Data processed by SmartPLS, 2024

Based on the data presented in the table, the Average Variance Extracted (AVE) values for all variables, namely Country of Origin, Price, and Purchase Decision, are greater than 0.5, indicating that the constructs exhibit adequate convergent validity. Moreover, the Composite Reliability values for all variables exceed 0.7, reflecting a high level of internal consistency. Similarly, the Cronbach's Alpha values for all variables are also above **0.7**, further reinforcing the reliability of the constructs.

The evaluation of the model was carried out using several methods, including the Coefficient of Determination (R^2) to measure the explanatory power of the model, the Goodness of Fit Test to assess the overall model fit, and Hypothesis Testing to analyze both direct and indirect effects. The inner model was tested using the bootstrapping technique in SmartPLS, as suggested by Chin (2010), who emphasizes that inner model testing conducted alongside bootstrapping provides more accurate parameter estimates. The results of the bootstrapping analysis are displayed visually in the figure below, highlighting the relationships between the constructs and the significance of their interactions.

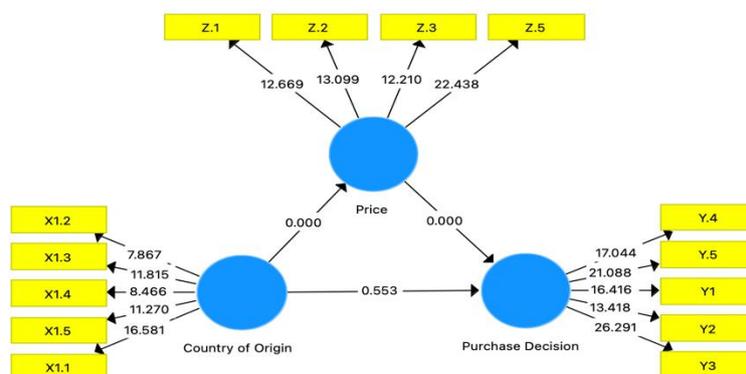


Figure 2. Inner Model

Source: Data processed by SmartPLS, 2024

The next analysis involves the determination test (R-square), which is used to measure the extent to which the dependent variables are influenced by other variables. The R^2 value for the influence of Country of Origin and Price on Purchase Decision is

0.576, which is categorized as moderate. Meanwhile, the R² value for the influence of Country of Origin on Price is 0.349, which is considered weak.

Subsequently, the goodness of fit assessment is determined using the Q-square value. The Q-square is equivalent to the coefficient of determination (R-Square) in regression analysis, where a higher Q-square value indicates a better fit of the model with the data. The Q-square calculation results are as follows:

$$\begin{aligned}
 \text{Q Square} &= 1 - (1 - R_2^2) \times (1 - R_2^2) \\
 &= 1 - (1 - 0,576) \times (1 - 0,349) \\
 &= 1 - (0.424 \times 0.651) \\
 &= 1 - 0.276 \\
 &= 0.78
 \end{aligned}$$

Based on the calculations, the Q-square value is 0.78 or 78%. This indicates that the research model explains 78% of the variance in the research data, while the remaining 22% is attributed to other factors outside the scope of this study.

Next, in the hypothesis testing (Direct Effect and Indirect Effect), the t-statistic value is used as the basis for determining the significance of relationships between variables. If the t-statistic value reaches or exceeds 1.96 (in line with TINV(0.05), which represents the t-table value at a 5% significance level), the relationship is considered significant. Furthermore, based on the resulting P-Value, if the P-Value for a variable is less than 0.05, the hypothesis is considered accepted (Ghozali, 2015).

Table 2. Direct Effect Testing

Variable Relationship	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
Country of Origin -> Price	0.596	0.620	0.054	10.996	0.000
Country of Origin -> Purchase Decision	-0.050	-0.049	0.084	0.594	0.553
Price -> Purchase Decision	0.788	0.796	0.055	14.427	0.000

Source: Data processed by SmartPLS, 2024

Based on the results of direct effect testing, the following findings are observed:

- The analysis shows that Country of Origin has a significant influence on Price, with a t-statistic value of 10.996 (>1.96) and a p-value of 0.000 (<0.05).
- The analysis shows that Country of Origin does not have a significant influence on Purchase Decision, with a t-statistic value of 0.594 (<1.96) and a p-value of 0.553 (>0.05)
- The analysis shows that Price has a significant influence on Purchase Decision, with a t-statistic value of 14.427 (>1.96) and a p-value of 0.000 (<0.05).
- The analysis confirms again that Price significantly influences Purchase Decision, with a t-statistic value of 14.427 (>1.96) and a p-value of 0.000 (<0.05).

Table 3. Mediation Testing

Variable Relationship	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
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Country of Origin -> Price - > Purchase Decision	0.469	0.494	0.061	7.702	0.000
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Source: Data processed by SmartPLS, 2024

Based on the mediation testing results, it can be concluded that Country of Origin significantly influences Purchase Decision through Price, with a t-statistic value of 7.702 (>1.96) and a p-value of 0.000 (<0.05).

- a. The analysis indicates that Country of Origin significantly influences Price. In the case of Xiaomi, consumer perceptions of China as the country of origin impact how the price of its products is evaluated. According to Agrawal & Kamakura (1999) and Bilkey & Nes (1982), Country of Origin is often regarded as a quality indicator, influencing price perceptions. Products from countries with a strong reputation often command premium pricing because consumers are willing to pay more. This finding aligns with research by G. Nino (2024), which shows that a country's reputation impacts product price differentiation in international markets. Xiaomi, as a brand from a country with mixed reputations, may face challenges in fully leveraging this factor.
- b. Country of Origin was not found to have a significant direct influence on Purchase Decision. Xiaomi consumers appear more focused on factors like product quality, price, and features, rather than the country of origin. This reflects Xiaomi's success in building a strong and trustworthy brand image, making its origin (China) less of a barrier in purchase decisions. Additionally, globalization and the openness to cross-border products diminish the relevance of Country of Origin in the technology category. This finding is consistent with research by Girish and Pangabeau (2024), which suggests that Country of Origin is significant only when consumers have negative perceptions of products from certain countries.
- c. Price has a very significant influence on Purchase Decision. Xiaomi consumers are highly responsive to competitive pricing, where prices aligned with product quality tend to increase purchase interest. Conversely, prices perceived as misaligned with product value reduce purchase intention. This supports the findings of B.J.R. Hati, B. Kurniawan, and N. Setyorini (2024), which emphasize the importance of pricing strategies in building consumer trust and encouraging purchase decisions.
- d. Country of Origin indirectly influences Purchase Decision through Price as a mediating variable. For Xiaomi, perceptions of its country of origin affect how consumers evaluate the product's price, which in turn impacts purchase decisions. For instance, products from countries with strong technological reputations (such as South Korea or Japan) are often seen as more valuable, leading consumers to pay higher prices. However, Xiaomi competes effectively by offering affordable prices while maintaining high-quality products. This finding is consistent with research by Nasution, Mesra, and Daulay (2023), which highlights that price plays

a crucial mediating role between Country of Origin perceptions and purchase decisions.

CONCLUSION

Country of Origin influences consumer perceptions of Price, where the reputation of a product's country of origin, such as Xiaomi from China, can enhance or diminish the perceived value of the product's price. However, Country of Origin does not have a direct effect on Purchase Decision, as Xiaomi consumers prioritize product quality and features over the country of origin. On the other hand, Price has a significant impact on Purchase Decision, with competitive and quality-aligned pricing driving consumer interest. Furthermore, Country of Origin indirectly affects Purchase Decision through Price as a mediating variable, highlighting the importance of effective pricing strategies to maximize the benefits of Country of Origin perceptions.

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