The influence of the decoy effect on price and location on consumer purchasing decisions at Starbucks Coffee Merr Surabaya

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ABSTRACT

The increasing number of coffee shops in the East Surabaya area, particularly Merr Street or Ir. H. Soekarno Street has created intense competition and a dynamic market environment. This study aims to analyze the impact of Price (X1) and Location (X2) on Purchasing Decisions (Y), moderated by the Decoy Effect (Z), among Starbucks Merr coffee consumers in Surabaya City. The research utilizes Structural Equation Modeling (SEM) based on Partial Least Squares (PLS) with WarpPLS 7.0 software. Data was gathered through a questionnaire distributed to 100 respondents using a non-probability sampling technique, specifically accidental sampling. This study demonstrates that price and location significantly affect purchasing decisions at Starbucks Merr. Price accounts for a 30.4% impact, influenced by affordability and frequent promotions, while location has a more substantial effect, with a 56% influence due to its accessibility and strategic positioning. The decoy effect negatively moderates the price-to-purchase relationship, making consumers more inclined to select higher-priced products. However, the decoy effect does not significantly impact the location-purchase relationship, as consumers prioritize convenience and service quality over pricing strategies. These findings underscore the vital role of both pricing and location in Starbucks Merr's marketing strategy.

1. Introduction

The culinary industry, particularly the coffee sector and coffee shops, rapidly expands in Indonesia, driven by increased coffee consumption over the past 11 years. This growth is further supported by the Ministry of Industry [1], which reported that Indonesia's food and beverage industry grew by approximately 8.16% from 2015 to 2019, surpassing the average growth of other sectors. Coffee shops are among the culinary businesses that attract significant interest from the public [2].
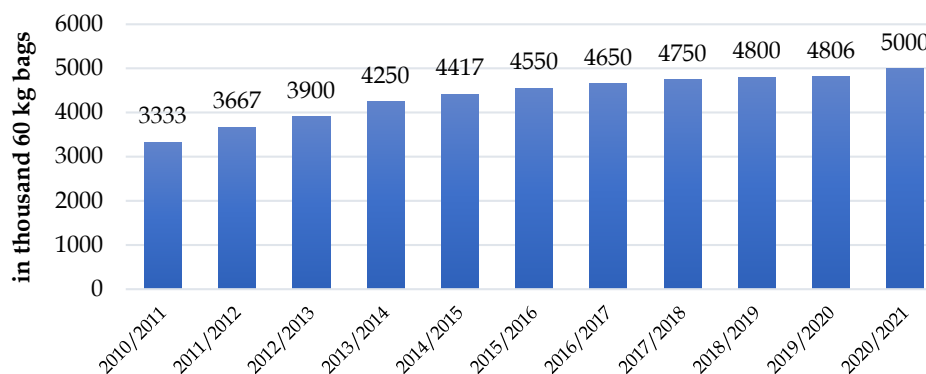

Figure 1. Coffee consumption in Indonesia during 2010-2021

The data in Figure 1 indicate that coffee consumption in Indonesia has been steadily rising since 2010, reaching an all-time high in 2020–2021. According to the International Coffee Organization (ICO), this upward trend has persisted for 11 years. In 2020–2021, coffee consumption in Indonesia reached 5,000 bags, each with a capacity of 60 kilograms, totaling 300,000 kilograms. These figures illustrate Indonesia's growing enthusiasm for coffee.

Data from the health information platform HonestDocs reveals that Jakarta is the province with the highest number of coffee drinkers in Indonesia [3]. Surabaya, the second-largest metropolitan city with a population of 2.87 million people [4], also significantly contributes to the increase in coffee consumption. Numerous coffee shops are located in East Surabaya, mainly along Jalan Merr and Jalan Ir. H. Soekarno. This situation has intensified business competition. One example of a coffee shop on Merr Street is Starbucks, which has 22 outlets spread across five areas of Surabaya City.

Based on observations, while the price is relatively high, the quality and experience consumers provide are deemed worthwhile. Conversely, Starbucks must develop the right strategy to remain competitive with other coffee shops on Jalan Merr. According to Porter [5], in strategic management theory, a company must adopt at least one of three generic strategies to be competitive: cost leadership, focus, or differentiation. Starbucks has opted for a product differentiation strategy to establish a competitive advantage and a favorable image in customers' minds.

Starbucks's product differentiation has effectively leveraged the decoy effect to influence consumer purchasing decisions. The decoy effect is a phenomenon where consumers tend to alter their purchasing choices when presented with alternative products of lower quality. This leads consumers to be more inclined to purchase the target product, which typically carries the highest price. This is also known as the attraction effect. Businesses like coffee shops often present three product-size options: small, medium, and large. The price differences between medium and large sizes are usually significant [6]. This may encourage consumers to opt for the large or venti size in the context of Starbucks.

Product differentiation from Porter's strategy in the context of Starbucks can be observed in the variations in cup size and the pricing of coffee drinks. The distinctions in size and price set by Starbucks exemplify the decoy effect strategy. Starbucks presents three size options: a tall size with a capacity of 354 ml, priced at IDR 23,000 - IDR 61,000 (approximately USD 1.49 - USD 3.96); a grande size with a capacity of 473 ml, priced at IDR 25,000 - IDR 66,000 (approximately USD 1.62 - USD 4.28), and a venti size with a capacity of 591 ml, priced at IDR 27,000 - IDR 69,000 (approximately USD 1.75 - USD 4.48). The pricing strategy employed by Starbucks Merr Surabaya illustrates the decoy effect by offering three-size options. The grande size, with a capacity of 473 ml, serves as a decoy. The objective is to influence consumers' choices, encouraging them to select the larger size at a significantly higher price (venti), which has a capacity of 591 ml. Regarding capacity, the difference between tall and grande is 119 ml, while grande and venti differ by only 118 ml. The distinctions between the three sizes are not significantly pronounced regarding price and capacity.

Pricing greatly influences consumers to buy products [7]. According to Ma [8], Starbucks applies three product pricing factors. The first is the geographical factor, which is the outlet's location. Outlets in strategic places like tourist areas or airports will sell products at higher prices. The second is the product combination factor, which is the sale of beverage and food packages. This package will be sold at a lower cost than the products purchased separately. The third is the promotion factor, which refers to activities to attract consumers, such as discounts or free products with a minimum purchase.

The location of a business, along with its price, can significantly influence customer purchasing decisions. Business location refers to the physical site where customers go to make purchases. This factor plays a crucial role in a business's marketing strategy and overall success. Therefore, marketers must carefully select a strategic business location to attract customers and boost sales [9]. A strategic business location is easily accessible to customers, considering their movement patterns. Additionally, the nature of the business should be considered when choosing a location. For example, a coffee shop would be better positioned near offices or universities.

In light of this context, a study was conducted titled "The Effect of Decoy Effect on Price and Location on Consumer Purchasing Decisions for Starbucks Merr Coffee in Surabaya City." The primary focus of this study is the decoy effect in pricing coffee drinks at Starbucks, which serves as a moderating variable. This study aims to 1) analyze the effect of price (X1) on purchasing decisions (Y), 2) analyze the effect of location (X2) on purchasing decisions (Y), 3) examine the influence of the decoy effect (Z) in moderating the relationship between price (X1) and purchasing decisions (Y), and 4) examine the influence of the decoy effect (Z) in moderating the relationship between location (X2) and purchasing decisions (Y).

2. Methods

This research employed a quantitative approach and was conducted at Starbucks Merr, located on Jl. Dr. Ir. H. Soekarno, Surabaya, East Java, from February 2024 to March 2024. The location selection was intentional, considering that Starbucks in Surabaya has over ten branches in various areas, and this site aligns with the research objectives based on the background. The sampling technique utilized was non-probability sampling, specifically accidental sampling. The criteria for respondents included coffee consumers at Starbucks Merr who are at least 20 years old and have purchased coffee drinks at this location at least twice. This criterion was established with the understanding that individuals aged 20 and above typically possess the financial means to make purchases at Starbucks Merr and can reason about the size and price of coffee drinks, leading to informed purchasing decisions. Furthermore, by requiring respondents to have made at least two purchases, they are likely to have sufficient experience and loyalty to provide relevant and insightful opinions.

This study utilized Structural Equation Modeling (SEM) with Partial Least Squares (PLS) for data analysis, specifically employing the WarpPLS 7.0 software. Kock [10] states that the minimum number of samples to be analyzed with WarpPLS is 50, with an optimal size of 100 samples. Therefore, the study used a sample size of 100 respondents. While this sample may not represent all of Surabaya, it offers valuable insights into active customers of Starbucks Merr. Although this study is limited to

one branch, the findings may indicate trends applicable to other Starbucks branches in Surabaya, providing essential insights into consumer decisions in this context. The data collection techniques employed in this study included questionnaires, observation, literature review, and documentation. SEM-PLS involves evaluating two sub-models: the Outer Model and Inner Model analyses. The Outer Model analysis focuses on measurement aspects, ensuring that the indicators accurately represent the underlying constructs (convergent validity) and are distinct from one another (discriminant validity). Additionally, it verifies the reliability of the measures. Meanwhile, the Inner Model analysis assesses how well the entire model fits the data (model fit), the amount of variance explained in the dependent variable (R-square), the predictive power of the model (Q-square), and the strength and direction of the relationships between variables (path coefficient). Table 1 shows the SEM-PLS analysis criteria.

Table 1. SEM-PLS analysis criteria

Numb.	Sub-Models	Type of Testing	Criteria
1.	Outer Model	Convergent Validity	- Loading factor > 0,70 - Average Variance Extracted (AVE) >0,50 - Cross Loading >0,70
		Discriminant Validity	- AVE root square > correlation between latent constructs
		Reliability	- Cronbach's Alpha > 0,70 - Composite Reliability >0,70
2.	Inner Model	Model fit	- Average Path Coefficient (APC) < 0,05 - Average R-Squared (ARS) < 0,05 - Average Varians Factor (AVIF) < 0,05
		R-Square	- 0,75 = strong - 0,50 = moderate - 0,25 = weak
		Q-Square	- Q-square > 0 = predictive relevance accurate - Q-square < 0 = predictive relevance inaccurate
		Path Coefficient	- + 1 = Strong - - 1 = Negative

The research variables utilized include Price (X1) based on the theory of Kotler et al. [11], Location (X2) according to the theory of Tjiptono et al. [12], purchasing decision

(Y) as per the theory of Kotler et al. [13], as well as decoy effect (Z) following the theory of Kotler et al. [14] which has been adapted to meet research requirements. The variables in this study were assessed using a Likert scale ranging from 1 to 5, interpreted as follows: 1 (Strongly Disagree), 2 (Disagree), 3 (Neutral), 4 (Agree), and 5 (Strongly Agree).

3. Results and Discussion

3.1. SEM-PLS Analysis

This study utilized Structural Equation Modeling (SEM) with Partial Least Squares (PLS) for data analysis, explicitly employing WarpPLS 7.0. The path coefficient in this research is shown in Figure 2.
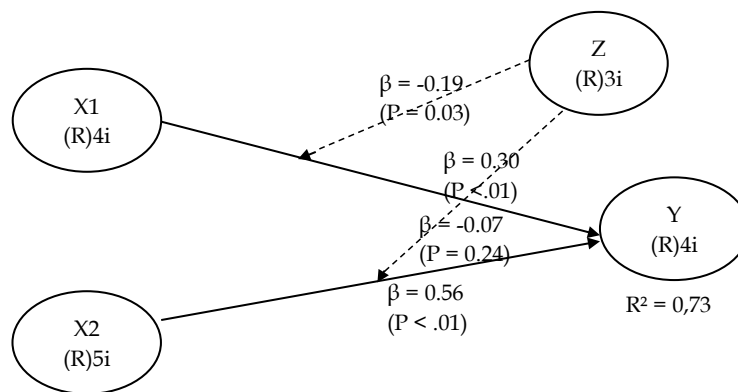

Figure 2. Path coefficient

3.1.1. Outer Model

This outer model employs a three-step evaluation process: convergent validity test, discriminant validity test, and reliability assessment. Based on the analysis results, all indicators used in this study met the specified criteria. For confirmatory research, the loading factor value must exceed 0.70 to ensure convergent validity, with a p-value of less than 0.05. Additionally, the cross-loading value should be greater than 0.70, and the square root of the AVE must be higher than the correlation between latent constructs to ensure discriminant validity. The Cronbach's alpha value should also exceed 0.70, indicating reliability. The AVE root value for each variable surpasses 0.50, suggesting that 50% or more of the indicator variation is well-explained. The Cronbach's alpha values for the four variables are above 0.05, indicating that the indicators accurately measure the variables. Therefore, all variables in this study are valid and reliable.

3.1.2. Inner Model

There are four stages in evaluating the relationship between constructs: the fit test of the coefficient of determination (R-square), cross-validity redundancy (Q-Square), and model fit. Based on the analysis results, the R-square value for variable Y is 0.731. This indicates that approximately 73.1% of the variation in purchasing decisions (Y) is explained by price (X1), location (X2), and the decoy effect (Z) as exogenous latent variables. According to Cohen's guidelines, an R-Square value of 0.731 represents a large effect size, indicating substantial explanatory power of the model. Cohen

suggests that R-Square values for endogenous latent variables should be assessed as follows: 0.26 (substantial), 0.13 (moderate), and 0.02 (weak) [15]. The remaining 26.9% is attributed to other factors not examined in this study. Moreover, the Q-Square value for the purchasing decision variable (Y) is 0.732. A Q-Square value greater than 0 indicates that the model possesses predictive relevance. Conversely, if the Q-Square value is less than 0, the model lacks predictive relevance [16]. Thus, the Q-Square value of 0.732 suggests good predictive ability for the model.

Based on the model fit analysis results, the APC index has a value of 0.280 with a p-value of 0.001, indicating that the p-value is less than 0.05, making the results acceptable. The ARS value of 0.731 and the AARS value of 0.719 also have p-values less than 0.05, further indicating acceptable results. Additionally, the AVIF value of 1.286 and AFVIF value of 2.068, both less than 3.3, suggest the absence of multicollinearity between indicators and exogenous variables. All criteria for inner model testing are met based on the R-square, Q-square, and model fit values. Therefore, it can be concluded that the inner model is accepted, indicating no multicollinearity issues between indicators and exogenous variables.

3.1.3. Hypothesis Testing

Hypothesis testing in this study utilizes the values of the path coefficients and p-values to determine the significant relationships between exogenous and endogenous variables. The results of the hypothesis testing are presented in Table 2.

Table 2. Results of hypothesis testing

Variable Relationship Type	Path Coefficient	P-Value	Description
Price (X1) → Purchasing Decisions (Y)	0.304	<0.001	H1 Accepted
Location (X2) → Purchasing Decisions (Y)	0.560	<0.001	H2 Accepted
Price (X1)*Decoy Effect (Z) → Purchasing Decisions (Y)	-0.185	0.027	H3 Accepted
Location (X2)*Decoy Effect (Z) → Purchasing Decisions (Y)	-0.071	0.236	H4 Rejected

*Means *Moderating

Table 2 shows that the path coefficient values of the first and second hypotheses are close to +1 and have a p-value <0.05. This indicates that the first and second hypotheses exhibit a positive and significant strength of the relationship between the variables. In contrast, the third and fourth hypotheses have path coefficient values of -1, indicating a negative strength between the variables. The third hypothesis has a p-value of 0.027, which falls within the p-value <0.05 criteria, suggesting that the third hypothesis is significant. In contrast, the fourth hypothesis has a p-value of 0.236, which exceeds the p-value <0.05 criteria, indicating that the fourth hypothesis is insignificant. Therefore, it can be concluded that three hypotheses are accepted: the first, second, and third, while one hypothesis, the fourth, is rejected.

3.2. The Effect of Price on Purchasing Decisions

Based on the information in Table 2, it can be concluded that price has a positive and significant effect of 30.4% on purchasing decisions, with a path coefficient of 0.304 and a p-value of <0.001. The path coefficient of 0.304 indicates that a price increase is associated with a rise in the proportion of purchasing decisions made by consumers. This signifies that price is a crucial factor in determining consumer purchasing decisions. Therefore, if Starbucks Merr aims to boost sales, it is essential to consider pricing and how consumers perceive the value of the products. Meanwhile, the p-value of <0.001 provides strong evidence that price significantly influences consumers' purchasing decisions. This reinforces the finding that price should be seriously considered in Starbucks Merr's marketing strategy. Overall, the positive and significant path coefficient and the very small p-value indicate that price plays a vital role in consumer purchasing decisions at Starbucks Merr.

This finding is supported by Rahmadani et al. [17], who assert that price positively and significantly influences consumer purchasing decisions. Similarly, Rahmah et al. [18] found that the price of Starbucks Coffee significantly affects purchasing decisions. Most respondents in this study believed that the prices at Starbucks Merr were relatively affordable, largely due to the frequent promotions offered via social media. Additionally, respondents felt that the prices were appropriate for the market segment of coffee shops like Starbucks and justified by the consistency of taste, the quantity of coffee, and the comprehensive facilities provided. These factors contribute to consumers' preference for purchasing coffee drinks at Starbucks Merr.

3.3. The Effect of Location on Purchasing Decision

Based on the information in Table 2, it is found that location has a positive and significant effect of 56% on purchasing decisions, with a path coefficient of 0.560 and a p-value of <0.001. The path coefficient of 0.560 indicates that location is a significant factor in attracting consumers. Starbucks Merr, situated in a strategically accessible area, offers added value to customers, making them more likely to choose it for their coffee purchases. The p-value of <0.001 provides strong evidence that location significantly influences consumer purchasing decisions. This underscores the importance of selecting a strategic location in Starbucks' marketing strategy. Accessible locations enhance the likelihood of customers visiting and making purchases. Overall, the high positive path coefficient and very low p-value illustrate that location is a key factor in consumer purchasing decisions at Starbucks Merr.

This finding aligns with the research by Salsabila et al. [19], which concluded that location significantly impacts consumer purchasing decisions. Additionally, Rifai et al. [20] support this conclusion by demonstrating the significant effect of Starbucks Coffee's location on purchasing decisions. Most respondents in this study found the location of Starbucks Merr to be very strategic due to its proximity to residential areas and its roadside position, making it easily accessible by public and private transportation. Furthermore, ample and free parking facilities and a clean environment surrounding the outlet are also key reasons why consumers choose to visit and make purchases at Starbucks Merr.

3.4. The Effect of Decoy Effect in Moderating the Relationship between Price and Purchasing Decision

Based on the information in Table 2, the decoy effect negatively and significantly moderates the relationship between price and purchasing decisions, with a path coefficient of -0.185 and a p-value of 0.027. The path coefficient of -0.185 indicates that the decoy effect diminishes the positive influence of price on purchasing decisions. In this context, the stronger the decoy effect, the less likely consumers are to select products based solely on price. The p-value of 0.027 suggests that the decoy effect significantly moderates the impact of price on purchasing decisions. This indicates that the decoy strategy must be carefully considered, as it can divert consumers' attention away from desired products, especially if they perceive that higher price do not provide more value compared to the alternatives presented.

The decoy effect is a moderating variable that reduces the company's sales of less profitable coffee products. This strategy makes typically chosen products less appealing, leading consumers to prefer alternatives with more significant benefits. Starbucks's decoy effect is applied to the drink sizes, particularly the grande size. By presenting the grande size, consumers compare its price and content with the venti size, noticing a relatively small difference. This research confirms that Starbucks consumers often change their choice when presented with a third option that appears cheaper but isn't a good deal. This finding aligns with Abimanyu [21], who states that consumers tend to switch between two choices when given an unbalanced third option. Thus, the decoy effect significantly influences consumer purchasing decisions for coffee at Starbucks Merr.

3.5. The Effect of Decoy Effect in Moderating the Relationship between Location and Purchasing Decisions

According to Table 2, the decoy effect does not significantly moderate the relationship between location and purchasing decisions, with a path coefficient of -0.071 and a p-value of 0.236. The path coefficient of -0.071 indicates that the decoy effect does not effectively serve as a factor influencing consumer decisions related to location. This suggests that consumers are more inclined to select a location based on other factors, such as convenience, accessibility, and service quality, rather than being swayed by the decoy strategy employed by Starbucks. The p-value of 0.236 implies that the relationship between location and purchasing decisions remains unaffected by the decoy effect. This illustrates that when consumers choose a location to buy coffee, they are not influenced by the decoy strategy, and their decisions are more likely based on other factors that hold greater relevance to their purchasing experience.

The decoy effect is primarily a pricing strategy designed to boost sales of the company's main product. This is supported by Abduh et al. [22], which states that the decoy effect is a pricing strategy aimed at increasing sales of high-profit products by making other versions of these products at prices attractive enough for consumers. Implementing the decoy effect strategy is unrelated to location and purchasing decisions, indicating that Starbucks consumers primarily focus on the price offered, irrespective of location. Therefore, the decoy effect does not moderate the relationship between location and coffee consumer purchasing decisions at Starbucks Merr.

4. Conclusion

This research highlights the importance of price and location in influencing consumer purchasing decisions, with it being found that location is the dominant factor for Starbucks Merr customers. The research further reveals that the decoy effect diminishes the importance of price but does not significantly affect location-based decisions, suggesting that accessibility and convenience are prioritized. These findings emphasize the need for Starbucks Merr to capitalize on its strategic location by forming alliances with nearby businesses and refining pricing strategies to enhance product appeal. Future research should include additional Starbucks locations and larger sample sizes and explore external factors such as social influences or boycotts to improve the generalizability and applicability of the results.

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