

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Nowadays, in this globalization era, international trade has increased across the nations. With globalization, many products that made in different countries are available in the market and customers have a broad variety of choices to choose the products from local to foreign products. One of the products that apply country-of-origin is cosmetics. Cosmetics are divided into two, such as cosmetics for skincare which serves to treat and preserve the cleanliness of facial skin and cosmetic for makeup or decorative that functions to apply makeup and cover blemishes on the skin in order to get more attractive appearance and good psychologically effect, such as self-confidence.

In Indonesia, recently there is a shift in using beauty products. Mitel market research institute notes stated that Korean cosmetics and skincare growth reached 5.8 percent every year since 2013 and beat the United States which is only 3.9 percent (Tirto.id, 2017). The trend of the use of beauty products is now no longer oriented to products that come from the West but began to shift to Asian products, especially South Korea. Some Korean brands have opened their stores in the shopping centers in Indonesia. Initially, Indonesian people only looked at makeup or decorative cosmetics, but now they realized that skin also need

maximum care. Korea as one of the countries that are popular for its various innovations in skincare products and trying to spread the positive benefits that arise in using skincare.

Country-of-origin is a way for a firm to do international business. In international trade, the producers must label their products with the country-of-origin when products are delivered from one country to another country. Country-of-origin is usually considered to be a trait of a product that will lead to a perception of the product quality. Many governments realized the importance of the country's image in helping local marketers to enter other markets (Devita & Agustini, 2019). Governments put the effort into developing and creating the image of their country. The role of country-of-origin is very important in influencing and evaluating a product. For consumers, country-of-origin information becomes a judgment in assessing brand association and brand image which is good as one of the basic considerations for making purchasing decisions.

A brand is a product identity and every consumer may have a good or bad perception of a product because a brand as an object of the evaluation specifies the attitude of consumers towards a product (Tulipa & Muljani, 2015). A good image of the product will lead to a positive attitude against the product. On the contrary, a bad image of the product will lead to a negative attitude against the product.

One of the biggest producers of beauty products in Korea is the Amorepacific Group. Amorepacific Group is one of the companies that have a big influence on the South Korean cosmetics industry. The sales of Amorepacific Group in the first quarter of 2017 was reported KRW 1855.4 billion, up 5.5% every year. There are four brands from Amorepacific Group that are opened outlets in Indonesia such as Sulwhasoo, Laneige, Etude House, and Innisfree. According to Eunsan Jeong as director of the Amorepacific Group stated that Innisfree sales growth in the last three years (2017-2019) reaching 70% in Indonesia. Among these three Innisfree managed to grow around 50% - 70% in the last three years because Innisfree is a product that targets the mass market (Bisnis.com, 2019).

The sales of cosmetics in Indonesia are currently showing an increase and expected to grow at 9 percent in 2019, and in 2018 reached around 50 trillion Rupiah (Kementrian Perindustrian, 2019). The indicator that underlies this growth rate is the increase of international and local cosmetic brands marketed in Indonesia because the local brands such as Fanbo, Wardah, Martha Tilaar, Mustika Ratu, and Viva have to compete with international brands coming from different countries to Indonesia.

According to ZAP Beauty Index (2018), the most favorite beauty products from the survey of 17,889 Indonesian women are Korean beauty products (46 percent), followed by Indonesian products (34 percent), and Japanese products (21

percent). Based on this survey, Innisfree is one of the most favorite Korean skincare brands for Indonesian women. One factor that caused this is the Hallyu Wave or Korean Wave. According to Bae et al. (2017) Korean Wave content such as K-Pop and K-drama have a great influence on Korea's national image to foreigners, and the improved national brand value is linked to the promotion of purchase of Korean products to abroad. The Korean Wave is influencing all industries. Especially, medical tourism (cosmetic), the cosmetics industry and beauty industry are directly affected by the Korean Wave.

Innisfree is an international business because they export cosmetics products from Korea to other countries including Indonesia and label their products with "Made in Korea". Before Innisfree opened their branches in Medan, their Marketing & PR Executive Innisfree Indonesia, Wulandari Fajarriani, conducted a survey on social media Innisfree through Instagram and it shows that people requested to open outlets in North Sumatra especially in Medan (Medanbisnisdaily.com, 2019). The presence of Innisfree in Medan is inseparable from the high level of customer enthusiasm for skincare and makeup products. Furthermore, it also makes easier for customers to get a range of skincare and makeup products of Innisfree.

Even though Amorepacific Group has opened another outlet, but the sales decline 10% in 2018 (apgroup.com, 2018). This happened because Innisfree products that were sold in Indonesia are not as complete as in Korea and they

prefer to buy Innisfree through an online shop which costs much cheaper than buy it in-store. The Innisfree brand is slightly more expensive than other brands such as Nature Republic (beautynesia.id, 2018). Recently, some cosmetics products from this country of ginseng contain dangerous ingredients like heavy metals that can cause health problems such as skin irritation, headache, and cancer (Tribunnews.com, 2018).

Hence, people's assumptions about products that were originated from Korea have bad quality. According to Pulse News (2019), South Korea has been covered by worst-ever fine dust for a longer period of time and spread to Jeju Island which had relatively pristine air conditions because of Innisfree's ingredients come from the nature of Jeju Island. This will make some people shift their decision to purchase products from Korea to Japan because Japan is known for producing high-quality skincare or cosmetic and often proven to have effective results after using it. The Japanese pharmaceutical industry is more stringent than Korea because Japanese beauty products should not be produced without research or evidence (Halodoc.com, 2018). Therefore, Japanese products are more difficult to be imitated than Korean products and it caused many fake products of Innisfree are spreading in the market.

Besides country-of-origin factors, people also consider the brand. There are lots of new brands that emerge in the market. In Indonesia, there is a forum website which is <https://forum.femaledaily.com/>, that reviews about Innisfree

products. It is said that the price of Innisfree is expensive and only people from the middle-income class to the above class are willing to buy the products. Apart from price, customers also concern about the halal standards on Innisfree products because Innisfree still does not have halal certification which is important for cosmetics products because the majority of Indonesian people are Muslim. Therefore, the customer might be able to choose other brands besides Innisfree even though both brands came from the same country.

Based on the background above, with the increasing of people in using Korean cosmetics in Medan and realizing the importance of country-of-origin and brand image for cosmetics products, the author interested to conduct a research of Innisfree with a title **“The Influence of Country-of-Origin and Brand Image on Purchase Decision towards South Korean Cosmetic Innisfree in Medan”**.

1.2 Problem Limitation

The study focuses on the influence of country-of-origin and brand image on purchase decisions towards South Korean cosmetic Innisfree in Medan. The study would be done through the utilization of a questionnaire to the customers in Medan as a reference. The object of this research covers a considerable number of customers at Innisfree in Sun Plaza Medan and Deli Park Medan.

1.3 Problem Formulation

Based on the topic regarding country-of-origin and brand image, it finds a problem faced in, as follows:

1. Does country-of-origin influence purchase decision of Innisfree's consumers?
2. Does brand image influence purchase decision of Innisfree's consumers?
3. Does country-of-origin and brand image influence purchase decision of Innisfree's products?

1.4 Objective of the Research

The main objective of this research is to prove whether country-of-origin and brand image have an influence on South Korean cosmetic Innisfree. The completion of this research is also expected to result in a better understanding of how country-of-origin and brand image can influence a product. Therefore, the objectives of the research will focus on attaining the following objectives:

1. To identify the influence of country-of-origin towards purchase decisions of Innisfree's consumers.
2. To identify the influence of brand image towards purchase decisions of Innisfree's consumers.
3. To identify the influence of country-of-origin and brand image towards purchase decisions of Innisfree's consumers.

1.5 Benefit of the Research

The benefit of conducting the research are as follows:

1.5.1 Theoretical Benefit

With the results of this study, it is expected to provide a contribution to further research in order to develop knowledge in general and the field of country-of-origin and brand image in particular.

1.5.2 Practical Benefit

The usefulness of research shows what benefits can be taken from the results of the research, both as follows:

1. The writer

Through this research, the writer can learn some theories that they do not know yet about country-of-origin and brand image towards South Korean cosmetic Innisfree in Medan. Besides that, the result of this research will help the writer to have a deeper understanding to gain more knowledge about the concepts and benefits of country-of-origin and brand image.

2. Innisfree

Through this research, the company can find out how the influence of country-of-origin and brand image in their business. This research provides recommendations for the company that can help to improve the company in the future.

3. Researchers and academics

Through this research, researchers and academics can understand the application of theories and concepts from country-of-origin and brand image in business practices real. Also, this research aims to proof that purchase decision does have an influence on country-of-origin and brand image.

