

CHAPTER I

INTRODUCTION

1.1 Research Background

The fashion industry is a modern urban industry that has its own characteristics, the transformation, and development of the city is closely related to the emergence and development of the fashion industry. With innovation and also personalized service instructions from their derivatives, the fashion industry is not only limited to fashion, jewellery, and other industries (Ma & Hu, 2017). The fashion world is currently developing rapidly. The modes that are there will always change to follow the existing trends. No less than other sectors, this business provides a significant contribution to economic growth. The fashion world is currently developing rapidly. The modes that are there will always change to follow the existing trends. Nowadays more and more people are interested in entering the fashion business and competing to improve their products and services. This also happens in Indonesia, when a product that is considered new by the community appears. The development of the fashion business is due to an increase in the income and lifestyle of people in big cities. Fashion is a fast-paced industry that is at the center of the consumer goods market's rapid growth. While the term "fashion" has historically been associated with the design and styling of clothing, accessories, and footwear, the fashion industry encompasses a broader range of activities, including the manufacture, supply, distribution, and sale of these items, all of which are facilitated by a global

network of manufacturers and workers on both the manufacturing and retail sides of the industry. Fashion is a multibillion-dollar business with a global workforce of over a million workers. Fashion items are quite popular, and people are continuously discussing and searching for the latest fashion trends. Thus, the fashion industry is now trapped in a competitive cycle of shorter and shorter sales and production cycles, necessitating continual trend shifts, item renewal on a regular basis, and product availability as soon as feasible (Ertekin, 2016).

Figure 1.1 Indonesia's Creative Economy



Source: Bekraf, 2017

In Figure 1.1 shows that fashion contributes 17,68% of the creative economy. Fashion is growing rapidly because it is influenced by technological advances. Indonesia's creative sector, according to Bekraf, contributes 7.4 percent to the country's GDP. According to Triawan Munaf, head of Bekraf, Indonesia's creative industry has been rising year after year. The creative economy contributed US\$71.8 million to the country's GDP in 2017 and increased slightly to US\$78.9 million in 2018. In 2019, the figure is predicted to climb 9.6 percent

to US\$86.9 million, up from US\$86.9 million in 2018. Additionally, the industry employs 14.3 percent of Indonesia's workers. The creative economy in Indonesia has the potential to expand due to a number of variables, including government-sponsored growth possibilities, an ever-growing middle class, and a sizable consumer market for creative goods. It conveys the message that customers in Indonesia need clothing, luggage, and accessories to conduct social interactions. The usage of luxury brands is also a distinct value for the owner, as it generates a feeling of enjoyment from the moment, he begins purchasing it until he owns it; it may also be used as a representation of the user's social position.

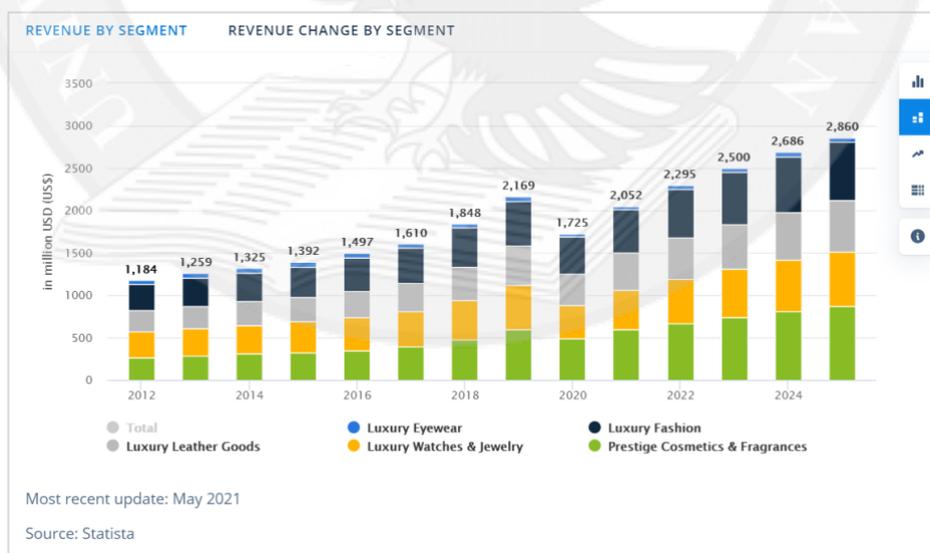
The global luxury sector has exploded in recent years. The market reached € 1.2 trillion in 2018 and is predicted to expand at a 5% compound annual growth rate through 2025. (Bain & Company, 2019). The spike in demand for luxury products is not restricted to Europe and the United States, but also includes other rising economies such as China, India, the Middle East, and Latin America. These rising nations have seen unprecedented levels of wealth creation, average income growth, and therefore high discretionary income and expenditure in recent years. Additionally, as globalization continues to accelerate, a growing number of multinational luxury companies have entered and extended their operations into these new areas. The most difficult job for luxury fashion firms to achieve long-term success is to convey value via unique interactions that differentiate them from the competitors (Mattila *et al.*, 2015; Kim & Ko, 2010).

Although worldwide demand for luxury products is robust and expanding fast, the luxury business has seen numerous changes during the last two decades. Current economic changes and changing consumer culture have generated new problems for luxury producers and merchants. To get a better understanding of

this booming global luxury sector, previous research has examined consumers' purchases of luxury items from a variety of angles (Jieqiong *et al.*, 2021).

In Figure 1.2 shows that will be increasing every year, however in 2020 its income has decreased from the previous year due to the declining economic conditions in Indonesia as well as the Covid-19 pandemic. Even so, as explained in the research background, The market is predicted to expand by 8.66 percent yearly (CAGR 2021-2025). This market is segmented into five categories: luxury clothes, luxury leather products, luxury eyewear, luxury watches and jewelry, and prestige cosmetics and perfumes. In 2019, Indonesia saw sustained economic development and income growth, which impacted the rise of luxury goods in the country. According to MarketResearch.com, published by Euromonitor International, the growth in persons with net income will continue to grow in 2020, resulting in an expansion in the luxury goods industry in Indonesia.

Figure 1.2 Revenue Luxury Goods Market in Indonesia (in million US\$)



Source: Statista, 2021

Consumers have different opinions about luxury in terms of their preferences and values about luxury itself. Other factors that also influence the need, purchasing power, and valuation of luxury brands (Uggla, 2017) Global brands that exist in industrialized countries are often seen as limited-edition luxury labels that are only available to a select few. As a result, the brand is often a difference between customers who can afford it and those who cannot (Qiu *et al.*, 2017). As a result, today's worldwide brand has evolved into an identity. Consumers who buy luxury goods usually don't pay much attention to prices, so they don't think about how much money they have to spend. Deep restructuring and evaluation of business models for luxury brands are needed due to rapid growth and globalization (Depeyre *et al.*, 2018). Consumers have perceptions of luxury as seen from preferences, values, and anticipation of luxury that varies from one to another. Other factors that also influence are variables such as purchasing power, needs, and valuation of luxury brands (Uggla, 2017). Bain and Company (2018), estimates that in 2025 the global luxury goods market will reach 320–365 billion euro and with a 3-5% annual growth rate. The survey states that the consumption growth of luxury branded products is stable in western countries, besides luxury is an indication that is favored by consumers in developing countries (Kautish *et al.*, 2020).

This research takes one brand that is included in global luxury fashion brand, Balenciaga. Founded in 1919 by Spanish designer Cristóbal Balenciaga, Balenciaga is a premium fashion business located in Paris. It is said that Christian Dior referred to Balenciaga as "the master of us all" because of the designer's

reputation as an uncompromising fashion designer. In Figure 1.3 show that Balenciaga ranks lowest in Luxury Brand's Online Popularity Change from 2020-2021.

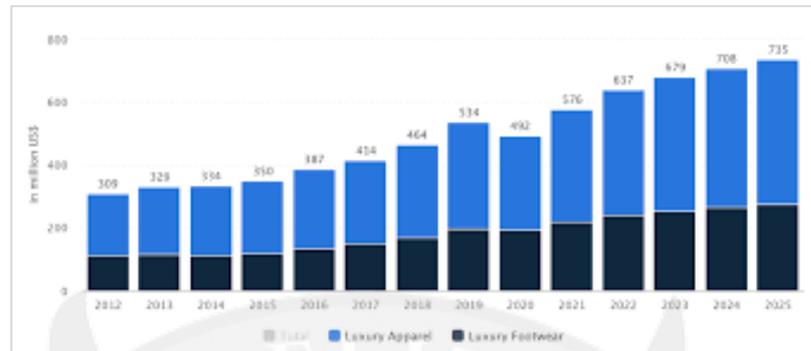
Figure 1.3 The 15 Most Popular Luxury Brands Online In 2021



Source: Luxe Digital, 2021

Through the data that has been obtained and described above, researchers are interested in branded and luxury goods from the point of view of the people in Indonesia. As a result, this research will look at how product quality, perceived price, and brand image influence purchase decision. Researchers conducted this study in Indonesia, with the criteria of respondents living in major cities such as Jakarta and other major cities. The main target of this research is respondents who use or own luxury fashion brand (Balenciaga) and live in Indonesia.

Figure 1.4 Revenue Luxury Fashion Market in Indonesia (in million US\$)



Source: Statista, 2020

The presence of luxury Italian fashion brands such as Gucci, Balenciaga, Prada, Armani, or Versace has become a fashion icon and trendsetter that is admired throughout the world, and one of them is Indonesia. It can be seen in Figure 1.4 the income growth of the Indonesian luxury fashion market has experienced steady growth, but there is a decline in 2020 due to the declining economic conditions in Indonesia. The Italian fashion brands have their own characteristics and characters which are influenced by the designers behind them.

Based on previous research, researchers takes a Japanese brand of smartphone product as the object to be researched. To be more specific, the aim of this study is to critically assess luxury fashion brands in the Indonesian market. Previous researchers took a population of people who are in South Jakarta. This research will take the population of people who are located in Indonesia, especially big cities in Indonesia. The purpose of this study was to determine the effect of product quality, perceived price and brand image of the brand purchase decision on luxury fashion brand are mediated by consumer trust. Smartphone, Part of the Fashion Statement for today. Young consumers are increasingly aware

of fashion trends and are actively self-actualizing in finding products that represent their character. In fact, various studies show that when choosing a smartphone, more and more aspects are taken into consideration, such as camera features, memory capacity, screen, including design or display. Not only for clothes, consumers are looking for smartphones with sophisticated designs, but still consider ergonomic aspects, or comfort when used. In addition, varied colors are also increasingly important. Men may enjoy choosing the minimalist and highly adaptive Black color. However, women prefer to experiment with color choices such as Rose Gold or Gold when choosing a smartphone. Other colors such as Blue and Red are also in demand, and are neutral for both men and women, but still stand out with their vibrant and cheerful appearance.

1.2 Research Question

Following the previous description of the research objectives, the research question may be developed and explained as follows:

1. Does Product Quality have an effect of influence Purchase Decision on luxury fashion brand in Indonesia?
2. Does Perceived Price have an effect of influence Purchase Decision on luxury fashion brand in Indonesia?
3. Does Brand Image have an effect of influence Purchase Decision on luxury fashion brand in Indonesia?
4. Does Brand Image have an effect of influence Consumer Trust on luxury fashion brand in Indonesia?

5. Does Trust have an effect of influence Purchase Decision on luxury fashion brand in Indonesia?
6. Does Product Quality have an effect of influence Consumer Trust on luxury fashion brand in Indonesia?
7. Does Perceived Price have an effect of influence Consumer Trust on luxury fashion brand in Indonesia?
8. Does product quality have an effect on purchasing decisions that is mediated by customer trust on luxury fashion brand in Indonesia?
9. Does brand image have an effect on purchasing decisions that is mediated by customer trust on luxury fashion brand in Indonesia?
10. Does perceived price have an effect on purchasing decisions that is mediated by customer trust on luxury fashion brand in Indonesia?

1.3 Research Objective

As stated in the research background, this study will include various research questions that will aid researchers in achieving the research objective, as follows:

1. To examine the effect of Product Quality influence on Purchase Decision on luxury fashion brand in Indonesia.
2. To examine the effect of Perceived Price influence Purchase Decision on luxury fashion brand in Indonesia.
3. To examine the effect of Brand Image influence Purchase Decision on luxury fashion brand in Indonesia.
4. To examine the effect of Brand Image influence Consumer Trust on luxury fashion brand in Indonesia.

5. To examine the effect of Consumer Trust influence Purchase Decision on luxury fashion brand in Indonesia.
6. To examine the effect of Quality Product influence Consumer Trust on luxury fashion brand in Indonesia.
7. To examine the effect of Perceived Price influence Consumer Trust on luxury fashion brand in Indonesia.
8. To examine the effect of Purchase Decision influence Product Quality that is mediated by the Customer Trust on luxury fashion brand in Indonesia.
9. To examine the effect of Purchase Decision influence Brand Image that is mediated by the Customer Trust on luxury fashion brand in Indonesia.
10. To examine the effect of Purchase Decision influence Perceived Price that is mediated by the Customer Trust on luxury fashion brand in Indonesia.

1.4 Research Contribution

The researchers hope that this research can increase general or theoretical views and practical meaning that can be clarified, such as:

1. Theoretical Contribution

This research aimed to provide a theoretical contribution to international marketing theory by explaining and describing the relationship between an independent variable called Product Quality, Perceived Price, and Brand Image. And the dependent variable, namely Purchase Decision, is through a research design. Additionally, this research is expected to provide an explanation to understand the relationship between variables that create a strong relationship to Purchase

Decision. Therefore, this research is expected to be a reference for future research into the international marketing of luxury fashion brand.

2. Practical Contribution

In this study, It is anticipated that this study will aid in the advancement of this research. A reference for marketers to further improve the strategies that will be used in marketing, especially for luxury fashion brands currently in Indonesia. Also, the researchers hope that this research can help contribute to providing views about the experience of using luxury fashion brands that can have an impact on consumers' assessment of Purchase Decision so as to make consumers satisfied with the brand.

1.5 Research Outline

In this study, it will be divided into 5 chapters. Each chapter will be explained as follows:

1. Chapter I – Introduction

In Chapter I, explains the research background, research questions, research objectives, research scope, research contributions, and research outline for this article.

2. Chapter II - Literature Review

In Chapter II, there is a review of the literature that contains the theoretical background of each existing variable, the relationship between the variables, and the conceptual background of the hypothesis.

3. Chapter III - Research Methodology

In Chapter III, there is a research methodology that explains the methods that will be used to measure and examine relationships between variables. There are research designs, quantitative data collection methods, and types of research. In this study, they used a pretest.

4. Chapter IV - Data Analysis and Discussion

In Chapter IV, contains the research results, the analysis of the research results, and the discussion of the research results, which explain the relationship between the variables based on the results of this research. Then you will get the results of the discussion and draw conclusions.

5. Chapter V - Conclusion and Recommendations

In Chapter 5, you will include theory and management applications, suggestions that can be used to improve the research, the limitations of this research, and the conclusions of future research.