

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Apparel industry plays a pivotal role in developing countries economy in terms of revenue generation and job creation. Due to the global sourcing and high level of price competition, apparel industry is facing a drastic change. Positive growth in the global apparel market is mostly caused by favorable demographic factors, rise in disposable incomes, change in consumer behavior and a substantial shift towards branded apparel. Global apparel faced a positive of 138% increase during the last 14 years, which in 1990, global exports of apparel was 108 billion USD and it increased drastically to 453 billion USD in 2004. Industry leaders are pondering an increase of 600 billion USD by 2014 which promises a potential market for efficient producers. Half of the total global apparel exports are contributed by Asian countries. (<http://www.fibre2fashion.com>, retrieved on 20 July 2017).

Table 5: Global apparel retail industry value forecast: \$ billion, 2014–19

Year	\$ billion	€ billion	% Growth
2014	1,317.3	991.2	3.0%
2015	1,377.5	1,036.5	4.6%
2016	1,440.4	1,083.8	4.6%
2017	1,507.2	1,134.1	4.6%
2018	1,577.3	1,186.9	4.7%
2019	1,651.6	1,242.7	4.7%
CAGR: 2014–19			4.6%

SOURCE: MARKETLINE MARKETLINE

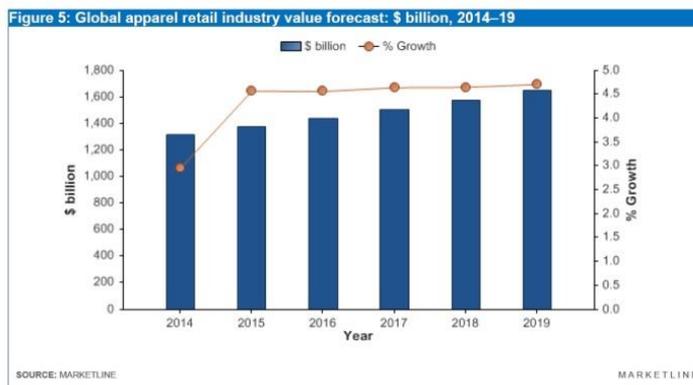


Figure 1
Global Apparel Retail Industry Value Forecast

Note. <https://shenglufashion.wordpress.com>, retrieved on 20 July 2017

Global apparel industry keep growing in a positive rate even though global economic is facing a crisis. In the economy, apparel industry is one of the very important aspects in terms of trade, employment, investment, and revenue all over the world. The apparel industry has a short product life cycle, wide product differentiation, characterized with great speed of demand change and added with supply processes that are slightly long and inflexible. In 2010 global apparel industry (clothing, textiles, and footwear) has reached approximately \$2560. More than 55% of the overall market is contributed by these apparel goods. This expected to rise to \$3180 with an annual growth rate for more than 4% in the year of 2015. (<http://www.companiesandmarkets.com>, retrieved on 20 July 2017).

In 2016, sales of sportswear, which includes items such as yoga pants and activewear, increasing just fewer than 7% and outpaced all other categories for the third year in a row and “causing growth in other categories to look rather tame in comparison,” Euromonitor mentioned. The biggest part of that market is still held by the performance of sportswear, “sports-inspired is the category driving growth,” said Bernadette Kissane, Euromonitor’s apparel and footwear analyst, in the report. Over the past few years, activewear has turned into a huge part of everyday fashion and eaten into sales of regular clothes. While footwear clocked in at 10%, sports-inspired apparel grew 6%, above the average seen across all categories, reflecting dominance of casual sneakers that continues. (<https://qz.com>, retrieved on 20 July 2017).

Nike, Inc. was found on 8 September 1969. It involved in many things, which are design, apparel, selling athletic footwear, services, equipment, accessories, and marketing. Nike-owned retail store, internet website, and other independent distributors and licensees throughout the world are ways where Nike distributes its products. Nike products are all manufactured by independent contractors, some of Nike’s products are produced outside the United States and while some are produced in the United States. Nike focuses its brand product offering in this eight key categories, which are: Running, Basketball, Football (Soccer), Men’s and Women’s Training, Action Sports, Sportswear, and Golf. Each category has its own product offering, for example, basketball’s product offering is Jordan Brand, while Men’s Training’s product offering is baseball and

American football. Nike's products are also available for kids, recreational uses, and other athletic. Footwear, apparel, and accessories are often marketed by the same category and they market it with licensed college, professional team, and league logo. Many other goods such as bags, socks, eyewear, digital devices, gloves, protective equipment, etc. are sold under Nike brand name (<http://www.reuters.com>, retrieved on 20 July 2017). Even though Nike was specially made for athletic, but people wear those trendy workout clothes every day and all time for leisure purposes. In fact that, leggings and yoga pants sales are increasing taking over denim sales. We are now at the era of "Athleisure" clothing where activewear are not only worn for sweaty workouts. People who always buy these kinds of clothes are not always having the intention to hit treadmill or yoga mat. They often wear it because they feel comfortable, attractive or make them feel good about themselves. (<https://www.huffingtonpost.com>, retrieved on 20 July 2017)

In 2017, Nike retained its position as the most valuable apparel brand in the world. The 2017 list of 50 apparel companies were released by a valuation and strategy consultancy, brand finance, which ranks the most valuable brands in a number of categories each year. Brand Finance weighs on determining valuations not only on sales and market share, but also power and strength which the factors are marketing investment, familiarity, loyalty, staff satisfaction and corporate reputation. Nike's brand value had an increasing of 13% rise over last year (when it still at the top of the list) to \$32 billion, which is unsurprising given some of the successful. Self-lacing "Back to the Future" sneakers, plus-size active wear line and announcement of plans for a high-performance hijab for Muslim athletes are the launches that Nike had recently. (<https://fashionista.com>, retrieved on 20 July 2017).

2017	2016	Logo	Name	Country	2017	2016	2017	2016
1	1		Nike		31,762	28,041	AAA+	AAA+
5	8		adidas		10,169	7,098	AA+	AAA-
7	6		Hermès		8,342	7,568	AAA-	AAA-
11	11		Donna Karan		6,575	5,709	AA+	AA-
13	15		Under Armour		5,889	4,126	AA+	AAA-

Figure 2

Most Valuable Apparel Brands in the World in 2017

Note. <http://brandirectory.com>, retrieved on 20 July 2017

The success of Nike acquiring the no. 1 position in the apparel field is proof that Nike succeeded in maintaining its brand loyalty. Brands are considered as an asset of organizations. Brands interconnect consumers and companies who build consumers' trust and loyalty towards the brand. According to Assael (1998), loyalty brings a greater share to the products that are purchased by the consumers who are loyal to the brand. Brand helps customers on taking decision while purchasing products as well as creating relationship with customers. Brand loyalty occurs tight when the consumers decided to repurchase that one certain brand (Ahmed, 2014). There are two types of relationship towards the brand, which are a positive relationship where consumers stick on to the current brand or a negative relationship where consumers move to other brands. According to Jacoby and Chestnut (1978), Pessemier (1959), and Reicheld (1996), once customers are loyal to a certain brand they are most likely willing to pay no matter how much the products will cost (<https://www.forbes.com>, retrieved on 20 July 2017).

Nike has many competitors, some of them are Adidas, Reebok, Puma, Fila, Converse, New Balance, Under Armour, K-swiss, Asics, Li-Ning, Jordan, Vans, Skechers, and Brooks. However, the two top Nike's competitors are Adidas and Reebok. (<https://www.marketing91.com>, retrieved on 12 August 2017) In 2016, Adidas's classic Superstar's sales rose six fold. Adidas became the top-selling active shoes in the US, a difference that has been held by a product from Nike (which still sells more shoes overall) for more than a decade. Adidas's sales growth in North America surpassed its competitors Nike (NKE, +2.13%) and Under Armour (UAA, +3.53%) for the whole year. Adidas's sales soared 31% to \$1.1 billion in the latest quarter, and Adidas's CEO, Kasper Rorsted, promises

that its growth will surpass the rest of the US market again in 2017 (<http://www.fortune.com>, retrieved on 12 August 2017).

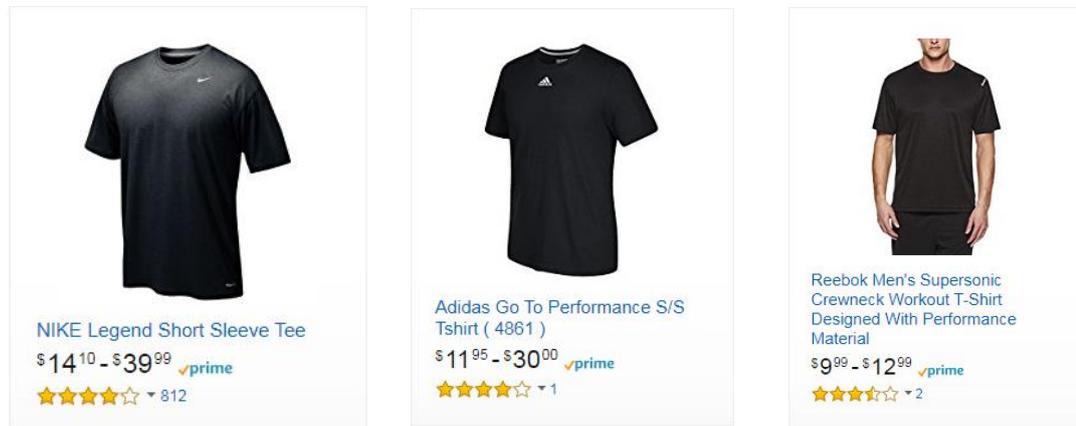


Figure 3

Price Comparison

Note. <https://www.amazon.com>, retrieved on 12 August 2017)

As shown in Figure 3, Nike's share of the US athletic footwear market was 34.7% in May 2017, a decrease from 35.9% in May 2016. Nike-owned basketball sneaker line, Jordan Brand, had 11.8% share in May 2017, also a decrease from 14.8% in May 2016. While Adidas, its share almost doubled from year to year, from 6.3% in May 2016 to 11.3% in May 2017. In April, for the first time in years, Adidas hit a record-high 13% share of this market and came in at No. 2, beating Jordan Brand. Surely, Nike is still the top sports apparel dog in America. It sells more shoes in the US than Adidas, plain and simple. (In 2016, Adidas had a 24% gain, which is \$3.6 billion in US revenue; Nike did more than three times that much.) However, Adidas is now constantly undermining Nike's dominance after a declining market share in the US from 2011 to 2015. (<https://finance.yahoo.com>, retrieved on 12 August 2017)

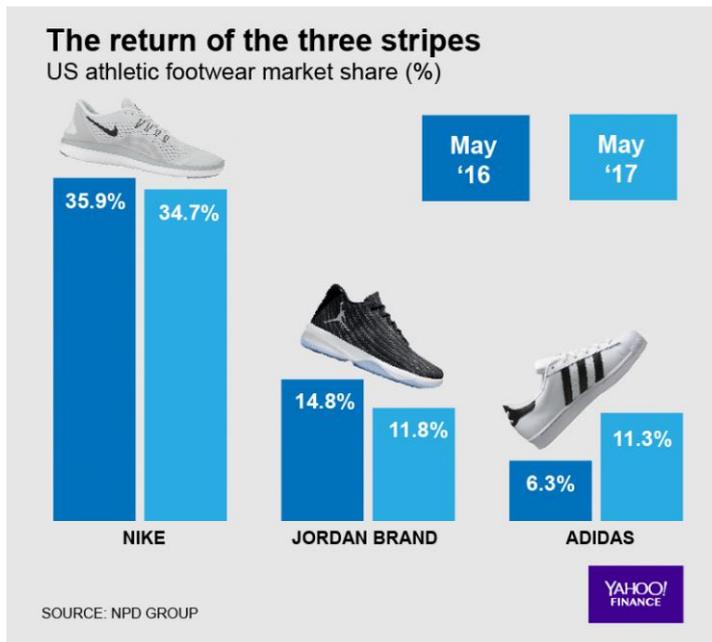


Figure 3
The Return of the Three Stripes

Note. <https://finance.yahoo.com>, retrieved on 12 August 2017

According to Jensen and Hansen (2006), brand loyalty helps the rises of brand market share “brand loyalty increases exponentially 10 market shares, resistance to alternative competitor brands and favors positive word of mouth”. This supported by Mokhtar, *et al.*, (2000) where brand loyalty plays pivotal role in the profitability and future growth prospect of an organization “Loyal customers stick with their suppliers or service providers over the long run. They also express their loyalty by giving a greater share of their wallets to their high-value brands or service providers and by generating word-of-mouth referrals. All of these behaviors will directly affect profitability.” Furthermore, Barsky (1994) stated that organization will be saving more cost when organization maintains the brand loyalty rather than attracting new customers. This is also supported by Reichheld and Sasser (1990) which said attracting new customers will cost five times more than maintaining old customers where it will be easier and way more efficient. Once customer has already committed its loyalty to a certain brand, customers will express its loyalty through repeat buying, regardless the pressure that other brand competitors give (<http://www.businessdictionary.com>, retrieved on 20 July 2017).

Customer satisfaction is one of many other important aspects that have positive relation with brand loyalty. Companies need to keep aware and updated by the needs and desires of consumers so that they can always keep them satisfied and facilitate them with their best products and services in order to keep customers' loyalty (LaBarbera, *et. al.*, 1983). Brand loyalty usually occurs right after customers have made a trial purchase of the brand and they feel satisfied; hence, they will tend to form habits to repurchase of this certain brand (<https://www.extension.iastate.edu>, retrieved on 20 July 2017). According to Angelova and Zekiri (2011), customer satisfaction can be defined as the result of the satisfy feelings that people get when the performances that the company given meet their expectations. Customer satisfaction is important not only because it is a key indicator of customers' loyalty and purchase intentions, but it also helps in reducing customers churn and the negative words of mouth, as well as increasing the customers' lifetime value (<https://www.linkedin.com>, retrieved on 20 July 2017). Even though customer satisfaction does not guarantee a repeat buying, but it can still be said that customer satisfaction plays a very important role in achieving customer loyalty (<http://www.wparesearch.com>, retrieved on 20 July 2017). According to Wirtz (2003), where customer satisfaction will results loyalty, positive word-of-mouth, increased long term profitability, and repeat buying.

According to Youl and Joby (2010), customer satisfaction positively influence loyalty based on numerous empirical studies on goods and service markets. Satisfaction is a necessary condition but not sufficient condition for customer loyalty because even if customers are satisfied with the brand, sometimes they will have a tendency to switch to other brands. Brand loyalty is a highly held positive attitude by incorporating repetitive purchasing behavior (Youl and Joby, 2010). Only those satisfied customers will have a positive attitude and repetitive buying behavior. It is hard to conceptualize dissatisfied customers with a high positive attitude, and even if they show repeats purchasing behavior in situations that might be possibility where there is no alternative brand for them to substitute with or high switching cost (Youl and Joby, 2010). Brand satisfaction is another one factors that also influences brand loyalty (Youl and Joby, 2010;

Bennett and Bove, 2001; Bennett, *et al.*, 2005; and Jones and Suh, 2000). The more the customer satisfied with that certain brand, the more likely that customer are willing to use and repurchase that certain brand in the future. Feick, *et al.*, (2001) stated that high level of satisfaction highly correlated with the increase of brand loyalty.

Customer satisfaction is often cited as the most obvious customer loyalty antecedent (Alegre and Cladera, 2009; Eshghi *et al.*, 2007; Kandampully and Suhartanto, 2000; Streukens and Ruyter, 2004). However, in the literature, some studies did not find any, direct or indirect, relationship between these constructs which shows contradictory evidences (Jones and Sasser, 1995; Verhoef, 2003).

Brand image is propulsion for customer brand loyalty, and it plays an important role when consumers evaluate service and product (Chen and Myagmarsuren, 2001). According to them brand image influences brand, company, and services in two ways, which are attitudinal and behavioral response of customers. Kwon and Lennon (2009) also state that strong corporate patronage intentions among customers, willing to pay at premium prices, have strong feelings, and affiliation, are the results that brand image created.

As said by Hsieh, *et al.*, (2004), the winning brand allows consumers to recognize the terms it offers to satisfy and then compare it with other alternatives and distinguish it from them and consequently increases the likelihood of its purchase by the consumers. Superior place in the market, a significant competitive edge and greater market share are the advantages that only a company or a product that has a good image will get (Park, *et al.*, 1986). Brand image is one of the factors that consumers will see in a brand. It can be defined as a unique set of associations in the minds of target customers, it indicates what the brand stands for presently, and it is a set of beliefs that consumers held about that specific brand (<http://www.managementstudyguide.com>, retrieved on 25 July 2017). Physical appearance of a product or service is one of many ways to measure brand image and it also can lead to the high-low perception in the customers' mind (Martinez, 2002).

Perceived quality is defined the customers perceptions' towards products' overall excellence, superiority, and dominance (Tsiotsou, 2006). So, it can be said that perceived quality is consumers' opinion towards the performance that a product or a brand gives to meet their expectations. It usually based on the firm's current public image, experiences of the consumers towards the product, and influences of opinion by leaders, peer group, and etc, it may have little or none with the actual superiority of the product. (<http://www.businessdictionary.com>, retrieved on 25 July 2017).

When perceived quality examined favourably, brand loyalty usually expected to show up (Gurbuz, 2008). According to Gurbuz, they will develop brand loyalty when the customer perceived the brand has high quality. Gurbuz also states that perceived quality is the main driver of brand loyalty and a positive quality evaluation as a construct that maintains behavioral intentions. Boulding, *et al.*, (1993) states that the positive relationship between perceived quality and repurchase intention and willing to recommend. UnderArmour, New Balance, Adidas, and Lululemon are some of Nike's competition. The arms race has caused to a rush of new innovations and products that consumers can't refuse. For instance, one of Nike's products that have been very successful is the Nike's Flyknit shoes. Lightweight, minimalist, and fits like socks are the materials that Nike used for the Flyknit shoes, which debuted two years ago. According to a recent note by Deutsche Bank, instead of using several pieces that are stitched together, Nike uses "automated, high-tech knitting technology to 'weave' the shoe's upper" half into one piece. (<http://www.businessinsider.com>, retrieved on 25 July 2017).



Figure 3
Image of Nike Products

Note. <http://www.businessinsider.com>, retrieved on 25 July 2017

Most of the research on experiences instead of focusing on experiences provided by brands, they focused on utilitarian product attributes and category experiences. Brand experience is conceptualized as “subjective, internal consumer responses (sensations, feelings, and cognitions) and behavioral responses evoked by brand-related stimuli that are a part of a brand’s design and identity, packaging, environments and communications.” (Brakus, *et al.*, 2009). Alloza (2008), defined brand experience as the perception of the consumers, at any point of contact they have with the brand, whether it is in the projected image of the brand in the advertisement, during the first personal contact, or the quality level of personal care they receive. When customers use the brand; talk to others about the brand; seek out brand information, promotions, and events; this is when brand experience is created (Ambler, *et al.*, 2002).

Brand experience has a direct relationship with brand loyalty and it plays a crucial role in brand building process (Iglesias, *et al.*, 2011). According to them if the customers have positive and pleasant experience, they would likely purchase the same brand repeatedly and they become loyal to the brand. Iglesias, *et al.*, (2011) also state that “brands which are capable of delivering a superior brand experience can achieve preference over and differentiation from other brands and build brand loyalty and foster evangelism”.

1.2 Research Limitations

This research uses few variables. They are brand image, brand quality, brand experience, customer satisfaction and brand loyalty. The research was being

done during September until December 2017, in Surabaya, and targeting NIKE customers.

1.3 Research Problem

1. Does brand image significantly affecting customer satisfaction of Nike Apparel Customer?
2. Does brand quality significantly affecting customer satisfaction of Nike Apparel Customer?
3. Does brand experience significantly affecting customer satisfaction of Nike Apparel Customer?
4. Does brand image significantly affecting brand loyalty of Nike Apparel Customer?
5. Does brand quality significantly affecting brand loyalty of Nike Apparel Customer?
6. Does customer satisfaction significantly affecting brand loyalty of Nike Apparel Customer?

1.4 Research Objectives

1. To measure the effect of brand image on customer satisfaction of Nike Apparel Customer.
2. To measure the effect of brand quality on customer satisfaction of Nike Apparel Customer.
3. To measure the effect of brand experience on customer satisfaction of Nike Apparel Customer.
4. To measure the effect of brand image on brand loyalty of Nike Apparel Customer.
5. To measure the effect of brand quality on brand loyalty of Nike Apparel Customer.
6. To measure the effect of customer satisfaction on brand loyalty of Nike Apparel Customer.

1.5 Research Benefits

1. Theoretical Benefits

From the results of this study is expected to be used as a comparative study by other researchers who want to research the same problem, and the possibility of development in the future. Moreover this research can support existing theories about brand loyalty, customer satisfaction, brand image, brand quality, and brand experience. This research can support the results of previous research on these variables which have been done by other researches.

2. Empirical Benefits

The empirical benefit of this research is that Nike management able to know the factors that influence brand loyalty of Nike's customers on Nike Apparel in Surabaya and the influence of brand image, brand experience, and brand quality towards brand loyalty through customer satisfaction of Nike's customers so that parties in the Nike's Apparel management in Surabaya can use this information in developing appropriate strategies to strengthen the brand loyalty of Nike.

1.6 Research Outlines

Research outline explains the systematic writing of this study. The outline is divided into three chapters as follows:

Chapter I

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problems.

Chapter II

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already

been studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

Chapter III

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.