

CHAPTER I

INTRODUCTION

1.1 Research Background

Nowadays, the organic industry is huge as it not only consists of food and agriculture. Organic means that everything that is being produced derived from natural ingredients, not use any chemical ingredients or genetic engineering, and can be recycle by its own (McEvoy, 2017). In the US, the organic industry is huge and the sales in 2021 has surpassed the previous year's sales with the amount of \$63 billion even after being beaten up by the pandemic. The highest contribution is the food organic that contributed to almost 90% of the organic industry with the amount of \$57.5 billion (Organic Trade Association, 2022).

Wichover (2018) stated that nowadays the organic industry has expanded to the daily lifestyle industry that is known as the manufacturer industry. The manufacturing industry in the organic industry is the process of turning raw organic material that derived from nature and not using any chemical ingredients into finished product that people use in their daily life. To illustrate, the fashion industry, beauty industry, toys industry, etc are part of the manufacturing industry.

In the toys industry, many toys nowadays are made of wood, cotton, or wool. As for the fashion industry, especially fast fashion, usually the clothes are made from the combination of cotton and spandex that consist of plastic particles. However, as now customers are more environmental conscious and shifted to organic-minded, fast fashion started to use a low to medium quality of 100% cotton, wool, silk, or ramie. Lastly, in packaging industry, nowadays people rarely

use plastics as they have use organic packaging that are made from corn, sugar cane, carrot, beets, etc.

The same thing applied in the beauty industry. In the skincare industry, the term of clean, natural, and organic beauty, is part of the organic industry. By clean, natural, and organic means that the skincare ingredients don't use any chemical ingredients, only ingredients that are derived from plants that are safe to use and won't harm the body in the long term (Wischover, 2018).

Furthermore, Wischover (2018) retortiated the organic beauty industry as a market that has a potential growth in the upcoming years. Nowadays, many retail shops existed that specialize in selling clean, organic, and vegan beauty products. For instance, Follain was the first one to open a retail shop in Boston back then in 2013. By the end of 2019, it will have a total of 10 stores across the US with a growth rate of approximately 200%. Followed by Follain, the largest retail of organic beauty products launched in 2015 is Credo Beauty. It has been labelled as the 'Sephora' of green products with 8 stores across the US and a robust online store. There are approximately 200 new products per month that are sold on their website. The beauty industry is a huge industry that are segmented into skincare, colour cosmetics, fragrances, hair care, body care, and personal care (Marchessou & Spagnuolo, 2021). The biggest market of the beauty industry is Asia that has 50% of market share, accounting for 80% of the global market revenue as the South Korean, Japanese, Chinese skincare are currently in trend (Chih et al., 2020). Additionally, the beauty industry is known as one of those industries who

has resilient and consistent growth throughout the year as seen on figure 1.1 below (Gerstell et al., 2020).

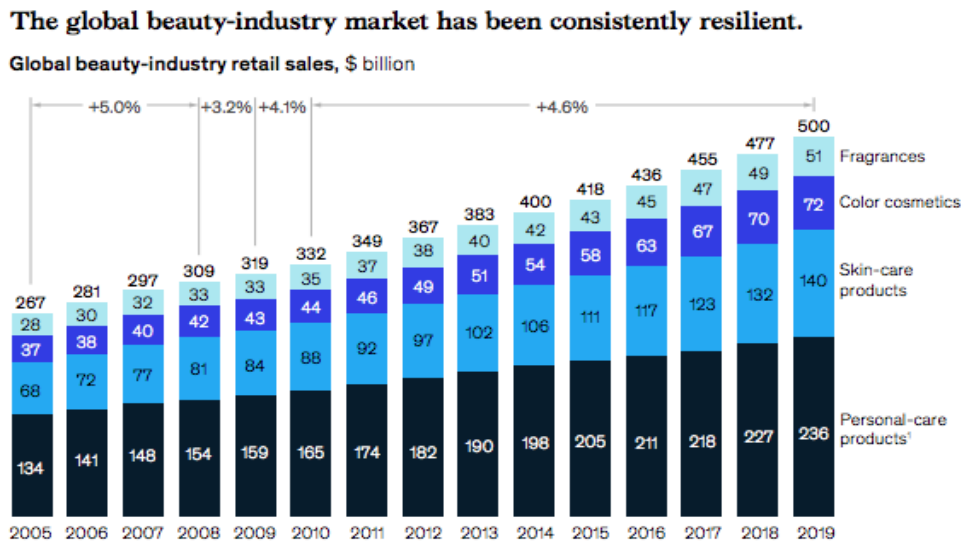


Figure 1.1 Global Beauty Industry Retail Sales
 Source: (Gerstell et al., 2020)

However, the pandemic hits in 2020, causing the beauty industry deteriorates for the first time as the sales are weak. Approximately, there are 30% store closures globally. The good thing is, despite being hit by the pandemic in 2020, the global beauty market still managed to experience a growth of 6.4% with skincare products as the highest contributor of the growth even though many brands has gone bankrupt while big brands are still fighting to survive (Chih et al., 2020). According to (Scieszko et al., 2021), several factors that help the skincare industry remain resilient is due to the fact that the buying power is still present, even though people wear less makeup, they do use more skincare during the pandemic as shown in Figure 1.2 below.

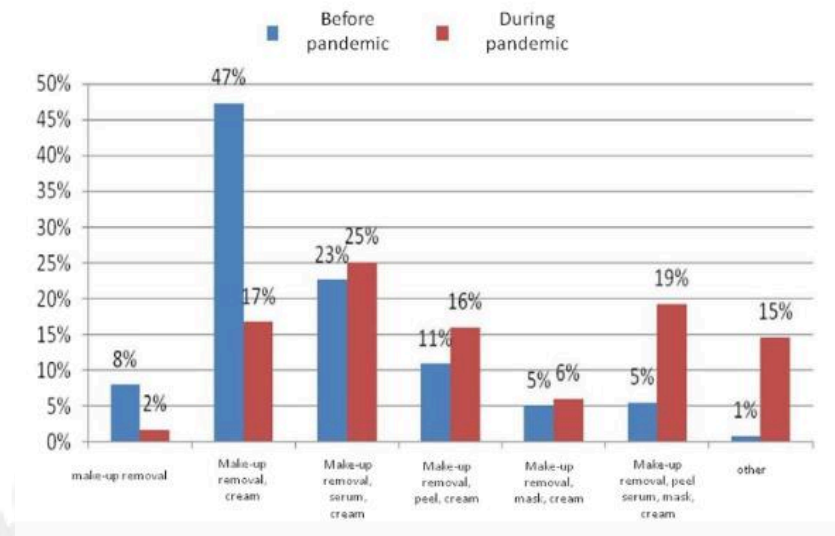


Figure 1.2 The Comparison of Beauty Industry Purchase Before and During Pandemic
Source: (Scieszko et al., 2021)

Moreover, brands also realize that skincare brands also need to sell their products online, not to only rely on offline sales anymore. Brands also shift skincare purpose and expand its target market. As stated in the report of Fortune Business Insight (2021), skincare, nowadays, is genderless and serves various basic purposes such as cleansing, moisturizing, hydrating, etc that are needed by all gender. Also, during the pandemic, people are obliged to wear surgical masks. Many people experienced a change in their skin condition that is known as maskne.

According to Beri et al., (2022), maskne, is a term for acne that grows at the area that is enclosed by a mask due to sweat or perspiration that soon produces bacterial and fungal organisms that can trigger acne. Many skincare gurus out there advise those who experiences maskne to use less products. This causes shift of trend in the skincare industry from the 10-step Korean skincare into skincare minimalism. Not only maskne, the acne scars derived from maskne also became

one of the greatest concerns after the acne subsided, causing people to try many skincare products to reduce the damage of maskne. Thus, the term 'less is more' became popular in the skincare industry (Kang, 2022).

Kang (2022) stated that many brands and skincare manufacturers start to promote low pH skincare, all-in-one serum, hybrid serum, etc. Moreover, many people start to pay attention to their skincare ingredients, afraid that using too many chemicals will harm their skin and health in the long term. Thus, customers nowadays prefer organic skincare (Fortune Business Insight, 2021). Following this trend, many new brands emerged in the industry that are either clean, organic, vegan, or safe for long term use like Goop, Selfless by Hiram, Naturium, Rose inc, Rhode, Axis-Y, Abib, etc. Existing brands are also creating many new formulated products that claimed to be clean, organic, vegan, able to treat or prevent maskne and its scars. For instance, Anessa creates a new hybrid sunscreen that provide both hydration and sun protection, Beauty of Joseon ginseng sunscreen and serum that can acne scars and dark spot, Cosrx new trio toner (Vitamin C, hydrating, and Propolis), Herbivore Bakuchiol Oil Serum, Biossance Squalane Face Wash, etc.

Similarly, these conditions of the global beauty industry are also occurred in Indonesia. According to Syahidah (2021), skincare is still relevant during the pandemic. Many store closures and the capacity limit regulation of shopping malls and other brick-to-mortar shops were imposed during the pandemic in accordance with the government regulations during the beginning of the pandemic. Thus, customers shifted to online shopping to purchase both essential

and non-essential necessities. As shown in figure 1.3 below, even during the pandemic, skincare ranked 2nd highest best-selling categories in the online shopping categories.

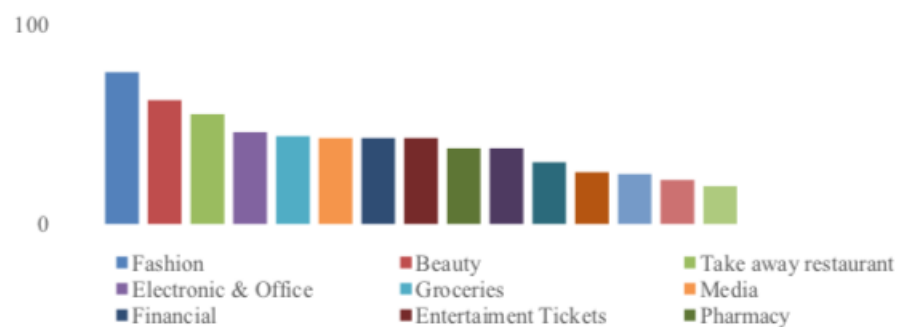


Figure 1.3 The Most Selling Industry in Online Shopping
Source: Syahidah, 2021

Furthermore, the Indonesian skincare industry is growing rapidly in the past few years despite pandemics (Kementerian Perindustrian Republik Indonesia, 2020). In 2019, the amount of exported local skincare is US\$ 600 million, higher than the amount in 2018 that is only US\$ 556,36 million. The Indonesia Ministry of Industry also projected that the local skincare market in Indonesia will soon reach US\$ 8,46 billion in 2022. This is due to many new local skincare brands that emerge in the local market such as Somethinc, Avoskin, Bio Beauty Lab, Oasea, Azarine, Skintific, Duvaderm, Tulus Skin, etc.

During the pandemic, these local skincare brands also produced products that they claimed as organic, low pH skincare, maskne treatment, etc. For instance, the low pH cleanser from Somethinc and Tulus Skin, all in one exfoliating serum and Your-Skin-Bae (YSB) series from Avoskin that can be used according to your skin condition, The Bath Box that sell many organic and clean

skincare, Indoganic that sell organic makeup and skincare, etc.

This is due to the demand for skincare still exist during the pandemic. For instance, female consumers in Jakarta still purchase a lot of skincare during the pandemic. They feel that skincare products are one of their necessities to solves their skin problem such as maskne, dryness, broken skin barrier, etc. In addition, buying skincare also serves as the purpose for them to spend more quality time with their friends or family members, creating a sense of togetherness (Faza et al., 2022).

One of Indonesian local skincare brands that are organic and well sold is Bio Beauty Lab. It is the 7th best-selling brand in the local brand industry in Indonesia according to the data given by Kompas during the period of February 2021 with a transaction value of IDR 2.6 billion as seen on figure 1.4 below.



Figure 1.4 10 Brand Skincare Lokal Terlaris di Shopee dan Tokopedia
Source: (Kompas, 2021)

Founded in 2017, Bio Beauty Lab sells high quality and organic facial oil that is derived from tamanu and rosehip, phyto power essence, and vitamin C

serum. Their most best-selling products are their facial oil. According to Rukmana (2022), Bio Beauty Lab dominates 47.7% of the local face oil market and ranked first as the most best-selling local skincare in e-commerce platforms as shown in figure 1.5 below.

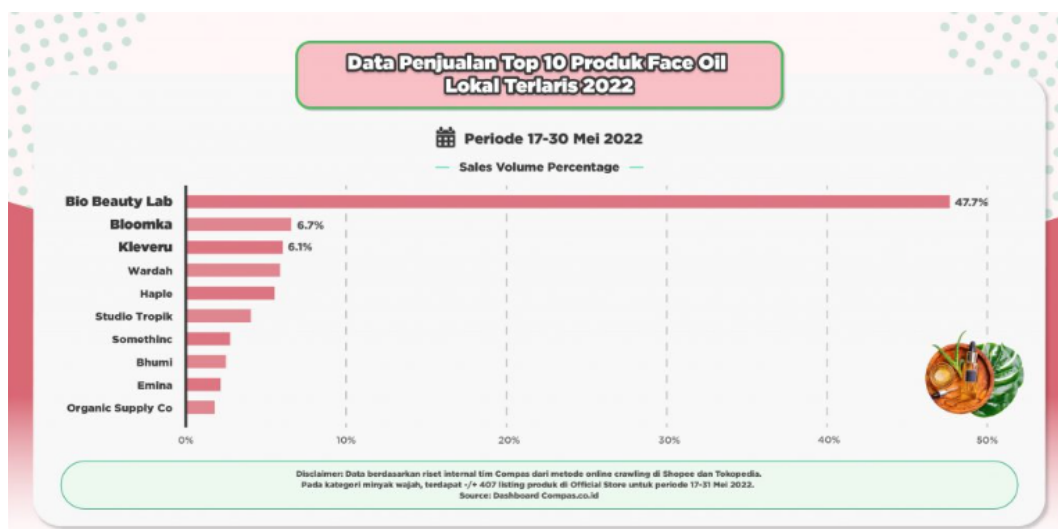


Figure 1.5 *Data Penjualan Top 10 Produk Face Oil Lokal Terlaris 2022*
 Source: Kompas, 2022

Aside from their face oil, their phyto power essence and vitamin C serum also received many good reviews and are well received by the public. Recently, to fulfil the demand of skincare enthusiasts, they launched the gentle retinol and peptide that are claimed to work on all skin types. Toward their products, many influencers and their customers has given their reviews on several online review platforms like Instagram, Soco Beauty, and Review Female Daily, that their face oil is a multifunction product that can be used to cure maskne and its scars, provide hydration, reduce stretch mark, reduce scars on both face and body.

As too many new skincare brands arise in the market, it may confuse customers on which brand they should choose. In fact, many online reviews can

be found across social media platforms like Instagram, Review Female Daily, Soco Review, comment section in online shops, etc. However, there are very few reviews that are credible or trusted are rare (Rizaldi et al., 2019). In addition, in a recent research done by Nurrohmah et al., (2021), it is stated that the image of local skincare is still incomparable to the imported skincare as many customers, especially college students in Bogor still deemed that the quality and ingredients of imported skincare is more advanced, trustable, and transparent compared to local skincare. This, causing many local skincare brands like Saeskin, Skintific, and Skin Theory to still produce their products in overseas manufacturers.

Not only that, many studies have been done toward credible online review, brand equity dimension, and customer satisfaction across industries and countries. But, the result is differ. For instance, a study done by Schivinski & Dabrowski (2014) stated that there is no significant relationship between credible online review and brand awareness in the context of Facebook users in Poland, and that the focus of this research is consumer behaviour in the fashion industry, non-alcoholic beverage industry, and mobile network operation industry.

Another research by Rasyd et al., (2021) argues that the effect of credible online review on perceived quality is not significant in the services industry in Indonesia, with the main research objective being Gojek. This is due to the consumer awareness that the quality of Gojek services in Indonesia cannot be determined through reviews online, there are many other aspects that needed to be considered such as user-friendly application and safety reason in which online reviews can't help customer to determine this, customer need to experience it by

themselves because, this research stated that user-friendly and safety varies with different people.

In addition, Sumitro et al., (2020) stated that brand awareness does not affect customer satisfaction in the context of the Indonesian coffee industry with Kapal Api as the main objective. This study concludes that the reason that brand awareness does not affect customer satisfaction in this context is due to many competitors in the Indonesian coffee industry. Even though Kapal Api is one of the most well-known coffee brands, coffee enthusiasts nowadays prefer a more unique coffee such as Luwak Coffee, Kopi Gayo Aceh, etc. Not to mention many coffee shops are currently in trend such as Kopi Kenangan, Tuku, etc. In a recent research, Aldani et al., (2022), also found a similar result on how brand awareness does not affect customer satisfaction in the context of Panasonic green practices in Indonesia.

Thus, from the research above, it is stated that credible online review does not affect brand awareness among and perceived quality among the other brand equity dimension. Therefore, the purpose of this study is to answer the research gap, which is to analyze the relationship between credible online review, brand equity dimensions namely brand awareness, perceived value, brand personality, brand association, perceived value and customer satisfaction in the Indonesian local skincare industry. Additionally, researchers choose Bio Beauty Lab as it engaged in the beauty organic industry and is coherent with the current skincare trend that has shifted to organic skincare. Additionally, Bio Beauty Lab rank number 1 in the category of local organic face oil (Kompas, 2022) and rank 7th in

the category of local skincare sales in Indonesia (Compas, 2021).

Thus, this research will study the effect of credible online review towards brand equity dimension and their effect towards Bio Beauty Lab's customer satisfaction. This study is based on research done by Uttam Chakraborty in 2019 on the 'Impact of Credible Online Reviews on Purchase Intention' with a modification.

1.2 Research Questions

Based on the explanation about the background above, questions of the research are:

1. Does credible online review positively affect brand awareness?
2. Does credible online review positively affect perceived value?
3. Does credible online review positively affect brand personality?
4. Does credible online review positively affect organizational association?
5. Does credible online review positively affect perceived quality?
6. Does brand awareness positively affect Bio Beauty Lab's customer satisfaction?
7. Does perceived value positively affect Bio Beauty Lab's customer satisfaction?
8. Does brand personality positively affect Bio Beauty Lab's customer satisfaction?
9. Does organizational association positively affect Bio Beauty Lab's customer satisfaction?

10. Does perceived quality positively affect Bio Beauty Lab's customer satisfaction?

1.3 Research Objectives

Based on the research questions above, the research objectives will be :

1. To identify the positive effects of credible online review towards brand awareness.
2. To identify the positive effects of credible online review towards perceived value.
3. To identify the positive effects of credible online review towards brand personality.
4. To identify the positive effects of credible online review towards organizational association.
5. To identify the positive effects of credible online review towards perceived quality.
6. To identify the positive effects of brand awareness towards Bio Beauty Lab's customer satisfaction.
7. To identify the positive effects of perceived value towards Bio Beauty Lab's customer satisfaction.
8. To identify the positive effects of brand personality towards Bio Beauty Lab's customer satisfaction.
9. To identify the positive effects of organization association towards Bio Beauty Lab's customer satisfaction.

10. To identify the positive effects of perceived quality towards Bio Beauty Lab's customer satisfaction.

1.4 Research Benefits

There will be two beneficial applications that this research paper will contribute to the society:

1.4.1 Theoretical Implication

The theoretical benefit of this study is to observe and do research about the relationship between credible online review and brand equity dimension that affect Bio Beauty Lab's customer satisfaction. This research will provide a deeper and a most recent understanding about the local skincare industry, brand equity and its six variables; brand awareness, perceived value, brand personality, organizational associations, and perceived quality, as well as customer satisfaction.

1.4.2 Managerial Implication

This study will also provide benefits for Bio Beauty Lab's and other local skincare brands in Indonesia. Through the result of this study, Bio Beauty Lab and other similar local skincare brands will be able to know the significance impact of credible online review, brand awareness, perceived quality, perceived value, brand personality, organizational associations, and brand uniqueness towards customer satisfaction. Through this study, local skincare brands will manage to understand which factor among the credible online reviews and five brand equity

dimensions that affect consumer brand loyalty the most.

1.5 Research Limitations

Due to the scope of research, this research will include some limitations. The first limitation arises from the research's topic itself. As for the local skincare brand, researchers decide to limit the local skincare brand to Bio Beauty Lab. One limitation that is being introduced is demographic restriction as to make the data more accurate and reliable for the topic of the local skincare industry.

Researchers also decide to restrict the subject of the research, which will only be from those who live in the Jabodetabek area (Jakarta, Bogor, Depok, Tangerang, Bekasi). Other limitations that will be imposed in this study are time limitations. This is due to this research should be done approximately within four months. Last, but not least, this also implies that there is an age restriction for the millennial who are around 24 to 39 years old.

1.6 Chapter Outline

A chapter outline is needed, so that it will be easier for the readers to understand the research. The outline will be divided into 5 chapters which are:

CHAPTER 1 INTRODUCTION

The first chapter will explain the background of the topic and its phenomenon, research problems, research objectives, research benefit, research limitations, and the chapter outlines.

CHAPTER II THEORETICAL BASIS

In the second chapter, the key and relevant variables of credible online review, brand awareness, perceived value, brand personality, organizational associations, perceived quality, and customer satisfaction will be explained further in terms of theories.

CHAPTER III RESEARCH METHOD

This chapter affirmed that researchers use quantitative research method. Furthermore, this chapter will also include steps that were done in this research which aims to create a systematic structure of the research and organized. This chapter mainly consists of research methods such as data collection process, the research design, the sample of the research, data analysis, validity and reliability testing.

CHAPTER IV DATA ANALYSIS

This chapter includes an analysis and discussion of the data that has been collected through surveys and by using several methods to test those seven variables, to find out whether there are any relation or influence from one variable to others. The data processing method will be achieved through an analysis tool.

CHAPTER V CONCLUSION & SUGGESTION

This chapter will show that the researcher will come to a conclusion on the result of the data from this study. Result implication, suggestions, and recommendations for further research on this study will also be included.