CHAPTER I
INTRODUCTION

1.1   Background

Indonesian Economy grew at the quickest pace in four years in the last quarter of 2017, with GDP increasing by 5.2%, according to the country's statistics bureau, thanks to stronger private consumption and government spending (https://www.ey.com/, retrieved on February 3, 2019). With a boasting population of more than 250 million, making it the world's fourth-largest consumer market in terms of population size, trailing behind only China, India and the US. In addition, a disproportionately large middle-class (See Figure 1.1), Demographic trends show that there are about 74 million MACs in Indonesia, and this number will double by 2020, to roughly 141 million people makes Indonesia remains a market of immense potential for the retail sector to grow. As countries grow in terms of economic development, the middle-class consumers get larger in size and be more prosperous (Manrai & Manrai, 2001). Thus, along the economic development path of countries, middle class seems to be the answer to sustainable growth because of its contribution to consumption and factor inputs as they prosper (https://www.bcg.com, retrieved on February 3, 2019).
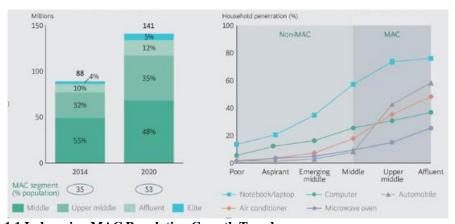

Figure 1.1 Indonesian MAC Population Growth Trend
Source: https:// hkmb.hktdc.com (2019)

Data from Indonesia's central bank (Bank Indonesia) shows that retail sales have been accelerating strongly in Indonesia since January, 2018. Indonesian retail sales grew 4.1 percent in April, shown in Figure 1.2. The head of Indonesian Retail

Merchants Association (Aprindo), Roy Mandey said that Modern Retail Sales in 2018 is better than the previous year with projected sales of 240 trillion Rupiahs, which was 10% higher than 2017 with merely 215 trillion Rupiahs of sales. Whereas for East Java specifically the sales was at 3.2 percent or about 13 trillion Rupiahs from the target of 200 trillion (https://www.indonesia-investments.com, retrieved on February 3, 2019).
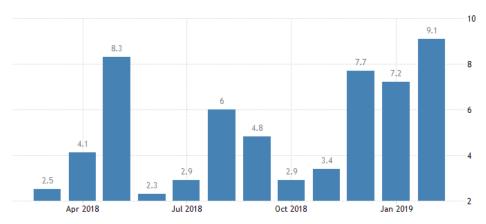

Figure 1.2 Indonesian Retail Sales Growth
Source: https://tradingeconomics.com (2019)

Another survey by Bank Indonesia shows that the Consumer Confidence Index (see Figure 1.3) rose 2.9 points in May 2018 showing an increase in consumer spending, as shown on Figure 1.4. Those in the middle class group begin to ramp up their spending in key segments such as home goods, vehicles, consumer durables, and financial services Supported by the declination of the income-for-saving ratio to 19.6 percent from 20.0 percent (https://tradingeconomics.com, retrieved on February 3, 2019).

Figure 1.3 Indonesia Consumer Confidence Statistics
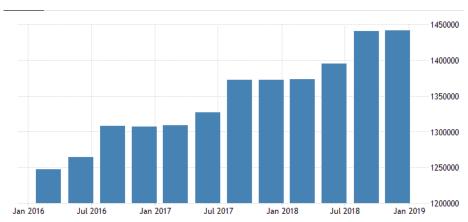Source: https://tradingeconomics.com (2019)

Figure 1.4 Indonesia Consumer Spending Statistics
Source: https://tradingeconomics.com (2019)

That has translated into strong consumer demand, especially for such lifestyle products as personal electronics, clothes, watches, domestic appliances and fashion. Foreign retailers in recognising this potential have taken a much more aggressive approach to the market in recent years. As mention previously that Indonesia's expanding middle-class and youthful demographics, refers to Millennials, are a huge segment of the country's population that are comprising of 170 million people or 70% of its total population as defined by Accenture. Which they are referred to as the key factors as to why modern retailers remain firmly fond of Indonesia. Both segments have high purchasing power and high consumption rhythms which drive retail sales (http://gbgindonesia.com, retrieved on February 4, 2019).

Over the past few decades, the retail industry has grown exponentially, resulting in a highly intensive and competitive market (Wanninayake & Randiwela, 2007). Modern Retail sectors have shown a fast-pace growth in Indonesia, especially in capital city like Jakarta and Surabaya. Subsequently, due to increasing Indonesian population, economic growth, technology advancement, globalisation, and changing lifestyle of Indonesian consumers, causing changes in their preferences in goods and services consumption (Wijayanto, 2013). As one of the most promising Retail Market in Asia with an increasing household purchasing power and increasingly modern spending habits, especially from those milleniels, it has open the gate of opportunity for foreign retailers to grow. According to Aprindo, foreign retails of lifestyle goods from East of Asian succeed in penetrating

Indonesian market and were able to expansively grow out their retails store in such a short period is due to the fact that Indonesian consumers behavior in spendings has changed and shifts towards a more leisure and lifestyle goods (https://www.mckinsey.com, retrieved on February 3, 2019).

The growing number of foreign players entering the Indonesian market will have a positive impact on the growth of the retail sector. High consumer confidence, an expanding middle-class population, and rising personal income have allowed private consumption to be one of the important components of Indonesia's economy and have attracted numerous global retailers (http://www.gbgindonesia.com, retrieved on February 6, 2019).

According to Kotler and Armstrong (2003), Retail outlets are classified as Department Store, Discount Store, Supermarket, Specialty store, Convenience store, and Dollar store.

Table 1.1 Retail Outlets Classification

No	Types of Retail Outlets	Characteristics
1	Department Store	1. A large scale retail organization 2. Divided into several departments, each specializing in one line of goods 3. All the departments are carried on in one building, function independently, but under a centralised management and control under one roof in a large building. 4. Offers wide range of products from a wide range of brands, satisfy all customer needs
2	Specialty store	1. Sell only selective items on a specific range of one particular brand to the consumers 2. Primarily focus on high customer satisfaction. 3. Carries a deeper but narrow assortment of merchandise than department store.
3	Discount store	1. Offer a huge range of products to the end-users but at a discounted rate. 2. Sells standard merchandise at lower prices 3. Higher volumes of sales compensate lower margins and increase the overall profitability 4. Offer a limited range and the quality in certain cases might be a little inferior as compared to the department stores.
4	Supermarket	1. type of retail store which generally sells food products and household items 2. properly placed and arranged in specific departments is called a supermarket 3. is an advanced form of the small grocery stores and caters to the household needs of the consumer 4. It is relatively large in size

5	Convenience Store	1. sell convenient, small products that are cheap, with usually having a high turnover ratio.
6	Dollar Store	1. concept of one price for all goods. Sells inexpensive items for one dollar or less each. It is a popular concept throughout the world, the stores usually sell everything from cleaning supplies to children's toys to food.

Source: Kotler & Amstrong (2003)

Indonesian retail is dominated by small independent store owners, but modern retail gets into the screen, particularly convenience-store chains, supermarkets, and hypermarkets is now growing twice as fast as those independent store. Convenience store is getting popular nowadays, especially among millenials who are living in an urban area like Surabaya. Convenience store is basically a store that sell convenient, small products that are cheap, with usually having a high turnover ratio. However, as people are no longer satisfy with merely well-functioning product, they now demand for a product that can enhance their lifestyle. Thus stimulate the growth in demand of lifestyle goods and convenience goods, and that motivates those foreign convenience store chain to open their branches in shopping centre in Surabaya. The Foreign Convenience Store that specialized in selling households goods and consumer goods that have entered Surabaya are Miniso and Minigood. Both are targeting Middle-class and Millenials as their market segments, which they offer high quality products with good design and at affordable prices (https://www.mckinsey.com, retreived on February 4, 2019).

Miniso is one of the most expansive foreign retail brand that has entered Indonesian market. The brand owns more than 3,000 stores that are operated in more than 70 countries and regions and around one billion visits and 300 million purchases have been made so far. Generating around USD 1.8 billion revenue in 2017 (https://www.marketwatch.com, retrieved on February 4, 2019). Its first ever store was set up in the early 2017, with three stores were officially started off at the same time in Jakarta in effort of strengthening their global presence. And it has expanded aggressively since then with currently owning 124 stores that are spread all across Indonesia, with 50% of market share is generated from the branches outisde of Java island. (https://ekonomi.kompas.com, retrieved on February 4, 2019).

Figure 1.5 Miniso Logo
Source: http://miniso.com (2019)

Miniso positions itself as a "designer lifestyle brand", known as a convenience store that offers low-cost goods with stylish designs. As an originally Japanese brand that was designed by a Tokyo designer named Miyake Junya and an entrepreneur named Ye GuoFu from China (http://www.miniso.com, downloaded on February 4, 2019), it has successfully captured the Indonesian market share with its concepts and attractive-looking products. Recently, the brand has received an award for its products design, where four products of Miniso won a recognition at the Red Dot Design Award of 2018 as the product of high quality and good looking design. (https://prnewswire.com, retrieved on February 6, 2019). Miniso set up its first store in Surabaya in the mid of 2017. And apparently, Miniso has successfully operated 8 physical stores that are located at several diverse Shopping Centres in Surabaya (http://marketeers.com, retrieved on February 4, 2019).

Miniso focuses on household goods and consumer goods for daily uses, which are remarkable in its product design. Indonesian consumers have flocked to the doors of Miniso stores for the creativity that surrounds their products. The products offerred are almost 10.000 lines, varies from plushies to stationery, kitchenware, bathroom décor, and technology savy products. Miniso can therefore be classified as a home convenience store. The chain is targeting a younger market of consumers who are between the ages of 18 and 34, as it appeals strongly to Millennials who are both price-conscious and sophisticated shoppers. (https://torontolife.com, retrieved on February 4, 2019).

Figure 1.6 Merchandise sold at Miniso
Source: http://realliving.com (2019).

The trend of impulse buying is now getting popular in retail industry. The importance of impulse buying phenomenon can be gauged by the fact that in 1997 alone, an estimated $4 billion was being spent in impulsive manner (Mogelonsky, 1998), and an estimate indicates that about 62% market sales in super markets and around 80% sales in luxury goods can be attributed to impulsive purchase (Ruvio and Belk, 2013). According to Bellenger and Korgaonkar (1980), when consumers shop in a large department store, 50 percent of impulse purchases were for apparel, where impulse purchases range from 27 percent to 62 percent of the total sales. Moreover, According to Coca Cola's CEO Muhtar Kent, more than 70 percent of Coke's sales are due to impulse purchases (Karmali, 2007). Surveys have shown that impulse buying makes up 27-62 per cent of the total buying at shopping centres (Mattila & Wirtz, 2008). Similarly, a Canadian grocery chain observed that its profitability would increase by more than 40 percent if each customer customer purchased an additional item on impulse (Babin and Attaway, 2000).

Those statements suggest the importance of Impulse Buying proven by decades of studies by the researchers. Impulse buying is very crucial in the purchase of convenience goods because usually the items that are sold are affordable for its market segment, and they are often considered necessary. Even when the product is not related to another item that the customer is purchasing, the customer might unconsciously purchase it without a second thought, simply because it is small, inexpensive and has an attractive look. Small purchases like this add up over time, and

can be used to generate even more revenue for the stores. Hence, impulse behavior has become an important source of revenue for retail business. That implies the significance of studying impulse buying in this global retail business (Clover, 1950).

Table 1.2 Competition among foreign modern retail store in Indonesia

No	Retail Store Brand	Country of Origin	Year of Establishment (Indonesia)	Number of Outlets (Indonesia)
1	Miniso	Japan	2017	79
2	Minigood	Korea	2018	10
3	Daiso	Japan	2004	50
4	Usupso	Japan	2017	31

Source: https://ekonomi.kompas.com (2019), personal interview (2019), http://marketeers.com (2019), http://medan.tribunnews.com (2019) (respectively)

According to According to Sharma, et al (2010), Impulse buying is a hedonically complex buying behavior that prevents any conscious consideration of alternatives or future consequences, and is emotionally driven and cognitively intractable consumer behavior which manifests itself in an irresistible desire to make a purchase in the presence of an appealing object. Some people are familiar with returning home with products that they have never intended to buy in the first place.

There is an act of impulse buying in Miniso, which can be proven by the fact that Miniso has expanded its number of stores aggressively, where it firstly started its very first store in Jakarta, but now it has operated more than 50 stores in Indonesia, with specifically eight branches located in different shopping malls in Surabaya. Not to mention that they now have officially joined online marketplace such as Lazada, Shopee, JD.ID, many more (http://www.tribunnews.com, retrieved on February 6, 2019).

Figure 1.7 Official Online Shop of Minigood in online marketplace
Source: https://google.com (2019)

It implies a high demand of Miniso products from Miniso enthusiasts that may not have Miniso store around where they live. Moreover, products that are sold in Miniso are mostly small goods and inexpensive products with the lowest price offered at Rp.14.900 modest and implemented constant increase of Rp. 10.000 for each price increase for each different type of products. (https://iprice.co.id, retrieved on February 7, 2019). Not to mention that Miniso marketing is optimistic in setting up new branches in all over Indonesia due to its great market prospects domestically. All those imply that there is an impulse buying in presence at Miniso Tunjungan Plaza Surabaya (http://marketeers.com, retrieved on February 4, 2019).

According to Mohan et al., (2013), Urge to buy is one of the variables affecting Impulse Buying as customers continuously experience impulsive urges as they browse around the store. According to Chung et al., (2017), Urge to buy impulsively is one of the types of irrational desire which can be manifested as an intention to purchase impulsively.

The presence of Urge to Buy at Miniso can be observed by the people who have visited Miniso, while having no intention on puchasing particular products, they end up buying it unconsciously (See Figure 1.8). That implies that there is a sudden desire to purchase goods fleetingly. To support the idea of the existence of Urge to Buy at Miniso Tunjungan Plaza, as pictured in Figure 1.9, attractive looking products are displayed at the cashier area. In addition, the products that they sell are somewhat small or rather cheap with attractive look and design.

Figure 1.8 Review on how people experienced impulsive buying
Source: http://beautynesia.id/32663 (2019)

Figure 1.9 Small-pieces products sold at Miniso; merchandise displayed at cashier
Source: Personal Documentation (2019)

According to Mohan et al (2013), there is a positive association between positive affect and impulse buying, as emotion produced in store is strongly correlated with unplanned buying. Cohen & Pressman (2005) defined positive affect as a state that are positively associated with physical and subjective wellbeing, and inversely related to mental illness. Positive affect on customer at Miniso Tunjungan Plaza Surabaya can be seen from the positive review given by 598 visistors that have physically visit and explore the store, with a rating of 4.6/5.0 (Figure 1.10).
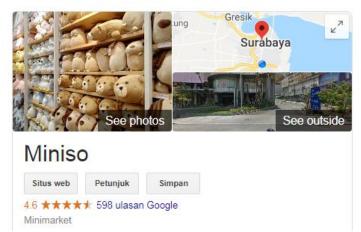

Figure 1.10 Google Review on Miniso Tunjunga Plaza Surabaya
Source: https://google.com (2019)

Nowadays, when customers are about to shop in a store, they do not react merely to the product characteristics, but is also influenced by its surrounding environment. Thus, Turley and Chebat (2002) came out with a finding that suggest

the idea of how physical store remains the main distribution channel for retail companies and is an important source of competitive advantage, as consumers are influenced by physical stimuli and retail store experiences. Kotler (1973) stated that store atmosphere is more influential than the product itself in the purchase decision, which a highly stimulating and pleasant store environments can lead to enhanced positive affect.

According to Baker et al., (2002), Store environment consists of ambient factors such as Lighting and In-Store Music; design factors such as Layout (and assortment); and social factors such as the presence and effectiveness of Salespersons (Employees). Simultaneously, according to Mohan et al., (2013), there is a positive relationship between four store environment elements (In-store Music, Lighting, Store Layout, and Employee) and positive affect.

The first element is In-store Music. According to Banat & Wandebori (2012), In-store Music is defined as a delight sound that influence customers purchasing intention contributing to the increase of the store revenue. As a key ambient variable shaping consumer behavior in retail environments, it is therefore essential that retail stores use store space opportunities effectively, in order to differentiate themselves from competitors in the retail market as well as provide consumers with a pleasant shopping experience.

The presence of In-store music variable can be seen as soon as customer enter Miniso Tunjungan Plaza Surabaya. Miniso has provided in-store music from a small-speaker that is placed in the middle rack inside the store (See Figure 1.11). Miniso plays more of a fast-beat music.

Figure 1.11 In-Store Music at Miniso Tunjungan Plaza Surabaya
Source: Personal Documentation (2019)

Second variable is Lighting. According to Banat and Wandebori (2012), Lighting is used to highlight merchandise or simply to flood the store with enough light, separating one area from another, to form space and to create a mood or a feeling that can enhance the store's overall image. Miniso is well known for its red logo with vibrant lighting that can be seen from afar (See Figure 1.12).

Figure 1.12 Miniso Lighting
Source: Personal Documentation (2019)

The third element is the Store Layout. According to Levy et al., (2012), Store Layout refers to the effective flow of used space, traffic control and sales productivity of a retail store in order to ensure that consumers are comfortable while shopping and that the overall appearance of a store is attractive. It basically refers to the way in which the products, shopping carts, and aisles are arranged; the size and shape of those items, as well as the spatial relationships among them.

Miniso in general is using a strategy called "Golden Display", which they purposely set three-stacks of racks right on the entrance, which is usually cosmetics in purpose to attract people to pay a visit and finally make a tour around the store. The shelves upon shelves of patterned backpacks, various styles of water bottles and plush toys in neat rows can be seen as how Miniso Tunjungan Plaza Surabaya design their store layout (See Figure 1.13)

Figure 1.13 Store Layout (Racks arrangement) at Miniso Tunjungan Plaza Surabaya
Source: Personal Documentation (2019)

Last but not least, Employee as the last store environment variable being studied in this research. According to Wang (2004), employees are people who can be creative in making presentations, handling objections, persuading, building customer rapport, and transferring knowledge and skills from other domains to sales problems.

Employee variable is in presence and can be easily spotted when entering Miniso Tunjungan Plaza Surabaya. Upon entering the store, several employees can be seen doing their job such as arranging products on the shelves, while others are standby at the cashier (See Figure 1.14).

Figure 1.14 Interaction with one of the employees at Miniso Tunjungan Plaza Surabaya
Source: Personal Documentation (2019)

According to the discussion above, can be seen a strong competition between modern retail business, therefore it is important for retail merchants such as Miniso to always maintain and even to improve those factors that capable in inducing impulse buying.

In this research paper, will be researched further on the factors that affect Impulse buying behavior on customers in this research object, which are Miniso Tunjungan Plaza. This research is bound to collect data by distributing questionnaire that comprises of sets of inquiries targeting the customers of Miniso. The sample will be taken randomly within Surabaya region, with the suitable respondents are those who have visited the physical store and have made any purchase at Miniso.

1.2 Research Limitations

Some limitations regarding this research are further to be noted. This research will be focusing on the In-Store Music, Lighting, Store ayout, and Employee as the variables of store environment, and Positive Affect and Urge to buy variables that will be examined its power in shaping Impulsive buying behavior of customers in Miniso Tunjungan Plaza Surabaya.

Customer's internal factors comprise of personal data such as respondent's set on population characteristics as male and female, domicile in Surabaya, within an age group of 18-60 (Kotler and Amstrong, 2009), has an experience visiting and purchasing a product either at Miniso Tunjungan Plaza Surabaya at least twice for the past two-months prior to the time when the survey is being conducted. Researcher assumes that the respondents already have their own income to afford buying the products at Miniso Tunjungan Plaza Surabaya independently without interventions by others' opinion, so to conclude it as a homogenous.

1.3 Research Problems

1 Does In-Store Music significantly influence Positive Affect at Miniso Tunjungan Plaza Surabaya?

2 Does Lighting significantly influence Positive Affect at Miniso Tunjungan Plaza Surabaya?

3 Does Store Layout significantly influence Positive Affect at Miniso Tunjungan Plaza Surabaya?

4 Does Employees significantly influence Positive Affect at Miniso Tunjungan Plaza Surabaya?

5 Does Positive Affect significantly influence Urge to buy at Miniso Tunjungan Plaza Surabaya?

6 Does the Urge to buy significantly influence Impulse Buying at Miniso Tunjungan Plaza Surabaya?

1.4   Research Objectives

1. To examine whether In-store Music significantly influences Positive Affect at Miniso Tunjungan Plaza Surabaya

2. To examine whether Lighting significantly influences Positive Affect at Miniso Tunjungan Plaza Surabaya

3. To examine whether Store Layout significantly influences Positive Affect at Miniso Tunjungan Plaza Surabaya

4. To examine whether Employee significantly influences Positive Affect at Miniso Tunjungan Plaza Surabaya

5. To examine whether Positive Affect significantly influences Urge to buy at Miniso Tunjungan Plaza Surabaya

6. To examine whether Urge to buy significantly influences Impulse Buying at Miniso Tunjungan Plaza Surabaya

1.5   Research Contribution

The result of this research is expected to provide enrich and deepen existing theory about factors affecting consumer behavior specifically on the case of consumer impulsive buying behavior.

1.5.1 Theoritical Contribution

1. This reserach is completed in purpose to give information and comprehension, as well as to broaden one's knowledge on the importance of store environment which comprises of lighting, music, layout, and employee, in purpose of knowing its impact toward impulse buying. This research result is to support exisiting theories about relationship of each variables.

2. This research result is to be used as a reference in purpose to aid future researcher in raising a similar theme fortheir research topic or merely using relationships among particular variables

1.5.2 Practical Contribution

1. This research results is to be further used as a source of information and material consideration for retail company in understanding the significance of fostering a nice store atmosphere through four variables such as in-store music, lighting, store layout, and employee in inducing positive affect and urge to buy on customers and thus simultaneously shape impulse buying behavior among them.

2. This research substance is to be used as proposed idea to Miniso Tunjungan Plaza Surabaya in making stratgeic decision on how to enhance their current store atmosphere to capture more attention from the customers and make use of the store atmosphere to increase their store performance through impulse purchases made inside the stor. Store atmospherics and its influence on consumers' buying behavior has received very little attention in the literature to date. The study will benefit apparel retailers in Surabaya region as the consumers' views on in-store atmospheric elements and their influence on the consumers' buying behavior are determined. Home goods retailers in Surabaya region can consider implementing the research findings and outcomes of the study in their retail environment. Alternatively, the outcomes and findings can be used purely for academic purposes and future research.

1.6 Research Outlines

Chapter 1: Introduction

This chapter lays out the research problem for the reader. It begins by providing a background information defining the issues and important terms associated to the research topic. It specifies the research objectives that are explored in greater details to contribute to the understanding of the research problem.

Chapter 2: Literature Review

This chapter summarizes the major studies and findings that have been published on the research topic and this study enumerates to what has been already studied previously. 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 3: Research Methods

This chapter outlines the detailed technical and scientific method of data collecting, which encompasses the research design, population target and characteristics, sampling plan, instrumentation of data collection, statistical tools, and treatment of data.

Chapter 4: Data Analysis

This chapter explains the results of the research in tables and pictures, as well as a detailed explanation about the generated reerach result and discussion on how the data results findings are related to the theory and prior researchers presented at the beginning of the study. The discussion in this chapter is a sort of a comprehensive discussion and is ought to address the research questions.

Chapter 5: Conclusion

This chapter comprises of the summary of the research, the conclusions, and recommendation that can be used to advance the study of the research topic by its theoretical, methodological, substantive contributions that may be necessary to overcome the limitations of existing empirical facts in the future.