CHAPTER I

INTRODUCTION

1.1 Background of the Study

As the largest economy in ASEAN states, Indonesia has a positive economy growth for past few years. Recorded in *focus-economy.com*, Indonesia's GDP has grown steadily on 5% increase (yoy). The positive increase in GDP also indicates an increase in household consumption, meaning people has higher purchasing power. The increase in people purchasing power contributes in retail industry growth in Indonesia. (https://www.focus-economics.com/, retrieved on January 27th, 2019)

Retail industry is one of many sectors that has given big contribution to Indonesia GDP performance. Recorded by *Badan Pusat Statistik* or *BPS* (Central Bureau of Statistics), in 2016, retail industry contributes 15.24% of Indonesia's GDP and has successfully reduced the unemployment number by 22.4 million. In fact, modern retail industry is expected to bring innovation in Indonesian market. *Asosiasi Perusahaan Retail Indonesia* or *Aprindo* (Association of Retail Company in Indonesia) believes that modernization in retail industry can improve goods distribution system and maintain price stability. As people's purchasing power increase, their main consideration in purchasing goods changes. Price is no longer the main. Instead today, people are looking for convenience. This phenomenon has changed the culture of modern retail industry. Modern retail industry now focuses on offering convenience shopping experience for their consumer. Thus, the strategies are customized and adapted to consumers' needs and demand for each retail category (https://republika.co.id, retrieved on January 27th, 2019).

Department store is one type of retail that sells wide range of merchandise which is arranged by each category into different section of the physical retail space. As the new concept in modern retail industry, department store is the result of adaptation consumer's need and demand. Basically, department store offers "one stop" shopping concept where they put various retailers into one big store. In fact, department store concept received positive responses when it first started. Continuously, this sector has grown rapidly in Indonesia as retail industry sales

reached its peak in 2010. However, the number is slowing down in recent years, and hit the weakest point in 2017. It is reported by *finance.detik.com*, that the low sales number was due to weak household consumption growth. On QII of 2017, household consumption rate only increased by 0.01% at 4.95% from QI of 2017. Whereas in previous year, household consumption rate stayed above 5%. The main cause of this phenomena is due to the increase of living cost which greatly impacted lower economy spending behavior. Instead of spending their money on big holidays, like *Idul Fitri* (at QII when the sales usually increase), they chose to save their money. In 2018, the sales rate has revived and shown positive increase as the household consumption rate increases (http://www.globalindonesianvoices.com; https://finance.detik.com, retrieved on January 28th, 2019).

Figure 1.1. Retail Industry Sales in Indonesia
Source: https://tradeeconomics.com, Bank Indonesia (2018)

Department store becomes one of the favorite places for people to shop for their needs. SOGO department store is one of the biggest department store retails in Indonesia. Originated from Japan, SOGO is a well-known department store with extensive chain, both in Japan and overseas. Under SOGO & Seibu Co., Ltd, the company was renamed after their merger with Millennium Retailing in 2009 (before was SOGO Co., Ltd), branches outside Japan includes Beijing in Mainland China, Causeway Bay in Hong Kong, Taipei in Taiwan, Bangkok in Thailand, Singapore, Kuala Lumpur in Malaysia, Jakarta and Surabaya in Indonesia, and London in United Kingdom. As independent franchisee, each branch operates individually. Established in 1990, SOGO Indonesia is managed by PT Panen Lestari Internusa

as subsidiary of PT Mitra Adiperkasa Tbk. SOGO started as a modern supermarket, named "SOGO Foodhall", however, this concept was considered not profitable because the competition in supermarket retailer was dominated by big supermarket chains. Later in 2005, SOGO came up with new concept, SOGO Department Store. This concept offers "one-stop" shopping experience which gives customers a wide range of merchandises from various brands. Today, SOGO has expanded their location into 18 different department store locations, across 8 different cities in Indonesia, and offers more than 200 different brands (https://www.emis.com; http://sogo.co.id/, retrieved on January 29th, 2019).

SOGO has received many recognitions for their performance as prestigious store. In 2017, SOGO received several awards such as "Best in Social Media" by Marketing Magazine, SOGO as "Best Corporate Image" by Frontier Consulting & Tempo Media Group, MAP CLUB "Best Loyalty Program (3rd)" by Marketing Magazine. In 2018, SOGO as "WOW Brand: Department Store (Bronze)" by WOW Brand Award Indonesia. According to WOW Brand Award Indonesia 2018, based on the Brand Advocacy Ratio (BAR) and Purchase Action Ratio (PAR), SOGO is placed 3rd (Bronze) after Matahari (Gold, 1st place) and Metro (Silver, 2nd place) (http://marketeers.com; https://www.map.co.id, retrieved on January 27th, 2018)

Department Store	BAR	PAR
Matahari	0.68	0.78
Metro	0.21	0.18
SOGO	0.21	0.11

Table 1.1 Top 3 Department Store in Indonesia
Source: http://marketeers.com, WOW Brand Indonesia (2018)

Matahari has the highest BAR ratio at 0.68, while SOGO and Metro are only at 0.21. The big gap between Matahari and the other two is because Matahari serves a different market segment. Matahari targets the lower middle economy class segment – the bottom of pyramid (BOP) which has a wider market range, whereas

SOGO and Metro both target the upper middle economy class segment. The difference can be seen from their brands. Matahari offers brands with affordable prices, whereas SOGO and Metro offers exclusive and luxurious brands (http://sogo.co.id; https://www.metroindonesia.com, retrieved on February 1st, 2019).

Categories	Matahari	SOGO	Metro
Cosmetics & Fragrance	Maybeline Make Over Revlon	Anna Sui Bobby Brown Burberry Dolce&Gabanna Clinique Estee Lauder MAC	Burberry Calvin Klein Clinique Dolce&Gabanna Estee Lauder Etude House Giorgio Armani
Ladies Wear	Eprise C2 Cardinal Femme Ninety degree Sorella NOVO	Caroline Kosasih COAST Dorothy Perkins Elle Giordano Quick Silver Pierre Cardin	Batik Keris Caroline Kosasih Elle Maysuda Nike Woman Rain Tree Rudy Chandra Urban Republic
Men Wear	Nevada Lotto The Executive	Crocodile Ducatti Elle Homme Everbest Hush Puppies Lacoste Polo	Camel Active Crocodile Elle Homme FILA Giordano Hammer JOBB
Home	Super Star Lion Star Tupperware	Kenzo King Koil Serta Home & Living Oxone Hankook	Florence King Koil Serta Arthur Wood Bellagio Living Cook's Habit

Table 1.2 Comparison of Brand List in Matahari and SOGO and Metro
Source: http://sogo.co.id; https://www.metroindonesia.com; personal documentation (2018)

SOGO and Metro both serve the upper middle economy class customers. According to Table 1.1, Metro has a higher PAR at 0.18, with 0.07 difference with SOGO (PAR 0.10). However, this number can be inaccurate, considering the survey did not concentrate on Surabaya. For Surabaya, SOGO has higher recognition than Metro. It is proven by the number of store and location in Surabaya. SOGO has opened 3 stores in three different locations (Tunjungan Plaza 4, Galaxy Mall, and Pakuwon Mall.), whereas Metro only has 1 store (Ciputra World). All SOGO stores

are located in strategic location in Surabaya. Strategic defines as suitable location for the right market segment. Tunjungan Plaza, Galaxy Mall, and Pakuwon Mall serves the same market segment as SOGO, upper middle economy class (http://sogo.co.id; https://www.metroindonesia.com, retrieved on February 1st, 2019).

Thus, we can see from the store list in each shopping mall:

Categories	Tunjungan Plaza 4	Galaxy Mall	Pakuwon Mall
Cosmetics	The Body Shop Shu Eumura	Sephora L'ocittane	Kiehl's L'ocittane
Fashion Retails	ZARA MANGO Giordano	ZARA MANGO Mark&Spencer,	ZARA Adidas Charles & Keith
Luxury Brand	Coach Furla Tissot	Pandora Everbest	Fossil Bonia
Technology	iBox (Apple Store) Samsung Store	Samsung Store Infinite (Apple Store)	iBox (Apple Store) Samsung Store

Table 1.3 Comparison of Store List in Tunjungan Plaza 4, Galaxy Mall and Pakuwon Mall
Source: Private Documentation (2018)

Table 1.3 listed several stores around SOGO's store location area in Surabaya which also have the same targeted market segment with SOGO Department Store. As one of the indications is the price range. For example, in fashion retails category, ZARA has similar price range with SOGO Department Store goods which indicates that ZARA also targets the middle upper economy class segment. Hence, ZARA open their store in all three locations.

Targeting upper middle economy class consumer, SOGO needs an elevated strategy. Understanding the need and demand for this market segment does not merely to gain customer satisfaction, but beyond. According to Hennig-Thurau, Gwinner, & Gremler (2002), the primary goal of all marketing efforts in building relationships with their customers is to achieve the degree of customer loyalty. Thus, loyalty can be defined as the store-customer relationship itself.

Loyalty cannot be defined with a single understanding. Thus, brand loyalty measurement concept varies depend on both market type and situation. As there is no ideal but to have specific of appropriate measurement according to context, Jacoby & Kyner (1973) concluded that brand loyalty measurement consist of

attitudinal loyalty and behavioral loyalty. This paper continues on previous research by Wang & Ha (2011) on attitudinal loyalty. Attitudinal Loyalty emphasizes the role of mental process in building loyalty, equated as strong brand preferences. The process involves the brand itself and attribute comparison through customer engagement program. Wang & Ha (2011) describes attitudinal loyalty is when a customer has strong commitment and has consistent response to a brand, and considered the act as risk avoidance.

SOGO's customer attitudinal loyalty can be observe from SOGO development through expansion. First SOGO in Surabaya was built in 2005 at Galaxy Mall. Continuing the positive response, SOGO was opened their second store in Tunjungan Plaza 4 in 2015. Recently in 2017, SOGO opened their third store in Pakuwon Mall Surabaya. According to *Surabaya.tribunnews.com*, SOGO Indonesia's CEO, Handoka Santosa at Pakuwon Mall grand opening celebration said that the opening of SOGO in Pakuwon Mall was part of their strategy for Surabaya area: SOGO in Galaxy Mall specified for east Surabaya, SOGO in Tunjungan Plaza 4 specified for central Surabaya, SOGO in Pakuwon Mall specified for west Surabaya. This expansion also under consideration of the increasing consumption potential by upper-middle economy class consumer in Surabaya, East Java to East Indonesia with rapid growth in their market development. (http://surabaya.tribunnews.com, retrieved on February 7th, 2019)

According to Wang & Ha (2011) model of retailer-customer relationship exchange, the consumer attitudinal loyalty is affected by perceived relationship quality which influenced by perceived relationship investment. Where perceived relationship quality mediates between perceived relationship investment and attitudinal loyalty. Perceived Relationship Quality defined as consumer's overall assessment of the strength of the relationship between the consumer and the store (Wang & Ha, 2011). Stronger bond of consumer and store relationship will eventually lead to loyalty intention. According to Google reviews, SOGO's average rate is 4.56 out of 5 stars. In specific, SOGO Galaxy Mall rates 4.6/ 5, SOGO Pakuwon Mall rates 4.5/ 5, SOGO Tunjungan Plaza 4 rates 4.6/ 5. In addition, High rate number shows that SOGO has strong relationship with consumer as trusted department store.

Figure 1.2 Google Review on SOGO Department Store in Galaxy Mall, Pakuwon Mall, and Tunjungan Plaza 4, Surabaya
Source: https://google.com (2018)

Perceived Relationship Investment defines as the amount of dedication in resources, effort, and attention in maintaining or enhancing the relationship with customers (Wang & Ha, 2011). SOGO has various program and strategy in maintaining and enhancing their relationship with consumer. These programs are specifically designed for SOGO's members. SOGO membership program "*Premiere*" card, SOGO is able to observe each of their customer's shopping behavior, such as consumer's favorite product, shopping frequency, customer return. This way, SOGO is able to offer the best service and promotion program for their customer.
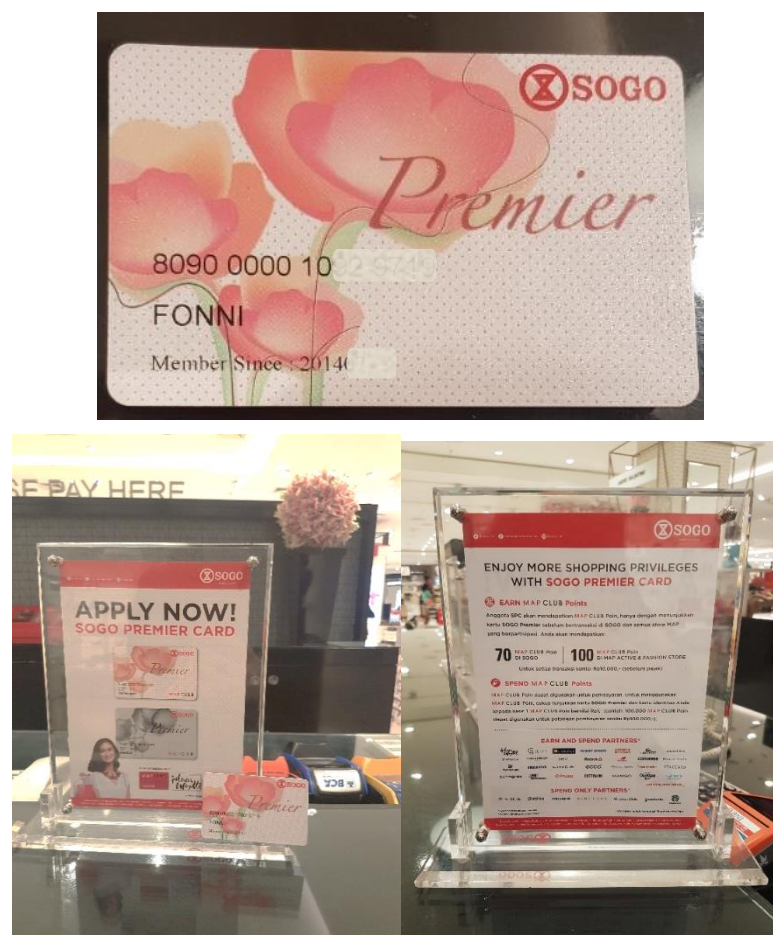

Figure 1.3 SOGO membership
Source: Private Documentation (2019)

According to Wang & Ha (2011), Store Attributes can form perceptions of store offering and image. Thus, it plays important signaling role in building store-customer relationship. Within store-customer relationship, store attributes act to stimulate a reciprocal interaction through unobservable intention (i.e. building

relationship with customers by satisfying them with offerings). Continuing from previous research model by Wang & Ha (2011). There are six factors of store attributes: Direct Mail, Post-Transaction Section, Interpersonal Communication, Preferential Treatment, Store Atmosphere, Merchandise.

Direct Mail is used to cross- and up-sell, to increase customer's purchasing frequency, and to induce customers to respond and to become involves in a dialogue (Merisavo & Raulas, 2004). A higher frequency of responds to messages, eventually lead to higher purchase frequency – more recent, thus, indicates customer loyalty. For SOGO's regular customer (registered as SOGO's membership), receives regular notification through e-mail. The email contains various information for SOGO customers, includes promotion, member's benefits.
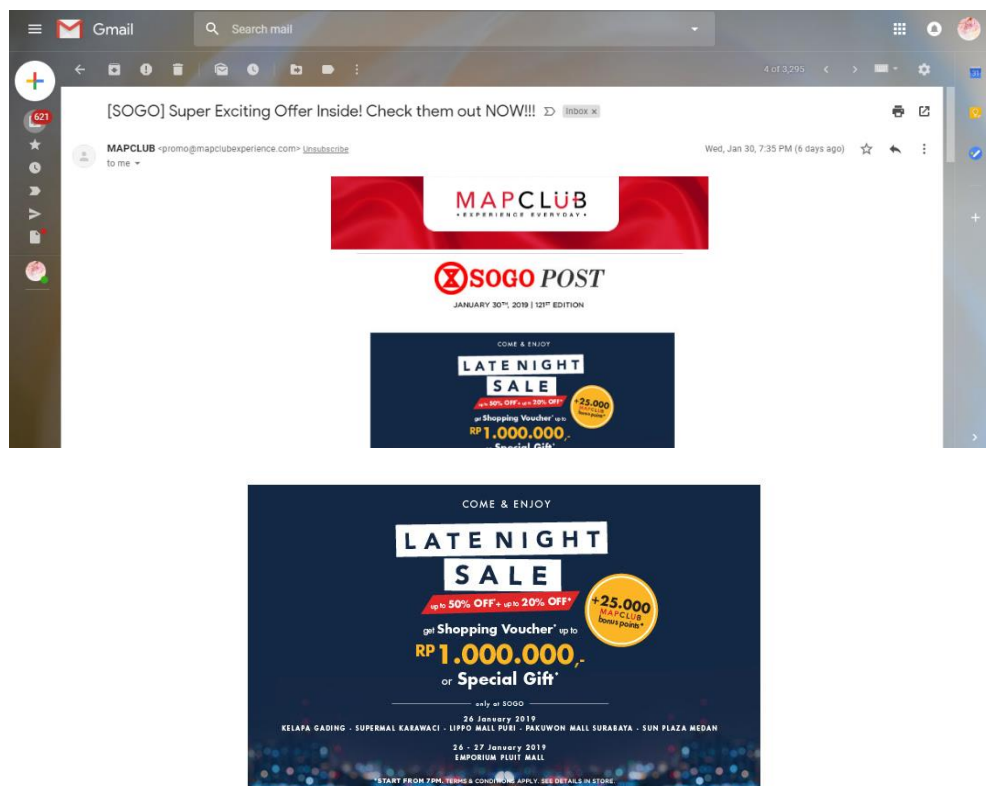
Figure 1.4 SOGO e-mail for SOGO's member
Source: Private Documentation (2019)

Wang & Ha (2011) includes Post-transaction Section as one of store attributes which influences perceived relationship investment, as it is defined as the physical services relating to products after transactions. Post-transaction services vary in many forms, such as delivery and installation, product warranties, and exchanges or refund.

SOGO offers various post-transaction services: warranty, delivery, and product exchange. SOGO's warranty services (for product with warranty) offers easiness for customer to claim their warranty without going to brand's official store. For home product, such as mattress, SOGO has delivery services which deliver the product to customer home and help with installation. Although, SOGO does not offer any cash refund, but customer is allowed to exchange the product – within 3 days (source: personal documentation *"SOGO in store policy receipt"*).

Another attribute that influences perceived relationship investment is interpersonal communication. According to Gremler et al. (2001), interpersonal communication defines as positive communication between customer and salesperson which involves three relationship dimensions: familiarity between customer and salesperson, personal connection between customer and salesperson, and care displayed by salesperson. Resulting interpersonal trust or "confidence in employee's reliability and integrity" which is hold the key of strong store-customer relationship.

SOGO uses this approach to enhance their customer-store relationship. SOGO's salespersons are trained to be able to approach each customer and build familiarity. This way, the salesperson can give best services for each customer. Hence, their service emphasizes on shopping experience, such as customer can try on the product, sample the product (source: personal interview with SOGO's sales person, 2019).

Preferential treatment is the practice of giving selective customer's elevated social status recognition and/ or additional or enhanced products and services above and beyond standard firm value propositions (Lacey, Suh, & Morgan, 2007). It is the development of interpersonal communication, where regular customers have built a relationship with the salesperson.

In SOGO, regular customer experiences the practice of preferential treatment. Every time the regular customer visits SOGO, the salesperson is ready to offer the suitable product for the customer without questioning their preferences first. For cosmetics section especially, the salesperson of specific brand usually shares the latest information (promotion or new arrival) to their regular customer. And on their visit, the salesperson has saved the product for them (source: personal interview with SOGO's sales person, 2019).

Figure 1.5 SOGO's customer and salesperson relationship
Source: Personal Documentation (2019)

Store atmosphere, many studies believes that atmosphere influences customer purchase intention. Hussain & Ali (2015) concluded that store atmosphere creates an emotional influence that could enhance customer purchasing probability through the attractiveness and impressiveness of experience. Thus, involves display/ layout, cleanness, scent, music, color, lighting, and temperature. SOGO shows that creating supporting store atmosphere can increase customer purchasing probability. Below are the pictures of SOGO's decoration and layout during Chinese New Year 2019. The decoration signaling the customer that they can find things they need for Chinese New Year in SOGO, from outfit to home décor.

Figure 1.6 SOGO Decoration for Chinese New Year 2019
Source: Private Documentation (2019)

Last store attributes according to Wang & Ha (2011) customer-store relationship model is Merchandise, which defines as the characteristics of products carried by a store or shopping mall, thus includes quality, selection or assortment, and styles of products.

SOGO offers various categories of merchandise with wide range of brands. It is divided into four categories: ladies' wear, men's wear, kids' wear, cosmetics & fragrances, bags & accessories, home. In addition, SOGO offers high quality of product with reasonable prices.

Figure 1.7 SOGO Indonesia Brand List
Source: https://sogo.co.id (2019)

Figure 1.8 SOGO's Stores
Source: Private Documentation

In conclude, the observation on SOGO in Surabaya indicates high intensity of competition in retail industry, specifically department store. Therefore, it is very important for SOGO as a leading department store retail in Surabaya, improve customer's attitudinal loyalty in order to secure their position within the competition. Further, this research paper analysed factors that significantly affect Customer Attitudinal Loyalty on SOGO Department Store in Surabaya. Hence, the factors are Store Attributes: Direct Mail, Post-Transaction Section, Interpersonal

Communication, Store Atmosphere, and Merchandise; Perceived Relationship Investment; Perceived Relationship Quality. The data collection process is done by using questionnaire which is designed for SOGO customers, randomly pick, within Surabaya area.

1.2   Research Problem

1. Does post-transaction service significantly affect perceived relationship investment at SOGO Department Store in Surabaya?
2. Does direct mail significantly affect perceived relationship investment at SOGO Department Store in Surabaya?
3. Does interpersonal communication significantly affect perceived relationship investment at SOGO Department Store in Surabaya?
4. Does merchandise significantly affect perceived relationship investment at SOGO Department Store in Surabaya?
5. Does preferential treatment significantly affect perceived relationship investment at SOGO Department Store in Surabaya?
6. Does store atmosphere significantly affect perceived relationship investment at SOGO Department Store in Surabaya?
7. Does perceived relationship investment significantly affects perceived relationship quality at SOGO Department Store in Surabaya?
8. Does perceived relationship quality significantly affects customer attitudinal loyalty at SOGO Department Store in Surabaya?

1.3   Research Objectives

1. To examine whether post-transaction service significantly affect perceived relationship investment at SOGO Department Store in Surabaya.
2. To examine whether direct mail significantly affect perceived relationship investment at SOGO Department Store in Surabaya.
3. To examine whether interpersonal communication significantly affect perceived relationship investment at SOGO Department Store in Surabaya.
4. To examine whether merchandise significantly affect perceived relationship investment at SOGO Department Store in Surabaya.

5. To examine whether preferential treatment significantly affect perceived relationship investment at SOGO Department Store in Surabaya.

6. To examine whether store atmosphere significantly affect perceived relationship investment at SOGO Department Store in Surabaya.

7. To examine whether perceived relationship investment significantly affects perceived relationship quality at SOGO Department Store in Surabaya.

8. To examine whether perceived relationship quality significantly affects customer attitudinal loyalty at SOGO Department Store in Surabaya.

1.4 Research Contribution

1.4.1. Theoretical Contribution

The contribution of this research will increase the understanding of the influence of Store Attributes: Direct Mail, Post-Transaction Section, Interpersonal Communication, Store Atmosphere, and Merchandise, Perceived Relationship Investment, Perceived Relationship Quality, and Attitudinal Loyalty. The results of this research can support the previous studies on each variable relationship. Thus, the results of this research can be a tool and references for future researchers who want to investigate this model further.

1.4.2. Practical Contribution

The result of this research can give insight for the company to perform better in improving Store Attributes: Direct Mail, Post-Transaction Section, Interpersonal Communication, Store Atmosphere, and Merchandise, Perceived Relationship Investment, Perceived Relationship Quality, and Attitudinal Loyalty. The information and data of this research can suggest SOGO management in improving their customer-store relationship strategy in achieving customer's attitudinal loyalty and in developing SOGO in Surabaya rapid economic growth, for either short or long-term purposes.

1.5 Research Limitation

This research is conducted under research limitation. This research discusses about the impact of store attributes: Direct Mail, Post Transaction Section,

Interpersonal Communication, Preferential Treatment, Store Atmosphere, Merchandise, towards perceived relationship investment and perceived relationship quality on customer's attitudinal loyalty of SOGO Department Store in Surabaya, Indonesia.

The customers are limited based on age, gender, domicile, and economy condition, in which the population characteristics are male or female, domiciled in Surabaya, age of 18 – 60 years old (Kotler & Keller, 2012), the customer has experienced shopping in SOGO in Surabaya for at least twice or more in the last 6 months, the customer has ever use or wear any goods purchased in SOGO within the last 6 months, the customer is registered as SOGO's membership and aware of SOGO's membership benefits and promotion for the last 6 months, the customer know the post-transaction policy (warranty, delivery service, product exchange) of SOGO department store. This research model is tested based on the data gained from distributed questionnaire of the research object. Calculation and analysis of the results of questionnaire data uses SPSS software tools.

1.6   Research Outline

The outline of this research includes:

CHAPTER 1: Introduction

Introduction of this research paper which explains the background study, research problem, research objectives, research contribution, research limitation, and research outline.

CHAPTER 2: Literature Review.

This chapter explains the relevant research ever undertaken by previous researchers and the foundation of hypothesis of the research model. Further development of the literature review, acts as base of discussions and analysis of conclusion, implication, and recommendation.

CHAPTER 3: Research Methodology.

This chapter covers research design, research variables: operational definition, variable to be tested, and level of measurement, methods of data collection: source of data, population & sample, and research instrument, methods of analysis.

CHAPTER 4: Data Analysis and Discussion

This chapter explains the result of this study in form of numerical table and graphical chart, with detail explanation of the result and discussion of the proceed data. The discussion is comprehensive and capable to explain the research problem of this study.

CHAPTER 5: Conclusion, Implication, and Recommendation

This chapter covers the conclusion of the analysis result and its implication, also recommendations which are considered necessary to address the deficiencies.