

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Modern society teaches that outer appearance is the most valuable asset that everyone must have nowadays (Korichi et. al., 2008). In a society where certain appearances and figures of the face are renowned for their beauty, women invest a lot in their outward appearance. More specifically, young girls and women who seek to attract the attention of those around them by doing so. As a result, this creates a change in behavior patterns in communities where there is a standard that women will be highly regarded if they are gorgeous (Renee E, 2017). If a woman thinks her beauty is far from ideal, she would change her appearance with assists of makeup and fashion (Jeon & Lee, 2005). Makeups covers facial flaws and enhance one's self-confidence and social relations. Not only does it serve as clothing for the face, makeup has become a medium that connects human feeling (Lee, 2002). Nowadays, cosmetics can be categorized as the essential parts in women daily life. Makeup has helped so many people in their lives, whether it's a job or their self-esteem, and it has shaped who they are as a person and who they are (Mileva et. al., 2016). Besides, makeup also helped brands show their products and attract peoples to buy their product whether it's male or female. As the result, the development of the cosmetics industry has grown very rapidly in recent years. Here are some of the reasons that affect the high consumption of makeup today:

**Table 1.1**  
**Trends and Behavior of the Indonesian Cosmetic Market in 2017**

The formula is safe for the face	79,4%
Durable	67,4%
The formula is light on the face	62,2%
Many colour variants	59,2%
Halal	58,3%
Price	51,5%
Packaging portability	46,2%
Display packaging	40,2%
Made from organic	23,5%
Following trend	22,9%
Advertisement	9,8%
No answer	0,4%

**Source:** sigmaresearch.co.id (2017)

According to the data above, there are several factors that are considered by women in buying cosmetic products such as compatibility of formula on facial skin (79.4%), then followed by products that are durable (67.4%), light formula (62.2%), as well as color selection, halal, prices with a percentage of each above 50 %. As the result from these factors, the beauty industry in Indonesia has experienced rapid development. According to (cci-Indonesia, 2015), the industrial market growth averages 9.67% per year and it is estimated that the market size of the cosmetics market is Rp. 46.4 trillion in 2017. It can be said that, Indonesia is a potential market for beauty industry both from outside and inside the country. This can be seen from the increase in cosmetic sales in 2012 which increased by 14% with the amount of Rp. 9.76 trillion from Rp. 8.5 trillion. On the other hand, according to *Persatuan Perusahaan Kosmetika Indonesia (Perkosmi)* the cosmetics market is no longer dominated by women because nowadays men also buy cosmetic products and skin care. These lifestyle changes occur because cosmetics producers no longer produce beauty products and treatments that are exclusively for women. The care products offered to men vary from soap, shampoo, skin moisturizer and so on. This condition is fully utilized by cosmetics producers as one of the opportunities, especially with a population of around 250 million, making Indonesia a promising market for cosmetic companies. According to Haryono Budiono, President of the International Cosmetics Association, he predicts that in 2017 the size of the cosmetics industry market in Indonesia will reach Rp 30 trillion, both local and imported products. Even though the global market size is predicted to reach US \$ 265 billion, the national cosmetics market is still dominated by imported products by 60%. One of the best beauty products on the market is Innisfree.

Innisfree is a South Korean brand engaged in cosmetics and skin care based on natural and organic ingredients. The basic ingredients used in the manufacture of cosmetics and skin care products is derived from the natural resources of Jeju Island. Jeju Island is a small island that is still very beautiful, located on the southern coast of South Korea. This island is known as an island that has fresh air, warm sun, and clear water. Innisfree products are made from various natural ingredients on Jeju Island, such as green tea, camellia flowers,

volcanic clay pores, oranges, orchids and more (Innisfree, 2017). The originator of this brand is Sung-Whan Suh who believes in the strength of natural ingredients for skin health. Sung-Whan Suh is the founder of a well-known cosmetics and skin care company in South Korea which is Amorepacific Corporation. Innisfree itself is under the auspices of the Amorepacific Corporation company along with other well-known brands such as: Leneige, Sulwhasoo, Etude House, Manonde, Primera, Odyssey, etc. Innisfree was founded in 2000 and officially opened a store in Indonesia in early 2017 (Kompas.com, 2017).

Innisfree has just entered Indonesia in 2017, but the popularity of this cosmetic brand is not inferior compare to other beauty products on the market. One of the strengths highlighted by Innisfree is they campaign for products that are environmentally friendly and also free of animal testing. Besides producing natural-based products, Innisfree is also always active in social activities and campaigns on the environment such as Eco-handkerchief, clean earth, and recycle used bottle. Innisfree has several excellent products that enter in Indonesia such as Green Tea Seed Serum, which is a facial serum that is very moisturizing to the skin based on Jeju organic green tea. Next is a Super Volcanic Pore Clay mask which is a face mask that has Jeju's best volcanic base which can help clean the skin's pores to the deepest part. Next is a product called Orchid Enriched Cream, which is an anti-aging cream based on Jeju orchids that is able to overcome the problem of wrinkles on the face and is able to improve elasticity, skin tone and maintain skin moisture. In addition to skin care products, Innisfree also manufactures cosmetic products such as My cushion, lipstick, foundation, eye shadow and many more. On the other hand, to increase awareness in Indonesia, Innisfree directly cooperates with famous Korean artists such as Yoona SNSD, Korean girl group as brand ambassadors who are considered to represent teen makeup characters today and can attract teenagers' interest in Innisfree products. With this strategy, Innisfree won the title "Cosmo Beauty Awards 2018" (Khollic.id, 2018).

Customer loyalty is the result of consistently positive emotional experience, physical attribute-based satisfaction and perceived value of an

experience, which includes the product or service (Rashid et al, (2015). Customers who are loyal to a particular brand or company will no longer consider factors that influence the selection of prices, distance, quality, and other attributes, because it has been embedded in them that the product or service purchased is in line with expectations and already fulfilling their needs. This kind of behavior creates a pattern that makes the company try to maintain customer loyalty because customer loyalty provides long-term benefits for the company. Customer loyalty in purchasing Innisfree products can be seen from the increase in sales of Innisfree products from year to year. This can be proved by the following data:



**Figure 1.1 Innisfree Sales Data**

[https://www.marketscreener.com/zbcache/reuters/Fullscreen\\_Chart.php?p=3&RepNo=AC9F9&co\\_dezb=&s=1&l=2](https://www.marketscreener.com/zbcache/reuters/Fullscreen_Chart.php?p=3&RepNo=AC9F9&co_dezb=&s=1&l=2)

Based on the table data above, it can be seen Innisfree sales table data starting from 2017-2019. From the table it can be seen that the increase in sales of Innisfree products in 2017 to 2018 has only slightly increased. This happened because Innisfree just entered the Indonesian market in 2017, where not many ordinary consumers knew about Innisfree products except consumers who already knew about this Innisfree product first. However, in the year 2019, Innisfree sales have increased significantly where the increase reached 375 billion won, this happens because people already recognize Innisfree products and many of the consumers are loyal to this product. (https://www.marketscreener.com/cache/reuters/ downloaded on 31 March 2019)

Customer satisfaction is "the customer's assessment of a product or service based on whether that product or service has met the needs and expectations of the customer" (Zeithaml, Bitner, and Dwayne, 2012). The customer may feel satisfied if they think that the product they purchased or the service provided by a store meets the needs and expectations of the customers. This happens because consumers often form a more pleasant perception of a product with a brand that they already consider positive. It can be said that, if an Innisfree product fails or does not meet expectations of the customer, they would feel dissatisfied. Likewise, if Innisfree is able to deliver products that satisfy customer expectations, the customer will be satisfied. Innisfree customer satisfaction is formed because Innisfree is also able to provide high quality products. Innisfree which is under the auspices of Amorepacific has proven to the public that they are a company that truly maintains satisfaction from its customers by winning awards. The achievements that have been achieved include with AmorePacific Ranks No. 1 on the National Customer Satisfaction Index (NCSI). AmorePacific received the highest points in the "no skin irritation" criterion of the detailed quality elements, the supplementary indicators in the assessment of customer satisfaction. (<http://www.apgroup.com/my/en/misc/news/> downloaded on 29 March 2019)

Store Atmosphere can be defined as an environment through visual communication design, lighting, colors, music and fragrances to stimulate the customer's perception and emotional response (Levy *et al.*, 2012). It can be said that the store atmosphere will affect the emotional state of the buyer which causes or influences the satisfaction of the buyer to remain in the shop. The emotional state will create two dominant feelings that evoke feelings of pleasure and satisfaction within the buyer. Many consumers assess a store based on the outside appearance first and then decide whether they will decide to enter the store or not. So here Innisfree has some way to attract shoppers and give a good impression to the customer on the store with the best possible design with providing attractive visual, music, and scents.



**Figure 1.2 Innisfree Atmosphere**

<http://studiomapos.com/projects/modern-nyc-store-design-korean-beauty-brand-innisfree-mapos-architects/>

From the figure above, it can be seen how Innisfree designed its shop in a way that made consumers feel comfortable and happy when they shop in the shop. Innisfree also maintains the cleanliness of stores, they also design their stores with the concept of combining modern buildings and nature to create visual concepts that provide natural coolness to their consumers, and of course Innisfree also provides air freshener so that their stores are free from bad odors. (http://studiomapos.com downloaded on 18 may 2019)

Service quality is the fulfillment of the expectations of consumers or consumer needs that compares the results with the expectations and determine whether consumers are receiving the best service quality (Mulyono, 2008). It can be said that, when services received by consumers are in accordance with their expectations, the quality of service can be said to be good and satisfying. If services that have been received exceed customer expectations, then the quality of these services can be said to be ideal. In this case, Innisfree have an outstanding performance in their service quality. To maximize its performance, Innisfree uses Sales Promotion Girl (SPG). In addition, Innisfree also has a website and social media accounts such as Facebook, Instagram and twitter where customers can directly see the products offered and also submit complaints either about the products and services that already provided. Through its website and social media

account, Innisfree able to reach all its customers throughout the country. (www.innisfree.com downloaded on 12 April 2019)

Product assortment can be defined as a collection of all products and goods offered by certain sellers to buyers (Kotler and Keller, 2012). Product assortment is one of the factors that must be considered as the important factors in the company. That because, with the diversity of product that attractive as well as well-made, the company might be able to attract consumers to visit the store and make purchases. In this case, Innisfree has many variations of products sold in the market. Innisfree divides their product based on customer needs such as cleanser, masks, toners, serums, eye care, moisturizer, sun care, and also men products. (www.innisfree.com downloaded on 12 April 2019)

Based on the sales table above, it can be concluded that cosmetic competition in Indonesia is getting tougher. Therefore, it is important for Innisfree to always try to improve the customer loyalty. In this study will examine the factors that significantly affect the customer loyalty to the object of research used, namely Innisfree cosmetic products in Surabaya through store atmosphere, service quality, product assortment, and customer satisfaction. This study will take data by distributing questionnaires containing questions to some customers who have purchased Innisfree products for at least the past six months, which will be randomly selected in the Surabaya area, which is targeted at women and men who have used Innisfree cosmetics.

## **1.2 Research Limitation**

To anticipate the development and discussion of problems that are not in accord with the discussion, research gives limitations to the problem. Its purpose is to strengthen research on the field of observation. Research is limited by researching store atmosphere, service quality, product assortment, customer loyalty, and customer satisfaction of Innisfree, Surabaya. Limitations of research problems in detail include:

1. The study only analyzes five variables consisting of three independent variables, namely store atmosphere, service quality, product assortment, and two dependent variable which are customer loyalty and customer satisfaction.
2. The object of this research is only Innisfree, Surabaya
3. The research was conducted in Surabaya, East Java
4. Questionnaires are limited only to people who used a product from Innisfree, Surabaya
5. Research and analysis of the questionnaire results using software tools SPSS 22.0
6. The questionnaire is limited to 18-60 years old
7. Research conducted in 2019
8. The research intended for customers who have purchased Innisfree products in the past 6 months
9. The research intended for customers who have visited and purchased Innisfree products about 2 times in the past 6 months
10. To know about the competitor of Innisfree who run in the same business

## **1.3 Research Problem**

1. Does Store Atmosphere affect significantly to Customer Satisfaction on Innisfree customer's in Surabaya?
2. Does Service Quality affect significantly to Customer Satisfaction on Innisfree customer's in Surabaya?
3. Does Product Assortment affect significantly to Customer Satisfaction on Innisfree customer's in Surabaya?

4. Does Store Atmosphere affect significantly to Customer Loyalty on Innisfree customer's in Surabaya?
5. Does Service Quality affect significantly to Customer Loyalty on Innisfree customer's in Surabaya?
6. Does Product Assortment affect significantly to Customer Loyalty on Innisfree customer's in Surabaya?
7. Does Customer Satisfaction affect significantly to Customer Loyalty on Innisfree customer's in Surabaya?

#### **1.4 Research Objectives**

1. To examine the effect of Store Atmosphere has a significant effect to Customer Satisfaction on Innisfree customer's
2. To examine the effect of Service Quality has a significant effect to Customer Satisfaction on Innisfree customer's
3. To examine the effect of Product Assortment has a significant effect to Customer Satisfaction on Innisfree customer's
4. To examine the effect of Store Atmosphere has a significant effect to Customer Loyalty on Innisfree customer's
5. To examine the effect of Service Quality has a significant effect to Customer Loyalty on Innisfree customer's
6. To examine the effect of Product Assortment has a significant effect to Customer Loyalty on Innisfree customer's
7. To examine the effect of Customer Satisfaction has a significant effect to Customer Loyalty on Innisfree customer's

#### **1.5 Research Benefits**

##### **1. Theoretical Benefits**

This research was conducted in order to provide information and knowledge and to expand the horizons of the society, especially in the management field such as Store Atmosphere, Service Quality, Product Assortment, Customer Satisfaction, and Customer Loyalty. In addition, the results of this research are expected to be used as a comparative study by other

researchers who want to examine the same problem, and the possibility of future development.

## **2. Empirical Benefits**

This research can be used by Innisfree management to help them as the information to help them identify the factors which affect the Innisfree Store Atmosphere, Service Quality, Product Assortment, Customer Satisfaction and Customer Loyalty. And also, to help Innisfree to set the best strategy to keep improving on this field whether it is a long-term or short-term strategy.

### **1.6 Research Outline**

#### **CHAPTER I: INTRODUCTION**

This chapter analyzes the research problem. It provides information about the current industry as well as the product that is used as the material for the research which also provides several pieces of information about the successful strategy for the particular product. It also specifies the research objectives explored in greater detail to contribute to understanding the research problems.

#### **CHAPTER II: LITERATURE REVIEW & DEVELOPMENT OF HYPOTHESIS**

This chapter explains the literature review and hypotheses that form the basis of the preparation of the proposal. Literature review and hypotheses will be used as a basis for conducting analysis and as a basis for discussion to provide conclusions, implications and recommendations.

#### **CHAPTER III: RESEARCH METHODOLOGY**

This chapter explains the detailed technical and scientific activities, including research design, sampling plan, instrumentation, statistical tools, and data processing.

**CHAPTER IV: DISCUSSION OF RESEARCH RESULTS**

This chapter explains the research results in the form of tables and figures, as well as a detailed explanation of the research results and discussion of the results of data processing. The discussion is comprehensive and able to explain the research problems.

**CHAPTER V: CONCLUSIONS, IMPLICATIONS, AND RECOMMENDATIONS**

This chapter explains the conclusions of the results of the discussion and their implications and recommendations that are deemed necessary to overcome the shortcomings.