

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

The landscape of the retail industry has changed across the globe. In line with the changing global economy and consumer demand, fashion industry has been facing a fierce competition for numerous years. Since customers are becoming ever more demanding as fashion evolves and new trends becoming more booming though out the world until it Indonesia. According to Xinhua, 26 October 2016, fashion industry has become a significant factor in Indonesia's creative economy, and this has been prove in the event of 8<sup>th</sup> Jakarta Fashion Week, the largest event help in Southeast Asia. Moreover, in the article, it also stated by that Jakarta Fashion Week organizer chief Svida Alisjahbana "this would be right moment to introduce and show Indonesian fashion labels to visitors, enabling them to witness and experience the good quality and creativity of our talented designers who are comparable to international ones". (Xinhua, 2016)

As market evolve, retailers need to adjust their strategies to adapt to changing shopper needs and trends and try to maximize their reach in the evolving market. According to Sonekh, the key behind the growth in Indonesia's retail sales due to the strong economic growth, expanding of its population (the world's fourth largest population, after China, India and the US), and the rise per capital incomes, and the continued development of organized retail infrastructure. (Sonekh, 2012) Due to the economic growth, a lot of foreign fashion retailer come to Indonesia and open their brand, such as Zara, Puma, Addidas, H&M, Nike, Forever21, UniQlo, Pull & Bear, Guess, Gap, Giordano and others. Besides, most of this retail stores are located in Jakarta, Capital City of Indonesia.

According to data released by the industry ministry, Indonesia's creative economy contributed 641.8 trillion rupiah (about 49.3 billion U.S. dollars) to the national gross domestic product (GDP) last year. Moreover, the earnings in

Indonesia's fashion industry stood at 208.6 trillion rupiah (about 16 billion U.S. dollars), accounting for 28.29 percent of total earnings in the country's creative economy in 2016. (Xinhua, 2016) According to Statista, revenue in the “Fashion” industry is amount to US\$2,471 million in 2017. Moreover, the revenue is expected to show the annual growth (CAGR 2017-2021) of 21.2% resulting in a market volume to increase of US\$5,328m in 2021. On top of that, Statista also show that the market’s largest segment is the segment “Clothing” with a market size of US\$1,856 million in 2017. ("Fashion - Indonesia | Statista Market Forecast")

As a lot of retail store come and invest their brand in Indonesia, the competition between fashion industries is becoming more serious. As a result, the expanding of the retail store in Jakarta had expanded into Surabaya. Surabaya is the second largest city in Java after Jakarta. The needs and wants of consumer in Surabaya had instantaneously increased in the term of fashion business, this happened due to the Jakarta Fashion Week. The retailers are now more creative to create a business model that is different with other businesses. A retailer’s marketing efforts should focus on satisfying the customer’s retail experience needs as it can ensure survival, competitive advantage and furthermore achieve the retailer’s financial goals (Palmer, 2011:338). As a result, retailers have turned their focus towards environmental cues, or the store’s atmosphere, as a marketing tool. According to Palmer (2011:338), Berman and Evans (2013:4), Koo (2003:43), as well as Little and Marandi (2003:14, 15), the price portrayed by specialty retailers such as boutiques, can satisfy a customer’s specific retail experience needs and elicit customer satisfaction, store loyalty and repurchase intention. If this is successful to do will cause an impact that is growing consumer purchase intention until the consumer is buying and generating profits for the seller. Sellers are also selective in picking where they will be opened.

Besides of the growth of needs and wants of the consumer toward fashion industry, this growth is happened due to the growth on consumer spending in Indonesia. Consumer spending in Indonesia is expected to be 1310904.77 IDR Billion by the end of this year, according to Trading Economics global macro

models and analysts expectations. Moreover, they had forecast estimation toward the consumer spending in Indonesia to stand at 1307090.12 in this 12 months time. However, in the long-term, the Indonesia consumer spending is projected to trend around 1624300.74 IDR Billion in 2020, according to our econometric models below, Table 1.1. ("Indonesia Consumer Spending Forecast 2016-2020")

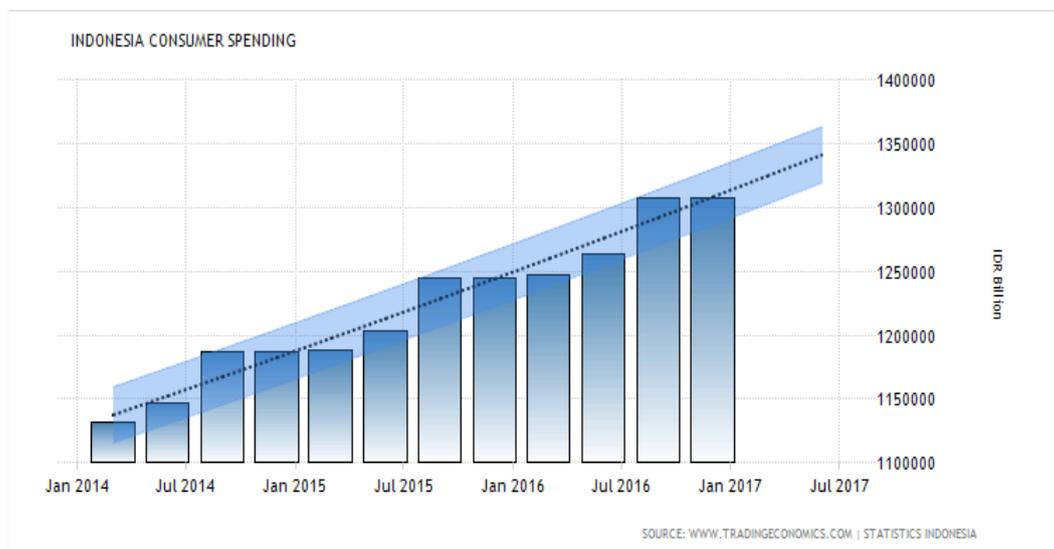


Table 1.1: Forecast on consumer spending in 2016-2020

The story of H&M begins in the year of 1947. In 1947, is when Erling Persson, the father of Stefan Persson (Chairman of the Board) and grandfather of the current CEO, Karl-Johan Persson, opened the first store in Västerås, Sweden. Since then, H&M has grown and expanded its business internationally due to the succeeded of their brand in the fashion industry. At the end of 2015, H&M had operated in a total of 3,924 stores in 61 different markets around the globe with total sales of 181 billion. As of 31 August 2016, the group had 4,135 stores of which 176 were franchise stores.



Figure 1.1: H&M logo.

In this research papers, the discussion will be narrow down to H&M retail shop that had just open their branch in Surabaya at Pakuwon Mall. Pakuwon Mall is the biggest mall in Southeast Asia, which is a strategic place for H&M to open their first retail store in Surabaya. As H&M just open their first store in Surabaya, a lot of consumers tend to go and visit the store. Hence, the crowded behavior in a store doesn't reflect customer loyalty or behavior intention toward the store. H&M is not only the retail store that open in Pakuwon Mall, but Zara, Berskha, Cotton On, Pull & Bear, and so fort had opened their retail store too. Besides, this situation creates a bias toward the customer loyalty and the behavior intentions toward the store due the competitors of H&M are opening their second branch store in Surabaya, which make H&M is different from its competitor in term of promotion and service for its loyal customer. Therefore, in this research, H&M will focus deeper on the customer behavior intention since it just open for 3-5 months operation. Moreover, this research will be discussing about the factors on how price, product assortment, product quality and employee service toward behavior intention through customer satisfaction and store image on H&M. (Yolanda Deayu, 2017)

According to Basu Swastha (1989), price can be defined as the amount of money or the value of money that are needed to be obtained to represent the value of goods and services that will be given. H&M provided an affordable and reasonable price toward the product that they offer to the customer. Moreover, the price also reflect on how the service that will be given to the customer.

According to Sungtak Hong, Kanishka Misra, & Naufel J. Vilcassim (2016), product assortment refers to a set of products that are offered and within a category by a retailer to consumers. Moreover, product assortment is a crucial decision to be made by retailers due to a higher variety level tends to attract more customers, especially in a competitive environment. Having a product assortment will also allow consumer to find items that more closely match their preferences. In turn, this helps retain customers for future purchases. Since H&M retail store in Surabaya is new, they still can catch up with its competitor due to the product variety that they had provided in store. For instance, Figure 1.2 is two of the product that is highly demanded by the consumer, even male or female consumer,

which H&M can take into account when they are importing the product to the store.



Figure 1.2: H&M product collaborating with Purpose Tour Merchandise

Walker (Tjiptono, 1996) expressed the importance of good service quality to customers as the company's reputation. Service quality is determining on how much difference between expectations and reality toward the service that will be receive and judge by customers. According to Wyckof (Tjiptono, 1996), service quality is one of the tools that are expected to be able to meet customer desires. Service quality generally affects the level of customer satisfaction in a constitution as described in Zeithaml et la. (2012), he stated that service quality is an assessment of the process received compared to the process offered or promised. From the understanding from both researchers, neither quality of service depends on the service provider's ability to consistently meet customer expectations. In terms of service quality, H&M is providing maximum services to consumers, as well as the employees are being friendly to consumers. With good service quality distributors are expected to be very satisfied for the services we provide and consumers will be able to be loyal customers to the store.

According to Chase and Anguilino (Kotler, 2003) who argue that the quality of a product is determined by the customer through the characteristics that exist in a product and service, in which the satisfaction of the customer's actions is

influenced by the value of being able to consume a product. Thus, if judging the quality of the product influences the customer, then the customer has automatically felt satisfaction through the product when they feel the quality of product is qualified. Product quality is the ability of an item to deliver results or performance that match or exceed what customers want (Kotler, 2005). Consumers can choose a brand based on the quality of a product that can either influence the purchase decision of the consumer itself. Therefore, H&M can maintain their consumer who had purchased their items from different country or different outlet in Indonesia.

In this discussion, customer satisfaction has an influence on price, product assortment, product quality, employee service, and store image to turn customer into loyal customer. Customer satisfaction is one of the most influential factors in determining store image or behavior intention to H&M store, and if H&M can meet price, product assortment, product quality, employee service, and good store image then it will increase satisfaction from customer who will be influence to turn into customer loyalty. Since H&M in Surabaya is still new, the research will be focusing in the customer's behavior intention rather than customer loyalty due to the unknown behavior that the customer in Surabaya had.

Store Image is one of the tools that are used for this discussion to measure for customer satisfaction and behavior intention. Store images consist of the functional and emotional attributes that are highlighted in the buyer's structural perceptions that each buyers and sellers expect to get after they come to the store. According to Blomber and Schoeder (2002), store image is the sum of all store attributes in a way that customers perceive through customer experience to a particular store. The main idea of an important retail store is to shape a good store image because it can makes consumers more interested in shopping. Moreover, store image can help consumers to make easier decisions about where to shop. A good store image from H&M is the location where they open the store. H&M has a reachable location, as it is located right at the very famous Mall, the Pakuwon Mall. While the most of competitor, such as Zara, Pull & Bear, Cotton on, open in the same place as H&M, but they have two other stores that is located in a strategic location, which is Tunjungan Plaza and Galaxy Mall.

Behavioral intention has two forming factors believe brand switching and brand loyalty. (Paurav in Khan and Majeed, 2012). Therefore, by knowing the customer behavior intention, H&M can know whether the customer is a customer loyal to the brand or not since they just opened. Over time, H&M will able to determine their customer loyalty due to the behavior that the customer had. In today's business arrangements, the intention in purchasing a product has been a major challenge for sellers to create the condition due to the competition that is exists around them. (Mittal and Kamakura, 2001; Sniehotta et al 2005 in Khan and Majeed, 2012)

## **1.2 Research Problem**

Based on the background that has been explained, the research problems are:

1. Does Price affect significantly to Customer Satisfaction on H&M at Supermall in Surabaya?
2. Does Product Assortment affect significantly to Customer Satisfaction on H&M at Supermall in Surabaya?
3. Does Product Quality affects significantly to Customer Satisfaction on H&M at Supermall in Surabaya?
4. Does Employee Service affect significantly to Customer Satisfaction on H&M at Supermall in Surabaya?
5. Does Customer Satisfaction affects significantly to Behavior Intention on H&M at Supermall in Surabaya?
6. Does Store Image affect significantly to Customer Satisfaction on H&M at Supermall in Surabaya?
7. Does Store Image affect significantly to Behavior Intention on H&M at Supermall in Surabaya?

## **1.3 Research Objectives**

The purpose of this research is to reveal which factors between Price, Product Assortment, Product Quality, and Employee Service toward Behavior Intention through Customer Satisfaction and Store Image on H&M at Supermall in Surabaya. Specifically, this research wants to:

1. To prove that Price affects Customer Satisfaction on H&M at Supermall in Surabaya.
2. To prove that Product Assortment affects Customer Satisfaction on H&M at Supermall in Surabaya.
3. To prove that Product Quality affects Customer Satisfaction on H&M at Supermall in Surabaya.
4. To prove that Employee Service affects Customer Satisfaction on H&M at Supermall in Surabaya.
5. To prove that Customer Satisfaction affects Behavior Intention on H&M at Supermall in Surabaya.
6. To prove that Store Image affects Customer Satisfaction on H&M at Supermall in Surabaya.
7. To prove that Store Image affects Behavior Intention on H&M at Supermall in Surabaya.

#### **1.4 Research Contribution**

Based on the background that has been explained, this research is aim to make contribution toward H&M and also toward the Future Research:

##### **1. H&M**

The result of this research are expected to help H&M by giving knowledge about how bug the factor of Price, Product Assortment, Product Quality, and Employee Service toward Behavior Intention through Customer Satisfaction and Store Image. These research findings can be used to improve the strength and fixed the weakness of H&M to provide a better quality marketing strategy.

Moreover, this research is aim to share knowledge and insight about how big effect from related factors (Price, Product Assortment, Product Quality, and Employee Service toward Behavior Intention) could affect the Customer Satisfaction and Store Image toward H&M Retail Store. In addition, this research may give contribution to develop the marketing and management study about what are the strategies to make customer satisfied in coming to the store. On top of that, it also has possibility to bring as bring solutions and inspirations to fixed and improve marketing strategy since H&M in Surabaya just open for a few months.

## 2. Future Research

This research is aim to share knowledge and insight about how big effects from related factors (Price, Product Assortment, Product Quality, and Employee Service toward Behavior Intention) could affect the Customer Satisfaction toward fashion retail industry. In addition, this research may give contribution to develop the marketing and management study about what are the strategies to make customer satisfied in coming to the store. On top of that, it also has possibility to bring as bring solutions and inspirations to fixed and improve marketing strategy.

### 1.5 Research Limitation

To anticipate the occurrence of the expansion and discussion of problems that are not in accordance with the discussion, then the researchers provide limitations of the problem. It aims to strengthen research on the focus of the field of observation. Research is limited by researching: price, product assortment, product quality, employee service, customer satisfaction, image store and behavior intention of H&M at Pakuwon Mall, Surabaya. Limitations of research problems in detail include:

1. This study only examines seven variables consisting of four independent variables, namely price, product assortment, product quality, employee service and three dependent variables of behavior intention, store image and customer satisfaction.
2. The object of this research is H&M shop in Pakuwon Mall, Surabaya

3. The research was conducted in Surabaya, East Java.
4. Questionnaires are limited only to people who made a purchased in H&M at Pakuwon Mall, Surabaya.
5. Research and analysis of the questionnaire results using software tools AMOS 16.0
6. Filler questionnaire is limited to 18 - 60 years old.
7. Research conducted in 2017.
8. Behavioral Intention will be focusing into Brand Loyalty variable since Behavioral Intention is divided into two variables.

## **1.6 Research Outline**

### Chapter I: Introduction

This chapter explains the research problems. It also consists of information of the products and introduction of related factors that create successful sales for the products. It specifies the research objectives explored in greater detail to contribute to understand the research problem.

### Chapter II: Review of Related Literature

This chapter summarizes the major studies and findings that have published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of the theory that applies to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

### Chapter III: Research Methodology

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

Chapter IV: Result and Discussion

This chapter starts with describing the object of the study, descriptive analysis of the data collected proceeds with hypotheses testing and discussion.

Chapter V: Summary, Conclusions and Recommendation

This chapter consists of the summary of the study, conclusions on the finding of the study and the recommendation proposed.