

# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

Retailing includes all the business activities relating to selling of goods and services to the end consumers. Thus, retailer is a person or agent or agency or company or organization which is instrumental in reaching the goods/merchandise to the end user/consumer. People often think of retailing as only the sale of products in stores, but retailing also involves sale of services like a restaurant or a bank or hospital offering various health services to people (Kamran and Poddar, 2014). Retailing has been undergoing tremendous changes since the early 1990s in developing countries. Once characterized by small citizen owned stores that offer limited assortment, the retail landscape in Asia, Latin America and Sub-Saharan Africa has experienced fundamental change owing to the establishment of large international retail chains (Nsimbi et al, 2015).

The presence of modern retail in Indonesia started the emergence in 1970. Until 1983, modern retail formed a small sector located mainly in Jakarta area serving a niche of market-expatriates and upper-class Indonesians. Introduction of unimpeded aggressive market penetration of foreign modern retailers in Indonesia after 1998 was supported by government policies of trade globalization, particularly in the retail sector as it allowed foreign modern retailers to enter and to compete with local retailers. Before retail liberalization, foreign modern retailers entered the market through a franchise system. After 1998, each foreign modern retailer had to initiate joint ventures with local retailers. However, foreign modern retailers were able to buy out local retailers due to their financial strength (Sunanto, 2012).

The retail on fashion and apparel sector expanded aggressively across Asia to an estimated of US\$625 billion in 2014 and set to rise by almost 10% per year. Current demand growth seems to become increasingly centered on fast fashion trends, with Asian consumers appearing to have an insatiable appetite for the quick and trendy brands that are proliferating. Fast fashion retail brand such as

Zara is outlining ambitious store opening plans to sit in sweet to spot that blurs the distinction between mid-market apparel and low-end luxury (PwC, 2015).

**Table 1.1 Clothing Market Demand (in US\$ Million)**

Region/Territory	2011	2012	2013	2014	2015	2016
Asia and Australasia	200,698	216,657	225,645	239,462	260,736	284,237
Australia	9,212	9,781	9,600	9,481	9,724	10,538
China	50,918	58,054	64,368	71,248	79,542	88,218
Hong Kong	44,908	48,317	51,326	53,302	56,079	57,620
India	7,182	7,025	7,220	7,873	9,217	10,932
Indonesia	8,690	9,127	9,367	9,504	11,145	14,144
Japan	28,231	28,543	23,717	23,195	23,507	24,010
Malaysia	3,581	3,850	4,135	4,374	5,005	5,722
New Zealand	2,185	2,348	2,480	2,617	2,465	2,459
Pakistan	3,121	2,967	3,078	3,287	3,792	4,239
Philippines	5,695	6,515	7,094	7,602	8,623	9,610
Singapore	3,227	3,422	3,560	4,126	4,622	5,206
South Korea	8,485	8,583	8,967	9,560	10,215	10,484
Taiwan	3,995	4,089	4,178	4,276	4,479	4,646
Thailand	6,579	7,137	7,473	7,279	7,756	8,488
Vietnam	14,687	16,899	19,083	21,738	24,566	27,919

Source: PwC 2015-16 Outlook for Retail and Consumer Products Sectors in Asia (2015)



Source : Google Image Zara Store (2015)

Fashion is any mode of dressing or adornment that is popular during a particular time or in a particular place. The term fashion is frequently used in a positive sense, as a synonym for glamour, beauty and style. Of all Indonesia's creative industries, fashion goods contributed the most to the export figures, with

annual growth of around 30 percent. The market value offered by the fashion sector in Indonesia is very tempting, in 2015 is estimated to reach US \$ 15.19 billion or equivalent to Rp 208 trillion. Fashion becomes primary need of Indonesian society, although purchasing power is not as big as Singapore. It was seen from about 200 world's brand of clothes are produced in Indonesia, such as Zara, Adidas, Nike, The North Face, Amer Group, Salomon, Arcteryx, Calvin Klein and H & M (Ministry of Trade, 2016).

Zara is the first word that comes to mind when we think about fast fashion. The company's history began with a small shop in La Coruna and turned into a global retailer today expanding in tremendous pace (Lidia et al, 2012). Established in 1975, Zara is the flagship of Inditex (Industria del Diseño Textil, S.A.), a holding company located in Galicia (north-west Spain). In a relatively short time frame Inditex has become the world's second largest clothing retailer with 2,692 stores spread across 62 countries worldwide by the end of January 2006. In addition to Zara which accounted for 66 percent of the group's turnover in 2005, Inditex owns seven other clothing chains: Kiddy's Class for children's fashion, Pull and Bear for youth casual clothes, Massimo Dutti for quality and conventional fashion, Bershka for avant-garde clothing, Stradivarius for trendy garments for young women, Oysho for undergarment chain, and Zara Home for household textiles (Lopez and Fan, 2009).

Various urban areas have been at the center of attraction with emergence of different kinds of organized retail formats gaining momentum. It is largely due to rising income, increasing purchasing power, credit facilities, changing pattern of consumer behavior, increased consumer awareness etc (Kaur, 2013). The retail format that has shown the maximum growth among all is the multipurpose shopping complexes or the Shopping Malls. The malls are being positioned as a one-stop entertainment destination for a family, where they can not only do their shopping, but also watch a movie and dine at the restaurants and food courts inside. The future of malls would depend upon the wonderful ambience associated with them as well as the right tenant-mix (Majumdar, 2005).

Due to increasing competition in fashion and apparel retailing sector, especially the retail store inside the mall, retailers are making considerable efforts to commit more consumers to their stores, and have made increase the frequency and amount of purchase available. Therefore, the importance of strengthening

store loyalty and developing new strategies towards this has been highlighted (Kumar and Gopinath, 2012). Customer loyalty is about retaining customers, which means earning more. Building customer loyalty to the company is very important, therefore it's not just a simple function of the marketing, but is a philosophy and a way of thinking for how to attract customers and how to satisfy them and make them more loyal to the organization (Kihara and Ngugi, 2014).

Customer loyalty is a complex, multidimensional concept that often requires sophisticated measurement and analytical tools to understand it completely. There are many factors affecting customer's store loyalty. According to Majumdar (2005), mall loyalty, value proposition, overall impression of the store and sales promotion are some of determinants for building store loyalty intention. Individually, three determinants namely mall accessibility, mall ambience and mall amenities are used as the construct to measure the loyalty for shopping mall. The components of the retail mix like store amenities, assortment, merchandise quality, store personnel service, supporting service along with the price-quality value perception are used as the construct to measure the overall impression of the store. Then, the mall loyalty, value perception, overall impression of the store and sales promotion are used as the construct to measure store loyalty intentions.

Accessibility concerns with the access road conditions to the center and the proximity of the center from the customer's place of work or residence include parking facilities within the center and ease of navigation within the shopping center (Ahmad, 2012). Ambient factors include background variables such as lighting, aroma, noise, music, air quality and temperature which affect the non-visual senses (Shashikala and Suresh, 2013). The mall amenities would include presence of escalators, lifts, clean and adequate restrooms, presence of information kiosks, entertainment facilities for children, good fire safety equipments, presence of bank ATMs, electronic communication facilities like internet café, telephone booths. The three determinants namely mall accessibility, mall ambience and mall amenities are believed to have a positive effect of the loyalty for a shopping mall (Majumdar, 2005).

The retail mix including the store amenities (services offered by the store for the convenience of shoppers), assortment (the selection of merchandise a retailer carries), merchandise quality (customer's perceived quality of available

merchandise), store personnel service (sales people way of dressing and greeting influences the perception of consumer regarding sales service provided by a store), supporting service (store policy that offered by store for the benefit of its customers), and the price-quality value perception are some variables that believed to have a significant effect partially on the overall impression of the store (Geetha, 2015). Hence, the sales promotion (different promotional initiatives taken by the store) also believed to have a significant part on customer store loyalty intentions (Familmaleki et al, 2015).

In the current study, the interest was on studying the determinants of loyalty for a retail store located inside a shopping complex (mall). The reason why Zara at Tunjungan Plaza is chosen as the object of the current study is because Zara at Tunjungan Plaza is the first Zara store in Surabaya, which has influenced all other shopping malls in Surabaya to open their own Zara stores due to observing the success of Zara store located at Tunjungan Plaza. The loyalty for a specific shopping complex or mall would help in building loyalty for stores inside the mall. Therefore, the researcher intends to conduct a research about **“A Model of Customer Loyalty for Zara Retail Store inside Tunjungan Plaza Shopping Mall in Surabaya”**.

## **1.2. Research Problem**

The problems that will be examined in this study are:

1. Does the shopping mall loyalty have a significant effect on store loyalty intention of Zara retail store in Tunjungan Plaza Surabaya?
2. Does the value perception have a significant effect on store loyalty intentions of Zara retail store in Tunjungan Plaza Surabaya?
3. Does the value perception have a significant effect on the overall impression of the store of Zara retail store of Tunjungan Plaza Surabaya?
4. Does the overall impression of the store have a significant effect on store loyalty intention of Zara retail store in Tunjungan Plaza Surabaya?
5. Does sales promotions have a significant effect on store loyalty intentions of Zara retail store in Tunjungan Plaza?

### **1.3. Research Objectives**

Based on the research problems stated above, the research objectives are explained below:

1. To examine the effect of shopping mall loyalty on store loyalty intention of Zara retail store at Tunjungan Plaza Surabaya shopping mall.
2. To examine the effect of value perception on store loyalty intentions of Zara retail store at Tunjungan Plaza Surabaya.
3. To examine the effect of value perception on the overall impression of the store of Zara retail store at Tunjungan Plaza Surabaya.
4. To examine the effect of overall impression of the store on store loyalty intention of Zara retail store in Tunjungan Plaza Surabaya.
5. To examine the effect of sales promotions on store loyalty intentions of Zara retail store in Tunjungan Plaza Surabaya.

### **1.4. Research Contribution**

Based on the background that has been explained, this research is aim to make contribution toward Zara. The result of this research are expected to help Zara by giving knowledge about how Shopping Mall Loyalty, Value Perception, Overall Impression of the Store and Sales Promotion has a significant effect toward Store Loyalty Intention. These research findings can be used to improve the strength and fixed the weaknesses of Zara to provide a better quality marketing strategy. In addition, this research may give contribution to develop the marketing and management study about the strategies to make customer feel satisfied when coming to the store. On top of that, it also has possibility to bring solutions and inspirations to fix and improve marketing strategy for Zara.

### **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: shopping mall loyalty, value perception, overall impression of the store, sales promotion and store loyalty intention of Zara at Tunjungan Plaza, Surabaya. Limitations of research problems in detail include:

1. This study only examines 5 variables consisting of four independent variables, namely shopping mall loyalty, value perception, overall impression of the store and sales promotion and one dependent variable of store loyalty intention.
2. The object of this research is Zara store at Tunjungan Plaza, Surabaya.
3. The research was conducted in Surabaya, East Java.
4. Filler questionnaires are limited only to Zara at Tunjungan Plaza, Surabaya.
5. Research and analysis of the questionnaire results are processed by using software tools Amos version 16.0
6. Filler questionnaire is limited to 18 - 60 years old.
7. Research conducted in 2017.

#### **1.6. Research Outline**

The outline is divided into five Chapters as follow:

1. Chapter I  
This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.
2. Chapter II  
This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has been already studied. 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.
3. Chapter III  
This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

4. Chapter IV

This chapter organized a logical presentation to the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.

5. Chapter V

This chapter summarizes and concludes the findings that address the research questions and state some recommendation for future research.