

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Global apparel industry continues to grow at a healthy rate even though global economic is facing a crisis now. Towards economy in terms of trade, employment, investment, and revenue all over the world, apparel industry is one of the very important aspects. This certain industry has a short product life cycle, wide product differentiation, characterized with great speed of demand change and added with supply processes that are slightly long and inflexible. In 2010 global apparel industry (clothing, textiles, and footwear) has reached more or less about \$2560. These apparel goods accounted for more than 55% of the overall market. This expected to rise to \$3180 in the year of 2015 with an annual growth rate for more than 4%. (<http://www.companiesandmarkets.com>, retrieved on 15 January 2015). Table 1 show that the global apparel industry has been growing each year. Even though some of the percentage shows that it is decreasing, but in terms of billion it is still increasing.

Table 1
Global Apparel Retail Industry Value Forecast: \$ Billion, 2009-2014

Year	\$ billion	€ billion	% growth
2009	1,031.5	741.8	2.0%
2010	1,055.0	758.7	2.3%
2011	1,081.5	777.8	2.5%
2012	1,109.5	798.2	2.6%
2013	1,137.4	818.0	2.5%
2014	1,162.8	836.3	2.2%

Note. <http://www.companiesandmarkets.com>, retrieved on 15 January 2015

In Indonesia itself, textile and textile products (TPT) industry is one of the significant manufacturing sectors, in 2013, it has gross domestic product (GDP) valued at Rp 172.4 billion (US\$14.4 billion). During 2008-2014, apparel industry sub-sector has made the fourth-largest contribution (9%) with an average growth of 4% per year to GDP of all the non-oil and gas manufacturing industries. Based on *Badan Pusat Statistik* (BPS) data, in 2009, the workers that absorbed by the TPT industry from micro to large scale were 21.7 percent of the total labor absorption

of non-oil and gas manufacturing industries (<http://www.thejakartapost.com>, retrieved on 15 January 2016).

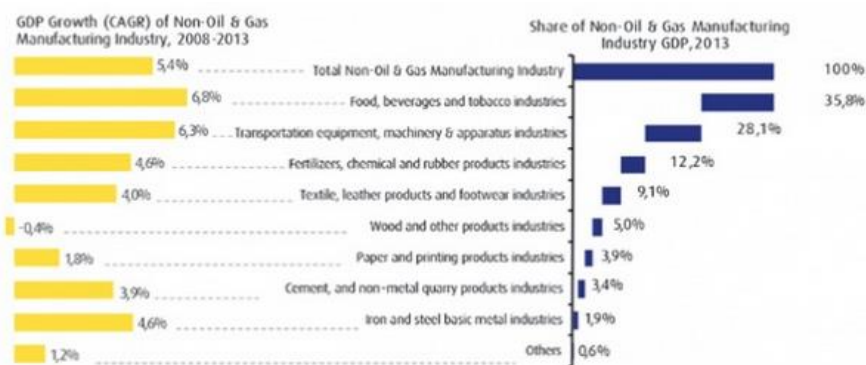


Figure 1
GDP Growth of Non Oil and Gas Manufacturing Industry
 Note. <http://www.thejakartapost.com>, retrieved on 15 January 2016

Indonesia, which is fourth most populated country in the world, become an attractive market for its textiles and clothing because of the strong economic growth and improved on purchasing power. All local and foreign companies are competing for market share. The increasing cost indeed gives domestic producers a difficulty as they try to fend off overseas competition, however, the existence of technological modernization, improving labor skills, and better infrastructure help to change the image of low rupiah in their favor. Indonesia's textile and clothing need to be more efficient to spell opportunities with foreign companies that can offer machinery, knowledge, and capital. According to National Statistics Agency (BPS), Indonesia's textile and clothing industry provided around 1.1 million jobs in 2012, which is one of the most important elements of country's manufacturing sector. In 2013, it is accounted that it is nearly 2% of national GDP and over 7% of country's total export (<http://www.gbgingonesia.com>, retrieved on 20 January 2016). Based on table 2, the national output is increasing each year. The year-on-year output growth also increases, even though there was a decrease in 2012, but in 2013, it increases again, and so does the export. The growth of apparel industry in Indonesia is increasingly promising, attracted many apparel companies to Indonesia, which one of it is Nike.

Table 2
National Output, Year on Year Output Growth and Export of Textiles, Garments, Leeahter Products and Footware

Income	2010	2011	2012*	2013*
National output (trillion IDR)	124.204	143.385	156.634	172.423
Year-on-year output growth (real)	1.77%	7.52%	4.27%	6.06%
Export (billion USD)	10.692	13.013	12.815	13.175

Note. <http://www.gbindonesia.com>, retrieved on 20 January 2016

Nike, Inc. was found on 8 September 1969. It engaged in many ways, which are design, apparel, selling athletic footwear, services, equipment, accessories, and marketing. The distribution of Nike's products is through Nike-owned retail store, internet website, and other independent distributors and licensees throughout the world. Some of Nike's products are produced outside the United States and some are produced in the United States itself, and all are manufactured by independent contractors. There are eight key categories that the company focuses its Nike brand product offering, which are: Running, Basketball, Football (Soccer), Men's and Women's Training, Action Sports, Sportswear, and Golf. Each category has its own product offering, like basketball it has Jordan Brand product offering, while Men's Training has baseball and American football product offering. Nike's products are available for kids, recreational uses, and other athletic as well. Footwear, apparel, and accessories are often marketed by the same category and they market it with licensed college, professional team, and league logo. Bags, socks, eyewear, digital devices, gloves, protective equipment, and many more are sold under Nike brand name (<http://www.reuters.com>, 20 January 2016).

Every business must create brand loyalty. Barsky (1994) stated that maintaining brand loyalty is way much more economize than attracting new customers. A product with higher brand loyalty will be saving more cost. This is also supported by Reichheld and Sasser (1990) which said that maintaining old customers is easier and more efficient rather than attracting new customers as it also cost five times more. When customer is loyal to a certain brand, customers express through repeat buying, regardless of the pressure that other brand competitors give (<http://www.businessdictionary.com>, 21 January 2016).

A high brand loyalty will give higher sales volume, premium pricing ability, and retain rather than seek. Higher sales volume might happen when business growth but higher brand loyalty can lead to consistency and even greater sales. While premium pricing ability is when customers found some unique value in the brand that other products do not provide which lead them to be less sensitive to price changes, thus they willing to pay more even though the price has been increased. Lastly, retain rather than seek, as what has said on the above, that *“maintaining brand loyalty is way much more economize than attracting new customers”* because brand loyalist tend to search for the favorite brand and less sensitive to competitive promotions. So cost for advertising, marketing, and distribution will be lesser (<https://www.extension.iastate.edu>, 25 January 2016).

Brands are considered as an asset of organizations. Brands interconnect consumers and companies who build consumers’ trust and loyalty towards the brand. When products are purchased by the consumers that loyal to the brand, this loyalty brings a greater share (Assael, 1998). Brand creates relationship with customers and helps customers in purchase decision making. When consumers committed to purchase the brand repeatedly, that is when brand loyalty occurs (Ahmed, 2014). So it is either the relationship is positive with the current brand or negative by moving to other brands. According to Jacoby and Chestnut (1998), Pessemier (1959), and Reicheld (1996), customers who are loyal with certain brand would probably willing to pay at any price of the product. As a number one for apparel brand in the world, Nike is proofed to have strong brand loyalty.

Filter list by: **Rank** Company All industries ▼ Search by brand name




Rank	Brand	Brand Value	1-Yr Value Change	Brand Revenue	Company Advertising	Industry
 #18	NIKE	\$26.3 B	19%	\$28.3 B	\$3 B	Apparel
 #83	Adidas	\$6.8 B	-14%	\$14.9 B	-	Apparel
 #89	Ralph Lauren	\$6.6 B	-1%	\$7.1 B	\$256 M	Apparel

Figure 2
World Brand Ranking For Apparel Industry
 Note. <http://www.forbes.com>, 02 February 2016

Customer satisfaction is one of many important aspects that have significant effect towards brand loyalty. To make customers loyal, companies need to keep aware by the needs and desires of consumers so that they could keep satisfied and facilitate them by their best products and services (LaBarbera & Mazursky, 1983). Brand loyalty occurs when after customers have made a trial purchase of the brand and feels satisfied; hence, they will tend to form habits to continue purchase the same brand again (<https://www.extension.iastate.edu>, 08 February 2016). According to Angelova (2011), customer satisfaction is defined as the result that felt by the people who have experienced company's performance, and it fulfilled their expectations. Customer satisfaction is important since it is a key indicator of customers' loyalty and purchase intentions, reduces customers churn, increases the lifetime value of customers, and reduces the negative words of mouth (<https://www.linkedin.com>, 08 February 2016). So, it can be said that customer satisfaction plays a very important role in achieving customer loyalty even though it does not guarantee the repurchase from a company (<http://www.wparesearch.com>, 08 February 2016). According to Wirtz (2003), customer satisfaction will results on repeat purchase, loyalty, positive word-of-mouth, and increased long term profitability.

Perceived Value in the other hand, can also lead to brand loyalty. Perceived Value is the worth of a product or service that consumers' have in the mind. Price of goods or services that they willing to pay are affected by consumers' perceived value. Consumers are unaware of the total cost production that company spent for the products they buy. Instead, consumers only guess and assume how much particular products are worth for them. Therefore, producers pursue marketing strategy to create a higher perceived value for the products in order to obtain a higher price (<http://www.investopedia.com>, 15 February 2016). Nike endorsed Michael Jordan (professional NBA player) and created a special line of shoes called the Air Jordan(s). It shows that Nike seems to understand that Perceived Value is very needed to be developed. Air Jordan(s) tend to have more benefits than its competitors and consumers are still willing to pay even though the price has been increased (<http://uwmktg301.blogspot.co.id>, 15 February 2016).



Figure 3

Nike Jordan Shoes

Note. Google (Retrieved on 25 March 2016)

According to Ahmed (2014), there are several factors that could influence perceived value, customer satisfaction and brand loyalty, which are: service quality and perceived quality. Ahmed (2014) defined service quality as the difference between someone's expectations towards the service and customer's image about the service presentation. Service quality is important for business since it could improve customer satisfaction, created stronger customer loyalty, gave consistency of work-flow practices, reduced marketing costs, enhanced competitive advantage, and improved market position (<https://www.business.tas.gov.au>, 12 February 2016). Nike's employees and services are very friendly, helpful, committed to work, and observant. They greet us with enthusiasm, offer us with the new promotions they have, spot us and help us when we need them, and always serve customers with smiles.



Figure 4

Image of Nike Employees

Note. Google (retrieved on 25 March 2016)

Perceived quality is defined the judgment of consumers towards product's overall excellence, superiority, and dominance (Tsotsou, 2006). So, it can be said that perceived quality is consumer's opinion towards the ability of a product or brand to meet their expectations. It may have little or none with the actual superiority of the product, and is based on the firm's current public image, experiences of the consumers towards the product, and influences of opinion by leaders, peer group, and others (<http://www.businessdictionary.com>, 12 February 2016). Nike products are well sewed, well glued, high quality of materials used, the product can last long till about more than several years.



Figure 5

Image of Nike Products

Note. <http://www.core77.com> (retrieved on 25 March 2016)

As one of the largest sports equipment vendor in the world, Nike has a reputation and a big name in almost all parts of the world. To support supplying Nike products, apparel has built more than 500 factories and more than 50 sales offices located in various countries. Nike's headquarters is located in Beaverton, Oregon, United States. In Indonesia it self there are about a dozen Nike production sites spread across various territories. In addition, many Nike stores handle merchandising of Nike. One of the biggest is the Nike store is in Surabaya. Located in Surabaya, Nike store can not be underestimated. East Java is one of the most populous provinces in Indonesia. While Surabaya is the provincial capital. So it would be very possible if a visitor did not just come from the city alone. But also come from Kediri, Jember, Madura, Malang, Sidoarjo, Madiun and other areas in East Java. Especially with the high fanaticism of East Java community

towards sports, especially football. The clubs in East Java also have a big fans base. Just look at Persebaya, Arema Cronus, Persik, Deltras, all of which have a huge fan base.

This situation will indirectly have an impact on the success of the Nike store Surabaya to accommodate the public demand for sports equipment. In fact it is possible, Nike Store Surabaya will be able to provide competition to the position of Nike stores in major cities such as Bandung and Jakarta, which has a slick reputation in the field of fashion and lifestyle. In addition, optimization Nike online store will help to improve the marketability of Nike products, both in Java and throughout Indonesia.

One Nike store Surabaya largest and most comprehensive in Jl. Diponegoro no. 152 which is one of the city center. Nike factory store this Surabaya provides the most complete collection of Nike products such as shoes, jersey, t-shirts, jackets, bags, hats and other trinkets. Not only providing sports equipment, but it also completes the factory store collection by fashion products such as Nike shoes casual, denim shirts, watches and so on. Accordingly, this study used Nike store Surabaya as the object of study in order to obtain a more fundamental understanding of the influence of service quality and perceived quality of the perceived value, customer service and brand loyalty.

1.2 Research Problems

1. Does service quality significantly affecting perceived value of Nike Apparel Customer?
2. Does perceived quality significantly affecting perceived value of Nike Apparel Customer?
3. Does perceived value significantly affecting customer satisfaction of Nike Apparel Customer?
4. Does service quality significantly affecting customer satisfaction of Nike Apparel Customer?

5. Does perceived quality significantly affecting customer satisfaction of Nike Apparel Customer?
6. Does perceived value significantly affecting brand loyalty of Nike Apparel Customer?
7. Does customer satisfaction significantly affecting brand loyalty of Nike Apparel Customer?

1.3 Research objectives

1. To measure the effect of service quality on perceived value of Nike Apparel Customer.
2. To measure the effect of perceived quality on perceived value of Nike Apparel Customer.
3. To measure the effect of perceived value on customer satisfaction of Nike Apparel Customer.
4. To measure the effect of service quality on customer satisfaction of Nike Apparel Customer.
5. To measure the effect of perceived quality on customer satisfaction of Nike Apparel Customer.
6. To measure the effect of perceived value on brand loyalty of Nike Apparel Customer.
7. To measure the effect of customer satisfaction on brand loyalty of Nike Apparel Customer.

1.4 Research Contributions

The result of this research is expected to provide more information to the existing theory about service quality, perceived quality, perceived value, customer satisfaction and brand loyalty. Specifically, the research will be beneficial to the following:

1. Current and future researchers

This research may help current and future researchers to have more understanding on the relation of service quality, perceived quality, perceived value, customer satisfaction and brand loyalty.

2. The author

This study gave the author the opportunity to enhance the theoretical knowledge gained from lectures, textbooks, and other literature, as well as practice the analytical skills in solving managerial problems.

3. NIKE

This research can be used as reference to improve NIKE service quality, perceived quality, perceived value, customer satisfaction and brand loyalty.

1.5 Research Limitations

This research uses few variables. They are service quality, perceived quality, perceived value, customer satisfaction and brand loyalty. The research was being done during May – June 2016, in Surabaya, and targeting NIKE customers.

1.6 Research Outlines

Research outline explains the systematic writing of this study. The outline is divided into three chapters as follows:

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 problems.

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 already been 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.

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.

Chapter IV

This chapter organizes the logical presentation of all findings in the research questions, and focus on how these key findings relate back to the theory and prior researches presented in the beginning of the study.

Chapter V

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topics by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.