

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

In the COVID-19 pandemic situation, almost all businesses have experienced a decline. However, the beauty industry continues to grow and is predicted to keep expanding. Beauty and skin health have now become essential needs for society, considering the necessity of protecting the skin from pollution and intense sun exposure. Skincare products are no longer just an option but a primary need for many people. This has led beauty companies, both local and international, to compete in creating diverse skincare product innovations that meet the needs of consumers with various types and variants (Purnomo, Yanti & Widyasari, 2021).

The Indonesian Food and Drug Supervisory Agency (BPOM) has noted that in the last five years, the number of cosmetic products that have obtained marketing authorization in Indonesia has reached a staggering 411,410 products. This makes it the largest approved product category in the market. The beauty industry market in Indonesia not only includes cosmetics but also encompasses skincare, personal hygiene, oral care, and fragrances. With approximately 43 countries selling beauty products in Indonesia, including major countries such as Japan, China, France, the United States, and South Korea, the cosmetic market value in Indonesia reached its peak in 2021, reaching approximately 6.3 billion US dollars or around 98 trillion Indonesian Rupiah.

According to Ignatius Warsito, Expert Staff to the Minister of Industry for Strengthening Domestic Industry Capabilities, public interest in the beauty industry is increasing, driven by technological advancements and the development of cosmeceutical products. Cosmeceuticals are products that have both cosmetic and therapeutic effects to provide beneficial effects on skin health and beauty. This reflects that society is increasingly understanding the importance of caring for the skin with products that not only have cosmetic effects but also provide therapeutic benefits that positively impact skin health.

**Table 1.1 Usage of Local & International Skincare Brands for Indonesian Women.**

Using local skincare brands	19%
Using both local and international skincare brands	77.8%
Using international skincare brands	3.2%

Source: ZAP Beauty Index (2023)

Survey conducted by MarkPlus, Inc. in 2022, in collaboration with ZAP Clinic, producing interesting insights into consumer preferences for skin care products in Indonesia. Involving more than 9,010 female respondents from various provinces with ages ranging from 12 to 66 years, this survey provides a comprehensive picture of consumption trends in the country's skin care market. Survey results show that 96.8% of Indonesian women already use local skin care brands, and 19.0% exclusively use local skin care. Meanwhile, 81.0% of women use international skin care brands, and only 3.2% exclusively use international skin care brands. This phenomenon highlights the dominance of local products in

the skin care market in Indonesia, with the majority of consumers choosing local products over international brands.

**Table 1.2 Best Skincare Brands in Indonesia during the First and Second Quarters**

No.	Quarter 1	Quarter 2
1.	Garnier	Somethinc
2.	Wardah	Skintific
3.	Somethinc	Scarlett
4.	Whitelab	Garnier
5.	Scarlett	MS Glow

Source: compas.co.id (2022)

Apart from that, the best skincare brands that emerged in the first quarter and second quarter of 2022 also confirmed consumer preferences for local products. The leadership of local brands on this list confirms that not only product usage, but also consumer recognition and choice tends to lean towards local brands. This shows the success of local brands in responding and meeting the needs of Indonesian consumers in terms of skin care, giving a positive color to the development of the domestic beauty industry. Local brands such as Wardah, Somethinc, Whitelab, Scarlett, and Ms Glow have achieved high popularity in the beauty industry. This indicates that local brands have been able to attract consumers with high-quality products that more appropriately meet local skin care needs.

**Table 1.3 Best Selling Beauty Products in E-Commerce in 2019**

No.	Brand Name	Total Sales (Pcs)
1.	Wardah	7.37M

2.	Nature Republic	5.80M
3.	Innisfree	3.62M
4.	Emina	3.27M
5.	Purbasari	2.10M

Source: Digimind.id (2020)

The preference for skin care products from local brands in Indonesia is not a new phenomenon, but has proven its sustainability since 2019. Research data from digimind.id provides a concrete picture, with Wardah's extraordinary achievements as one of the leading local brands in Indonesia. In the period 2019 to January 2020, Wardah managed to record product sales of 7.37 million on the e-commerce platform. This success not only reflects consumer confidence in the quality of local products, but also confirms the dominance of domestic brands in the beauty market. Not only Wardah, other local brands such as Emina and Purbasari have also managed to record impressive achievements as best selling beauty products. This data is concrete evidence that Indonesian consumers are increasingly recognizing the quality of local skin care products and actively choosing them as their main choice. The success of these local brands is not just sales statistics, but also reflects the strong emotional bond between the brand and domestic consumers even though they are competing with competitors from one of the brands from South Korea, namely Nature Republic.

As stated on its official website, Nature Republic is a beauty brand from Korea that prioritizes the concept of natural beauty by utilizing natural ingredients from around the world, highlighting its characteristics, namely clarity and cleanliness. With a commitment to providing the right solution for various skin

problems. Nature Republic entered the Indonesian market in January 2018 through imports by PT. NRI Global Mandiri. Since then, Nature Republic has become one of the choices for consumers in Indonesia when it comes to skin care products. This is related to South Korean culture which is well received in Indonesia. This culture is driven by the adoption of social media technology and digital platforms which enable information and beauty trends from South Korea to spread quickly and widely to reach various parts of the world. This trend is also supported by South Korean beauty brands which involve K-pop idols from their country as brand ambassadors, thus contributing significantly to the popularity and appeal of these products. South Korean culture is growing rapidly in Indonesia, especially through the influence of K-pop and social media, apparently not enough to shift Indonesian consumers' preferences towards local products.

**Table 1.4 Survey of the Most Famous Skincare & Cosmetic Products Among K-Pop Fans.**

No.	Brands	Value/Percent
1-2	Scarlett	21
3-4	Nature Republic	15,9
5	Somethinc	6,3
6	Innisfree	6,3
7	Whitelab	5,2
8	Azarine	4,3
9	MS Glow	3,2
10	Somethinc	2,8

Source: databoks.katadata.co.id (2022)

A survey conducted by Katadata Insight Center (KIC) in collaboration with Zigi.id has provided an interesting insight into consumer preferences of K-pop fans in Indonesia for skin care products. By involving 1,609 respondents, the majority of whom are fans of Korean entertainment from the Gen Z and Millennial age groups, this survey provides a strong representation of consumption trends among the younger generation. The results confirm that although Nature Republic is ranked 3rd and 4th, local brands such as Somethinc, Whitelab, Azarine, and MS Glow dominate consumer choices by reaching 12.6% and 8.4% for local brand Scarlett. This is a strong indication that, amidst fierce competition between local and international brands in the Indonesian cosmetics market, local products continue to occupy a special place in the hearts of consumers. This also shows that even though South Korean culture has gained a significant place in the hearts of consumers in Indonesia, consumers still choose local products with their own pride. This preference can be seen as strong evidence of consumer loyalty towards local brands, which not only offer high-quality products but also embrace the identity and unique needs of domestic consumers.

As reported by Business-Indonesia.org (2020), the cosmetics market in Indonesia is very competitive. This is due to the rapid development of the beauty industry, causing intense competition between local and international brands. This competition aims to create excellence in each product. Data from both surveys consistently shows a strong trend among Indonesian consumers to choose local skin care products, even amidst stiff competition from international brands. This

shows that although South Korean culture and products from Nature Republic are well received in Indonesia, consumers in the Indonesian market tend to prefer and prioritize local brands, which reflects consumer ethnocentrism.

Consumer ethnocentrism is defined as consumers' beliefs regarding the appropriateness or morality of purchasing foreign-made products (Shimp & Sharma, 1987). This concept represents consumer beliefs about the feasibility and morality of purchasing imported products, as well as the loyalty of domestic people. Consumer ethnocentrism tends to prioritize products or services that originate from their own country or culture.

Country Image in General reflects consumer perceptions which reflect consumer beliefs about a country's economy, culture, society and products (Laroche et al., 2005). Country image generally contributes to the overall image of a product that helps buyers evaluate quality, durability, and risk when purchasing products from a particular country (Koschate-Fischer et al., 2012.). Research conducted by (Kaynak & Cayusgil, 1983), country of origin was found to have a significant influence on consumer opinions about products and the possibility of purchasing these products. The strong country image of South Korea as evidenced by South Korean culture in Indonesia has influenced consumer confidence in the country's image and as a result brands like Nature Republic can become one of the choices for skin care products in Indonesia.

Even though South Korea and Nature Republic have good country and product images, Indonesian consumers prefer and prioritize local products over global products. This leads to this research to determine whether consumer

ethnocentrism, country image, and product image have an effect on the intention to purchase Nature Republic skin care products from South Korea among consumers in Indonesia who use Nature Republic products.

## **1.2 Research Questions**

The research questions are as follows:

1. Does consumer ethnocentrism have a significant effect on general country image of Nature Republic skincare products?
2. Does consumer ethnocentrism have a significant effect on product country image of Nature Republic skincare products?
3. Does consumer ethnocentrism have a significant effect on purchase intention of Nature Republic skincare products?
4. Does general country image have a significant effect on product country image of Nature Republic skincare products?
5. Does general country image have a significant effect on purchase intention of Nature Republic skincare products?
6. Does product country image have a significant effect on purchase intention of Nature Republic skincare products?

## **1.3 Research Objective**

Based on the aforementioned background, the objectives of this research are as follows:

1. To analyze if consumer ethnocentrism has a significant effect on general country image of Nature Republic skincare products.
2. To analyze if consumer ethnocentrism has a significant effect on product country image of Nature Republic skincare products.
3. To analyze if consumer ethnocentrism has a significant effect on purchase intention of Nature Republic skincare products.
4. To analyze if general country image has a significant effect on product country image of Nature Republic skincare products.
5. To examine if general country image has a significant effect on purchase intention of Nature Republic skincare products.
6. To examine if product country image has a significant effect on purchase intention of Nature Republic skincare products.

#### **1.4 Research Contributions**

This study aims to provide knowledge and contributions for readers to gain a deeper understanding of the impacts discussed. The contributions are outlined as follows:

##### **1. Theoretical Contribution**

This research is expected to make theoretical contributions regarding consumer ethnocentrism, country image, product image, and the purchase intention of skincare products from South Korea. It is anticipated that by reading this study, readers can expand their knowledge, develop precise explanations, and gain insights and references for further research.

## 2. Practical Contribution

This study is intended to provide practical contributions by offering new perspectives and assisting readers in generating ideas from the research findings. It aims to help evaluate the purchase intention of skincare products from South Korea. Additionally, this research is expected to serve as a reference for companies and individuals to consider in their business decisions.

### 1.5 Research Limitations

The limitations of this research are outlined as follows:

1. Respondents must be at least 19 years old and civilian residents in Indonesia, particularly those living in the Greater Jakarta (JABODETABEK) area.
2. Respondents have experience in using skincare products from Nature Republic.

### 1.6 Research Outline

Chapter I : INTRODUCTION

This section consists of the background, research objectives, research questions, research benefits, research limitations, and systematic writing.

Chapter II : LITERATURE REVIEW

This section consists of the theoretical framework supporting this research, including international business, consumer ethnocentrism, country image, product

country image, purchase intention, along with hypothesis development and the research model.

## Chapter II : RESEARCH METHOD

This section consists of research methods, unit of analysis, measurement of variables, conceptual and operational definitions, measurement scales, population and sample, data collection methods, data analysis, research instruments, and hypothesis testing.

## Chapter IV : RESULTS AND DISCUSSION

This section consists of the data analysis from the research and discussion.

## Chapter V : CONCLUSION AND SUGGESTION

This section contains conclusions, implications, limitations, and recommendations for future research.

