

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In South East Asia, modern retail industry has a huge share among the market. The chart shows the growth of the market share in several countries from 2007-2009. The modern retail was on the rise, indicated by the increase of retail industry market share from year to year supported by changing life style of modern shopping trends. Indonesia modern retail business grew by seven percent from the year 2007 until 2009. This indicates that many companies are expanding in Indonesia modern retail business. (ACNielsen, 2010)

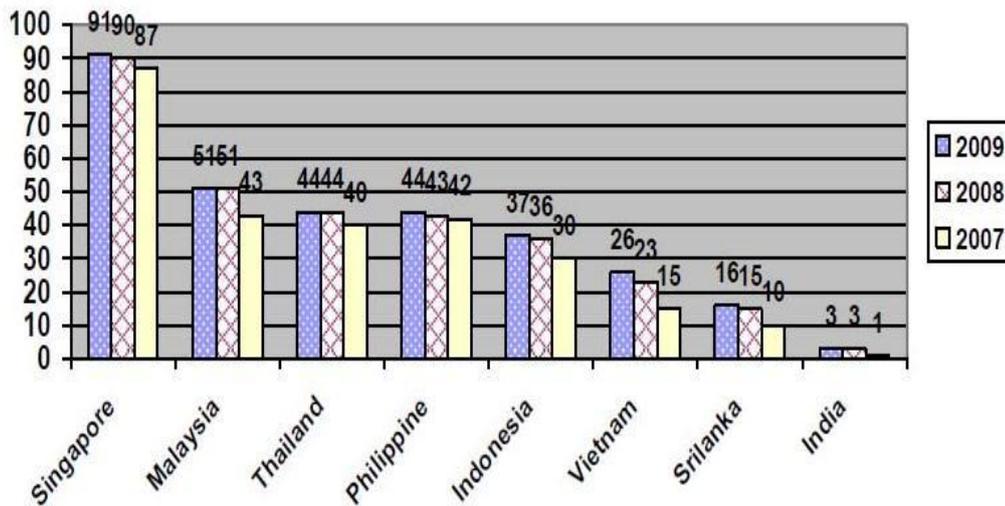


Figure 1.1
Market Share of Modern Retailers in Several Countries
Note: ACNielsen, 2010

Association of Indonesian Retail Business or usually called by Aprindo defined that the sales of domestic modern retail in Indonesia has grown by 15–20% in 2011. Aprindo also stated that the retail sales estimation in 2011 is about Rp 115-120 trillion, according on the retail sales of the first quarter of 2011 which has reached Rp 24 trillions (Mandiri Bulletine, 2011). The growth of domestic modern retail sales are showed on figure 1.2.

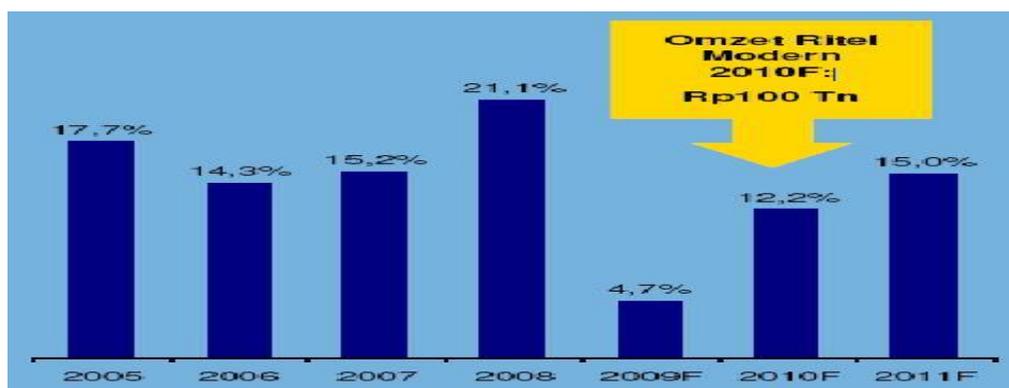


Figure 1.2

The Growth of Modern Retail Sales in Indonesia 2005-2011

Note: Mandiri, 2011

This shows a high competition among retail companies in Indonesia, the retail companies compete in differentiating product and services based on various consumers' needs and wants. Among all the retail companies of Indonesia, the biggest and oldest retail company of Indonesia is Matahari Department Store, built in 1958. Based on CNBC (Consumer News and Business Channel) data from 2005-2011, Matahari Department Store is one of the 15 big corporations, which considered to have the highest average annual growth in Asia (Latif, 2011). These facts prove the dominance of Matahari Department Store from the other local retail stores. It is also supported by a *pre-interview* conducted by the researcher about the most visited retail store to buy fashion product in Indonesia, which the most of the respondents chose Matahari Department Store as preferred retail stores.

Regarding the various goods and services provided by the retail store, according on Levy and Weitz (2009), understanding consumers' needs and buying behavior is critical for a successful retailing strategy. Consumers are never an afterthought but always at the forefront of all business decision. Retailers should know how consumers make decisions which are called by *consumer buying decisions* and assists consumer at each stage of the process (Berman and Evans, 2004). Retailers attempt to influence consumers' decision as the consumers go through the buying process to encourage consumers to buy retailers' merchandise and services.

Schiffman and Kanuk (2010) defined *consumer buying decision* as a selection of an option from two or more alternative choices such as choice between making a purchase and not making purchase, choice between brands, choice between products, or choice between places. A model of consumer decision making is consist of inputs, process and outputs (Schiffman and Kanuk, 2010). In this case, retailers as the external factors are attempting to influence consumer decision by creating the inputs through retail mix. Retail mix consists of five variables which are location, people, product, value, and communication (Mamuaya, 2008). This retailers' effort on influencing consumer buying decision is emphasized in this research.

A research done by Hawes and Rao (1993) found that salesperson of the retail store has a significant influence toward consumer buying decision. Salesperson is someone who does personal communication to inform consumers about products and persuade consumers to purchase those products (Ferrell and Hartline, 2008). Moreover, Mamuaya (2008) also stated "value" variable which represents price strategy applied has significant effect in affecting consumer buying decision. Berman and Evans (2007) also defined that a key of successful retailing is how to provide a good value in the consumer's mind for the price orientation chosen.

Practically in Indonesia, the phenomenon that arises in retailers' effort in influencing consumer buying decision is first come from the retail salesperson. The salesperson's existence is underestimated by Indonesian citizen. Indonesian citizen tend to think that people who work as a salesperson are the fresh graduates who forcefully work because not accepted in other companies, so salesperson job is considered low-class job and does not require any competence (Royan, 2009). There is also an assumption that most salespeople in Indonesia work passively and not professionally. The other phenomenon that arises in retailers' effort in influencing Indonesian consumer buying decision is about "value". Price is become major concern that significantly affect buying decision regarding the continuous increase on the price of product which is not equal with increase in the income of Indonesian (Kompas, 2008). It makes the consumers in Indonesia

become more sensitive toward price. Consumers tend to be more reactive to anything which involving price.

These phenomenon's happen in Matahari Department Store as the biggest retail store of Indonesia. Matahari Department Stores employ numerous salespersons standby on specific areas to assist the consumer in selecting the goods and apply various pricing strategies to attract consumer. These are highly related to two issues that retailers face in Indonesia. Therefore, this research is going to relate the two issues stated before with Matahari Department Store as the biggest and preferred retail stores in Indonesia. The Matahari Department Store which is highlighted in this research is Matahari Department Store which located in City of Tomorrow (CITO), Surabaya. Matahari Department Store CITO is the newest Matahari Department Store in Surabaya, opened in 25 June 2008 as the fifth store (Matahari, 2008).

From the *pre-interview* in the form of *unstructured interview* conducted on the customers of Matahari Department Store CITO (MDSC) to bring preliminary issues to the surface, the same phenomenon about salesperson arises. Most of the customers said there is a part of salespeople who do not have sufficient features of a salesperson, means that there are several salespeople who are good, and there several salespeople who are bad in assisting the customers. Some costumers see there are salespeople who tend to be lazy, passive, and have little knowledge about product. From the *pre-interview* with Human Resource Supervisor (HRS) of MDSC it is known that most of the salespeople's violations in MDSC are like to chat with each other and just sit around. So the questions that arise are whether the salespeople of MDSC can affect the decision of the costumer and how significant the influence of the salespeople is.

Retail salespeople have a very important impact on the business success of the employers and retail salespeople's job to achieve personal selling is a very important determinant of overall marketing success for firms (Spiro and William, 1979). It is supported by Hawes and Rao (1993) that defined the seven *Salesperson Attributes* which are the features or aspects of the salesperson which significantly influence buying behavior and evaluative criteria of the consumers. *Salesperson attributes* is important as a marketing strategy to influence consumer

decision. Thus, it is used as the variable to assess the salesperson of Matahari Department Store in CITO.

The *pre-interview* on customers of MDSC also bring other issue about pricing which is related to the phenomenon happened in Indonesia. The result indicated that most of the customers are attracted to price discount and low prices applied by Matahari. Matahari is famous and attractive because its own *Pricing Strategies*; there are certain products in Matahari which have a various discount in certain event like Christmas, New Year, Idul fitri, and other special occasions or even in the normal day. In the other hand, there are also certain products which have continuous discount everyday to keep the price low or low price product. Price strategies of Matahari's product become the main interest of the consumers. The customers admit that most of Surabaya people are price sensitive. This fact is supported by Human Resource Supervisor (HRS) of MDSC, who stated that Matahari applies same pricing strategies in every outlet which come from the head office. Matahari applies these two strategies: temporary promotional discount and every day discount or low price in certain products.

Berman and Evans (2007) defined that a key of successful retailing is how to provide a good value in the consumer's mind for the price orientation chosen. Retail pricing strategy is consistently viewed by practitioners as the one of the top five priorities in retail management (Bell and Lattin 1998). Levy and Weitz (2009) divided two basic retail pricing strategies which are *High-Low Pricing (HILO)* which charge higher regular price but with frequent promotional discount and *Everyday Low Pricing (EDLP)* which charges constant low prices every day or continuous discount. Retailers can choose a mixture of EDLP and HILO as its pricing strategy, varying either the *number* of categories the retailer put on sale or changing the frequency of sales across some or all categories of products (Ellickson and Misra, 2008). HRS of MDSC stated that Matahari applies these two pricing strategies in every outlet. Therefore, EDLP and HILO are used as the variable to assess the Pricing Strategies of MDSC and these strategies effect on consumer buying decision are measured to explain the phenomenon.

Finally, bringing these two phenomenons in Matahari Department Store City of Tomorrow (MDSC), this research measures each of the two inputs which are *Salesperson Attributes* and *Pricing Strategies* (consists of EDLP and HILO) on *Consumer Buying Decision* to study and explain the phenomenon happened. Since MDSC applied both of numerous salesperson and the pricing strategies, the simultaneous effect of the two inputs are also measured. Based on these facts, the researcher conducts a research with the title of “The Effect of Salesperson Attributes and Pricing Strategies on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya.”

1.2 Research Problems

1. Does Salesperson Attributes have a significant effect on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya?
2. Does Everyday Low Pricing have a significant effect on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya?
3. Does High Low Pricing have a significant effect on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya?
4. Do the EDLP, HILO, and Salesperson Attributes simultaneously have significant effect on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya?

1.3 Research Objectives

1. To determine the effect of Salesperson Attributes on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya.
2. To determine the effect of Everyday Low Pricing on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya.
3. To determine the effect of High Low Pricing on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya.
4. To determine the simultaneous effect of Everyday Low Pricing, High Low Pricing, and Salesperson Attributes on Consumer Buying Decision in Matahari Department Store City of Tomorrow Surabaya.

1.4 Research Contributions

1. Academic Contribution:

This research relates the consumer decision making theory with retail mix variables which represented with salesperson attributes and pricing strategies in retail sector. This contributes as a enrichment of salesperson research, which is most of the researches deal with industrial environment, not retail sector (Hawes and Rao, 1993). Since the previous research of retail mix influencing consumer buying decision (Mamuaya, 2008) is conducted in Manado, this research is conducted in Surabaya which has differences in culture and consumer behavior. Also, the previous research deals with supermarket instead of department store. Thus with a different object of research, the researcher hopes that this research can enrich the consumer decision making theory and used as a reference for further research.

2. Retailers in Surabaya:

This research also brings benefit to retail industries in Surabaya by knowing more about the consumer buying decision whether it is more influenced certain variable of the retail mix. The retail industries can know how to focus in dealing between salesperson and pricing strategies to get an effective result. Specifically, it also brings more benefits to the managerial of Matahari Department Store City of Tomorrow as a reference to improve its services to the customers and more understand about its customers.

3. Author

The research findings can help the author to meet the requirements of the University for achieving the bachelor degree. Also, this research can help in applying and understanding about business theory which the researcher has been undertaken before.

1.5 Research Limitations

This research does not take account about the other factors except the variables that have been discussed. The *ceteris paribus* condition is applied here, it means the research result only can be implied if all the other factors hold stable, such as, the inflation rate, political condition, and so on. This research only focused on Matahari Department Store in City of Tomorrow (CITO). The respondents are the customers who have shopped in Matahari Department Stores in CITO, Surabaya. This research does not discussed about the comparison or store difference between the others Matahari Department Store in Surabaya store size, design, products, and other factors.

This research also focus on pricing strategies based on Levy and Weitz (2009) who divided pricing strategies into *Everyday Low Pricing* (EDLP) and *High-low Pricing* (HILO). The other types of pricing strategies are not discussed in this research; it is limited only to EDLP and HILO. For the salesperson, the salespeople attributes discussed in this research represent the attributes of whole group of salespeople in City of Tomorrow Matahari Department Store. This research does not discuss about the salesperson motivation that boost salesperson attribute.

1.6 Research Outline

CHAPTER I: INTRODUCTION

This chapter explains background of the study, formulation of the problem, research objectives, and systematic writing of the study.

CHAPTER II: REVIEW OF RELATED LITERATURE

This chapter reviews related to the proposed research problems which consist of previous researches and theories. It also includes the research model, hypotheses, and operational framework of the study.

CHAPTER III: RESEARCH METHODOLOGY

This chapter identifies the research design and method in conducting the research.

CHAPTER IV: RESULT AND DISCUSSION

This chapter organizes and explains the findings that address the research problem and relate it with the theory and previous researches.

CHAPTER V: SUMMARY, CONCLUSION, AND RECOMMENDATION

This chapter highlights the finding and its implication, conclusion and recommendation for future research.