

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In today's dynamic retail environment, Indonesia's fashion retail establishments encounter intense rivalry in acquiring and retaining customers. The Indonesian retail business world is booming, especially in the fashion industry. The monthly retail sales index in Indonesia throughout 2020 to 2023 has been increasing inconsistently. The biggest increase occurred in May 2022, with an index of 239.2, which is 10% higher than the index in March 2023. This shows that the Indonesian retail sector is decreasing since 2022. (Statista, 2023)



Figure 1.1 Monthly Retail Sales Index in Indonesia
Source: Statista (2023)

Indonesia has a lot of potential for the retail business because of its comparatively large population of over 270 million, expanding middle class with

greater purchasing power, and millennials with more excessive spending habits. The retail market in Indonesia generated sales worth over 133.5 billion US dollars in 2021. There has also been a decrease in the retail sales in Indonesia since the beginning of 2023 until July 2023 (Katadata, 2023).

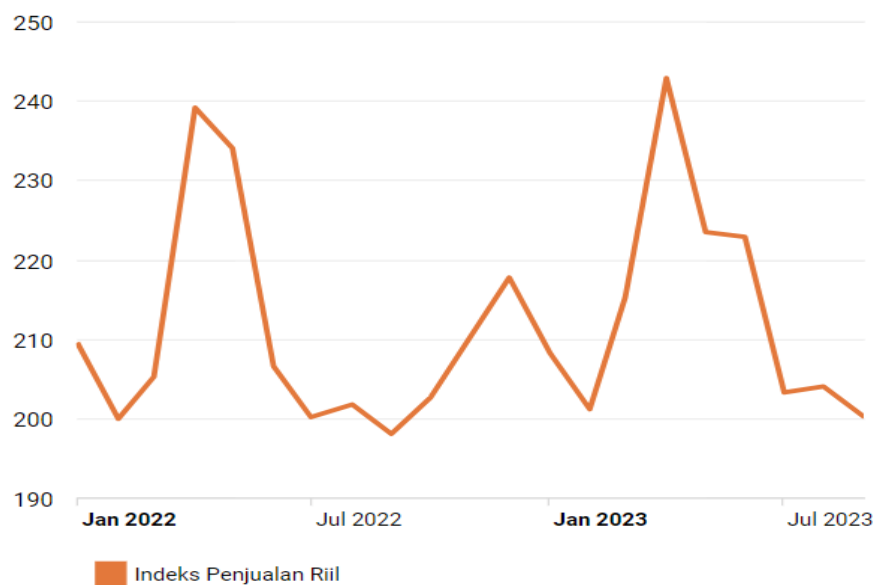


Figure 1.2 Retail Sales Index in Indonesia in 2023

Source: Katadata (2023)

This competitive landscape has forced businesses to hone their strengths and develop unique selling propositions to attract consumers. To do this, businesses must first understand their customers' needs and preferences. Consumer buying interest is essential for businesses to maintain continuity and growth. Customers who are satisfied with a particular business tend to be loyal towards the business and recommend it to others. Once loyal customers are established, they are more likely to make repeat purchases and expand their patronage to other products or services offered by the business. These customers become brand advocates who are immune to the offerings of competing businesses. Thus, understanding the factors that influence the overall business success is critical for firms in the fast-paced era.

Medan is a bustling city in Indonesia which has strong market for fashion businesses, catering to consumers' different preferences. PT Matahari Department Store, a leading department store chain in Indonesia with over 150 stores located throughout Indonesia, is a company engaged in the clothing industry which has numerous challenges of competition from comparable enterprises. One of the ways they can tackle this competition is through expanding to numerous locations, and one of them is in Thamrin Plaza, Medan.

Matahari Department Store Medan Thamrin offers a variety of products, particularly in the fashion industry, which ensures product quality with all brands and consumers' needs. At Matahari Department Store Medan Thamrin, there are two types of item categories, they are direct purchase goods and consignment goods. Direct purchases include products belonging to Matahari, whilst consigned purchases include goods belonging to vendors working in collaboration with Matahari Department Store Medan Thamrin. Brands like Nevada, American Jeans, Cole, Little M, Super T, and are examples of direct purchase (DP) items. Meanwhile, consignment items include Fila, Manly, Sharks, Popeye, and many other Matahari Department Store Medan Thamrin brands.

In recent years, Matahari Department Store has faced a few challenges, including increased competition from the rising of online retailers, an economic downturn where the COVID-19 pandemic occurred, as well as changing consumer preferences. Matahari Department Store Medan Thamrin sales were inconsistent in the last two years. According to Matahari Department Store's 2022 Annual Report, in 2022, sales were decreased by 10% over 2021. However, sales rose by 5% in

2022 over 2021. The decline in sales in 2022 can be attributed to several factors. Initially, there was a decline in consumer spending due to the COVID-19 pandemic. Secondly, because of government lockdowns, the store was closed for several weeks and is still in the recovery process in retaining customers. Thirdly, a rise in internet shopping reduced the amount of revenue that offline stores were able to generate. On the other hand, several factors are likely to play a role in the increase in sales in 2022. First, consumer spending increased as the COVID-19 pandemic began to diminish. Secondly, the store was able to reopen and operate at its full potential. Third, the store also introduced several new approaches to attract and retain consumers, including loyalty programs and discounts. This implies that while the store's sales are improving, Matahari Department Store Medan Thamrin have not yet returned to their pre-pandemic levels.

Despite having some signs of recovery, customer traffic tends to be lower since the pandemic hit. For the previous two years, there has been a decline in customer traffic at Department Store Medan Thamrin. The number of customers in 2021 was 15% less than the year 2020. From 2021 to 2022, there was a 10% rise in customer traffic. The decrease in customer traffic is likely due to the same factors that contributed to the decrease in sales, such as the COVID-19 pandemic, the rise in online shopping, and the closure of the store for a good amount of time. Nonetheless, Matahari Department Store Medan Thamrin remains a popular destination for shoppers in Medan. However, to maintain its success, it is important for Matahari Department Store Medan Thamrin to understand the factors that influence the retail sales, one of them being customer Patronage Intention.

According to Vannucci et al. (2023), Patronage Intention is the will of the customer to revisit or repurchase at store in the future. Customers' Patronage Intention is the potential that a customer will continue to use a particular service or buy a product after their last visit. Satisfied customers are more likely to continue patronizing a business, which can also build their loyalty towards the brand and will be more likely to patronize the business, even though other options are available. Moreover, the perceived value and convenience of the store can also influence the consumers' decisions, if the customers perceive that they are getting great value for their money and find the business convenient in fulfilling their needs, they are more likely to continue patronizing the business.

Visual merchandising features such as store layout, displays, and designs can promote a favorable store image and improve the whole shopping experience, leading to a higher intention to patronize the store (Wijaya et al., 2019). Visual merchandising is important in the fashion retail industry because it attracts customers, influences their perception of the store, and eventually influences their purchasing decisions. It entails strategically arranging displays and designs to provide a favorable customer experience and increase store traffic and sales (Akhilendra & Aravendan, 2023). According to the store's current situation, several rooms of improvement can be made in its visual merchandising. The products displayed at Matahari Department Store Thamrin Plaza look very crowded and dense, coupled with the placement of product categories which are quite narrow and not spread out in an appropriate spacing in product placement. This

arrangement product method decreases the walking space for customers to explore the store's products while shopping at Matahari Department Store Medan Thamrin.



Figure 1.3 Product arrangement

Source: Taken by Writer (2023)

Matahari Department Store Medan Thamrin consists of various product categories, some of which are the Women section, Men section, and Kids section. However, according to the observation made in this study, some of the categories of products are mixed and not positioned in the appropriate section as how each category for women, men, and kids has been divided. Additionally, the store's seasonal theme of Ramadhan which has ended since July also has not been taken out after the season has passed, which made the store theme perceived as irrelevant to the current season.



Figure 1.4 Product category placement

Source: Taken by Writer (2023)

Moreover, there are displays of Matahari Department Store Medan Thamrin products that have been put up and displayed outside the shop along Thamrin Plaza's corridors on each floor, which became quite a roadblock in the mall corridor on the 4th, 5th, and 6th floors of the mall as seen in the picture of how it can be illustrated if there are more than two people standing along the corridors while shopping on the products displayed outside the store.



Figure 1.5 Product placement

Source: Taken by Writer (2023)

Retailers must carefully combine their business' visual merchandising for the fashion goods they sell to attract potential customers. In addition, the ambience of a store may influence consumers' purchasing decisions and attract them to return to the store for a repurchase intention. Understanding the elements influencing patronage intentions toward fashion retail stores in Medan is critical for retailers to effectively attract and keep customers in this highly competitive environment. Taking a real-life instance, the stores that have implemented the practice of improving the store's visual merchandising are SOGO Delipark Medan and H&M Centre Point Medan, where they have improved store layout with more walkable

and comfortable, by eliminating some dense layouts that made the store look narrow.

SOGO Delipark Medan store atmosphere and layout is seen to have wider area of space for customers to walk around while shopping compared to Matahari Department Medan Thamrin. Products placements are also not perceived to be crowded or dense by overload products arrangement. Customers can still shop comfortably with a clear product hierarchy and brighter store atmosphere, which contributes to its store Visual Merchandising. H&M have also added some elements of comfort such as a waiting couch where customers can sit while waiting for their friends or families while they are using the fitting room or taking turns to use the fitting room. In the kids' section, H&M Centre Point Medan has also changed the store layout by eliminating some of the visual merchandise with a children's playground, this eases the concerns of parents taking their children while shopping by keeping the children occupied. Through this illustration of comparison and with an in-depth understanding of Visual Merchandising, Matahari Department Store Thamrin Plaza may increase the rate of Patronage Intention among consumers in Medan by improving the store's Visual Merchandising.

Self-congruity which is defined as the connection between a consumer's self-image and the projected image of a fashion retail outlet, is also an important factor in influencing Patronage Intention. Self-congruity is the degree to which a consumer perceives that a product or service reflects their values, beliefs, and lifestyle (Wang et al., 2022). When consumers perceive a strong alignment between their personal values, lifestyle, and the brand image projected by a fashion retailer,

they are more likely to develop a sense of connection and a preference toward the brand, ultimately increasing their intention to return to the store. When consumers perceive a fit between their self-concept and the brand image, they are more likely to develop a positive attitude toward the brand and purchase its products. To build a strong fit of Self-Congruity among consumers, Matahari Department Store Medan Thamrin may improve its brand identity and how it interacts with customers. Brands need a strong brand identity that their customers find to resonate with to build customer loyalty which eventually may lead to Patronage Intention. A consistent brand experience also plays a role in building a fit between customers' self-congruity and the brand image.

For instance, Nike and Adidas, as some of the leading fashion industry that focuses on sportswear and daily wear, have provided a consistent brand experience of providing innovative products and services to enhance their customers ideal self-image fit. Department Store such as SOGO has also maintained its products image fit connection with customers self-image by using well-known artist figures' images on their products' brand name walls. Therefore, the customer's intention of patronizing the fashion retail store is reinforced by a strong connection between consumers' self-congruity and the desired brand image. Understanding the definition of Self-Congruity opens the door to better understanding consumers' Self-Congruity towards Matahari Department Store Thamrin Plaza Medan, gaining more information about consumers' needs for their fashion consumption, their lifestyle, and their beliefs, improving the patronage intention of customers.

Following the important component that influences consumer's patronage intention, Brand Familiarity is also one of the influencing factors of customers intention in patronizing a particular store. Brand familiarity is defined as the consumer's ability to identify and recall a brand from memory (Yoo et al., 2021). Brand familiarity is a significant component of consumer behavior, and it has been identified as a crucial driver of patronage intentions toward fashion stores (Lampropoulou, 2023). Being familiar with a fashion retail brand provides a sense of trust, reliability, and familiarity, which can positively affect consumers' intention to patronize the company. Consumers who are familiar with a brand regard it as more credible and are more willing to choose the brand over competitors. There are numerous competitors in the market when it comes to the fashion industry, thus giving consumers loads of options to choose from. Therefore, a great effort to improve its Brand Familiarity among consumers in Medan needs to be made to maintain the Patronage Intention of Matahari Department Store Thamrin Plaza Medan customers.

Furthermore, Shopping Value with characteristics such as price, quality, convenience, and service, also has a considerable impact on consumer judgments about fashion retail establishments. Shopping value is the term used to describe the advantages that customers perceive they obtain from their purchases. The concept is diverse, covering both functional and emotional benefits (Moharana & Pattanaik, 2023). Shopping value has been identified as an important aspect in developing a positive store image and improving the overall shopping experience (Daraninggar et al., 2020). Consumers assess the value they obtain from their shopping

experiences, which includes fair prices, product quality, convenience, and customer service satisfaction. A higher perceived shopping value increases the likelihood of patronizing fast-fashion stores. There are several challenges that have led Matahari Department Store Thamrin Plaza Medan to a decline in sales, such as the high rent that puts a strain on the store's profitability, as well as the location of the store which is in a very congested area of Medan hinders the patronization of customers towards the store. Therefore, Matahari Department Store Medan Thamrin needs to put its attention on putting initiatives to address the challenges by improving its Shopping Value for its customers.

Thus, this study possesses the objective of investigating the influence of Visual Merchandising, Self-Congruity, Brand Familiarity, and Shopping Value on the Patronage Intention towards fashion retail stores, particularly in Matahari Department Store Medan Thamrin. By investigating the relationships between the variables, the study aims to provide insights into how Matahari Department Store Medan Thamrin can optimize its methods through the attributes mentioned to increase customer patronage intention in a competitive retail market. Thus, the writer of this research titled the paper **“The Influence of Visual Merchandising, Self-Congruity, Brand Familiarity, and Shopping Value on The Patronage Intention Towards Fashion Retail Store: A Study on Matahari Department Store Medan Thamrin”**.

1.2 Problem Limitation

The writer performed the study by establishing such limitations as follows to ensure the credibility of the research output and prevent less accurate outcomes:

1. The study only analyses five variables consisting of four independent variables, namely Visual Merchandising, Self-Congruity, Brand Familiarity, and Shopping Value, and one dependent variable, namely Patronage Intention, which may not capture the full range of factors that influence Patronage Intention in Matahari Department Store Medan Thamrin.
2. The object of this research is Matahari Department Store Medan Thamrin, Thamrin Plaza, Jl. M.H Thamrin No.75R, Medan Kota, Sumatera Utara.
3. The targeted respondents are taken from people in Medan who have visited Matahari Department Store located in Thamrin Plaza, Medan.
4. The research was conducted in Medan, North Sumatra, Indonesia.
5. Questionnaires are limited only to 105 respondents who are customers of Matahari Department Store located in Thamrin Plaza, Medan.
6. Research and analysis of the questionnaire results using software tools SPSS 26.0 and AMOS 22.0.
7. The filler questionnaire is limited to 18 – 60 years old.
8. Research is conducted in 2023.

1.3 Problem Formulation

To guide the research in investigating the specific relationships and effects of the independent variables and dependent variable, the problems can be

formulated as follows based on the identification of the research problems that have been stated:

1. Does Visual Merchandising significantly influence Patronage Intentions towards Matahari Department Store Medan Thamrin?
2. Does Self-Congruity significantly influence Patronage Intentions towards Matahari Department Store Medan Thamrin?
3. Does Brand Familiarity significantly influence Patronage Intentions towards Matahari Department Store Medan Thamrin?
4. Does Shopping Value significantly influence Patronage Intentions towards Matahari Department Store Medan Thamrin?

1.4 Objective of the Research

1. To evaluate if Visual Merchandising has a significant effect on Patronage Intentions towards Matahari Department Store Medan Thamrin.
2. To evaluate if Self-Congruity has a significant effect on Patronage Intentions towards Matahari Department Store Medan Thamrin.
3. To evaluate if Brand Familiarity has a significant effect on Patronage Intentions towards Matahari Department Store Medan Thamrin.
4. To evaluate if Shopping Value has a significant effect on Patronage Intentions towards Matahari Department Store Medan Thamrin.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The conducted research is meant to provide the writer with a thorough comprehension of the topic chosen. Research is also expected to provide insight into the effects of Visual Merchandising, Self-Congruity, Brand Familiarity, and Shopping Value on Patronage Intention for further studies. In addition, the author anticipates that the findings from this study will be valuable to other parties who may encounter the same theoretical challenges or use them for academic purposes.

1.5.2 Practical Benefit

The following are some practical benefits of this study:

- a. For the company, the research is expected to assist Matahari Department Store Medan Thamrin in better understand how consumers develop Patronage Intentions. The findings of this study should help the business in selecting the most effective decisions regarding the influencing variables in this research.
- b. For the writer, the writer's understanding of the applied knowledge related to the implication of Visual Merchandising, Self-Congruity, Brand Familiarity, and Shopping Value can be improved with a greater understanding of the variables influencing Patronage Intention.
- c. For other researchers, the writer expects that the research will help guide future studies on the related subject.