

CHAPTER 1

INTRODUCTION

1.1 Research Background

International players see potentials in cosmetics sector. It begin from L'Oreal opened largest factory in the world in Jababeka, West Java as the biggest factory of a global cosmetic company in Java, the most populous island in the world. Unilever also invested in new productions that on Indonesia Stock Exchange, Unilever is ranked within the top ten of companies that control the largest market capitalisation in Indonesia (<https://www.cekindo.com/>, 2019). In Europe, people think that cosmetic is very important in their daily live, it builds the self-esteem of the consumer and can improve their quality of life (<https://cosmeticseurope.eu/>, 2017). As in United States the growth of beauty and personal care market has been catalyzed by an increasing consciousness among consumers, about personal wellness and appearance. Owing to this factor, manufacturers are focusing on launching new and innovative products, in order to increase their offerings and customer base, which, in turn, would provide them an edge over their competitors (<https://mordorintelligence.com>, 2018). In Asia, many female consumers in markets such as Korea, Japan and China claim their skin is sensitive. As a consequence, these consumers believe only natural ingredients or simply made personal care – which can also fall under the umbrella of 'natural' can help solve their skin problems (<https://news.in-cosmetics.com/>, 2017). The weather factors also demand Asian women to use make up because some makeup contains one ingredient for skin protection namely SPF (Sun Protection Factor) so that their skin health will also be maintained (<https://m.liputan6.com>, 2019).

As time passed by, many woman from other countries tried to make them more charming. There are many ways to beautify themselves like using natural ingredients, go to the beauty salon, body treatment and especially cosmetics.

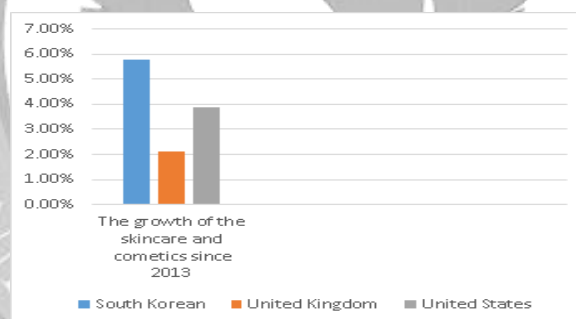
Cosmetics have been known to humans since several centuries ago. Evidence that the cosmetics has been used since ancient times is the Queen Cleopatra, famous for her beauty charm. Since then, many woman use kinds of cosmetic to make them more beautiful (beautynesia.id, 2017). Cosmetics are mixed ingredients intended for the use of the human body on the outside such as nails, epidermis, lips, hair and other external organs) thus that the appearance looks more attractive, beautiful and can foster confidence. Cosmetics are made from many chemical ingredients, but some of them also made from natural ingredients and mostly synthetic ingredients (BPOM RI, 2003). There are many kinds of cosmetic for examples: foundation, eye shadow, eyeliner, mascara, eyebrow pencil, blush, contour, highlights, lipstick, bronzer, etc.

From the website of *Kementerian Perindustrian Republik Indonesia* (2016), Women specifically prefer to buy make-up products because of the changes in lifestyle and increased income. Along with the times, many beauty products from abroad entered Indonesia for examples from Europe, South Korea, United State and many more. According to Putri K Wardhani as a leader from *Persatuan.Perusahaan/dan/Asosiasi/Kosmetika.(PPAK)* (2016), Indonesia Cosmetic market from middle to high class was dominated by products from abroad which is from Europe, Japan, South Korea, and United State. Because of the importance of makeup to woman, the beauty and/personal/care/industry in/Indonesia grew.by an/average of 12% over the last/10/years (with a market value of 33 trillion Rupiah in 2016) (Kemenperin.go.id, 2019).

In recent years, the export from Korean cosmetics to Asian countries increasing explosively and the reason was because of the beauty concept from Korea that can be shared in specific regions also the rise of the Korean wave. One of the industries which has most significantly benefited from the Korean Wave has been Korea's cosmetics industry, which has utilized Korean pop stars in marketing cosmetics (<https://www.scmp.com>, 2014). According to Jin et al. (2019) Korean Wave is a collective term that indicates the increased global popularity of Korean culture, including Korean drama, music, beauty trends, etc. Popular culture is quite

influential to those people following the trend, and in other words, popular culture can be said to have power on consumers' behavior, like purchase intention (Son et al., 2016). As the popularity of Korean wave grew, the interest in Korean fashion and life style has also increased. This interest has improved the perception of related Korean products, and Korean cosmetics are one of them (Han, 2011 in Son et al., 2016). According to Park & Choe (2009) and Kim & Ahn (2012) there are a few studies that focusing on trade diffusion effects of Korean cultural popularity contents such as music and dramas. There is one possibility why the Korean cultural becoming so famous about its contents may be due to the charming faces of Korean entertainers. Prioritizing natural ingredients concept, K-Beauty has a place in the hearts of world consumers, who are starting to become aware of environmental issues and healthy lifestyles. This what makes Korea superior in cosmetics and skincare in large countries as United states and England (<https://tirto.id>, 2017).

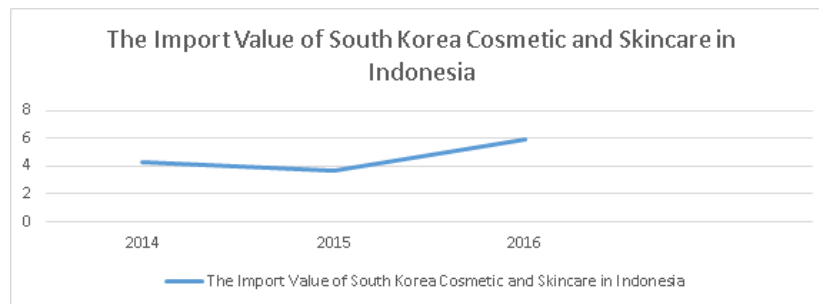
Figure 1.1 The Growth of Cosmetic and Skincare since 2013



Source : <http://tirto.id> (2017)

Based on the Figure 1.1 that was shown the high growth of Korean cosmetics since 2013 shows 5,8 % percentage Korean product leads than England and United States. Indonesia also welcoming Korean beauty and has a big influenced in the value of imports in Indonesia (<https://tirto.id>, 2017). The Euromonitor research state that the revenue from K-Beauty surpassed 6.3 million dollars and Team Harcourt as an economy from University of New South Wales said that Korea ranked 5th in the world of cosmetics (<http://tirto.id>, 2017).

Figure 1.2 Import Value of South Korea Cosmetic and Skincare



Source: <http://tiro.id> (2017)

The data above shows, Fluctuation occur the value of imported South Korean cosmetic and skincare in Indonesia in 2014 until 2016 in dollars. But there was daily high increase from \$3,7 Million US dollars in 2015 and peaked to \$5,9 Million US dollars in 2016. Korean beauty trend becoming a top popular product and easily accepted by the people in Indonesia (<https://tirto.id>, 2017).

South Korea become the center of beauty, starting from facial treatments (skin care) to the trend of make-up 'Korean look' which is a favorite of many woman in Indonesia because it achieves a flawless, glowing and natural makeup result style. According to the tirto.id research team, there are 5 top Korean brand in Indonesia Laneige, Etude House, the Faceshop, Nature Republic and Innisfree ([Tirto.id](http://tirto.id), 2017). These Korea brand has been able to compete globally especially Indonesia cosmetic beauty industry. Eusan Jeong as Director of Amore pacific Indonesia revealed, among several brands from Amore pacific Group in Indonesia, Innisfree managed to grow around 50% - 70% in the last three years ([Bisnis.com](http://bisnis.com), 2019). Why is Innisfree more preferred than other brands? Because Innisfree is a natural beauty brand from Korea that offers beauty products that are inspired by and made from natural ingredients from Jeju Island and are sold at affordable prices at range Rp.13.000 – Rp.560.000. Not only that, various fun and environmentally friendly campaigns (empty bottle recycling) carried out by Innisfree also make this brand preferred by the people of Indonesia ([Kompas.com](http://kompas.com), 2017).

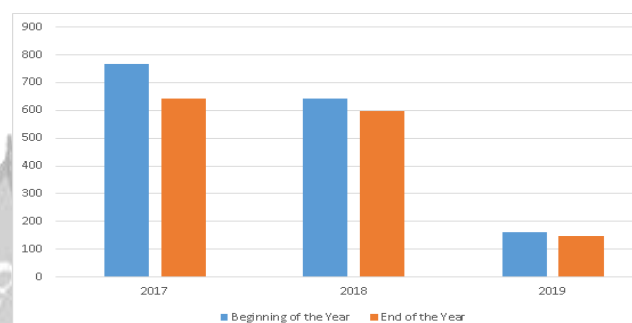
The best quality main ingredient was chosen for the manufacture of Innisfree which will deliver all the benefits of nature's goodness, rich nutrition, and pure energy directly to the skin. Jeju island located on the coast of South Korea where is the place of Innisfree products made from natural ingredients such as green tea, volcanic clay pores, camellias, mandarin oranges, orchids and etc. In addition to Innisfree has natural ingredients, also practicing an environmentally friendly way of life - green life - for the sake of preserving nature. There are “Play Green Campaign” the simple gesture of using a handkerchief instead of tissue can help protect the trees and empty bottle recycling by returning the empty bottles to the nearest outlet and “Green Forest Campaign” plant trees, and reduce the effects of global warming (<https://www.innisfree.com>, 2019).

The phenomenon of intense competition in the cosmetics industry in Indonesia requires marketers from various cosmetic brands to seek to innovate creatively. Innisfree's own products have done various ways to win the hearts of the people but from 2017 to 2019 the decline in sales is increasingly felt by the company (<https://www.kontan.co.id>, 2019). The brand of a product is a consideration and also a concern for consumers in making purchasing decisions, where each product has a different quality from each other. In this selection decision, consumers must be right in choosing a product that suits their needs and desires, which on a product brand depends on the inherent image. For that the company must build a more prominent image than competition, making consumers become loyal in using this product intended for satisfied customers so as to maintain the market will build a positive image on consumers (<https://www.kompasiana.com>, 2018).

Purchase intention is one of the instruments to estimate the buying process (Ghosh, 1990). Purchase intention has a possibility to change by the influence of perceive quality, value and price, also by internal or external motivations (Gogoi, 2013). Kotler & Armstrong (2010) proposed six stages for consumer decides to purchase a product which: knowledge, preference, awareness, interest, purchase and persuasion.

Based on data from Amore Pacific, Innisfree sales in each year from 2017 to 2019 are decreasing. From the beginning of 2017 to the end of 2017 the sales decreased about 16% and from the beginning of 2018 to the end of 2018 the sales also decreased about 7%, until the beginning of 2019 to half of the year the sales decreased about 8%. Innisfree sales decreasing, each year from 2017 to 2019 this supports the purchase intention for Innisfree also decreasing during those year.

Figure 1.3 Innisfree Sales from 2017-2019



Source: <https://www.apgroup.com/> (2019)

Our pre-research was comparing between The Body Shop with Innisfree. The main reason choosing The Body Shop is because they used natural ingredients and environment friendly material. The Body Shop has entered in Indonesia market for 25 years which can be considered as the market pioneer and respectively has deep experience and understanding of Indonesia market. In addition, The Body Shop has 148 outlets compare to 12 outlets of Innisfree in Indonesia.

Even though Innisfree had set a higher standard for their company, the respondent who fills out the questionnaire still giving a higher score for The Body Shop rather than Innisfree. Based on our pre-research conducted for 60 people (referring to Appendix 1) by comparing Innisfree with The Body Shop showed that overall The Body Shop gets a higher percentage for almost on every measurement than Innisfree. This fact also showing that, despite aggressive volume of imported Korean products generally (include brand Innisfree specifically), overall there is still a gap between imported Korean brands versus non-Korean brands, which is

Korean brands is considered still low in acceptance by consumer compare to Non-Korean brands (in this pre-research the study compared The Body Shop and Innisfree only) and the decreased of Innisfree sales (based on Figure 1.3 Innisfree Sales from 2017 to 2019).

This research is a replication from research done by Yunus & Rashid (2016) with title “The Influence of Country-of-origin on Consumer Purchase Intention: The Mobile Phones Brand from China” and Suhardi et al. (2013) with title “The relationship between product quality and purchase intention: The case of Malaysia’s national motorcycle/scooter manufacturer”. The research itself will be titled “The Effect of Country of Origin, Product Quality and Brand Image towards Purchase Intention of Innisfree Consumer from Indonesia”.

1.2 Formulation of Problem

Based on the research background, the researchers summed up the formulation of the problem as follows :

1. Does Country of Origin has an effect on Indonesia consumers of purchase intention for Innisfree?
2. Does Product Quality has an effect on Indonesia consumers of purchase intention for Innisfree?
3. Does Brand Image has an effect on Indonesia consumers of purchase intention for Innisfree?

1.3 Research Purposes

According the problem formulation, the purpose of this study are :

1. To examine whether Country of Origin has an effect on Indonesia consumers of purchase intention for Innisfree.
2. To examine whether Product Quality has an effect on Indonesia consumers of purchase intention for Innisfree.
3. To examine whether Brand Image has an effect on Indonesia consumers of purchase intention for Innisfree.

1.4 Research Limitation

As for the limitation the researcher has set limitation describes as follows:

1. The respondents are the civilians from Indonesia especially who lives in Tangerang and Jakarta that use skincare and makeup.
2. For people who have used Innisfree's product.

1.5 Benefit of Research

As for the benefits of this research are as follows:

1. For Authors

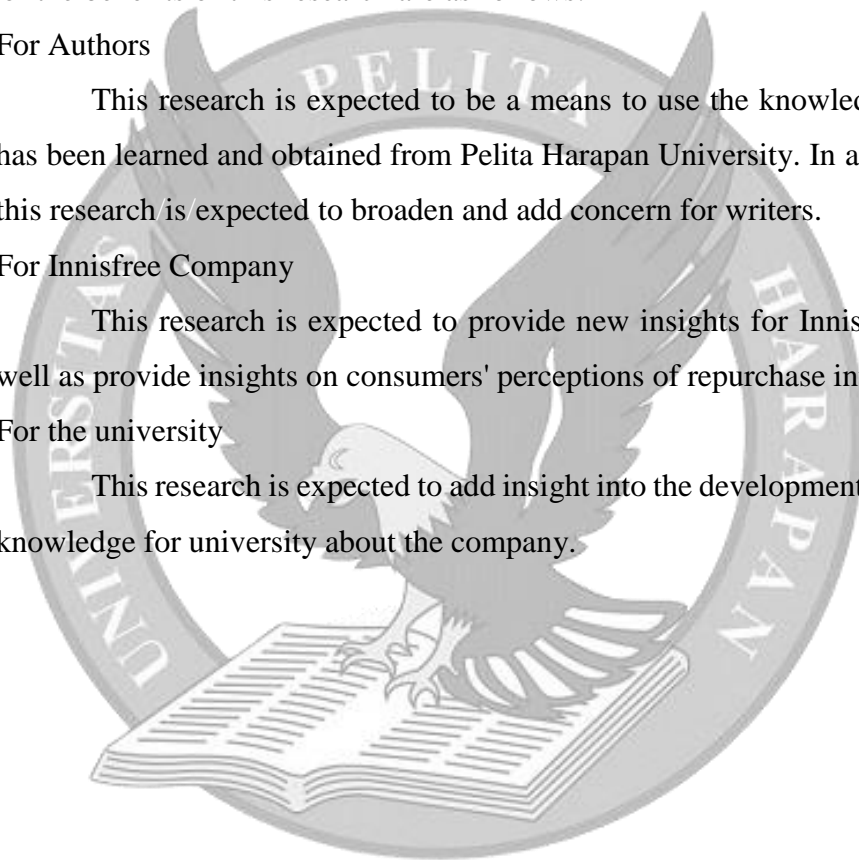
This research is expected to be a means to use the knowledge that has been learned and obtained from Pelita Harapan University. In addition, this research is expected to broaden and add concern for writers.

2. For Innisfree Company

This research is expected to provide new insights for Innisfree, as well as provide insights on consumers' perceptions of repurchase interests.

3. For the university

This research is expected to add insight into the development of new knowledge for university about the company.



1.6 Research Outline

In general, the framework for the report on findings of the research the effect of Country of Origin, Product Quality and Brand Image towards Purchase Intention of Innisfree Consumer from Indonesia, comprises several section, namely:

CHAPTER 1 : INTRODUCTION

In this section, describes the background, formulation of problems, research objectives, research limitations, research significance, writing organization

CHAPTER 2 : LITERATURE REVIEW

This section describes the theoretical framework that supports the writing of the scientific report, which consists of brand image, which cover definition of Global Brand Image, Country of Origin, Product Quality and Purchase Intention

CHAPTER 3 : RESEARCH METHOD

This section consists of research analysis methods and units, variables and their measurements, sampling procedures, data collection procedures, data analysis methods, time and place of research.

CHAPTER 4 : RESULTS AND DISCUSSION

This section discusses the entire core description and the entire content that tells a general description of the object of research, the results and discussion.

CHAPTER 5 : CONCLUSION AND SUGGESTION

This section contains conclusions and suggestions and positive ideas that need to be conveyed to support future research and is beneficial for writers and readers.