

CHAPTER I

INTRODUCTION

This chapter delineates the entire framework of this research. It includes the research background, research problem, research objective, research scope, significance of the study, and the systematic outline of the consecutive chapters.

1.1 Background

The luxury goods industry is fundamentally exclusive, which is defined by the most high-quality products but more often with high prices and sometimes the availability is limited on the market (Matthias Beer, 2013, p. 6). This industry continues to grow as the existence of globalization decreases the barriers between countries, allowing the company to expand its businesses over countries. The luxury goods industry market ranges from personal goods, hospitality, fine wines and spirits, gourmet food and fine dining, fine art high-end furniture and housewares, to transportation such as luxury cars, private jets and luxury cruises (D'Arpizio et al., 2019). The personal luxury goods which include apparel, perfumes and cosmetics, leather goods and accessories, as well as watches and jewelry (Brun & Castelli, 2013) has a value of 281 billion euros (Statista, 2020) with a constant exchange rates of 6% (CAGR 1996-2017) (Claudia D'Arpizio et al., 2017).

According to G. Li et al. (2012), luxury brand is identified as the highest level of prestigious brands that provide many kinds of physical and psychological values. Luxury brands often refers to high quality, costly and non-essential goods and services which consumer viewed as unique, exclusive, prestigious, and authentic

that also provide high levels of symbolic and emotional value. In other words, luxury brands are justified with a higher price through higher quality, in which the high price shows that there is a difference between mass products and luxury goods (Nicole Fich, 2011). Based on the markets of luxury goods mentioned above, the personal luxury goods include fashion. However, the products of luxury fashion are not limited to clothes and shoes, but also scarves, glasses, bags, ties, wallets, and belts (Salem & Chaichi, 2018).

The worldwide demand for luxury items grew 5% with the estimation of €1.2 trillion in 2018 (D'Arpizio et al., 2019), continuing, the personal luxury items also has been constantly increasing for years, resulting in US\$308 billion worth at the end of 2019 (Jones, 2020). More specifically, the revenue from luxury fashion segment reached 34% of the luxury goods revenue in 2019 (Statista, 2020a) and the global luxury fashion market is expected to annually increase by 6.6% (CAGR 2020-2025) (Statista, 2020b). The fashion business can be considered as one of the biggest contributors to economic growth. It has been growing rapidly in accordance with globalization, especially with its dynamic change of trends. Traditionally, luxury goods are associated with upper-class people considering its expensiveness, however, with the increase of income and changes in lifestyles nowadays, more people are buying luxury goods, especially luxury items with more affordable prices.

The luxury goods industry has attracted many Indonesian consumers, this can be seen by the appearance of leading luxury fashion brands store in big cities, such as Plaza Indonesia, Grand Indonesia, Pacific Place, and several other places. Statista

(2020c) reported that the revenue of the luxury fashion segment in Indonesia reached US\$492 million and the market is expected to an annual rise of 8.4% (CAGR 2020-2025). Products by LVMH is stated to held 25% of the luxury goods market in Indonesia. LVMH Moët Hennessy-Louis Vuitton SE is a French luxury conglomerate, which ranked first on the top luxury goods companies based on its sales in the fiscal year 2017. LVMH operates in several business sectors, including fashion and leather goods, wines and spirits, perfumes and cosmetics, watches and jewelry, selective retailing, and other activities. The demand for LVMH in 2019 increased as much as 59% (Statista, 2019) with Louis Vuitton as a house focused in the fashion and leather goods sector held the title of being the most valuable luxury brand in the world with a \$47.2 billion brand value and \$15 billion brand revenue (Swant, 2020).

The fashion industry operates in a highly competitive market with a dynamic environment in which it is dominated by the presence of global brands as well as the sudden change and uncertainty. Therefore, it is important for every brand to preserve their brand image and identity effectively (Parrott et al., 2015). Aside from that, the significant demand for luxury fashion goods means that brand marketers should build an effective strategy so they can build customer loyalty in the long run (Soh et al., 2017). The growth of digitalization has brought the fashion industry to be more connected with the digital platform and digital marketing strategies. In recent years, researchers have highlighted the critical value of social media-based brand communities among the existing types of virtual consumer environments (VCEs) (Hollebeek et al., 2014). Social media enables organizations to obtain

information about consumers and opportunities that rises in the market as well as allows them to manage relationships with customers in the pre-purchase, the purchase, and the post-purchase stage. According to Verhagen et al. (2015), social media has enhanced the interactivity of online brand communities by offering two-way communication platforms that allow various types of content (e.g. picture, video, text) to be exchanged instantly between brands and customers and among customers. Therefore, it can be said that through social media, brands and customers work together to build new goods, services, and values. Meanwhile, brands can also gain exposure and improve consumer relationships (A. J. Kim & Ko, 2012).

According to Eastman et al. (2019) marketers should have a better understanding of what impacts a luxury consumer's commitment to a luxury brand. The interaction between consumers and brands should be recognized as a reciprocal identity co-creation process that can occur through digital marketing, specifically social media, which later encourage luxury brand purchase. Consumers use social media not only to seek information but also entertainment and meaningful relationships. Social media marketing activities mainly affect customers' perceptions of brands, which then leads to brand equity perceived by consumers. Moreover, how brands communicate with their consumers through social media impacts the benefits and experience received by consumers. Using uses and gratifications' (U&G) theory, social media brand followers are aware of the value and the important role of individuals' perceived benefits in driving users' community participation. U&G theory explains the reason consumers are attracted to social media marketing activities, which are to meet cognitive, social integrative,

personal integrative, and hedonic gratifications, as well as sensory, affective, behavioral, and intellectual experiences (Zollo et al., 2020). Hence, benefits gained from social media and brand experience received by consumers are considered important factors in evaluating a brand that determines future actions toward brands, such as continued purchase and brand loyalty.

According to previous research, both social media benefits and brand experience perceived by consumer has had an influence on mediating the relationship between social media marketing activities and consumer-based brand equity. However, previous research studied social media platforms in general and did not focus on one global luxury fashion brand. In addition, the focal point of this research is to examine whether perceived benefits and consumers' experience by one global luxury fashion brand can truly affect the relationship between social media marketing activities and consumer-based brand equity. Based on the data that has been obtained and described above, the researcher found interest in global luxury fashion brand, namely Louis Vuitton, social media marketing activities from the perspective of Indonesian consumers. The topic of Louis Vuitton is raised by the researcher because Louis Vuitton has a strong position in the world of global luxury fashion brand.

1.2 Research Problem

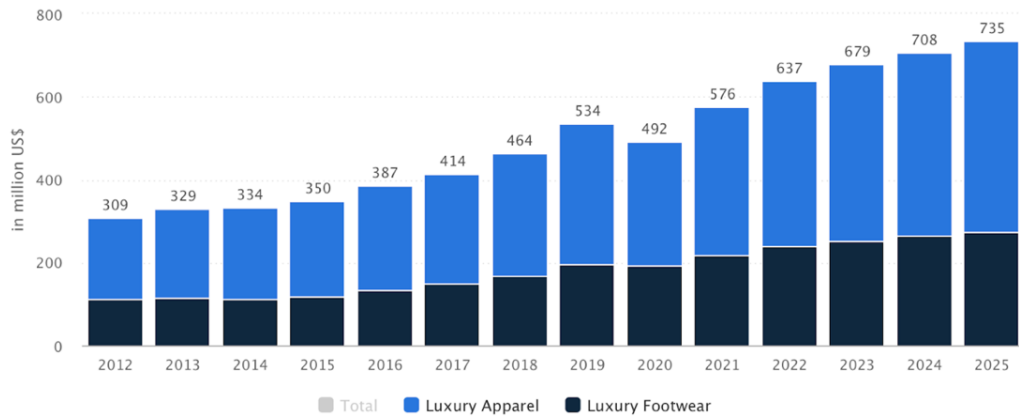


Figure 1.1 Indonesia Luxury Fashion Market Revenue (in million US\$)

Source: Statista.com

Global luxury fashion brand, namely Louis Vuitton, has been known to attract consumers from all over the world, including Indonesia. Louis Vuitton's products are well-known for its unique characteristics and designs that are marked as the legacy of the brand. As the most valuable luxury brand in the world, Louis Vuitton has experienced a constant growth of sales in years. However, due to the current global pandemic, Louis Vuitton's sales in 2020 dropped 17% (Q1) and continue to fell 38% (Q2) (Abboud, 2020). As shown in Figure 1.1, the revenue of luxury fashion market in Indonesia also experiences a decline in 2020 as an outcome of the economic conditions drop in Indonesia. The decrease in revenue is likely due to the large-scale social restrictions (also known as PSBB) implemented by local government that limits people's movement as well as business activities.

Moreover, Brand Finance (2020) reported apparel brands are the most heavily impacted by the corona virus; thus, Louis Vuitton still ranked third below Porsche and Gucci as the most valuable brand. In this study, Indonesian consumers,

specifically young consumers are classified as consumer who were most exposed to the regular changes of trends in modes. Young consumers also considered as people who spend most of their time using social media. Based on the digital report, active social media users in Indonesia reached about 160 million users with a population aged 18 and above accounted for 69% of the total population (Kemp, 2020). Furthermore, a personal survey found that Louis Vuitton has a big influence on Instagram with over 42.4 million followers.

Therefore, based on the research problem, the researcher concludes the research questions as follows:

1. Do social media marketing activities have a positive influence on social media benefits on a global luxury fashion brand?
2. Do social media benefits have a positive influence on consumer-based brand equity on a global luxury fashion brand?
3. Do social media marketing activities have a positive influence on brand experience on a global luxury fashion brand?
4. Do social media benefits have a positive influence on brand experience on a global luxury fashion brand?
5. Does brand experience have a positive influence on consumer-based brand equity on a global luxury fashion brand?
6. Does social media benefits and brand experience mediate the relationship between social media marketing activities and consumer-based brand equity on a global luxury fashion brand?

1.3 Research Objective

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

1. To find out and analyze whether social media marketing activities have a positive influence on social media benefits on a global luxury fashion brand.
2. To find out and analyze whether social media benefits have a positive influence on consumer-based brand equity on a global luxury fashion brand.
3. To find out and analyze whether social media marketing activities have a positive influence on brand experience on a global luxury fashion brand.
4. To find out and analyze whether social media benefits have a positive influence on brand experience on a global luxury fashion brand.
5. To find out and analyze whether brand experience has a positive influence on consumer-based brand equity on a global luxury fashion brand.
6. To find out and analyze whether social media benefits and brand experience mediate the relationship between social media marketing activities and consumer-based brand equity on a global luxury fashion brand.

1.4 Research Scope

This research has a limited scope in conditions beneath:

- This research is conducted in Indonesia.
- This research discusses social media marketing activities, social media benefits, brand experience, and consumer-based brand equity.

- This research respondents are young consumers that are more familiar with Louis Vuitton and whom in regular day-to-day existence are more exposed to the dynamic lifestyle trends.

1.5 Significance of the Study

The author hopes that the findings in this research will redound to give benefits to:

1. The researchers

This study is expected to help the researcher to gain broader knowledge about the social media marketing and its activities effects on brand equity perceived by young consumers of global luxury fashion brand, namely Louis Vuitton, especially in Indonesia as it is the location of this study. The knowledge can be gained by examining the relationship between social media marketing activities, social media benefits, brand experience, as well as consumer-based brand equity simultaneously.

2. The young consumers in Business School Universitas Pelita Harapan

This study is expected to help the young consumers in Business School Universitas Pelita Harapan to be more aware of the global luxury fashion market represented in Indonesia as well as gain knowledge about how to maintain the attracted luxury fashion consumers through social media marketing. The researcher also hopes that this paper can give a contribution to Business School Universitas Pelita Harapan as a reference for academic studies, mainly on the topic of global luxury fashion brand.

3. The corporation

This study is expected to help the corporation to gain information about the consumer view on the current social media marketing activities, including the benefits from social media and brand experience that led to consumer-based brand equity. The information is expected to help the corporation in developing, improving, and/or maintaining their ongoing social media marketing strategy.

4. The future research

This study is expected to help the future research as a reference, especially in the field of social media marketing. This study focuses on one global luxury fashion brand. Therefore, the author hopes this research can give deeper understanding from young consumers view in Indonesia.

1.6 Organization of the Study

The systematic outline of this study consists of five chapters and organized as follows:

1. Chapter 1 Introduction

The first chapter consists of the background of the study, research problem, research question, research objective, research limitation, the significance of the study, and the systematic outline of the consecutive chapters.

2. Chapter 2 Literature Review

The second chapter provides the theoretical framework of the study, literature review, the linkages between variables used in the study, and the proposed hypotheses.

3. Chapter 3 Research Methodology

The third chapter elaborate the analytical methods used to examine and measure the relationship between variables, the research design, as well as methods of data collection in the quantitative research approach.

4. Chapter 4 Results and Discussions

The fourth chapter consists of the result of the linkages between variables in this study that are obtained using statistical examination performed with the collected data. The result will then answer the research question and led to a conclusion of the research.

5. Chapter 5 Conclusion and Recommendation

The fifth chapter concludes the whole research and provides the researcher's insights, theoretical and managerial implications, limitation of the study, as well as the recommendation to contribute to the future research.