

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The retail fashion industry is one of the most essential and prospective sectors of industry. According to Statista, by 2019 itself, the global retail sales of apparel and footwear reached USD 1.9 trillion and were expected to reach as much as USD 3 trillion in 2030. (Statista, 2021) As a trillion-dollar-worth industry dominated by several global players, intense competitions in apparel industry are surely inevitable. Globalization and the dynamic nature of the industry itself are all the more reasons why the abilities to stay competitive and adapt to current market's trends or customers demand are very important. One of the solutions to this is through the utilization of fast fashion concept.

Fast Fashion has been a popular concept of fashion retailing for the last few decades. It is known as the concept of creating low-cost collections based on the most current trends in luxury fashion (Ozdamar-Ertekin,2016). With disposability and fast pace as its main characteristics, utilizing this concept to the industry has offered great opportunities. As seen in Figure 1.1, the fast fashion industry worldwide market value for 2009 reached as high as USD 22 billion, it increased substantially to USD 36 billion in 2019 and is forecasted to reach USD 43 billion in 2029 (Statista, 2021)

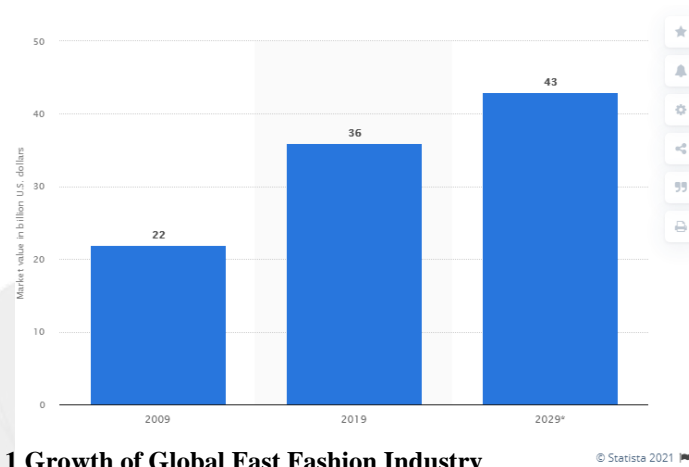


Figure 1. 1 Growth of Global Fast Fashion Industry

Source: <https://www.statista.com/statistics/1008241/fast-fashion-market-value-forecast-worldwide/>

The growth of the fast fashion industry is also proven by the expansion of many fast fashion brands to different countries, such as to Australia, America, and all the way to Asian countries, surely including Indonesia. Mainly because Indonesia presents itself as a very prospective target for global fashion companies. Indonesia attracts global fashion chains with its large-sized market proven by ranking 4th as the most populated countries in the world with steady population growth every year as seen in Table 1.1.

Table 1. 1 Indonesia's Population and Growth Rate (2018-2021)

Year	Total Population	Growth Rate
2021	276,361,783	1.11%
2020	273,523,615	1.07%
2019	270,625,568	1.10%
2018	267,670,543	1.14%

Source: <https://worldpopulationreview.com/countries/indonesia-population>

In addition to the market size, Indonesia's economic growth is also another reason the country was a target for global fashion company expansion. Table 1.2 shows the constant growth of Indonesia's GDP prior to the pandemic.

Table 1. 2 Indonesia's GDP (Year 2015-2019)

Year	GDP (billion Rupiah)
2019	15.833.943
2018	14.837.357
2017	13.587.212
2016	12.401.728
2015	11.526.332

Source: <https://pusatdata.kontan.co.id/makroekonomi/pdb>

Moreover, based on data from CNBC Indonesia (2019), 18.01% or IDR 116 trillion of Indonesia's creative industry are the results of Indonesia's development in fashion industry. These conditions led to the rises of many local and global fashion players that are vying for bigger market share in Indonesia. Although the Indonesian fashion market does consist of several local brands, such as Erigo, The Executives, Minimal, Osella, Hammer, etc. that successfully made their presences in the market competing with global brands, however, it is evident that the market, especially in retail sectors such as major department stores, in Indonesia is still dominated by many major foreign brands including ZARA, and some of its main competitors such as H&M, UNIQLO, Mango, Top Shop, etc. From Figure 1.2, it is seen that ZARA's fashion group, Inditex's revenue makes up 22.2% of the market, making it the biggest clothing retailers based on revenue.

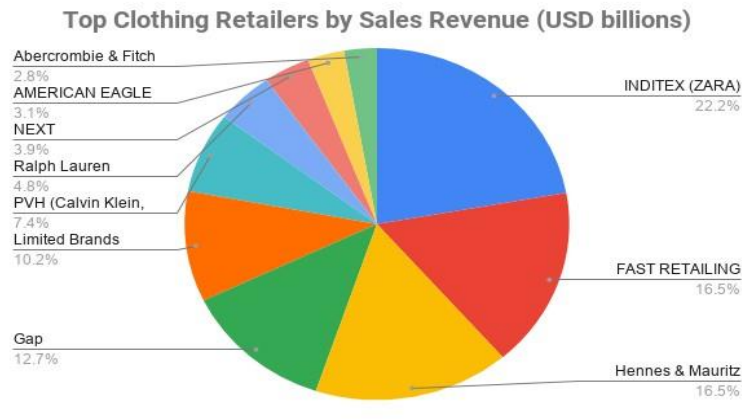


Figure 1. 2 Clothing Brands' Market Share by Revenue

Source: <https://www.markhorventures.com/news/ranking-the-top-10-clothing-retailers-in-the-world-in-2020-by-sales-revenue/>

Founded by Amancio Ortega and Rosalía Mera in 1975 in the northern Spain, what started as a family business which sold trending high-end lookalike products in lower prices successfully expanded and was eventually incorporated as Inditex in 1985. Ortega came up with a new system for the design, distribution, and manufacturing processes that allowed the company to quickly follow the newest trends. That breakthrough eventually led Inditex to global expansion in 1988 and became the world's largest fashion group today. Inditex now owns 8 famous fashion brands, Bershka, Pull and Bear, Massimo Dutti, Stradivarus, Oysho, Uterqüe, ZARA Home, and the biggest of all ZARA. (Inditex, 2021) Shown in Figure 1.3 below is the logo of ZARA.

ZARA

Figure 1. 3 ZARA's logo

Source: [https://en.wikipedia.org/wiki/Zara_\(retailer\)](https://en.wikipedia.org/wiki/Zara_(retailer))

There are now around 2,267 ZARA outlets scattered strategically in big cities of 96 different countries. (Martin Roll, 2020). ZARA offers different range of products, clothing for men, women, children, and even its own perfume, footwear, accessories, and household items. Despite being the oldest brand in Inditex, ZARA still showed constant growth and dominance in Inditex prior to the pandemic as seen in Table 1.3 (Year 2016-2019)

Table 1. 3 Inditex Annual Sales by Brand

	2020	2019	2018	2017	2016
Turnover (€ million)					
Net Sales	20,402	28,286	26,145	25,336	23,311
Online sales	32%	14%	12%	10%	N/A
Sales by brand (€ million)					
Zara (Zara + Zara Home)	14,129	19,564	18,021	17,449	16,168
Pull and Bear	1,425	1,970	1,862	1,747	1,566
Massimo Dutti	1,197	1,900	1,802	1,765	1,630
Bershka	1,772	2,384	2,240	2,227	2,012
Stradivarius	1,283	1,750	1,534	1,480	1,343
Oysho	522	604	585	570	509
Uterqüe	75	115	101	97	83

Source: <https://www.inditex.com/investors/investor-relations/annual-reports>

ZARA first entered Indonesia on 18 August 2005 by launching its two first stores in Jakarta, specifically in Plaza Indonesia and Pondok Indah Mall II. ZARA's entrance and expansion in Indonesia's market are the results of collaboration with PT. Mitra Adiperkasa (MAP), a leading retailer handling more than 150 brands in 81 cities in Indonesia.

ZARA successfully conquered the Indonesia market and even expanded to around 15 outlets in Indonesia. The one and only ZARA outlet in Medan was opened in 2016 in Sun Plaza, one of Medan's prestigious malls and has

sustained its operations up until now. Figure 1.4 shows the look of ZARA's one and only outlet in Sun Plaza Medan.



Figure 1. 4 ZARA's store in Sun Plaza Medan

Source: https://www.gotomalls.com/malls/L1_HydvWvpC-uDvL/sunplaza/stores/L1_d-tvWvw_-Daih/zara

However, with the COVID19 pandemic happening, ZARA recorded €409 million (Rp. 6.5 trillion) of net loss the first quarter of 2020, which was down 44% from the previous quarter, and had to close more than 1,200 ZARA outlets around the world. (The Guardian, 2020). Yet according to Irawati, Senior Vice President of MAP Fashion, ZARA Indonesia, despite the pandemic effects, has no future plan to discontinue its offline operations. (Kompas, 2020).

Upon the observation, it is realized that pandemic has limited the interactions and encounters of the brands with the customers and prospective customers, additionally, customers' behavior and preferences are now more prone to changes. The American Banker stated that in the latest Arizent survey of 450 executives, 68% of the respondents admitted to experiencing moderate to significant challenges in acquiring new customers due to the impact of COVID-19. That being said, the importance of maintaining customers' brand loyalty is even more prominent amidst the pandemic since according to Fundera (2019), it costs

businesses 5 times more to acquire new customers than to retain loyal customers. Similarly, Forbes (2018) also mentioned that the probability of making sales to existing customers reached 60% to 70% while it was only 5%-20% for new prospective customers.

Brand loyalty is the degree of positivity customers show towards a brand, commitment towards a brand, and the intention of future purchase (Mowen & Minor, 2002, as cited in, Dipura, 2018). This study will discuss and examine which variables affect customers' brand loyalty, the variables involve, firstly is product quality. According to Kotler and Keller in Wicaksono and Nurseto (2018), Product quality is the ability of a product to give results or performances that are according to or even exceeding customers' expectations. As seen in Figure 1.5, ZARA offers extensive lines of products, from female, male, kids clothing, eyewear, footwear, bags, to perfume, and other accessories.

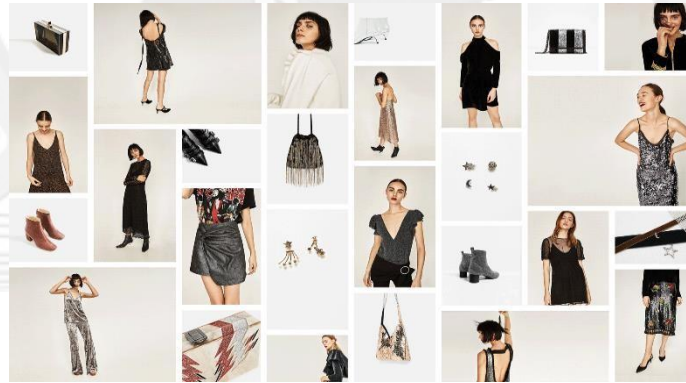


Figure 1. 5 ZARA's Products

Source: <https://www.referralcandy.com/blog/zara-marketing-strategy/>

Despite the affordable price and volatility nature of its products, ZARA does not compromise on the quality of its materials. ZARA uses more than sufficiently good materials, implements rigorous product testing and quality control system to ensure the top-notch products' quality. ZARA's efforts to maintain and enhance its products' quality can

also be seen when ZARA made a commitment in 2019 to make 100% of its materials, namely, cotton, polyester, and linen to be organic and more sustainable by 2025. (Inditex, 2021)

Secondly, the variable of Product Style. Product Style is the overall visual appearances including lines, silhouette, and details of a product which will affect consumer's perception towards a brand. (Ruixia & Chein, 2019). One of ZARA's competitive advantages is its quick reaction to rapidly changing trends, ZARA identifies latest market trend and incorporates those trending styles into them products. In one week, ZARA delivers new products to 1,670 of its stores twice. This leads to more than 10,000 new designs each year. It often only takes 10-15 days to bring the design to the store. (Collier & Evans, 2021). This means ZARA has extensive ranges of product styles offered to customers. From Figure 1.6, we can see ZARA's different styles of dress.



Figure 1. 6 ZARA's different styles of dress

Source: <https://www.zara.com/id/en/>

Product price is a certain of money exchanged by customers for the benefits of the products or services. (Prasada & Sukawati, 2020) Positioning itself as

‘affordable luxury’ and targeting young people and mainly people with moderate to high income, ZARA’s products are mainly priced lower than luxury brands but are still high enough to maintain its quality. In Indonesia, ZARA’s prices range from slightly below Rp.100,000 to more than Rp.1,000,000 according to the products. Figure 1.7 shows the extensive range of ZARA’s products prices.

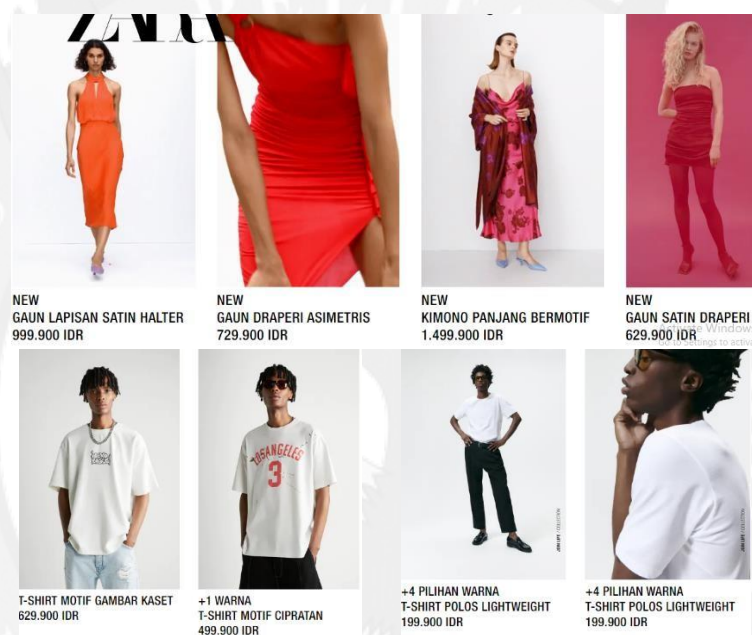


Figure 1. 7 ZARA’s Products Varying Prices

Source: <https://www.zara.com/id/en/>

Brand image, according to Keller in Cuong and Long (2020), is customers’ perceptions towards the brand according to customers associated the brands in their memories. Despite having lower prices than other luxury brands, ZARA wants to create the image of exclusivity, scarcity, and luxury to its brand by having limited inventory. (Trade Gecko, 2018) and replacing the old items for good when the new collections arrive to create the sense of urgency for customers. (Forbes, 2017). ZARA outlets’ locations are also mostly in high-end area like Fifth Avenue, Tsim Sha Tsui, and Sun Plaza in Medan to show its elite images. (Dreambox, 2016)

Additionally, in efforts to remove the image of being environmentally unfriendly, ZARA instills the image of sustainability by making a pledge in 2019 to create all of its collections from 100% sustainable fabrics by 2025. (Wear Next, 2021)

Service quality, according to Lewis and Boom in Tran et al. (2020), is the measurement of how well customers' expectations are met by the service level delivered by the company. ZARA's target market mainly people in their teens or youths. Thus, to deliver better service quality by relating to customers more, the majority of ZARA's employees are people of younger generations. ZARA also provides staffs training to ensure its employees are professional and capable of offering excellent service. However, in reality, ZARA is still known to have bad customer service. Referring to analysis of 1380 ZARA's customer reviews by Gavagai in 2020, The topic "customer service" popped up in 49% of the results and most of its context were negative. Memes and parodies of ZARA's employees' bad attitude and customer services also become popular on the internet including in Indonesia. A reposted video on Tik Tok, showing the parody of ZARA's employees' rude attitude by Fadlan Holao has been viewed more than 2.8 million times and is liked by more than 260,000 people and was even trending on twitter back in May 2020 (Tribun, 2020)

Store environment refers to the overall design and attributes of the store and its environment such as display, lighting, employees, etc. which distinguish itself to customers and emotionally influence the customers to purchase the products. (Ahmed & Riaz, 2018). ZARA spends considerably less on advertising than other retail chains and relies heavily on arranging the products display of the store

effectively to encourage customers to purchase their products. As seen in Figure 1.8, ZARA headquarter even has a mock-up store with no customers as a place where they decide how they should style the store, as in where to put the products, what lighting goes well with the products, what music should be playing, etc. (Medium, 2019)



Figure 1. 8 ZARA Test Store in Headquarter

Source:<https://medium.com/the-j-word/how-zara-survives-with-minimal-advertising-edb688db31b8>

That being said, this research is going to determine what are the factors that affect brand loyalty. Using ZARA as the research object, the writer is going to specifically analyze whether the chosen variables, which are product quality (PQ), product style (PS), product price (PP), brand image (BI), service quality (SQ), and store environment (SE) do affect the brand loyalty (BL) of ZARA Medan's customers.

Therefore, the writer is pitching on conducting the research titled **“The Effects of Product Quality, Product Style, Product Price, Brand Image, Service Quality, and Store Environment towards the Brand Loyalty of ZARA's customers in Medan”**

1.2 Problem Limitation

To avoid covering other problems unrelated due to the wide scope of the topic, here are several limitations of this research:

1. This research only focuses on the 6 independent variables; Product Quality (PQ), Product Style (PS), Product Price (PP), Brand Image (BI), Service Quality (SQ), Store Environment (SE); and one dependent variable which is Brand Loyalty (BL).
2. The object of this research is limited to ZARA Medan (Sun Plaza Outlet).
3. Research is conducted in Medan, North Sumatera, Indonesia.
4. Research model is examined using data collected from questionnaires distributed to 170 respondents.
5. Questionnaire's respondents are limited to those who are:
 1. 18-60 years old
 2. Domiciled in Medan, Indonesia
 3. Customers of ZARA Sun Plaza who had visited and purchased products from the outlet at least twice in the last 2 years.
6. Questionnaire results are analyzed using the software Amos 22.0.
7. This research does not simultaneously analyze the effects of all independent variables towards dependent variable due to the incapability of Amos 22.0, the used software, to do so.
8. The research period of this research began from July 2021 to October 2021

1.3 Problem Formulation

1. Does product quality significantly affect the brand loyalty of ZARA Medan's customers?
2. Does product style significantly affect the brand loyalty of ZARA Medan's customers?
3. Does product price significantly affect the brand loyalty of ZARA Medan's customers?
4. Does brand image significantly affect the brand loyalty of ZARA Medan's customers?
5. Does service quality significantly affect the brand loyalty of ZARA Medan's customers?
6. Does store environment significantly affect the brand loyalty of ZARA Medan's customers?

1.4 Objectives of the Research

The purpose of this research is to:

1. Examine whether product quality significantly affects the brand loyalty of ZARA Medan's customers.
2. Examine whether product style significantly affects the brand loyalty of ZARA Medan's customers.
3. Examine whether product price significantly affects the brand loyalty of ZARA Medan's customers.

4. Examine whether brand image significantly affects the brand loyalty of ZARA Medan's customers
5. Examine whether service quality significantly affects the brand loyalty of ZARA Medan's customers
6. Examine whether store environment significantly affects the brand loyalty of ZARA Medan's customers

1.5 Benefits of the Research

a. Theoretical Benefits

The writer hopes this paper can:

- (i) Contribute more to the development of knowledge and theory in marketing specifically in term of brand loyalty and factors affecting it.
- (ii) Support the result of the previously made research regarding similar topic by other researchers.

b. Practical Benefits

In addition to theoretical benefits, practical benefits are also expected from this research. The writer hopes this research will provide practical benefits for the writer herself, the company as research object that is involved, and for future research.

i. For Writer

Writer gains deeper understanding regarding customers' behavior specifically in terms of how product's elements,

service quality, brand image, and store environment affect the brand loyalty in fashion industry.

ii. For Company

Writer hopes this research can serve as additional insight for ZARA in its effort to increase the customers' brand loyalty towards the brand.

iii. For Future Researchers.

Writer hopes the result of this research can be the secondary data source or references for future researchers researching related topic.

