CHAPTER I

INTRODUCTION

1.1 Background

In the world where aesthetic is valued greatly in society, beauty has become a necessity. In the case of women, it shifted the boundaries of cosmetics from want into a near need, that is where makeup and beauty cosmetics emerge to fill the gap within the society. According to the US Government Publishing Office (2010) the word cosmetics means any article intended to be introduced to any part of the human body in the means of cleansing, beautifying, promoting attractiveness or altering the appearance. This classified skin care such as moisturizer and toner into the category, therefore the researcher decided to specify cosmetics in terms of makeup

In Indonesia alone a wide expansion of cosmetics is currently happening, this occurs due to the demand of the beauty products keep increasing as time goes by. According to the minister of Industry in Indonesia, Airlangga Hartato, currently cosmetic products and beauty products already become a primary need for women. While, women are the main target of the cosmetic industry. In 2018, the cosmetics industry in Indonesia has expanded by 153 companies, and now it has reached approximately 760 companies while keeps on growing (Investor Daily, 2018). Some of the companies has exported their products abroad such as ASEAN, Africa, Middle East and others. In 2018, the export value of national cosmetics reached

US$516.99 million, an increased compared to the previous year of US$470.30 million (Investor Daily, 2018).

Research found that cosmetics industry in Indonesia have increased around 20% from 2017 or can be counted as four times the national economic growth. By that, there are several numbers that expected to grow every year until 2021 (Investor Daily, 2018). Becoming the largest percentage of economy in Asia, Indonesia already gain a GDP of US$ 888.5 billion with a population of 250 million and income per individual that keeps on growing. Then, analysts predict that Indonesia will lead the cosmetic industry for the next 15 years (International Trade Administration, 2016). Figure 1.1 states that based on statistics and studies of cosmetics industry in Indonesia below, it can be seen that researcher predict that revenue in the cosmetics and personal care market has been expected to remain increase from 2010-2021.Revenue of the beauty market products keep increasing because high demand of the product which can create high profit for sellers.
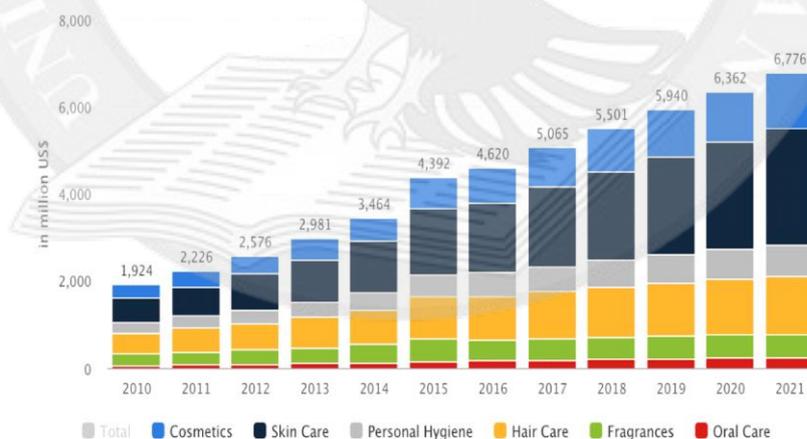

Figure 1.1 "Revenue of the Cosmetics and Personal care in the market"

Source: The Statistics Portal (2018)

MS Hidayat, the Minister of Industry in Indonesia said that beauty market has a strong competition between local and imported product, due to the demands of the imported products. In between the year of 2011 and 2012, an increase of 30% on imported cosmetics occurs and reached Rp 2.44 trillion from Rp 1.8 trillion (Suara Karya, 2018). This circumstance happened, due to the beauty market influenced by the demand of the premium and branded foreign product; commercial and promotional also become factors that affect an increase (Harian Ekonomi Neraca, 2012). When the market needs certain product because of the absence of such product and high interest of buying, importing become a successful and profitable strategy as long as the investment of selecting the product are right and fit to the target market (Seyoum, 2014). According to PPA Kosmetika (2012), cited from Harian Ekonomi Neraca (2012) also stated that sales of the local cosmetic product decrease about 17-20% during January- March 2017 period while the production of the product keep increasing.

By that, local product tries to shift the condition by maintain their product in the market or even change their strategy and create innovation that needed in the market (Harian Ekonomi Neraca, 2012). Another support also done by government, according to PPA Kosmetika (2012) cited from Harian Ekonomi Neraca (2012), stated that with government cooperation to support the local product, they create a regulation to minimize the imported product to Indonesia by limiting imported products that can enter Indonesia only through 4 ports.

The existence of the imported beauty products in Indonesia became one of the consideration why consumers have a choice between local and imported products. Korean beauty brand itself already growth with their own export to

another country. Korean brands have an influence on the global beauty market in recent years (Fung Global Retail & Technology, 2016). According to Deborah Weinswig as the managing director of Fung Global Retail & Technology 2016, the key of Korea's success is about keeping up on creating an innovation and developing their product. Having a shorter product development cycle compare to another international beauty brands, creates a quicker demand in customer. Korean beauty brands also growing in digital media where they can engage with the customer and sell their product through e-commerce that provides the customer an easier alternative when buying their products. Moreover, they also prioritize on opening their physical store overseas to compete with other country products and also allows them to quickly adopt in-store technologies (Fung Global Retail & Technology, 2016).

There are several brands from Indonesia, and Korea that are probably famous in the beauty world. For Indonesian product, brand such as Wardah, PAC, Makeover, Sariayu, Rollover, BLP Beauty (By Lizzie Parra), etc. Whereas Korean brands that are imported to Indonesia mentions such as Face Shop, Tony Moly, Laneige, Nature Republic, Etude, Innisfree, and etc. The demand of beauty product in Indonesia keeps increasing, that leads to foreign company on expanding their business more in Indonesia. Figure 1.2 states as one of the most populated country in the world, Indonesia has a rapid growth of imports in makeup of 23% increase in just 5 years, around 2010 until 2015.

HTS Code	Description	2011	2012	2013	2014	2015	CAGR 2010-2015	3 Year Avg Growth	% Share of 2015 Total Imports
3301	Essential Oils	NA	NA	NA	NA	NA	NA	NA	NA
330290	Fragrances & Substances Used as Inputs	NA	$2,768	$7,967	$60,386	$81,911	133%	928%	1%
3303	Perfumes And Toilet Waters	$403,544	$447,124	$378,443	$444,600	$612,308	9%	62%	5%
3304	Make-Up & Skin-Care Preparations	$1,348,243	$2,459,757	$3,482,330	$4,328,111	$3,780,798	23%	9%	28%
3305	Hair Care Products	$14,029	$52,448	$170,103	$258,590	$359,876	91%	112%	3%
3306	Oral & Dental Hygiene	$47,261	$69,766	$233,020	$399	$14,104	-21%	-94%	0%
3307	Cosmetic & Toilet Preparations, Inc Shaving, Bath Prep and Deodorants	$487,577	$117,570	$205,493	$185,021	$587,729	4%	186%	4%
3401	Soap & Other Products to Wash the Skin	$156,887	$151,925	$128,595	$307,695	$384,243	20%	199%	3%
4803	Toilet, Facial Tissue, Towel Or Napkin Stock And Similar Paper, Cellulose Fiber Wadding And Webs, In Rolls Or Sheets	$207,577	$117,580	$270,874	$438,240	$489,197	19%	81%	4%
4818	Personal Care Wipes, Diapers, Tampons	$192,372	$488,434	$355,878	$265,747	$207,298	2%	-42%	2%
5601	Sanitary Towels and Napkins	$619,092	$1,851,439	$1,850,564	$4,401,426	$6,342,681	59%	243%	47%
9603	Personal Care Brushes: Nail, Shaving, Tooth, etc	$427,435	$421,105	$708,913	$686,333	$690,041	10%	-3%	5%
9605	Toilet Sets for Personal Travel	$460	$3,730	$5,768	$276	$1,848	32%	-68%	0%
9619	Diapers and Fem Hygiene	NA	$88,146	$595,541	$70,950	$0	NA	-100%	0%
	Total Imports	$3,904,477	$6,271,792	$8,393,489	$11,447,774	$13,552,034	28%	61%	100%

Source: Trade Policy Information System (TPIS), if marked with a * source is Global Trade Atlas

Figure 1.2 Indonesia imports of Personal care and Cosmetics from South Korea

Source: International Trade Administration (2016)

This research will study the perception of cosmetics in Indonesia, more specifically within the makeup industry. The study will be based on seven independent variable Product, Price, Place Promotion, Loyalty, Familiarity, and Risk, and Repurchase Intention the dependent variable. Furthermore, this research will gauge the degree on how the makeup market in Indonesia perceive local products respectively. According to Hoang (2007) marketing mix is a combination of the elements needed to successfully market any product. There are 4P's which reflects on the traditional marketing mix that consist of, product, price, place, and promotion.

Product is what defines the cosmetic, Kotler & Armstrong (2014) describes the characteristics of a product as variety, quality, design, features, brand name, and its packaging. According to Palade (2011), quality of the product should be maintained to create a differentiation compared to competitors. Moreover, offer a

high quality of the product would satisfy customer expectation. Nowadays at home quality check are also make possible due to the abundance of online makeup reviews, and opinions of influencers such as beauty gurus from social media (International Trade Administration, 2016). Furthermore Palade (2011) also mentions that product packaging should adapt with the market to attract more attention from the customers.

Price refers to how much money that the consumer needs to spend to buy the product, this includes shipping and tax that may applied during the buying process (Hoang, 2007). Price also can be as the main factor during the purchase decisions. For cosmetics, company may adopt a price strategy to influence the repurchase intention of the customer by set the price based on the quality of the makeup product (Palade, 2011). As a consumer, price become the factor to decide which product to buy and one of the main aspect that may affect the purchase decisions is a discount or sale (Kotler & Armstrong, 2014). Makeup product that is on sale or discount will have high demand because of the price that cheaper than normal (International Trade Administration, 2016). Kashyap (2012) also stated that as technology advances, the beauty industry has offer buying product through digital platform. While nowadays, online shops in digital platform has offer buying the product on instalments and allowing more people to afford a decently priced makeup such as Tokopedia (Tokopedia, 2018)

According to Belch & Belch (2015) promotion are defined as the coordination of all seller-initiated efforts to set up channels of information in order to persuade customers into buying goods and services or to promote an idea. Promotion nowadays does not only have a purpose on increasing sales, but to

transfer values and ideas that the company or brand has to offer; promotion is used as a tool towards a company's public relation, and to increase brand awareness (Belch & Belch, 2015). In the makeup industry where there are a lot of clutters and brands compete intensively, marketers need to focus on capturing customers value instead of focusing on selling the product. An example of this is where a Korean makeup company SK-II decided to launch an advertisement in China, tackling on their controversies in women and marriage. Instead of promoting only their product SK-II decided to promote their entire brand and conveys themselves as a brand that cares and empowers women out of the controversy (SK-II, 2016).

In line with Hoang (2007) place refers to the distribution of products, and the process it undergoes until it reaches the customers. In the makeup industry, location can be a major impact for the growth of the business. According to International Trade Administration (2016) with the presence of makeup retail store, it allows the customer to get into several brands of makeup at once, without the need to search for each brand separately. Other than that, according to Levy & Weitz (2012) store atmosphere and the decoration can be one of the consideration to attract the customers. Store atmosphere is an atmosphere or shop environment that can stimulate the five senses of the consumer and affect consumer perceptions and emotions of the store.

According to Oliver (1999) cited through Rai & Srivastava (2012) defined loyalty as "a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing…". Moreover, Palade (2011) also mention the clients'

loyalty is achieved through a successful variety of products and promotion that applied by the company.

According to Keller (2013) brand of a product should be familiar and meaningful for the customers to create an existing memory in their mind, familiarity can create a situation where customers really know about the product identity and have to do less learning to understand the object and less searching product information. Familiarity also can create brand recall for a several products that may be appear during the buying process, where consumers will easier to encode the product name that has stored in their memory (Keller, 2013).

Risk explained by Schiffman & Wisenblit (2015) is the uncertainty that consumers face when they cannot foresee the consequences of their purchase decisions; the two important factors being uncertainty and consequences. In the makeup industry risks such as purchasing a product with a lower quality than expected are common, moreover a more direct risk that occurs are a dissonance to the end user such as the result of the makeup to their skin colour and hygiene risk potential such as allergies that might appear (International Trade Administration, 2016).

Repurchase intention refers to the individual's judgment about buying again a designated service or product from the same company or seller, considering his or her current situation and likely circumstances (Ibzan *et al*., 2016). Consumer will eventually buy product if they truly need the product or they only influenced by the environment such as social media where there are beauty forums, blogs and another platform that promote cosmetic products that can influence consumer repurchase intention (International Trade Administration, 2016).

This study is a development and a combination of three researches conducted by Indumathi & Dawood (2016) with the title "Impact of Marketing Mix on Consumer Buying Behaviour in organic", Nugroho and Wihandoyo (2009) with the title "Consumer's Perceived Value and repurchase intention of store brands: an empirical investigation", Wildan & Zain (2015) with the title "The Relationship Among Marketing Mix, Satisfaction, and Repurchase Intention on Smartfren Users", but this study change dependent indicator. Nevertheless, this research will be conducted with all the variables from the respective researcher yet done with different research object, research sample, sub-variable and approach. To be more specific this study will be done with a new topic of study of cosmetics and makeup, a new environmental setting which are within the area of Tangerang, Indonesia, and using a different approach of research and relationship within each variable for local cosmetic products.

1.2 Research Questions

Based on the background of this research, this paper will discuss further into the following:

- Does product have an influence on the repurchase intention of local cosmetic products in Tangerang?

- Does price have an influence on the repurchase intention of local cosmetic products in Tangerang?

- Does place have an influence on the repurchase intention of local cosmetic products in Tangerang?

- Does promotion have an influence on the repurchase intention of local cosmetic products in Tangerang?

- Does loyalty have an influence on the repurchase intention of local cosmetic products in Tangerang?

- Does familiar have an influence on the repurchase intention of local cosmetic products in Tangerang?

- Does risk have an influence on the repurchase intention of local cosmetic products in Tangerang?

1.3 Research Objectives

Based on the questions of this research, the study of this paper will analyse the following objectives:

- If product has an influence on the repurchase intention of local cosmetic products in Tangerang

- If price has an influence on the repurchase intention of local cosmetic products in Tangerang

- If place has an influence on the repurchase intention of local cosmetic products in Tangerang

- If promotion has an influence on the repurchase intention of local cosmetic products in Tangerang

- If loyalty has an influence on the repurchase intention of local cosmetic products in Tangerang

- If familiar has an influence on the repurchase intention of local cosmetic products in Tangerang

- If risk has an influence on the repurchase intention of local cosmetic products in Tangerang

1.4 Research Benefits

There will be three beneficial applications that this research paper will contribute to the society:

1.4.1 Theoretical Implication

The theoretical benefit of this study is to observe and research the relationship between product, price, place, promotion, loyalty, familiarity, and risk towards repurchase intention. This research will provide a deeper and a most recent understanding about the eight variables, product, price, place, promotion, loyalty, familiarity, risk and repurchase intention especially in Indonesia. More so this research provides a profound understanding on the relationship between product, price, place, promotion, loyalty, familiarity, risk and repurchase intention.

1.4.2 Managerial Implication

1.4.1.1 Industrial Cosmetics Company

This study will benefit local cosmetic brands and cosmetic retailers in Indonesia, by looking at the result of this study, local businesses will able to know the significance of the eight variables discussed in this study towards the customer. This study will also provide the degree of importance on the aspects that are important

to be focused on for the business. By the researcher findings on the influence on each variable towards the repurchase intention, local business will know how to maintain and produce product that will be accepted in the market. Other than that, local company also know how to compete with imported brands that may influence the market.

1.4.1.2 Academic Implications

Moreover, this study will also give benefit for academic perspective. Benefits obtained from the academic side is to know how local products innovate and maintain their existence in the market. Moreover to know product, price, place, promotion, loyalty, familiarity, risk of each product that can be used for further research.

1.5 Research Limitations

There are several research limitations that this study includes, this is due to the scope of the research. The first limitation comes from the topic of the research of cosmetics, as the researcher decides to limit cosmetics into just makeup. One limitation that is introduced is demographic restriction as to make the data more accurate and reliable for the topic of makeup, the researcher decides to restrict the gender, and only use female respondents. Another limitation is the subject of the research will be only from Universitas Pelita Harapan batch 2015-2018. Furthermore, the subject of the research will be from business school and those who are taking bachelor's degree for economics. Lastly, the limitation of the study is due to the location where the research is conducted, the response of the research will be based off people whom within the area of Tangerang, Indonesia.

1.6 Chapter Outline

CHAPTER I: INTRODUCTION

The first chapter will explain the background of the topic and its phenomenon, research problems, research objectives, research benefit, research limitations, and the chapter outlines.

CHAPTER II: LITERATURE REVIEW

In the second chapter, the key and relevant variables will be explained further in terms of theory the variables are, product, price, place promotion, loyalty, familiarity, risk and repurchase intention; furthermore, this chapter will include research model, and hypothesis.

CHAPTER III: RESEARCH METHODOLOGY

In this chapter, the approach to conducting the research will be explained. This includes how the data is collected, the research design, the sample of the research, data analysis, validity and reliability testing.

CHAPTER IV: RESULT & DISCUSSION

In chapter IV, the findings and result of the research and its processed data will be shown and discussed. The data processing method will be achieved through an analysis tool called SPSS.

CHAPTER V: CONCLUSION AND SUGGESTIONS

In the last chapter, the researcher will come to a conclusion on the result of the data from this study. Research limitations, and result implication will also be stated, finally there will also be recommendations for further research on this study.