

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Women are the creature who identical with beauty, women always want to look beautiful in each of circumstances and always wanted to be the center of attention. This is the reason why women like to beautify themselves by using various kinds of cosmetics. This condition is completely utilized by cosmetics manufacturers. With the total population of about 250 million people, Indonesia is a promising market for cosmetic companies. Currently, the development of the cosmetics industry Indonesia is solid. Based on International Euro Monitor, Indonesian cosmetic industries have reached more than US\$5 billion with an average growth of 12%. Cosmetic industry in Indonesia is not affected by the monetary crisis, and is expected to become the country with high growth potential in the beauty industry and is expected to reach the figure of 20% in the 2015 (<http://www.gatra.com>, retrieved on 10 July 2015). Therefore, the national cosmetics manufacturers need to fulfill consumer needs which increase time by time.

Nowadays, the domestic cosmetics industry has been challenged by the circulation of imported cosmetic products. This is due to the high demand of domestic premium market (high branded). According to Persatuan Perusahaan Kosmetik Indonesia (Perkosmi) data, in 2012 sales of imports cosmetics reached 2.44 trillion rupiahs, 30% increase compared to 2011 which is 1.87 trillion rupiahs. In 2013, sales of imported cosmetics products are projected to rise 30% to 3.17 trillion rupiahs. This increase was supported by higher sales volume as well as the lowering of tariffs in line with the free trade agreement (<http://kemenperin.go.id>, retrieved on 15 July 2015). Furthermore, in 2015 the national cosmetics market which penetrates 15 trillion rupiahs is still dominated by imported products by 60%. Products imported from South East Asia contribute about 5% and from Europe, China, America and the other by 55% (<http://semarang.bisnis.com>, retrieved on 15 July 2015). It is a challenge in itself

for the development of domestic cosmetics industry. However, amid the incessant onslaught of foreign cosmetics, Sariayu Martha Tilaar, a local brand is able to survive, and even continue to grow.

Sariayu Martha Tilaar Cosmetic is one of domestic product for cosmetics and skin treatments made in Indonesia. Martha Tilaar Group begins from a small beauty salon established by DR. (H.C.) Martha Tilaar at a garage sized 4x6 meter in 1970. The company was founded in 1977 by Dr. HC. Martha Tilaar, (the late) Pranata Bernard, and Theresa Harsini Setiady. In 1981, the company established the first modern factory on Jl. Pulo Ayang No. 3, Pulogadung Industrial Estate, which manufactures cosmetics and herbal medicine with brand “Sariayu-Martha Tilaar” for the first time. In 1986, the Company established a second modern factory on Jl. Pulo Kambing, Pulogadung Industrial Estate (“Pulo Kambing Factory”) (<http://www.marthatilaargroup.com/id>, retrieved on 27 August 2015)

Sariayu Martha Tilaar cosmetics product has been known as Indonesia most popular local product in cosmetic industry. Indonesian women, whether teenager or adult mostly know this brand name. Sariayu Martha Tilaar cosmetics often introduce their new product by launch their new cosmetic series such as “color trend” of eye shadow and many more. Their competitive advantage such as using herb ingredients will make their cosmetics suitable for Indonesian woman’s skin. Sariayu Martha Tilaar cosmetics has been achieved many kinds of brand achievements, such as Top Brand Award 2011, Indonesia most Favorite Youth Brand in 2012, Top Brand Award 2012, Bazaar Beauty Award 2013, Corporate Image Award 2013, Satria Brand Award, Her World Beauty Award in 2014, Best Beauty Buy Women’s 2014, Sariayu Super Brand Award 2014, OCI Award in 2015 and many more (<http://www.marthatilaargroup.com/id>, retrieved on 27 August 2015) This achievements are the prove that Sariayu Martha Tilaar Company has been grown so significant and create their best for the customer.

Meanwhile, the world of marketing especially for cosmetics will be more challenging in the future, one of which is due to the 2015 ASEAN Economic

Community (AEC). This condition allows global players to enter Indonesia and vice versa local players have the same opportunity to spread their business overseas. This will lead increasingly fierce competition among marketers (<http://www.asiapathways-adbi.org>, retrieved on 27 August 2015). The consumers who come from higher economic classes have more choices and will result in decreased loyalty. The development of digital media also allows consumers to have more options and can open express choice. This of course has implications for the need for marketers to be able to grow the buying interest of consumers.

Furthermore, the President of the ASEAN Cosmetic Association Nuning S. Barwa said the ASEAN Economic Community (AEC) has become the foundation of market opening and cosmetics production enterprises that can open opportunities and challenges for startups, Small and Medium Enterprises (SMEs) and entrepreneurs in the world of beauty (<http://semarang.bisnis.com>, retrieved on 10 July 2015). Finance Today Research Department also projected that the national beauty industry has a great opportunity in the scope of ASEAN. This is demonstrated by the low contribution of export sales of cosmetic products only issuers of 18% of the total sales. The low contribution of export sales showed issuer beauty products has not been fully tried to seek sales abroad (<http://kemenperin.go.id>, retrieved on 15 July 2015).

Similarity with the factor of climate, social, cultural and purchasing power, potentially making ASEAN consumers have preferences similar to Indonesian consumers. This can be a driver of Indonesian cosmetic products be well received in the ASEAN market (<http://kemenperin.go.id>, retrieved on 10 July 2015). This statement is also supported by the results of recent research by AC Nielsen, the similarity factor climate, social, cultural, purchasing power, potentially making ASEAN consumers have preferences similar to Indonesian consumers. This can be a driver of Indonesian cosmetic products can be well received in the South East Asia market (<http://semarang.bisnis.com>, retrieved on 15 July 2015). This makes the cultural factor is an important factor to consider in designing a marketing strategy a beauty product.

Culture is a powerful force in regulating human behavior (Schiffman & Kanuk, 1997). The impact of culture is basically so natural and automatic which its influence on behavior is usually taken for granted. Often, it is only when people are exposed to people with different cultural values or customs that people become aware of how culture has molded their own behavior. Exactly because it shapes behavior, the understanding of culture is crucial when it comes to consumer marketing. The recognition of its importance has led to an increasing amount of research across cultures (Sojka & Tansuhaj, 1995). There is reason to believe that Hofstede's model can be used in assessing differences among consumption behaviors. This is because different cultural values, customs, as well as religious beliefs can be adequately captured by the dimensions named in Hofstede's model. More significantly, many studies have succeeded in establishing links between culture and consumer behavior (McCracken, 1986).

Even though many researchers have sought to understand the influence of culture on consumer behavior, most of the attempts were made in a piecemeal basis (i.e. examining effects of certain aspect of culture dimensions towards a specific aspect of consumer behavior). In this study, conceptual relationships pertaining to cultural effects on consumer behavior are explored based on Hofstede's (1980) five dimensions of cultural differences, which are: collectivism, masculinity, uncertainty avoidance, power distance and long – term relationship. Relatively little attempt has been made to develop a general framework of cultural influence on consumer behavior which examines effects of various aspects of culture on various aspects of consumer behaviors at the same time. Various aspects of consumer behaviors are identified and linked to each of the five cultural dimensions, and then propositions which relate the cultural dimensions to the consumer behaviors are developed based on the reviews of their relationships.

According to Yoo and Donthu (2005) five dimensions of Hofstede's create consumer ethnocentrism. Consumer ethnocentrism, an economic expression of ethnocentrism, represents "the beliefs held by consumers about the appropriateness, in-deed morality, of purchasing foreign-made products"

(Shimp & Sharma 1987). Sharma et al. (1995) note that consumer ethnocentrism may result in an over estimation of the attributes and overall quality of domestic products and an underestimation of the quality of foreign products. Ethnocentrism was originally conceptualized as a purely sociological concept that distinguished between in groups (those groups with which an individual identifies) and out groups (those regarded as antithetical to the in-groups).

Country of origin and customers' perception of goods and services are closely associated with consumer ethnocentrism and consumer animosity. Consumer preferences for foreign and domestic products could be influenced by trust in foreign firms, consumer ethnocentrism and prejudice toward a specific country (Torres & Gutiérrez, 2007). The concept of consumer ethnocentrism can be valuable for local marketers in developing countries as it can increase the competitiveness of local country products in a globalized competitive market. Most local and international organizations have faced major changes in their environments. These changes are branded by a highly competitive business environment and the saturation of domestic markets particularly in developed countries and the emergence of new communication tools (Keegan & Green, 2011). Overall, in a globalized competitive world satisfying consumers is a must practice for all companies and organizations (Ali, 2011).

In a study that examined the relationship between consumer ethnocentrism and evaluations of foreign sourced products, Loeb (1996) found that highly ethnocentric consumers have more favorable attitudes toward products from culturally similar countries. In Indonesia, the culture "*Cintailah Produk - produk Indonesia*" is absolutely implemented. Indonesia consumer who relies on domestic product is basically those who has seen the product and they are excited to buy the product. After they feel that the product is benefit for them, they will tend to buy it again and again.

In market offering, a product is the key element that brings value to the customer. Products are more than just tangible objects but also inclusive of service

features, design, performance quality, brand name and packaging. A product's quality has a significant impact towards the product or service performance, thus it is linked to a customer's value and satisfaction (Kotler & Armstrong, 2010). It is because perceived value can be a differentiation and competitiveness to a company. A customer's perception of value towards the product is shape by four elements: product quality, service quality, price and image. In highly competitive business environment, the customer will compare the perceived value of competitive offering.

A research argued that product competitiveness is characterized by perceived quality (Aaker, 2000), perceived uniqueness/differentiation (Berry, 2000; Pahud de Mortanges, & Van Riel, 2003), imagery (Biel, 1997) and deep consumer relationships (Berry, 2000). For the cosmetic firms to survive in the uneven economic environment, it is fundamental that they are competitive. Therefore, identifying the factors that influence competitiveness becomes imperative in order, to appreciate the position the firm is in, in relation to the factors identified and also propose appropriate measures and strategies for increasing competitiveness of the cosmetic firms.

According to Dodds and Monroe (1985), purchase intention is a behavior tendency of a customer who is intended to purchase a product. Previous studies and researches stated that purchase intention is an important indicator of actual purchase behavior. Farquhar (1989) stated that perceived quality is essential for developing a positive evaluation of a product or brand in customer's memory. Choo et al. (2012) explored that customers are more emphasized upon emotional value, such as closeness with products and involvement with products when they are making purchase decisions. Kotler (2000) also mentioned that purchase intention is a common effectiveness measure and it is often used to anticipate response behavior. Dodds and Monroe (1985) also defined that purchase intention is a behavior tendency of a customer who is intended to purchase a product. Li and Biocca (2002) stated that purchase intention is a common effective measure and it is often used to foresee a response behavior.

With consumer ethnocentrism (Shimp & Sharma 1987) as its focal construct, this study makes two major contributions. First, it investigates the relationship between an individual's cultural orientation and his or her consumer ethnocentrism. In particular, dimensions of culture (i.e., collectivism, masculinity, uncertainty avoidance, power distance and long – term orientation) are used to identify individual consumers' cultural orientation. Hofstede's dimensions of culture have been widely accepted and applied to measure cultural orientation in a variety of academic disciplines. Second, the study demonstrates the validity of the consumer ethnocentrism construct by testing the consequences of consumer ethnocentrism on perceived product quality, local product competitiveness and purchase intention of domestic product.

1.2 Research Problems

Based on the background that has been elaborate, the research problems are:

1. Does collectivism culture dimension significantly affect consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product?
2. Does masculinity culture dimension significantly affect consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product?
3. Does uncertainty avoidance culture dimension significantly affect consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product?
4. Does power distance culture dimension significantly affect consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product?
5. Does long – term orientation dimension culture significantly affect consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product?
6. Does consumer ethnocentrism significantly affect product competitiveness of Sariayu Martha Tilaar cosmetic product?
7. Does consumer ethnocentrism significantly affect perceived quality of Sariayu Martha Tilaar cosmetic product?
8. Does consumer ethnocentrism significantly affect purchase intention of Sariayu Martha Tilaar cosmetic product?

9. Does product competitiveness significantly affect purchase intention of Sariayu Martha Tilaar cosmetic product?
10. Does perceived quality significantly affect purchase intention of Sariayu Martha Tilaar cosmetic product?

1.3 Research Objectives

Generally, this research aims to know the effect of cultural dimensions on consumer ethnocentrism towards Indonesia cosmetic product, Sariayu Martha Tilaar. Specifically, this research wants to:

1. To identify the effect of collectivism culture dimension on consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product.
2. To identify the effect of masculinity culture dimension on consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product.
3. To identify the effect of uncertainty avoidance culture dimension on consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product.
4. To identify the effect of power distance culture dimension on consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product.
5. To identify the effect of long – term orientation culture dimension on consumer ethnocentrism of Sariayu Martha Tilaar cosmetic product.
6. To identify the effect of consumer ethnocentrism on product competitiveness of Sariayu Martha Tilaar cosmetic product.
7. To identify the effect of consumer ethnocentrism on perceived quality of Sariayu Martha Tilaar cosmetic product.
8. To identify the effect of consumer ethnocentrism on purchase intention of Sariayu Martha Tilaar cosmetic product.
9. To identify the effect of product competitiveness on purchase intention of Sariayu Martha Tilaar cosmetic product.
10. To identify the effect of Perceived quality on purchase intention of Sariayu Martha Tilaar cosmetic product.

1.4 Research Contributions

1.4.1 Science

The findings from this research hopefully will enrich the body of knowledge in strategic marketing field. It hopefully will enhance the knowledge and outlook about the relationship and the importance of Hofstede cultural dimensions towards consumer behavior.

1.4.2 PT. Sariayu Martha Tilaar Company

The findings from this research hopefully give some contributions for Sariayu Martha Tilaar Company since Martha Tilaar cosmetics is one of cosmetics which it well known for using “traditional ingredients”. With this research, several strategies will suggest to help Martha Tilaar to compete with other import cosmetics or international cosmetics industry and challenge global market.

1.4.3 Indonesia Local Cosmetic Industry

The findings from this research hopefully give some insight from Surabaya citizens as consumers and also might give some ideas for Indonesia local cosmetic industries, since there is huge opportunity for this industry to enter international market. Besides, local cosmetics industry also should maintain even increase product competitiveness so it would be a benefit for industry itself.

1.4.4 Government

The findings from this research are hopefully can give some contributions to the government. Since the Association of Indonesian Cosmetics revealed that every year and toiletries cosmetics market in the country is always flooded with imported products; either illegal or legal, the government should be more attention in order to encourage the growth of Indonesia cosmetic industries.

1.4.5 The Researcher

The findings from this research are also giving the researcher new insight. This research is an opportunity for the researcher to apply all the knowledge that the researcher got during studying for bachelor degree.

1.5 Research Limitations

This research is focusing on the effect of cultural dimensions on consumer ethnocentrism towards Indonesia cosmetic product, Sariayu Martha Tilaar. To conduct this research, the limitation set for Indonesian women productive age which is between 17-45 years old and focusing on Surabaya area. There are five dependent variables that used to predict purchase intention through consumer ethnocentrism. Those are collectivism, masculinity, uncertainty avoidance, power distance and long – term orientation, where the intervening variables through consumer ethnocentrism are product competitiveness and perceived quality. This research took place in Surabaya during August – November 2015.

1.6 Research Outline

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

Chapter I

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

Chapter II

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

Chapter III

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

Chapter IV

This chapter organizes a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.

Chapter V

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.