

CHAPTER I

INTRODUCTION

1.1 Background of the Study

For many years, beauty has been an important part for women. To appear beautiful, women choose beauty products to accentuate their features and use skincare for their face. This has made the beauty industry a large industry with vast growth over the years because beauty has become an important part of their daily lives. Roughly about 4.5% growth on average every year, it has been able to achieve stable and continuous growth despite unfavorable economic conditions such as recession (Lopaciuk & Loboda, 2013). With a vast industry filled with various brands, the beauty industry provides consumers with a large amount of choices to choose from. People have different preferences and conditions that brands are constantly catering to in order to feed the need of consumers (Loden, 2000).

The growth of the beauty industry has become dynamic and innovative due to globalization and constantly developing advanced technology. Easy air travel has given rise to a global fashion industry, and looks conceived of in one country can quickly become the desired style around the world. The Internet had made it easier for tips, tricks, reviews, recommendations, and even warnings to circulate at light speed among the world's connected consumers. The emerging markets may be changing their routines so often because they are inspired by the globally dynamic world of beauty. Due to the globally dynamic world of beauty and easy access to information on the Internet, Brazilian women think Northern Europeans are the most beautiful women in the world, Germans think Brazilians are the most beautiful and the Chinese give that honor to the French, and now the concept of beauty has shifted to Korea.

Since the era of K-Pop and K-Drama, Korea's pop culture are quickly becoming a craze for millions of people. The term used by Koreans for this phenomenon is called "Hallyu". Hallyu refers to the Korean Wave of

entertainment that has affected almost all the countries in the region even beyond that. However, Korean expanding is far beyond only music and movie. Another interest they are expanding in is in the fashion and lifestyle industry particularly in cosmetics. The Korean cosmetic industry is slowly dominating the domestic market upfront than foreign brands; with an explosion of popularity overseas (Lizzie, 2013).

According to a report by the Korea Customs Service in December 2013 about current export trends of major commodities in the midst of the Korean wave, cosmetics exports in Korea has shown significant increase, enlisting them at the center of the Korean wave. Particularly, skincare exports also showed an explosive growth with an impressive percentage of 1500% over the past 15 years (1998-2012). Which accounted 61% of commodity exports exemplify the popularity and quality of skincare and cosmetic products of Korea. Cosmetic brands of Korea are growing at a rapid pace in the global market with interest in Korean culture credits to innovative products, beauty trends, quality and affordability which catch the attention of global customers (Seung-hwan, 2014), one of them is Etude House.



Etude Corporation is a subsidiary of the Amore Pacific Group, which is one of the biggest cosmetic companies in Korea. Amore Pacific has claimed to reach 15 trillion won in sales and its aim is to become the number one cosmetics company in Asia also to become one of the world's top five brands by 2020. According to Women's Wear Daily, the company ranked as the world's 17th biggest cosmetics company in sales. Amore Pacific has operated over 2,900 stores of their five brands (Sulwhasoo, Laneige, Mamonde, Innisfree, and Etude House) since entering the market in 1992 (Lee, 2014).

Etude offers a variety of eye shadows, eye mascaras, eye liners, eye brow products, and eye primers; lipsticks, lip glosses, lip tints, lip care products, etc; face products such as BB/CC/foundations, powder/pacts, primers/bases, and cheek highlighter products; nail products, skincare products such as masks, sun care products, cleaning products and more. They offer products through retail stores in Korea and internationally. They also sell their products online. Prior to this, Etude Corporation was known as Oscar Corporation and changed their name to Etude in 1997.



These days, for a consumer there is possibly more than one option or alternatives available for making decision. This reflects the complexity in the consumer decision making. With the passage of time, the effective decision making is becoming difficult for the consumers because of the many alternatives and options to choose from. Therefore, the marketers are in the continuous search to investigate the factors that influence consumer to make their purchase decision (Schiffman & Kanuk, 2010). In this perspective, consumer behavior has been defined as the actions of people engaged in actual use of market items-whether products, services, retail environment, or ideas (Berkman & Gilson, 1978).

Consumer behavior is a complex process involving the activities people engage in when seeking for, choosing, buying, using, evaluating and disposing of products and services with the goal of satisfying needs, wants and desires (Belch & Belch, 2004). The consumer's decision to purchase or not to purchase a product or service is an important factor for the marketers (Kotler & Armstrong, 2012). It can indicate whether a marketing plan has been successful or not. Hence, marketers are much interested in the consumer's decision making process. Consumer's decision making process is start with seeking have identified a product need and are seeking information that will enable them to make better

decisions and increase the chance of satisfaction with product purchase outcome. Consumers do this by conducting their own research through personal information source (Shaver 2007).

Personal information source includes an individual's personal effort to collect information for the selection of the products and services (Kinley, Conrad, & Brown, 2008). The need of consumers to fulfill their information needs relating to product knowledge is the main reason for consumer information search (Grant et al, 2007). Personal information source may come from social structure, that is based on information received from friends, family, and others in customers society includes customers ability to share personal experiences, preferences of friends, peers, and family have a significant influence in a consumer's decision making process. Inequality within the sociology literature is assessed through stratification and has historically concentrated on castes, class, status, gender and perhaps age (Lawson & Todd, 2002). Other sources of personal information source are communication medium and opinion leader.

The raise of Social Media as one of the communication medium has affected both consumers and companies in the way they communicate. Also, Social Media influences the way consumers behave during the different stages of their purchase decision-making processes. Wheat and Dodd (2009) quoted Carson, the president of Online International Nielsen, 'the explosion in Consumer Generated Media over the last couple of years means consumers' reliance on word-of-mouth in the decision-making process, either from people they know or online consumers they do not, has increased significantly.'

On the other hand, an opinion leader is one who leads the opinion of other people and gives opinions to other individuals (Richey, 2009). Opinion leaders tend to have convincing personalities to convince others, thus they have more knowledge and awareness and influential roles in the community (Kautz and Larsen, 2000). Katz and Lazarsfeld (1955) suggest that opinion leaders act as mediators between mass media and mass audiences. Berelson and Steiner (1964)

describe opinion leaders as people who are trusted and informed who exist in virtually all primary groups. Opinion leaders are models for opinions in their group who listen and read for information from the media and then pass them on as word-of-mouth to influence their circle of relatives, friends, and acquaintances.

Word-of-mouth plays a central role on effective decision making. Word-of-mouth is well known in the marketing area and this for decades. But today, word-of-mouth appears even more important than before in the influence of consumers' purchasing decision-making process (Brown & Hayes, 2008). There is a wide body of literature of marketing, which addressed the word of mouth as an effective marketing tool. (Sernovitz, et al (2009) Pointed out that people love to talk about products they have bought, and services they have used, also they talk about the producer of these products, and the provider of these services. Also some people feel proud, because he bought a particular product, however, some of them provide advice to others not to think about buying a product. Marketers may spend millions of dollars on advertising campaigns but often consumer make their decision on the bases of word-of-mouth from their own trustworthy source (Sernovitz, 2012). There are different sources for consumer like personal source which consists of family and friends and commercial sources which consists of advertising, newspapers, radio and television for getting information. The influence of these sources of information on effective decision making varies by product or service and by customer.

The last factor that should be considered when discussing effective decision making of cosmetics is perceived risk. Perceived risk has been defined as negative or harmful consequences that can occur from the purchase of a product or services (Bauer, 1967). Research has followed various features such as understanding how people make judgments concerning the risk of different situations (Slovic, 1987). This is in addition to problem solving research to minimize or manage the risks involved in a judgment or decision (Hastie, 2001). Interest in risk perception and decision making is also a stimulus for research on expert decision making, due to the differences between how experts in a particular

field make judgments in comparison to non-experts. The judgment of risk by non-experts is given the label of risk perception rather than risk assessment (Slovic, 1987).

Based on this phenomena and theory, this research is aimed to gain insight on social structure, social media, opinion leaders, personal information source, perceived risk, word of mouth on effective decision making. This research is aimed to discover the importance of effective decision making in consumer behavior. The topic of this study will contribute to the author by gaining information and new knowledge about consumer behavior and marketing strategies and how the variables can influence it. The contribution of research for the brand Etude House is that it may help them with their marketing strategies and to gain more knowledge about their consumers.

1.2 Research Problems

Based on the background of the study, the research problems consist of the following:

1. Does social structure have a significant influence on personal information source of Etude customers in Surabaya?
2. Does communication medium have a significant influence on personal information source of Etude customers in Surabaya?
3. Does opinion leaders have a significant influence on personal information source of Etude customers in Surabaya?
4. Does communication medium have a significant influence on perceived risk of Etude customers in Surabaya?
5. Does opinion leaders have a significant influence on perceived risk of Etude customers in Surabaya?
6. Does social structure have a significant influence on word of mouth of Etude customers in Surabaya?
7. Does communication medium have a significant influence on word of mouth of Etude customers in Surabaya?

8. Does opinion leaders have a significant influence on word of mouth of Etude customers in Surabaya?
9. Does personal information source have a significant influence on effective decision making of Etude customers in Surabaya?
10. Does perceived risk have a significant influence on effective decision making of Etude customers in Surabaya?
11. Does word of mouth have a significant influence on effective decision making of Etude customers in Surabaya?

1.3 Research Objectives

Based on the research problems, the research objectives consist of the following:

1. Examine the influence of social structure on personal information source of Etude customers in Surabaya.
2. Examine the influence of communication medium on personal information source of Etude customers in Surabaya.
3. Examine the influence of opinion leaders on personal information source of Etude customers in Surabaya.
4. Examine the influence of communication medium on perceived risk of Etude customers in Surabaya.
5. Examine the influence of opinion leaders on perceived risk of Etude customers in Surabaya.
6. Examine the influence of social structure on word of mouth of Etude customers in Surabaya.
7. Examine the influence of communication medium on word of mouth of Etude customers in Surabaya.
8. Examine the influence of opinion leaders on word of mouth of Etude customers in Surabaya.
9. Examine the influence of personal information source on effective decision making of Etude customers in Surabaya.
10. Examine the influence of perceived risk on effective decision making of Etude customers in Surabaya.

11. Examine the influence of word of mouth on effective decision making of Etude customers in Surabaya.

1.4 Research Contributions

1.4.1 Theoretical Advantages

This study made its contribution as a reference in Consumer Behavior and Strategic Marketing, by identifying the significance of factors that affect effective decision making in purchasing beauty and skincare products. This study is also a reference for further studies related or similar to the field of study.

1.4.2 Empirical Advantages

1. For Etude House Surabaya

The result of this study can be used for evaluation purposes by Etude House Surabaya regarding their consumer behavior and how they can improve their strategies in marketing by learning about their consumers and how to create effective marketing through the variables such as social structure, communication medium, and opinion leaders.

2. For the researcher

This study deepens the researcher's knowledge about Consumer Behavior particularly in the sub-field of consumer behavior. It gives the researcher a much broader awareness of the intricacy of effective decision making and its elements to its branding strategy.

1.5 Research Limitations

This study was conducted with Etude House Surabaya as the allowed research object. This research used communication medium, opinion leaders and social structure, as the independent variables, personal information source, perceived risk, and word of mouth as intervening variables, and effective decision making as the dependent variable. The researcher is limited in terms of location because the research will be done in Surabaya, Indonesia. The respondents will be limited to females who have had experience with purchasing beauty products.

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.