

CHAPTER I

INTRODUCTION

1.1. Background

Physical attractiveness and beauty are nowadays constantly being highlighted to be desirable and admirable characteristics (Ibáñez, Hartmann, Diehl, and Terlutter, 2010). Often, people try to improve their appearance since being attractive usually offers more benefit to an individual. Several studies shown that people usually treat attractive people better than unattractive people in the society (Ibáñez et al., 2010). Not only in term of the social treatment, but attractive people also get more benefit such as they are more likely to be hired, promoted, and to earn higher salaries than those who are unattractive (Marlowe et al., 1996; Frieze et al., 1990, 1991; Hamermesh and Biddle, 1994; Schwer and Daneshvary, 2000; cited in Ibáñez et al., 2010). Being attractive is deemed as very important that even American men are said to rank physical attractiveness at or near the top among the qualities they desire in women (Elder, 1969).

There are several ways that can improve someone's appearance to be more attractive. Guthrie, Kim, and Jung (2008) stated that cosmetics and apparel are two of many ways to improve and manage someone's appearance. Cosmetic products are usually applied to enhance one's appearance, used to communicate one's style or aesthetic preference, and used to complement the use of clothing to develop and complete a look (Guthrie et al., 2008). The use of cosmetics itself is not new, as the

history of cosmetics usage spans at least 6,000 years of human history and almost every society on earth (Khraim, 2011). Kumar, Massie, and Dumonceaux (2006) stated that cosmetics are not only used for beautifying purposes such as cleaning body parts, enhancing features, and changing skin tones and colours; but cosmetics also cover a wide range of products including makeup, perfume, toothpaste, shampoo, deodorant, powders, and body makeup. The U.S Food and Drug Administration (FDA) identified cosmetics as products that are intended to be applied to the human body for cleansing, beautifying, promoting attractiveness, or altering the appearance without affecting the body's structure or functions (Khraim, 2011).

The cosmetics industry itself is a very lucrative, innovative fast paced industry. A number of cosmetic companies around the world are competing against one another to capture a share of the multi-billion-dollar cosmetic market (Kumar et al., 2006). The International Trade Administration of the United States reported in their Asia Personal Care & Cosmetics Market Guide 2016 that analysts predicted Indonesia, as Southeast Asia's largest economy, with a GDP of US\$ 888.5 billion, a population of 250 million people and rising incomes, would likely emerge to become one of the top five markets for cosmetic in the next 10 or 15 years. Due to the increase in income levels in Indonesia, the demand for personal care and cosmetics, and particularly skin, make-up and hair care products, witnessed rapid growth of 10-15% per annum. Furthermore, the International Trade Administration of the United States reported that in the middle and low-end market segments, domestic manufacturing comprises over 50% of the market and is dominated by

international brands including Unilever L'Oreal and Procter and Gamble. There is however, a growing demand for imported niche and premium brands. The report made by the United States' International Trade Administration gave an insight on how profitable it can be for cosmetic companies to distribute and sell their products in Indonesia, as it will benefit them in the future.

The intention of capturing a share of the cosmetic market including Indonesia's market can now easily be achieved due to globalization. As a result of globalization, there are several advantages that can be gained by business practitioners. One of them is being able to facilitate business practitioners to access new and more customers all around the world and new capital useful in global marketing (Shulyn and Yazdanifard, 2015). Not only that, globalization also plays an increasingly critical role in every aspect of life, society, and culture (Lee, 2015). Lee then continued to explain that the cultural impact of globalization could be seen from how The Korean Wave (or 'Hallyu' in Korean language) is now becoming a very popular cultural phenomenon among Asian consumers today. The Korean Wave itself is defined as the rapid expansion of the Korean contemporary culture and cultural products throughout East Asia since the mid-1990s. In addition, Hong and Kim (2013) stated that the Korean popular culture has increasingly gained enormous recognition in both East and Southeast Asian countries, including but not limited to China, Taiwan, Hong Kong, and Japan and now even the popularity of the culture has extended to the Middle East, former Soviet Union countries in Central Asia, and some European countries. The Korean wave primarily started with a few well-made television dramas that were popular in East Asia, and the

local cultural industries have advanced several cultural forms such as popular music (K-pop, or Korean-pop), animation, and digital games, which all have gradually penetrated our global markets (Jin and Yoon, 2017). Other Korean cultural items also involve television dramas, shows, K-pop music, movies, fashion, and trends set by celebrities (Hong and Kim, 2013).

Indonesia, just like any other countries mentioned above is also impacted by this Korean Wave phenomenon. Simbar (2016) stated that not only western culture, but also the culture of developed countries in Asia today have crowded in consumption by Indonesia, including the culture of South Korea. Hallyu or Korean Wave is quickly and surely come and stay into the Indonesian community life especially in the heart of youngsters (Simbar, 2016). A research conducted by Jeong, Lee, and Lee in 2017 regarding how Indonesian fans interpret, appropriate, and integrate Hallyu in everyday lives showed that the consumption of Korean popular culture has increased continuously in Indonesia since the early 2000s and that Hallyu is becoming an ever more significant cultural phenomenon in Indonesia, especially with the rise of K-pop music. The research was a follow up to their work in 2006, conducted by doing interviews with 12 Indonesian supporters who had participated in the prior qualitative research on the Indonesian reception of the Korean television drama *Dae Jang Geum* (Jewel in the Palace). The study also found that participants continue their consumption of Korean content starting with dramas in 2006 followed by the consumption of lifestyle consumer items such as food, cosmetics, fashion, and travel in 2013.

Another study conducted by Simbar (2016) about the consumption of Korean culture in Manado, Indonesia exhibited that the consumption is massive, and it can be seen through the youngsters who are eager to watch Korean television dramas either by watching those dramas in television or by downloading the drama episodes on the Internet. They, or the subjects also try to copy Korean celebrities' hairstyles, learn their dances, and try to dress up like Korean celebrities.

The Korean Wave phenomenon not only brings more people to know about Korean culture, but this new cultural trend also has a significant impact on the Korean economy through exports of its product and increased tourism (Lee, 2015; Hogarth, 2013; cited in Lee, 2015). It is said that the export of Korean cultural products between 1998 and 2015 increased 21.4 times, from U.S. \$189 million in 1998 to U.S. \$4 billion in 2014 (Ministry of Culture, Sports and Tourism, 2015; cited in Jin and Yoon, 2017). Cosmetic products are also included in the rising of the Korean products export. A study on whether the rise of the Korean wave leads to cosmetic import, which was conducted by Park (2015), revealed that in a span of 8 years (from 2005 to 2013) the export of Korean cosmetics to Thailand increased 23 times, to the Philippines increased 11.3 times, to Indonesia 10.7 times, and to Malaysia 5 times. Which were all considered as remarkable increases.

There are numerous studies that show the reasons why the people in Indonesia would buy Korean cosmetic products. A study on the effect of Korean Wave on consumer's purchase intention of Korean cosmetic products in Indonesia, with a total of 227 respondents from Indonesian consumers was conducted by Tjoe and Kim (2016). That particular study includes several variables such as Korean

wave, ethnocentrism, and country of origin image to find out whether those variables affecting the purchase intention of Indonesian consumers. The result was Korean wave, ethnocentrism, and country of origin image affected consumer purchase intention towards Korean products in Indonesia, while country image was not that significant in affecting the purchase intention.

Similar research was conducted by Ghaizani, Pangestuti, and Devita (2018) about the effect of country of origin towards brand image and the effect of country of origin towards purchase decision. The brand used in this particular research was Etude House, which is a famous Korean cosmetic brand and has several pop-up stores in Indonesia. 169 questionnaire results were used in order to conduct the research. It turned out that there was a significant influence of country of origin towards purchase intention and there was also a significant influence of brand image towards purchase decision. Those results lead to the conclusion that country of origin could show an image of a brand that could affect the purchase decision.

Though there are several studies that are similar to two studies mentioned above, unfortunately there is still very little amount to none of studies that talk about repurchase intention of Indonesian customers towards South Korean beauty products/cosmetics. Especially when the repurchase intention is affected by country of origin, perceived price, and customer satisfaction. There are studies that talk about repurchase intention, which is also affected by country of origin, perceived price and customer satisfaction. However, those studies are mostly conducted in other countries and not in Indonesia. Hence, this research is going to be conducted to find out the repurchase intention of Indonesian customers towards Korean beauty

products. This research argues that the examination of repurchase intention of Indonesian customers on South Korean beauty products is important as it can give us insights on what factors that can contribute to the repurchase intention of Indonesian customers when it comes to brands that come from a particular country. This research aims to examine whether country of origin, perceived price, and customer satisfaction affect Indonesian customers repurchase intention of South Korean beauty products.

1.2. Problem Identification

Nowadays, cosmetic industry becomes more and more oversaturated as new brands of cosmetics starting to come up and enter the industry. All of them have the same goal, which is to attract and get a lot of customers. However, getting a lot and new customers are not enough, since it does not guarantee that those customers will come back to buy products from the same brand due to a lot of alternatives available. In Indonesia itself, the citizens already have a lot of cosmetic brands distributed to the citizens' country, both from domestic brands and overseas brands. Indonesia, according to The International Trade Administration of the United States reported in their Asia Personal Care & Cosmetics Market Guide 2016, is predicted by the analysts to be one of the top five markets for cosmetic in the next 10 or 15 years. Despite those tempting predictions and the fact that Indonesia has more cosmetic brands available in the country, however only few researches have been conducted on cosmetic industry in Indonesia. Especially in terms of repurchase intention of cosmetic products in Indonesia and of South Korean cosmetic products.

1.3. Problem Formulation

In business world, repurchase intention is very important, as customer's intention to repurchase products from the same company can mean that the company does the right thing to keep their customers interested. Usually, the main objective of companies who are doing business is to sell the products such as goods and services that they offer, and that companies try to get as many buyers as they can, even the buyers that live outside of where those companies are operating. Mainly because the more customers they have, the more money they will get. However, not all companies succeed in engaging with their customers after the customers have bought or used the products that they offer, and this becomes a challenge and objective for these companies to not only getting new buyers and audiences, but also to keep their customers on continuing to be interested and willing to buy and use their products in the future.

In Indonesia, there are a lot of brands from overseas start to open their stores in Indonesia or start to distribute their products in Indonesia through several channels, unexceptionally South Korean cosmetic companies. These South Korean cosmetic companies gained more exposure in the recent years in Indonesia due to globalization and several other factors. As a result, more and more brands are being available in Indonesia. Indonesian consumers now have a lot of choices on which brand they could buy from. Hence, it may be harder for companies to get their customers to repurchase their products due to a lot of alternatives given by other brands from the same industry including South Korean cosmetic companies.

Korean cosmetic products have entered Indonesian cosmetic market and gained more recognition by Indonesian consumers for a few years now due to Korean Wave that is brought by Korean dramas, movies, idols, and globalization.

Previous researchers have studied on the purchase intention on South Korean cosmetic products. However, there are still not a lot of researches regarding the repurchase intention of South Korean beauty products. Through this research, the researcher wanted to know whether factors such as country of origin, perceived price, and customer satisfaction influence Indonesian customers repurchase intention of Korean beauty products.

1.4. Research Questions

- a. Does country of origin influence Indonesian customers repurchase intention of South Korean beauty products?
- b. Does perceived price influence Indonesian customers repurchase intention of Korean beauty products?
- c. Does customer satisfaction mediate the relationship between country of origin and Indonesian customers repurchase intention of South Korean beauty products?
- d. Does customer satisfaction mediate the relationship between perceived price and Indonesian customers repurchase intention of South Korean beauty products?

1.5. Research Objective

a. To examine the influence of country of origin on Indonesian customers repurchase intention of South Korean beauty products.

b. To examine the influence of perceived price on Indonesian customers repurchase intention of South Korean beauty products.

c. To examine the mediation effect of customer satisfaction on the relationship between country of origin and Indonesian customers repurchase intention of South Korean beauty products.

d. To examine the mediation effect of customer satisfaction on the relationship between Indonesian customers' perceived price and repurchase intention of South Korean beauty products.

1.6. Problem Limitation

This study might have several limitations caused by some reasons such as: the sample size might not be the best to create a generalization regarding the topic, there were not much of available data and prior research studies conducted on the same or similar topic, and the result of the study is dependent on the respondents' willingness to complete and submit the questionnaire regarding this study, hence the study's result may become subjective.

1.7. Research Contribution

1.7.1. Theoretical Contribution

This research is conducted to scientifically prove the relationship between perceived price, country of origin, customer satisfaction, and repurchase intention in Indonesia, especially in the context of South Korean beauty products. This research may provide more knowledge of country of origin, perceived price, customer satisfaction, and repurchase intention in in Indonesia, especially in the context of South Korean beauty products. The findings of this research might also be used as references for other researchers whose topic is similar to this research.

1.7.2. Practical Contribution

This research could produce some new knowledge and understandings for cosmetic companies especially South Korean beauty companies of what factors can influence the repurchase intention of their customers. As this research scientifically shows the factors that contribute to repurchase intention of customers, cosmetic companies can use our findings to understand more about Indonesian consumers. This research may also help companies to get clues on what they should do in the future in order to increase their customers repurchase intention.

1.8. Systematics of Writing

Below is the systematics of writing that is used in this study in order to provide a clearer and better understanding of the study contexts:

Chapter I: Introduction

In this first chapter, the researcher describes the background of study, problem identification, problem formulation, research questions, research questions, research objectives, research contributions, and systematics of writing.

Chapter II: Literature Review

In this second chapter, researcher describes and discusses theories from previous researchers that are relevant to perceived price, country of origin, customer satisfaction and repurchase intention. In this chapter, the researcher also describes the theoretical framework and the hypotheses formulation of this study.

Chapter III: Research Method

In this third chapter, the researcher describes the type of study of this research, the population and sample of this research, data collection method used in this research, variables of this research, and the technique of this research's analysis.

Chapter IV: Data Analysis and Discussions

In this fourth chapter, the researcher talked about the descriptive analysis, the result of the reliability and validity test, the result of the hypothesis testing, and discussion regarding the findings from the data that have been analyzed.

Chapter V: Conclusions and Recommendations

In this fifth chapter, the researcher presented the conclusions of the research and the limitation of the research. The researcher also gave recommendations in regard to future researchers.