

CHAPTER I

INTRODUCTION

1.1 Overview of Research Object

1.1.1 Profile of Sociolla

PT. Social Bella Indonesia or Indonesian people familiar with Sociolla, is an e-commerce website for beauty products in Indonesia that started in 2015. Founded in 2015 by three people named: Chrisanti Indiana as Founder and Chief Marketing Officer (CMO), then Christopher Madiam as Founder and John Rasjid as Co-Founder and Chief Executive Officer (CEO), Sociolla has succeeded in cooperating with EV Growth and iStyle Inc. as investors with funding of around US \$ 12 million or equivalent to Rp 182 billion. EV Growth itself is a combination of the East Ventures Company, Sinarmas Digital Ventures and Yahoo Japan. According to the site technesia.com, the funds collected will be allocated for company interests such as marketing for partner brands which includes overseas marketing for local brands where Sociolla acts as a distributor, as well as imported brands who want to improve their brand awareness of their products in Indonesia.

Sociolla sells makeup, skin care, hair care, beauty tools, fragrances, bath and body products, nail care products, accessories and gifts in collaboration with brand owners and authorized distributors. Up to 150 brands are registered on Sociolla's website and Sociolla is also improving to optimize product assortment and seasonal campaigns. Sociolla frequently collaborates with local brands in Indonesia and beauty influencers in Indonesia. Sociolla also has 3 Million visitors per month on average on their websites as of September 2019, Sociolla can gain visitors using content SEO to educate and attract people to visit the website using its 'Beauty Journal' (Kinasih, 2017)

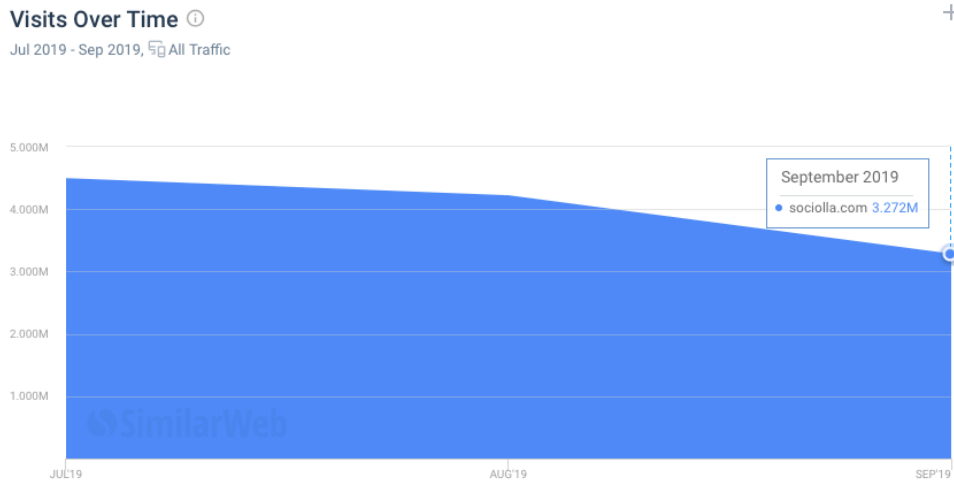


Figure 1.1 Visitor Sociolla’s Websites July-September 2019

Source: SimilarWeb, 2019

With the tagline "Your Beauty Destination" Sociolla wants to become the number one online beauty e-commerce in Indonesia. With a variety of product choices and as an official partner with many brands, Sociolla has always adhered to the brand guidelines for providing quality products to customers. Quality control of product storage shall be carried out directly by Sociolla's own operations management in accordance with international standards and storage guidelines set by the brand owners. By providing customers with quality products, Sociolla hopes to encourage customers to purchase beauty products through the website.

sociolla

Figure 1.2 Logo of Sociolla

Source: facebook.com/Sociolla, 2019

The head office of Sociolla is located in Grand Aries Niaga, Jalan Taman Aries. Since the Sociolla establishment, Sociolla has grown very fast in the following years with the increase in employees: to date records show there are 200 employees who work in Sociolla and their business hours start from 09:00 AM - 05:00 PM from Monday until Friday.

1.1.2 Product

Sociolla offers various brands of makeup, skincare, hair care, beauty tools, fragrances, bath and body products, nail care products, and accessories. With many products that Sociolla offers, the price on offer also varies from IDR 25,000 - IDR 1,500,000 million depending on the product that the customer wants in return.

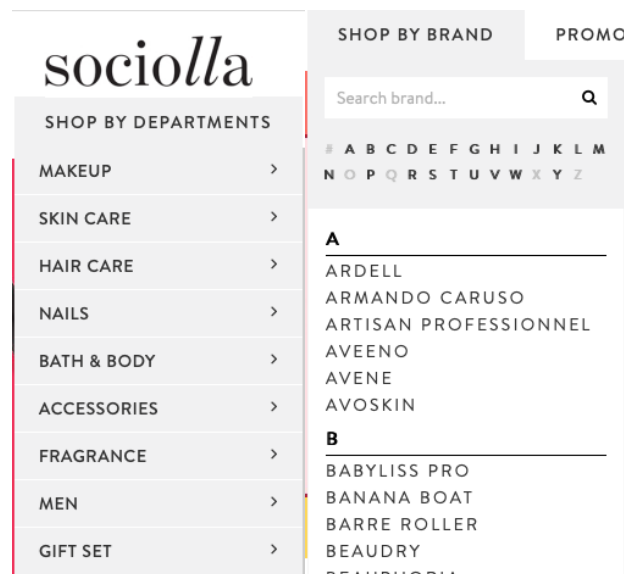


Figure 1.3 Product and Brand in Sociolla Website

Source: Sociolla.com,2019

1.2 Research Background

In 2017, the global market for cosmetic products was estimated at USD 532.43 billion and expected to reach a market value of USD 805.61 billion by 2023, representing a CAGR (Compound Annual Growth Rate) of 7.14% in 2018-2023 (360researchreports, 2018). Meanwhile in Indonesia, the national cosmetic industry had an increase of up to 20%, with a total increase of 153 companies in 2017. In total, the cosmetics industry in Indonesia now becomes 760 companies.



Figure 1.4 Cosmetics Sales in Indonesia

Source: tirto.id, 2019

Figure 1.4 explains the cosmetic sales in Indonesia that increased from 2012 until 2018. In 2019 cosmetics sales in Indonesia reached an estimated 1.557 Million USD and in 2020 estimated cosmetics sales in Indonesia reached 1.660 Million USD (Shahbandeh, 2020). According to the Ministry of Industry of Republic Indonesia (2018), cosmetic products are becoming a primary need for women who are the main target of the cosmetic industry. As time passed, the cosmetic industry also began to innovate on cosmetic products for men and children.

According to APJII (*Asosiasi Penyelenggara Jasa Internet Indonesia*) in 2018, from the total Indonesian population of 264.16 million, as many as 171.17 million people are estimated to have used the internet. This shows that more than 64% of Indonesians can access the internet. It's the era of Industry 4.0, where digital transformation will occur that can create added value in the national cosmetics industry. Utilization of technology is implemented in the industry 4.0 era, starting from the production and distribution process to the consumer through e-commerce (Kementrian Perindustrian Republik Indonesia, 2018).

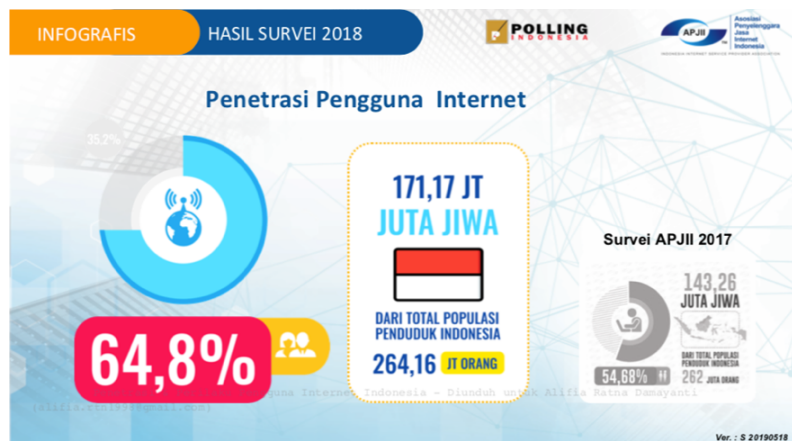


Figure 1.5 Indonesia’s Internet Penetration

Source: APJII,2019

The increase of internet users in Indonesia has had an impact on the development of e-commerce in Indonesia, especially as a platform for purchasing and selling. Indonesia's internet economy in Southeast Asia is becoming the region's largest and fastest growing market, hitting US\$ 27 billion in 2018 and is set to grow to US\$100 billion by 2025. Indonesia is a market with a remarkable year-on-year growth in e-commerce (Anandan *et al.* 2018).

As an e-commerce platform that focuses on selling beauty products, the number of visitors in Sociolla website has significantly increase. In Q3 2019, Sociolla was ranked 8th as the most visited website in Indonesia, competing with other e-commerce sites such as Tokopedia, Shopee, and Lazada. It shows that e-commerce Sociolla as a specific beauty e-commerce that sells only beauty products, can compete with other e-commerce that has a high variety of products.

Toko Online	Pengunjung Web Bulanan
1 Tokopedia	65,953,400
2 Shopee	55,964,700
3 Bukalapak	42,874,100
4 Lazada	27,995,900
5 Blibli	21,395,600
6 JD ID	5,524,000
7 Bhinneka	5,037,700
8 Sociolla	3,988,300
9 Orami	3,906,400
10 Ralali	3,583,400

Figure 1.6 Rank E-commerce in Q3 2019

Source: iprice,2019

Sociolla is constantly trying to offer high-quality products to persuade customers to purchase from Sociolla's website. Sociolla also claim as the number one trusted and complete beauty e-commerce in Indonesia. Sociolla collaborates with various local and imported brands to create partnerships in the form of exclusive product launches and sales, the example of partnership exclusive launching that already done by Sociolla:

1. One of the local brands in Indonesia is Make Over, Make Over in 2019 launched their first cushion with 6 shades called "Demi Matte Cushion" and the cushion is exclusively launched in Sociolla.



Figure 1.7 Instagram Post Demi Matte Cushion from Make Over

Source: makeoverid, 2019

2. The Korean brand is also distributed by Sociolla. In September 2019, COSRX Indonesia collaborated with a Korean beauty influencer named

Sunny Dahye and launched a limited product called "Sunny Snail Tone Up Cream" and available only at Sociolla.



Figure 1.8 Instagram Post Sunny Snail Tone Up Cream
Source: COSRX_Indonesia,2019

3. Mediheal is also a well-known Korean brand that is distributed by Sociolla. Mediheal just launched their new variant of sheet masks and has a discount promotion only available at Sociolla.



Figure 1.9 Website Promotion For Mediheal
Source: Sociolla.com, 2019

4. Sukin, the number one natural skincare brand in Australia, is also exclusively available at Sociolla and Sukin have a limited promotion when it launches in October 2019.



Figure 1.10 Instagram Post Sukin Launching

Source: Sociolla.com, 2019

5. Loreal, a well-known French brand, just released a special promotion called "Pretty Chic Set" and "Pretty Sweet Set". The normal price if the customer buys separately is sold at 810 rupiah for "Pretty Chic Set" and 644 rupiah for "Pretty Sweet Set" but with the bundling promotion, customers can get a special price of 396,500 rupiah for "Pretty Chic Set" and 288,600 for "Pretty Sweet Set." Bundled products from Loreal are available exclusively at Sociolla.

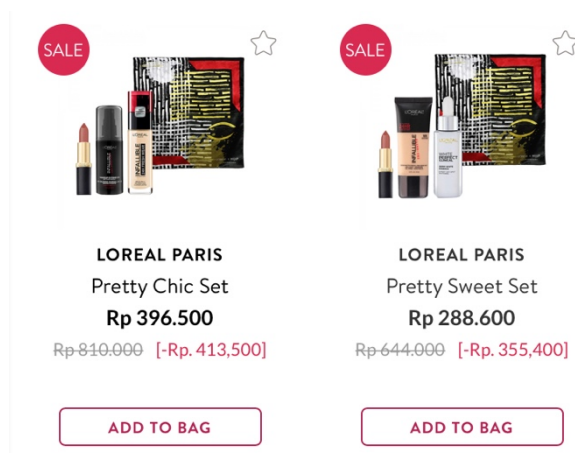


Figure 1.11 Pretty Chic Set and Pretty Sweet Set

Source: Sociolla.com, 2019

Like the example mentioned above, Sociolla built their brand image by always trying to be the most complete beauty e-commerce in Indonesia that is suitable for various groups. Brand image is the foundation for expanding market share and establishing market positions. The stronger the brand image in a customer's mind, the stronger the customer perception of being loyal to the brand so that the business will profit from time to time. According to

Keller (2013, p. 44), brand image is the perception of the consumer of a brand as represented in the memory of the brand association. In other words, brand associations are information that are linked to the memory of the brand and contain the brand's meaning to consumers. Associations come in all forms and may reflect product or product-independent characteristics or aspects.

According to Keller (2013, p. 50), there are three dimensions of brand associations that include Favourability of Brand Associations, Strength of Brand Associations, and Uniqueness of Brand Associations. In this study, brand association is defined as customer memory and feelings when customers talk about Sociolla's products, services, or organizations.

According to Iqbal *et al.* (2018), brand image can affect customer satisfaction. Customer satisfaction is the degree of satisfaction provided by a company's goods or services as measured by the number of repeat customers (BusinessDictionary, n.d.). According to Kotler & Keller (2016, p. 153), customer satisfaction is the feeling of happiness or disappointment of someone that arises because it compares perceived performance to customer expectations of the product. The customer satisfaction concept is not a new thing, it hit the business sector in the early 1980s, where some researchers found customer satisfaction to be the best window of loyalty.

According to Da Silva & Syed Alwi (2008) brand image has something to do with the appearance of the product so that when customers are satisfied with it they will be loyal to the brand even if they have other optional brands. According to Tjiptono (2005, p. 110), customer loyalty is a customer commitment in long-term purchases to a brand, store, or supplier based on a very positive nature. Customer loyalty theory is understood as a combination of the positive attitude of consumers towards a particular behavior or repurchases. Recommend a product or service to others and repeated transactions are revealed by the willingness of customers to do the same.

Base on the phenomena before, this research is intended to analyze brand image of Sociolla have an impact to customer loyalty of their customer. The authors decided to do research and poured the result in the form of a mini

thesis entitled: **"THE IMPACT OF BRAND IMAGE TOWARDS CUSTOMER LOYALTY WITH CUSTOMER SATISFACTION AS A MEDIATOR IN SOCIOLLA “**

1.3 Research Problem

Sociolla claims to be the number one most complete and trusted beauty e-commerce in Indonesia, with claims like this whether it affects the Sociolla brand image and also affects customer satisfaction so customers choose to be loyal to Sociolla. But can be seen in Sociolla's Instagram comments column, many customers have complained about Sociolla's services. From unilaterally canceled shipments, the stock on the website and in the warehouse is not the same, so the order must be canceled, the item does not arrive, the author collects data about comments containing complaints in Sociolla's Instagram account and compared with comments containing complaints in Sephora Indonesia's Instagram account. The data that was successfully obtained is in table 1.1 below:

	@sociolla	@sephoraid
Posts (April – June)	121 posts	44 posts
Average Comments per post	50 – 200 comments	5 – 50 comments
Comment contain with complained or dissatisfied	38 comments	15 comments

Table 1.1 Compared Data from Sociolla and Sephora Indonesia

Source: Processed Data Results by Author

For 90% of comments from the two accounts, it was dominated by customers who ask the status of their order. For Sephora Indonesia's Instagram account, there were only 15 comments expressing their disappointment at Sephora Indonesia's online service. For Sociolla's Instagram account, there were 38 comments from 121 posts that stated that customers were disappointed with Sociolla's service and several comments that stated customer did not want or even did not recommend to shopping at Sociolla. It can be seen from the table that the number of complaints from Sociolla's customers it is quite high compared to Sephora Indonesia's Instagram account. According to Krismanto (2009) complaint handling has a significant effect on customer loyalty. With the Sociolla's handling of

complaints from customers that are still like this, does it affect the customer loyalty of Sociola. Also other customer who see many complaints in Sociolla's Instagram account will choose to remain loyal with Sociolla or will looking for other alternatives. So, with this phenomenon, the author wants to see whether the brand image and customer satisfaction affect customer loyalty from Sociolla and until now there has been no research on customer loyalty in Sociolla.

1.4 Research Questions

In accordance with the background of research that has been done in line,

1. How much the customer rate of brand image (favourability of Brand Association, strength of Brand association, and uniqueness of Brand Association) on Sociolla brand?
2. How much is their customer satisfaction on the Sociolla?
3. How much is their loyalty? (Referral, Repurchase Intention, Reject Other)
4. Do brand image (favourability of Brand Association, strength of Brand association, and uniqueness of Brand Association) influence customer satisfaction?
5. Does customer satisfaction influence Referral, Repurchase Intention and Reject Other?
6. Is this model can be used to predict the loyalty of the customers?

1.5 Research Aims

1. To determine customer rates on brand image (favourability of Brand Association, strength of Brand association, and uniqueness of Brand Association) on Sociolla brand.
2. To determine customer satisfaction on Sociolla.
3. To determine Sociolla's customer loyalty (Referral, Repurchase Intention, Reject Other).

4. To determine that brand image (favourability of Brand Association, strength of Brand association, and uniqueness of Brand Association) give influence to customer satisfaction.
5. To determine that customer satisfaction give influence to Referral, Repurchase Intention and Reject Other
6. To determine that the model in this research can be used to predict the loyalty of the customer.

1.6 Significance of Research

This research is intended to provide information for related parties. This research can theoretically be used to improve marketing knowledge and as a source for further research in the field of brand image, customer satisfaction and customer loyalty. While this research can primarily be used to improve the company's operating performance, it is also a contribution to the company's development primarily in brand image, customer satisfaction and customer loyalty.

1.7 Writing Systematics

This study is presented into five chapters, a part from chapter 1 that already described above, another chapter described as follow:

CHAPTER II THEORITICAL REVIEW AND RESEARCH SCOPE

This chapter contains the theoretical review both of scientific books, journal article and other resources that support this research.

CHAPTER III RESEARCH METHODOLOGY

This chapter describes the research objects, variables, method of research, data collection methods, and data analysis method.

CHAPTER IV RESEARCH RESULTS AND DISCUSSION

This chapter describes the results of research and discussion of the data that has been obtained.

CHAPTER V CONCLUSION AND SUGGESTION

The last chapter will describe the conclusions derived of all the data

processing and analysis that will be used as a guideline practical for the company and recommendation for further research for this field.