

## CHAPTER 1 INTRODUCTION

### 1.1 Object Review

Innisfree is a Korean beauty and care brand that operates in the Asia Pacific region, including Indonesia. Innisfree operates as a subsidiary of the Amore Pacific Corporation (Fatahila, 2022). Amore Pacific was established in 1945 in Korea and initially focused on the production of soap and personal care products. Suh Sung-whan, the founder, expanded Amore Pacific's business and product range to become a cosmetics company that offers a diverse selection of skincare, haircare, and beauty goods. The company has achieved a prominent position as a pioneer in the cosmetics market by placing a high priority on research and product innovation. Their focus is on using traditional ingredients to create self-care experiences and enhance beauty, using both modern and traditional components. Amore Pacific's brand portfolios, in addition to Innisfree, encompass Etude House, Laneige, Sulwhasoo, Hera, and Mamonde (Amorepacific, 2024).

Amore Pacific made its entry into the Indonesian market by introducing Innisfree as one of its primary brand portfolios. In 2017, it made its debut in Indonesia by establishing its inaugural store in Jakarta, introducing the idea of skincare products crafted from natural raw materials, specifically eco-friendly Jeju volcanic products. Innisfree is a South Korean cosmetics brand that was established in 2000 under the Amorepacific Corporation. It has gained recognition for its use of natural materials, particularly those sourced from the volcanic island of Jeju. Innisfree, a renowned firm, is recognised for its active engagement in research and innovation within the beauty industry (Innisfree, 2020).

The logo for Innisfree, featuring the brand name in a bold, green, sans-serif font. The letters are lowercase, with 'innisfree' in a slightly lighter shade of green than 'free'.

**Figure 1.1 Innisfree Logo**

*Source: Innisfree (2020)*

Innisfree's presence offers a distinctive concept in attracting consumers by promoting the use of natural components in cosmetic manufacturing, becoming

Innisfree's identity by carrying out a green campaign with natural products. This is reflected in the impression of the product, which has green hues from the Jeju Bija forest. Apart from that, the Innisfree logo is also influenced by this concept, which symbolizes the force of nature. This vision is accomplished through the Innisfree logo to deliver benefits from nature with logo text that expresses our strong promise and devotion, as well as logo colors inspired by the green tones of the Jeju Bija forest, which symbolizes the strength of nature (Innisfree, 2020).

Innisfree has had a lengthy journey in producing beauty products and processing Jeju's raw volcanic resources. It has found 12 raw ingredients in the land, sea, water, trees, and flowers in Jeju. Through processing with remarkable technology, a sustainable approach to raw materials, and the history of producing products taken from nature, Innisfree has enabled the launch of cosmetic items designed with ginseng and green tea. This is a reflection of Innisfree's fundamental idea, namely offering new values and beauty that have never been experienced before to clients throughout the world. To date, Innisfree is developing numerous retail and online sales channels. The company's understanding and commitment to quality and desire help to expand the Innisfree brand in the Indonesian market (Innisfree, 2020).

## **1.2 Research Background**

Technological advancements are the main driving force behind current market developments and changes. These advancements lead to innovations that significantly impact economic processes and how people carry out transactions. This situation is one-factor driving lifestyle changes in modern society. The society expects a practical and efficient method to assist with daily activities. This aligns with the belief that technological factors are valuable tools for meeting unlimited human needs (Lamb et al., 2022). As technology and resources advance, the innovation of new products and services presents significant challenges and opportunities.

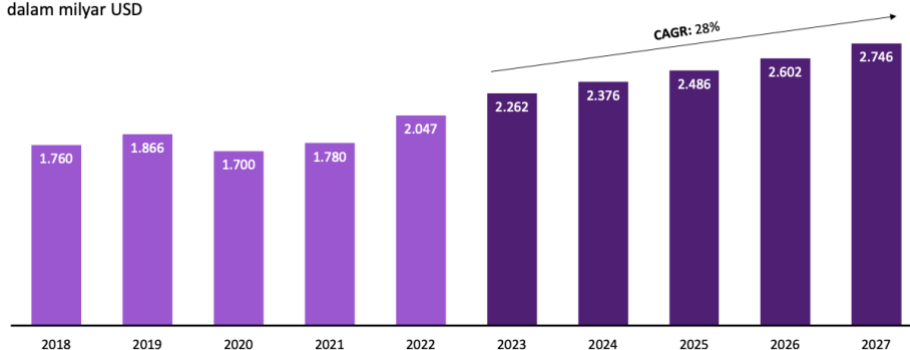
The advent of the 4.0 age, propelled by technological advancements, has significant implications for industrial and economic circumstances. Digital technology enables the expansion of human activity beyond space and time

limitations. The economic side of transaction behaviour is gradually transitioning towards a technology approach that promotes the development of the digital economic environment. The presence of digital infrastructure dramatically speeds up the industrial supply chain. The advent of the internet has fundamentally altered the perspectives of several industries on how to engage with consumers effectively. These factors impact the industry's framework in determining which objectivity is most relevant for maximizing profitability.

The internet's influence and the widespread accessibility to information sharing have made data and information vital for firms to expand their market reach and drive corporate growth in the 4.0 era. In the present era, numerous firms are transitioning to digital platforms in order to gather valuable data that allows them to gain a comprehensive understanding of their consumers. This data is incorporated into various systems to generate insights and recommendations about consumer preferences during the buying process (Du & Xie, 2021). Market analysis is the outcome of examining different kinds and quantities of data, which assists organizations in recognizing market opportunities and providing valuable products and services to customers (Olabode et al., 2022).

**Pasca pandemi, industri *Personal Care* akan terus tumbuh dengan ~CAGR 28% pada tahun 2027.**

Proyeksi Pendapatan Industri *Personal Care* di Indonesia (2018 – 2027)  
dalam milyar USD

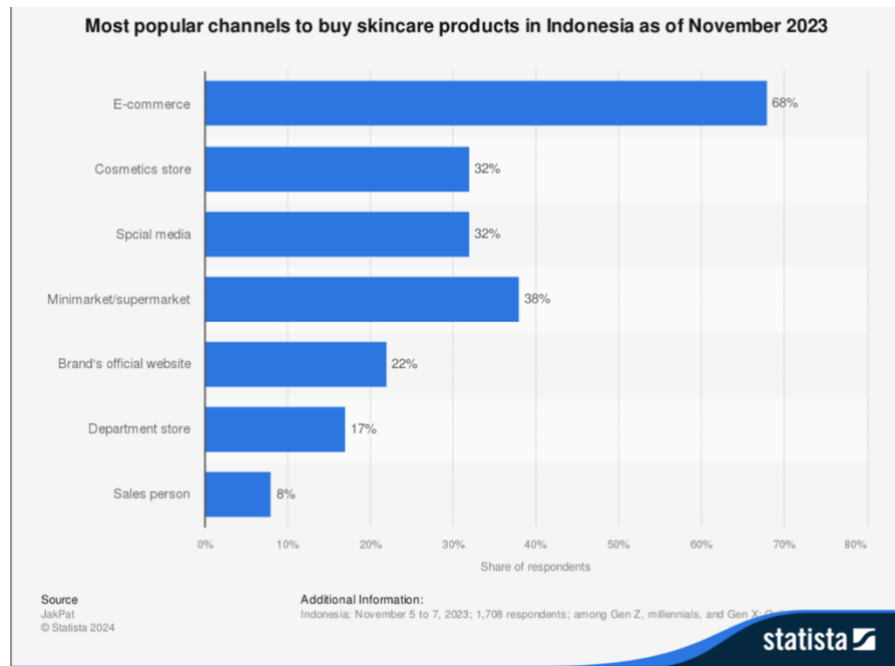


**Figure 1.2 Post-pandemic, The Personal Care Industry Will Continue to Grow with a CAGR of 28% in 2027**

*Source: Mcrop (2023)*

Indonesia, as a global community, is inherently connected to the phenomenon of technological advancement. Indonesia, with a population of 277.53 million as of 2023 (Annur, 2023), has a robust economic foundation centred around domestic consumption. Furthermore, this also affects the beauty and personal care industry segments. In the last five years, the personal care industry has experienced consistent growth despite the challenges posed by the economic slowdown. Data published by MarkPlus (2023) reveals a notable upward trajectory in the beauty and personal care sector in Indonesia. The industry has experienced an annual growth rate of 9.85% from 2020 to 2022 and is expected to continue this positive trend over the next five years (Yuzril et al., 2023).

The skin care industry in Indonesia continues to grow, accompanied by a shift in social perception towards these products. Skincare currently plays a significant role in shaping consumer psychology by enhancing beauty and impacting psychological factors like stress, anxiety, and mood. By promoting awareness, encouraging positive thinking, and reducing stress, skincare can have a beneficial effect on the condition of the skin and hair, as well as overall well-being (Mintel, 2023). Various contributing factors, including the escalating problem of pollution, the rising awareness of health and skincare among the general population, and the unrestricted availability of information exchange through diverse marketing channels, propel the growth of this situation.



**Figure 1.3 Most popular channels to buy skincare products in Indonesia as of November 2023**

*Source: statista.com (2023)*

According to data published by Statista (2023), the beauty and personal care business is progressing due to the prevalence of e-commerce. E-commerce platforms are the most highly desired sales channels among the Indonesian population to fulfil their beauty and personal care requirements, whether from domestic or international manufacturers (Wolff, 2023). E-commerce facilitates shopping by providing customers with the convenience of selecting desired beauty products and a broader range of options. Moreover, it offers flexible purchasing options as customers are not bound to physical stores. Additionally, online shopping offers numerous discounts and promotional offers. Many participants in the personal care sector employ digital technologies to enter the market.

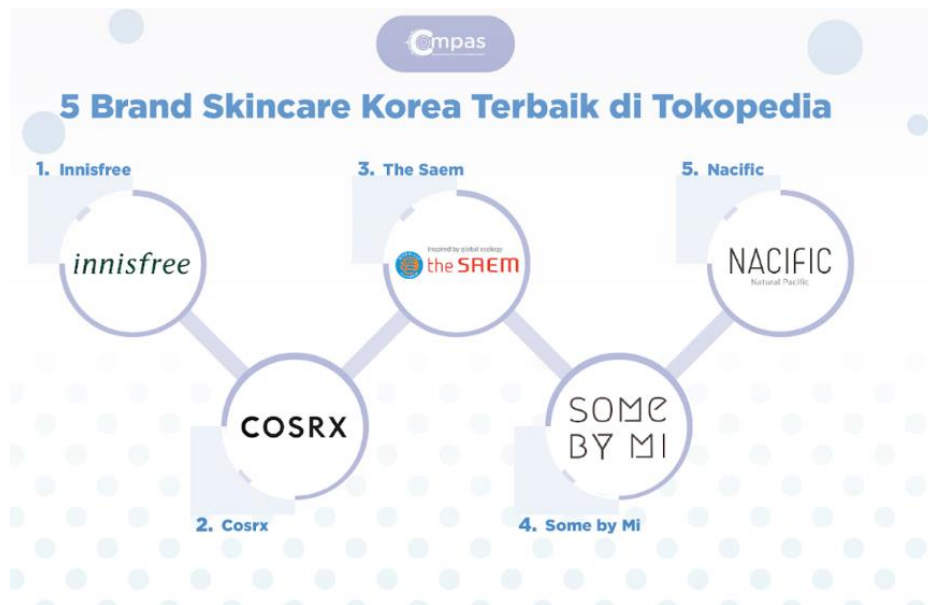
These efforts promote consumer behaviour in fulfilling consumption requirements and influence the development of creative marketing models, disrupting traditional marketing notions. The latest post-pandemic data indicates that customers increasingly favour omnichannel purchasing, which refers to the combination of online and offline channels (Yuzril et al., 2023). To address the Internet revolution, it is necessary to implement dialogue-based marketing

communication that involves a more in-depth and personalized flow of information between companies and their customers (Kotler & Armstrong, 2021). As stated by Kotler et al. (2022), “*Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value*”. In summary, marketing management is the strategic process of identifying target markets, acquiring and expanding the customer base, fostering loyal customers, and establishing mutually advantageous partnerships through effective communication of superior customer values.

The advent of digital media has exerted a significant impact on marketing strategies and the distribution of product-related information. Modern consumers now have increased opportunities to communicate directly with companies and the items they offer. According to Chih et al. (2020), research, aligns with the idea that modern consumers are not only passive receivers of information but also actively exchange brands and products with each other. This affects the reciprocal flow of information between customers, leading to contemporary and personalized consumer statements that might be either unfavourable or positive. This academic situation exemplifies electronic word-of-mouth (EWOM), which refers to consumer activities involving the dissemination, description, and evaluation of goods or services through online platforms. Furthermore, electronic word-of-mouth (EWOM), which refers to user-generated content-based data shared through social media platforms, is widely acknowledged to have a substantial impact on consumer purchase preferences (Khan et al., 2023).

This phenomenon leads to a shift in how product information is shared between companies and consumers, moving from traditional vertical communication to horizontal communication channels like the Internet among consumers. The introduction of this phenomenon has had a significant impact on data generation, which can be utilized to enhance marketing insights. Consequently, firms are using EWOM as their new marketing approach. This demonstrates that consumer-generated opinions can be regarded as the primary source of information

for customers and can effectively enhance emotional connections between consumers and other members of online communities (Chih et al., 2020).



**Figure 1.4 Best Korean Skincare Brand on Tokopedia**

*Source: Kompas (2022)*

The current industry situation and existing digital marketing mechanisms in the personal care industry are responded to as a strategy for Innisfree. Innisfree, a Korean skincare brand, has successfully entered the Indonesian market by utilizing many sales channels, including both online and offline platforms, to reach customers. This has positively influenced the acceptance and sales of Innisfree products in Indonesia. As reported by Kompas (2022), Innisfree is the top-selling Korean skincare brand on Tokopedia, with a remarkable sales figure of 8.1 million products. Innisfree, founded in 2000, is a South Korean beauty brand that strongly emphasizes naturalism. This brand has a dominant market share of 22.24% in the e-commerce industry, specifically for Korean skincare products. The average price per product is IDR 222,779.

**Table 1.1 Korean Skincare Brand Comparison**

| No | Brand Name | Total Sales |
|----|------------|-------------|
| 1. | Innisfree  | 8.1 million |
| 2. | Cosrx      | 5.1 million |

| No | Brand Name | Total Sales |
|----|------------|-------------|
| 3. | The Saem   | 5 million   |
| 4. | Some By Mi | 3.7 million |
| 5. | Nacific    | 3 million   |

*Source: Compas (2022)*

The utilization of e-commerce channels by Innisfree in the skincare business is closely linked to the efficacy of the information on the products provided through electronic word-of-mouth (EWOM). The electronic word-of-mouth (EWOM) tool is a highly successful tool in influencing the customer decision-making process. According to Khan et al. (2023), these tools were discovered to have an impact on human behaviour and purchase intention based on information obtained on the internet about specific products or services. This effect results from people transmitting good or negative remarks about certain products or services across numerous internet platforms. These comments can shape consumers' attitudes and intentions to purchase. Consequently, companies can increase the reach of electronic word-of-mouth (EWOM) by employing different non-organic strategies that enable marketers to have better control over the content. In addition, electronic word-of-mouth (EWOM) substantially impacts the perception of a product's brand equity, which in turn might influence a customer's intention to (Khan et al., 2023a).

Given the current market conditions in Indonesia, it is important to note that the country has a population of 277.53 million people, with a significant majority being Muslims, accounting for around 86.7% of the overall population (Annur, 2023). The population takes place as the first largest Muslim population among the top 10 countries in the world. This demographic composition poses a problem for Innisfree. Innisfree, a foreign brand that has entered the largest Muslim community, encounters product quality issues from an Islamic standpoint, as this is the predominant market in Indonesia. The Muslim community in Indonesia holds a halal-centric perspective, which is closely linked to the level of religious devotion when it comes to consuming a product. The halal factor, from this perspective, encompasses a thorough focus on consumers' needs and preferences when it comes to the products and services they consume. Islam, from a halal view,



promotes the use of high-quality products, which is seen in several aspects of life, including halal food and financial products (Shahid et al., 2023).

The Indonesian market as of 2020 has a demographic of 46.56% of the population in the productive age group, namely those aged 15 to 64 years. With the population rate of 1.25% per year and the existing demographic proportions, Indonesia will face a demographic bonus, namely a situation where the majority of the population is of productive age. In the next 10 years, Indonesia will gain an additional productive population of more than 10% from vulnerable ages 0 to 9 years (BPS, 2020). The growth of the skincare industry will influence its appeal to millennial and Generation Z consumers, as well as non-Muslim individuals.

The current skincare products available worldwide primarily emphasize the promotion of natural components to suit the market's demands. As a Muslim market, Indonesia is closely associated with halal products, which is essential for ensuring the highest level of product quality. In this instance, the government implemented a halal certification procedure conducted by the Indonesian Ulema Council (MUI) to establish the criteria for a product to be considered halal based on its specific type. This effort aims to establish a state of concordance from the beginning of the production process, ensuring that all products and services adhere to halal compliance requirements throughout the production cycle (Shahid et al., 2023).

Innisfree is an imported product from South Korea that adheres to halal rules, which incurs a significant monetary burden. The verification of halal raw ingredients involves intricate complexity. Auditors may face additional hurdles when certifying the production facilities where the raw materials are obtained, as there is no unified international Halal certification system. Innisfree, a product manufactured in South Korea, has not obtained a halal certificate in Indonesia. However, a halal review was successfully passed by JAKIM Malaysia (Department of Islamic Advancement of Malaysia) (Innisfree, 2020).

The concept of product halalness is based on the core belief of Muslims regarding the consumption of products. The values and all factors that ensure a product's halal status are universally significant to all Muslims. However, the

administrative implementation of halal refers to the legal framework of a specific region. In the context of halal marketing, this issue becomes more critical as "halal" encompasses religious beliefs and complex knowledge of the ingredients in the final product. For Muslims, consuming halal products is a manifestation of religious life, which is why consumers tend to evaluate product features comprehensively to ensure that they are truly halal (Fachrurazi et al., 2023). In Indonesia, legitimacy for ensuring and administrating the halalness of a product is provided by the MUI.

The halal administrative process is designed to provide assurance and a trustworthy source for selecting halal products. However, differences in administrative legitimacy for Innisfree products can lead to consumers struggling to accurately assess product features, thereby hindering an objective evaluation of halal compliance (Fachrurazi et al., 2023). To resolve this dilemma, a closer relationship is needed between the halal perspective perceived by Indonesian consumers through a product's image, which emphasizes brand perception. This perception is defined as the impression of a brand as reflected by the brand associations stored in the consumer's memory (Fachrurazi et al., 2023).

Although Innisfree does not possess an official halal certification in Indonesia, this does not imply that its products are unsafe to use because Innisfree utilizes natural ingredients and has been officially approved by BPOM (National Agency of Drug and Food Control). The cosmetics sector in Indonesia is encountering escalating rivalry from domestic and global beauty enterprises, all striving to capitalize on the extensive market. The implementation of halal standards, encompassing health, quality, hygiene, and safety, has been the driving force behind the transformation in the cosmetics sector. This has significantly influenced the consumption patterns of Muslims today (Shahid et al., 2023).

Various factors influence a person's desire to consume goods and services. Thus, companies and marketing will have difficulty determining the key elements in converting existing data and information into marketing insights. Challenges can also be viewed in terms of a product's manufacturing process and its significance to consumers. This will create a profound understanding for consumers and establish a concept of brand equity, which refers to the value people perceive in the

products and services offered. Brand Equity is demonstrated by consumers' perceptions, emotions, and behaviours toward the brand, together with its pricing, market share, and profitability (Khan et al., 2023). From a consumer standpoint, brand equity refers to the assets and liabilities linked to a brand name and symbol that enhance the value of a product or service for both the company and its customers (Khan et al., 2023) .

Consumers engage in a decision-making process while deciding whether to use a product. Consumers nowadays rely on various sources and information, such as reviews from experienced people, to assess the value and quality of products or services (Khan et al., 2023). This phenomenon refers to a situation in which online information, such as positive consumer evaluations, influences purchasing decisions. These reviews assist marketers in enhancing items and refining services such as delivery, customer support, and special offers. EWOM is cost-effective in reach, popularity, and trustworthiness, significantly impacting purchase intention (Khan et al., 2023). The additional sign is that social media platforms like TikTok are used to promote skincare goods and develop marketing tactics. This pertains to the enormous impact of online suggestions and reviews, also known as EWOM, on customer purchasing intention, as highlighted by Indrawati et al. (2023). Winarno & Indrawati (2022) also stated that feedback from other consumers, such as comments or reviews, influences the process of making purchasing decisions. Positive online comments can enhance buying intentions and indicate a significant impact of electronic word-of-mouth (EWOM) on purchase intentions. It may be demonstrated that there is both a direct and indirect relationship between the electronic word-of-mouth (EWOM) generated by customers online and brand equity. The presence of electronic word-of-mouth (EWOM) serves as a strategic link that aids consumers in making buying choices and impacts brand equity. The Indonesian market offers special features that appeal to the majority of Muslims. In India, female customers are strongly inclined to purchase halal cosmetic items, deeming this factor crucial for their personal and social well-being (Shahid et al., 2023).

Religious knowledge among Muslim customers in the country was positively correlated with their shopping behaviour and intentions. Consumers exhibit positive purchase behaviour towards cosmetics when choosing halal cosmetic items, as stated by (Shahid et al., 2023). Imported cosmetic items face difficulties communicating the significant connection between their products and the halal image. Indonesian Muslim consumers possess extensive knowledge about the halal status of a product. The use of halal certification, in this instance, is symbolized by the halal logo and certification, indicating quality, safety, purity, and cleanliness. It promises consumers that the product has been evaluated to confirm its status, influencing purchasing behaviour and intentions (Shahid et al., 2023; Sugibayashi et al., 2019).

Based on the phenomenon data and background description, it shows that in making decisions and purchasing a product, consumers have and process various information at their disposal. In the Indonesian market, which is based on Muslim information, the image of halal products is the main thing that concerns consumers and influences consumers' purchasing intentions. With the demographics of Indonesian consumers who are of productive age and have a deep understanding of digital ecosystem technology, it provides information circulation and digital transaction facilities that produce data useful in building marketing insights. Therefore, this research aims to find out how the relationship between EWOM and halal product image influences purchase intentions, especially for Innisfree skincare products, mediated by brand equity to understand behavior on e-commerce platforms. This research is entitled "THE INFLUENCE OF EWOM AND HALAL PRODUCT IMAGE ON CONSUMER PURCHASE INTENTIONS AND THE MEDIATION ROLE OF BRAND EQUITY: INNISFREE BRAND STUDY".

### **1.3 Problem Formulation**

Indonesia's thriving skincare market, particularly for halal-certified products, presents a unique opportunity for brands to cater to the world's first largest Muslim population. The emphasis on halal options significantly influences purchasing decisions, aligning perfectly with the rise of e-commerce and digital interactions. This generates vast data and online reviews (EWOM) that heavily impact purchase

intention (Indrawati, et al., 2023). Innisfree, a Korean import capitalizing on this trend with halal certification from Malaysia, can leverage e-commerce platforms and strategically implement EWOM strategies (non-organic) to enhance its halal image and ultimately influence purchase decisions (Khan et al., 2023). This approach allows marketers greater control over online content while capitalizing on the positive influence of EWOM on brand equity, specifically within the halal context.

This research aims to investigate the novel influence of Halal Product Image on consumer purchase intention, specifically for Innisfree products. This focus on halal product image differentiates this study from prior research by Khan et al. (2023). Moreover, this study aims to determine if Halal Product Image affects purchase intention and explore its potential relationship with EWOM (electronic word-of-mouth) through brand equity as a mediating variable. Given the rise of digital technologies in Indonesia, EWOM is suspected to influence consumer choices for halal products significantly.

Based on the problem formulation described above, the researcher investigates the following research questions:

- 1 How much is the rate of EWOM, Halal Product Image, and Brand Equity of Innisfree product based on respondent?
- 2 How much is the Purchase Intention of respondent toward Innisfree product?
- 3 Does EWOM, Halal Product Image, and Brand Equity influence Purchase Intention of respondent toward Innisfree product?
- 4 Does EWOM and Halal Product Image influence Brand Equity of Innisfree Product?
- 5 Does EWOM influence Purchase Intention towards Innisfree product through Brand Equity?
- 6 Does Halal Product Image influence Purchase Intention towards Innisfree product through Brand Equity?

#### **1.4 Research Objective**

Based on the research questions above, the researcher objectives of this research are:

1. To find out the rate of EWOM, halal product image, brand equity, and purchase intention towards Innisfree product based on the respondent.
2. To determine the possible Purchase Intention of respondent toward Innisfree product.
3. To find out whether EWOM, halal product image, and brand equity have any influence on purchase intention of respondent toward Innisfree product.
4. To find out whether EWOM and Halal Product Image influence Brand Equity of Innisfree product.
5. To find out does EWOM influence Purchase Intention towards Innisfree product through Brand Equity.
6. To find out does Halal Product Image influence Purchase Intention towards Innisfree product through Brand Equity.

## **1.5 Research Benefits**

The expected outcomes of this research include the following benefits:

### **1.5.1 Theoretical Benefits**

This study will contribute to the body of knowledge about the effect of EWOM, halal product image, and brand equity on consumer purchase intentions. Aside from that, this study is expected to give empirical evidence of brand equity's mediating role in the relationship between EWOM, halal product image, and purchase intention. Additionally, this study is expected to contribute to a better understanding of Muslim consumer behaviour concerning halal skincare products.

### **1.5.2 Practical Benefits**

This research is expected to help Innisfree develop effective marketing strategies in Indonesia, with a better understanding of how EWOM and Halal Product Image influence their brand equity and purchase intentions, and valuable insights for other cosmetics companies looking in the digital marketing landscape, which can help them adapt their advertising efforts to target the consumer effectively, ultimately enhancing competition and benefiting consumers.

## **1.6 The Systematics of Mini-Thesis Writing**

Contains the systematics and brief explanation of the research report consisting of Chapters I to Chapter V in the research report.

**a. CHAPTER I INTRODUCTION**

This chapter provides a clear and comprehensive overview of the research project. It outlines the general topic being investigated, the context that led to this research question, the specific problem being addressed, the desired outcomes of the study, the potential contributions of this research, and the overall structure guiding the development of the final project.

**b. CHAPTER II LITERATURE REVIEW**

This chapter comprises ideas ranging from general to specialized, supported by past studies, and followed by a research framework, which concludes with a hypothesis.

**c. CHAPTER III RESEARCH METHODS**

This chapter emphasizes the approaches, methods and techniques used to collect and analyze findings that can answer research problems. This chapter includes a description of: Types of Research, Operationalization of Variables, Population and Samples (for quantitative), Data Collection, Validity and Reliability Tests, and Data Analysis Technique.

**d. CHAPTER IV RESEARCH RESULTS AND DISCUSSION**

The research results and discussion are described systematically in accordance with the problem formulation and research objectives and presented in separate subtitles. This chapter contains two parts: the first part presents the research results, and the second part presents a discussion or analysis of the research results. Each aspect of the discussion should start from the results of data analysis, then interpret it and then follow with drawing conclusions. In the discussion, it should be compared with previous research or relevant theoretical foundations.

**e. CHAPTER V CONCLUSIONS AND RECOMMENDATIONS**

Conclusions are answers to research questions, then become suggestions related to the benefits of the research.