

## **CHAPTER I INTRODUCTION**

### **A. Research Background**

The tight competition in the global market encourages every country to carry through the production process to see the country's capability. Production process also needed to understand consumers' acceptance of the product's origin or product's country of origin by the company. The country of origin is a sign of product attributes. It affects consumer evaluations in identifying the origin of the product. Phrases like "this product is from somewhere" or "it is made in another country" demonstrate that the COO can play a significant role in advertising and selling products.

Consumer always have their own stereotype for each country of origin. Typical Mongolian customers think that Chinese products have bad quality and Russian products have good quality is one of the examples (Haliun and Seong, 2015). Even when China had started the positive growth as a leading manufacturer in the world but the quality of the products is still being perceived as likely low (Lew & Sulaiman, 2013). The belief in stereotypes associated with the country of origin has caused some people to apply the principle of categorization to process information in their home countries. The example for such stereotypes are Paris with fashion, Swiss with watches and China with a variety of inexpensive products (Demirbag, et. Al., 2010).

**Table 1.1 Popular Country of Origin**

<b>Country of Origin</b>	<b>Products Categories</b>	<b>Country Attributes</b>
Japan (Jp)	Television (TV)	Technologically advanced
Korea (Kr)	Automobile	Quality
China (Ch)	Banking services	Trustworthy
Singapore (Sg)	Airline	Good value
Thailand (Th)	Prepackaged noodles	Approachable
Vietnam (Vt)	Jeans	Fashionable

Source: Eckhardt, G. M., & Wang, L. (2015)

According to Table 1.1, some products were produced by some country based on consumer's stereotype in Asia. Some consumers may have their own stereotype of some products so they will determine what products will be purchased, and some consumers will see where the product was produced. Country of origin is generally considered to be a characteristic of a product, an identity contained in a product's attribute that can affect consumers' thoughts and perceptions in identifying products from the country of origin produced by a company (Chu, & Chen, et. Al., 2010). There are a number of emerging cosmetic brands worldwide which compete to win the market so it becomes a superior market than others. The home country can influence the quality of a product and consumers' perspective on a product.

The country of origin is the identity of a product resulting from which country it is produced. Different kinds of consumers perceive a product from a certain origin country where the product is produced. Consumers can determine

the success of a product in the domestic and foreign markets, which is indicated by customer's buying behavior in purchasing decisions. Regarding the preliminary study, respondents choose foreign -made-in products with the percentage of 80%. The respondent decided to purchase a specific country's product rather than another country's and also local product.

The country of origin (COO) creates so many well-known brands with certain image. One of the factors that can influence consumer behavior, that raises their interest in first entering the store and then making a purchase, is the brand image of a product. A product that has a good brand image could easily attract customers. The increasing competition of global company products makes the company compete to improve the brand image of their product. Brand Image is the perception and beliefs held by consumers.

The company is expected to build a good brand image because this is affecting the consumer's intention to make a purchase decision. The brand image is the identity of the product that can be recognized by the consumer. Based on the preliminary study, most respondents choose a foreign well-known brand from Korea. Korea is one of the countries that produces well-known brands of skincare and cosmetics such as Innisfree, Nature Republic, The Face Shop, and many more.

Every company has its featured product, its huge brand made consumers believe to purchase their product. A brand has positive customer-based brand equity when consumers react more positively to the product and the way the

product is marketed when the brand is identified (Kotler & Keller, 2016). That means consumers will like and be interested in a product being marketed, then know the brand from these products, so they conclude that the brand has quality products.

Consumer's knowledge will give consequences on perceived quality. The perception of quality can also be said as a consumer's assessment of the overall quality or excellence of the product following consumer expectations (Yanthi and Jatra, 2015). The quality perceived by consumers will make it easier for a product to be accepted by the market. The product that has advantages or qualities in accordance with the consumer's intended purpose will make consumers interested to purchase the product. Based on a preliminary study, respondents also choose a well-known brand image from a developed country because the brand produces good quality products and it is proven by the results of their daily use that fits with their skin.

Consumers always look for the best quality product and they might also consider the price of the product. According to Kotler & Keller (2016) price is the amount of money charged for a product or service. Consumer perceptions of the prices charged by the company can determine the behavior of purchasing decisions. The higher the price offered, the lower the decision to buy. Conversely if the price offered is low, then the greater chances in consumers making a purchase. Based on the results of the preliminary study, respondents choose the product because the price is affordable for them as students.

Companies take into consideration many aspects such as the customer's expectations, what products consumers will buy, the quality of the product, where they buy it, and the price in which the product is purchased. Consumers have different attitudes in looking at various attributes that are considered relevant and important. Decision making is an activity of individuals who are directly involved in obtaining and using the goods offered. Based on the preliminary study, country of origin and brand image will give the greatest attention to the attributes that provide the benefits they seek.

According to Young (2015) The preference in purchasing Western beauty products has already shifted to Asian products, especially Korea. The Korean cosmetics industry is chosen because of the remarkable performance of the industry in the midst of the economy recession in recent years. One of the possible reasons why Korean cultural contents have become so popular in Asian countries may be due to the attractive faces of Korean entertainers. Stated by the preliminary study, the country that has been chosen for producing good skincare brand by respondents is Korea. The country is believed to produce well-known and good quality beauty skincare. This country is a country that produces beauty products for all gender and all skin types (sensitive, oily, and dry skin). According to a study conducted by the government of South Korea, the most sought-after by tourists when visiting South Korea is cosmetics or skincare (Young, 2015).

**Table 1.2 Six Favorites Skincare Brand in Indonesia 2018**

<b>Brand</b>	<b>Country</b>
SKII	Japan
LANEIGE	South Korea
THE BODY SHOP	Brazil
INNISFREE	South Korea
NATURE REPUBLIC	South Korea
WARDAH	Indonesia

Source: Marketeers.com

According to table 1.2, Korea has 3 brands in Indonesian favorites skincare list, which proves that Korea distributes its skincare product worldwide including Indonesia. The growth of beauty and personal care products in Indonesia is currently increasing. Indonesia has begun to see a shift towards the use of beauty products. Beauty is no longer just a desire, but it already becomes a need that has an impact on the increasing cosmetics industry globally, including in Indonesia. The Ministry of Industry in Indonesia noted that the national cosmetics industry grew 7.36% in the first quarter of 2018, an increase as compared to 6.35% growth in 2017 ([sigmaresearch.co.id](http://sigmaresearch.co.id)). The users of beauty products in Indonesia, which initially only glanced at decorative cosmetics are now beginning to realize that skin also requires maximum care. It makes the popularity of skincare products begin to rise.

Cosmetics or skincare competition is now receiving the spotlight in the wider society. The cosmetics companies always want to dominate the market and be well-received by consumers, so the company must pay attention to their product quality as well as affordable prices offered by the company following

the wishes and expectations of consumers. Consumers certainly want to get a good product at a lower price. The company, meanwhile, surely seeks to provide sophisticated cosmetics with good quality and are supported by the price that matches social class.

**Table 1.3 Beauty Cosmetics and Skincare Exports by Country 2018**

No.	Country of Origin	Percentage of Cosmetics export
1	France	16,6%
2	United States	10%
3	Singapore	9%
4	South Korea	8,5%
5	Japan	6,7%

Sources: World Top Exports

According to Table 1.3, South Korea is in the fourth position and has a bigger percentage than Japan in skincare or cosmetics products. Referring to the preliminary study, 15 respondents between 19-23 years old revealed that the compatibility of the formula, the price, and the brand's popularity will be considered by consumers in deciding to buy a product. Respondents stated that Innisfree is one of their favorite products because it has all the factors mentioned. Innisfree is the number one beauty brand from Korea since 2015. It has 1,560 stores across 11 countries and 2000 Innisfree were launched in Korea, becoming the country's first natural brand. Innisfree is a South Korean brand that is engaged in the field of cosmetics and skincare made from natural and organic ingredients. The basic ingredients used in making cosmetic and

skincare products come from the natural wealth of Jeju Island. Innisfree combines Korean heritage and fast-paced innovation processes to offer reasonably priced customized solutions that help preserve the skin's youthful glow.

Based on the existing phenomena, the research will test the relationship of country of origin, brand image, and purchase decision with the mediating effect of perceived quality, and perceived price in Korean skincare context. This research is replication from the previous research that was conducted by Eunju, Kim & Zhang (2008) who investigated the influence of country of origin, brand image on purchase intention: mediated by perceived quality and price. The previous research investigated the sport shoes as an object investigation. This research uses a different dependent variable and the setting from previous research, namely purchase decision for the dependent variable, Innisfree as a research object.

## **B. Research Questions**

In accordance with the description of the research background above, this study proposed several problem formulations:

1. Does the country of origin influence perceived quality of Innisfree?
2. Does COO influence the perceived price of Innisfree?
3. Does brand image influence the perceived quality of Innisfree?
4. Does brand image influence the perceived price of Innisfree?

5. Does perceived quality influence consumer purchase decisions of Innisfree?
6. Does perceived price influence consumer purchase decisions of Innisfree?
7. Does perceived quality mediate the country of origin on consumer purchase decisions of Innisfree?
8. Does perceived price mediate the country of origin on consumer purchase decisions of Innisfree?
9. Does perceived quality mediate brand image on consumer purchase decisions of Innisfree?
10. Does the perceived price mediate brand image on consumer purchase decisions of Innisfree?

### **C. Research Objectives**

In accordance with the research questions, the objectives of this study are as follow:

1. Analyze the effect of country of origin (COO) to the perceived quality of Innisfree
2. Investigate the effects of country of origin (COO) towards the perceived price of Innisfree
3. Investigate the effects of brand image to the perceived quality of Innisfree
4. Examine the effects of brand image on the perceived price of Innisfree
5. Evaluate the effects of perceived quality to the purchase decision of Innisfree

6. Analysis and explain the effects of perceived price to the purchase decision of Innisfree
7. Explore the mediating effects of the perceived quality to the country of origin on consumer purchase decision of Innisfree
8. Analyze the mediating effects of the perceived price to the country of origin on consumer purchase decision of Innisfree
9. Evaluate the mediating effects of perceived quality to brand image on consumer purchase decision of Innisfree
10. Examine the mediating effects of perceived price to brand image on consumer purchase decision of Innisfree

#### **D. Research Benefits**

The results of this research are expected to provide several benefits:

##### **1. Theoretical Benefit**

The research of this study is expected to add to the literature on the theory used of country of origin, brand image, perceived quality, perceived price and purchase decision in Indonesia, especially for skincare product in Indonesia, besides that this research is expected to be used as a source to strengthen previous research and can be used as reference material for future research. This research also can provide information for further business research to enhance consumer purchasing decision.

## 2. **Practical Benefit**

This study can be used as a source of information and references for decision-making by marketers when trying to give more knowledge about their made-in country and brand image of their product and how large the importance of country of origin and brand image on purchase decision which is mediated by the perceived quality and perceived price in Universitas Muhammadiyah Yogyakarta. It could be used in strategic decision making as a reference for the business sector to increase the consumer purchasing decision.