CHAPTER 1
INTRODUCTION

1.1 Background

Digital business, buying and selling online, is now considered as one of strongest economic driving force. The total revenue is forecasted to attain 150 billion USD in 2020 with 60% are productive citizens in 2030 (Techinasia, 2018). Indonesia is a little delayed in comparison with other ASEAN members. Notwithstanding, the total population gives this country an edge. Currently, 43.5% of Internet users are also viable in digital trading (SWA, 2018). The number of Internet users continues to increase from time to time. Side to side with permanently well-established Internet connection, nowadays, Internet is utilized for plentiful functions, for everyone. Gathering data from all over the world, buying goods and services online, weaving communications despite location distances, even self-actualization purpose, are the examples of its usefulness.

More importantly, the majority of people always inspecting and filtering relevant information through the Internet, before setting up their mind to purchase any goods. Appealing it is and such a loss for business people not to make use of the Internet. Table 1.1 shows the growth of Internet users from the year of 2012 to 2017. Conclusively, the growth percentage is quite fluctuating in Indonesia.

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Nevertheless, the numbers keep increasing each year. This becomes the strong reason of functioning Internet for specific business purposes in which one of them is, marketing.

Table 1.1

Number of Internet Users in Indonesia from 2012 – 2017

Year	Numbers	Growth
2012	63,000,000	-
2013	82,000,000	30.2%
2014	88,100,000	7.4%
2015	110,200,000	25%
2016	132,700,000	20.4%
2017	143,300,000	8%

Source: Databoks (2018)

The notion of marketing digitally is undeniably growing in business world, including in Indonesia. Digital marketing differs from the traditional one since traditional marketing managed to change the customer perceptions rather than to understand what customers really need, which is likely because doing so would cost a whole lot of capital back then. There is rarely interaction between brand and targeted customers, also the result cannot be easily measured due to the lack of technology used (Digital Doughnut, 2016). The shortcoming of conventional marketing is what digital marketing eliminates. Firstly, it is way more effective and efficient, because of the advanced analytics targeting the correct future

customers and mostly requires no printed campaign or television ads. The other benefit is intense interaction between company and customers also measurable result. It aims to serve customers as quickly as possible and expects guidance from customers instead of trying to change their perception like traditional marketing (Durmaz and Efendioglu, 2016).

In these recent years, from huge companies to small medium enterprises start to realize the urge of focus shifting from only hinging with conventional marketing strategy. Digital marketing is one way to draw consumers' interest in purchasing the products sold, whether it is disseminated online or offline, distributed directly from producers to end user or indirectly by the use of agent, wholesaler, and or retailer. A well-thought-of marketing strategy must be conducted for the sake of learning from the targeted customers and proposing the right of marketing scheme.

One thing to emphasizes, marketing is not solely aggressive try to sell off the products or services. The concept of Relationship Marketing was first introduced by Berry (1983), and then researchers such as Berry and Parasuraman (1991), Gummesson (1994; 1996), Gronroos (1990; 1994; 1996), and Sheth and Parvatiyar (1994; 1995) as in Hunt *et al* (2006). Relationship Marketing is the plan to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met (Gronroos, 1994). Furthermore, the expert also argued that the triumph of marketing strategy achieved by a mutual

exchange and fulfillment of promises. Gummesson (2002: 22-26) mentioned that it creates closeness regardless physical distance. Relationship Marketing is said to attracting, maintaining and enhancing Customer Relationships (Berry, 1983, in Kanagal, 2009). Customer Relationship can be inferred as the company's relationship with its customers. It is a branch of relationship marketing, yet more into narrower scope, with the main emphasize in customers (Gummesson, 2002: 297).

Customer Relationship is represented by Intimacy and Trust (Gautam and Sharma, 2017; Kim and Ko, 2010). Intimacy is a concept argued by Treacy and Wiersema (1993), it is one of three value disciplines which are intended to convey new requirements of value by customers. At this moment, customers no longer perceive value as mixing of price and quality, but they also consider other attributes of products or services, such as convenience of purchase, and dependability (Omarini, 2011). Anantadjaya *et al* (2015) mentioned in their study that Intimacy is part of Customer Relationship, and located under the big umbrella of Relationship Marketing spectrum. Sternberg (1997) clarified Intimacy as feelings of closeness, connectedness, and bondedness. Therefore, Intimacy can be concluded as the closeness created by Relationship Marketing.

Meanwhile, Mayer *et al* (1995) defined Trust as the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular

action important to the trustor, irrespective of the ability to monitor or control that other party. When customers have belief in certain brands, it becomes significant predictor of the next step, Purchase Intention (Jamaludin and Ahmad, 2013). Trust is closely related to the promises fulfillment, which is one of the attributes in Relationship Marketing.

The implementation of Relationship Marketing requires customer databases for mass customization and communications with customers to get the individual profile, to create an "individual" relationship with large number of customer group, and get their purchase behavior (Stone and Desmond, 2007: 27). The personal relationship establishment can be achieved by digital marketing, as it can obtain the customers' profile in an easier, cheaper way.

Table 1.2

Digital Marketing Channel Effectiveness B2B and B2C in Indonesia Year 2017

Rank	Channel
1	Social Media
2	Social Media Ads
3	Paid Search Marketing
4	Content Marketing
5	Influencer Marketing

Source: Techinasia (2017)

Table 1.2 illustrates the ratings of each channel in digital marketing. It appears that social media has the ability to extend its

reach toward the suitable users. A company which conducts its social media thoroughly will gain busy traffics, many followers, thus increases contents' likes and probability of recognition from yet-to-be-followers. Social media itself is best described by Kaplan and Haenlein (2010) as a group of internet based applications that built on the ideological and technological foundations of Web 2.0, and it allows the creation and exchange of user-generated content. The examples are social networking sites (Facebook, Instagram, Twitter), blogs and community forums.

Social media is one of the fastest growing marketing tools to implement the Relationship Marketing. Moretti and Tuan (2014) concluded that Social Media Marketing is a subset of Relationship Marketing. In Indonesia, by the year of 2017 the number of users raised to 96.09 million, growing 8.9% from the previous year (Statista, 2018). It comprises almost 37% of total Indonesian population in 2017 (Databoks, 2018).

Miller *et al* (2009, in Waheed *et* al, 2017) mentioned that the importance of Social Media Marketing lies in the interaction between consumers and the community, the facilitation of immediate, interactive, and low-cost communications. Not to mention, the broad extend of social media which incomparable than other marketing channels. McQuail (2010, in Rahadi and Abdillah, 2013) mentioned several advantages of social media for the business owner: interactivity (communication), social presence (sociability), media richness (high level of information), autonomy (independences to

arrange content) and, and personalization (create desirable unique image). These benefits are all at once obtained from marketing via social media.

Eventually, the aim of marketing activities is still to generate profits. Before a decision is made, an intention to execute behavior is required first. Theory of Reasoned Action (TRA) by Ajzen and Fishbein (1975) has been known widely for its application in predicting a person's behavior, including customer's purchase intention. Trafimow (2015) summarized in his study that proximal cause of behavior is behavioral intention, which is what people intend to do and not to do. In addition, what affects behavioral intention is attitude toward behavior meaning the individual's evaluation or general feeling toward a target behavior, and subjective norm that refers to an individual's perceived social pressure to perform or not to perform a target behavior. Whereas attitude toward behavior relates to own assessment, subjective norm concerns regarding other's judgment. The probability that a particular behavior will actually be performed by individuals largely relies on the strength of their intentions (Ajzen, 1991, in Haque *et al*, 2015).

Purchase Intention itself is exemplified as the probability of purchase of a product or a given brand (Lacoeuilhe, 1997, in Bouhlel, 2011). It also defined as the intention to purchase or repurchase (Wang and Tadisina, 2008, in Ling *et* al, 2014). An increase in Purchase Intention means an increase in the possibility of

purchasing the goods or services (Dodds *et al*, 1991; Schiffman and Kanuk, 2007; Carrillat *et al*, 2009 in Chinomona *et al*, 2013).

Table 1.3

Top Brand Award 2017 Personal Care Category

Category	Wardah's Rank
Lip Gloss	1st
Mascara	2nd
Blush On	1st
Eyeliner	1st
Eyebrow Pencil	2nd
BB Cream	1st
Translucent Powder	1st

Source: Top Brand Award (2017)

As for this study, the object used is an Indonesian cosmetics brand, *Wardah Cosmetics*. PT Paragon Technology and Innovation (PT. PTI) launched this brand in 1995, and the brand itself has scored impressive performance in some subgroups of makeup products, even when the specific product is compared to famous foreign brand such as Revlon and Maybelline. By inspecting through Top Brand Award report in 2017 (Table 1.4), *Wardah Cosmetics* can be inferred as the sovereignty holder of these subgroups. It comes up almost on all of the mentioned categories. It also has encompassed several competitors in a period of only one year. Being the first makeup brand that mounts "halal" principle in Indonesia is the most valid

reason why it succeeds in winning the Indonesian customers' heart. Presented on PT. PTI's website (PT Paragon Technology and Innovation, 2017), in 2012, *Wardah Cosmetics* also acquired 1st Indonesian Original Brand by SWA Online Magazine.

Cosmetics are defined as any substance or preparation intended to be placed in contact with the various external parts of the human body such as epidermis, hair system, nails, lips and external genital organs, or with the teeth and the mucous membranes of the oral cavity with a view exclusively or mainly to cleaning them, perfuming them, changing their appearance and/or correcting body odours and/or protecting them or keeping them in good condition (AFP Chemical Consultancy, 2018). The manufacturing process until the goods transported to end-users is supervised under a legal government body, Drug and Food Superintendent or Badan Pengawas Obat dan Makanan (BPOM).

Because the haphazard use of cosmetics possibly causes horrible impact, equal to the effect wrong medical prescription. Any ingredients, descriptions, and suggestions should be informed carefully to the targeted consumers. Thus, the promotion and selling cosmetics product is more likely to be accompanied with personal customer service, usually the trained staff from the brand itself to disseminate correct information to the customers, or theoretically, personal selling. The personal selling has three basic forms, one is the door-to-door marketing, counter sales and the other is meeting

marketing (Cheng, 2013). Nevertheless, this trend is bit by bit transformed into placeless mediator, social media.

Table 1.4

Wardah Cosmetics **Social Media Data via Instagram, Facebook, and Twitter**

Social Media	Posts	Followers (in Millions)
Instagram	**1,653**	**1.3**
Facebook	**N/A**	**1.8**
Twitter	**14,200**	**0.111**

Source: Instagram, Facebook, and Twitter Page (accessed on March 22, 2018)

Table 1.4 presents the extensive use of social media by *Wardah Cosmetics*. This brand actually has five social media to accommodate the promotion of its products: Instagram, Facebook, Google Plus, Twitter and Youtube. However, this research only projects three of them, the most active ones, which are Instagram, Facebook, and Twitter. The followers of *Wardah Cosmetics* social media as per 18th of March 2018 is 1.3 million people, Facebook followers is 1.8 million, and Twitter followers is 111 thousand. Compared to other local cosmetics' official pages, whose followers only range in hundred thousand, *Wardah Cosmetics*'s social media is considered as greatly managed, able to attract people to follow and view the posts and contents. Through *Wardah Cosmetics*'s social media, followers may obtain the latest information directly from the

company, exchange opinion with other users, and be familiar with *Wardah Cosmetics*.

This research is intrigued to choose *Wardah Cosmetics* as the object, due to the fact that no prior researches have ever studied Social Media Marketing in cosmetics industry. Another reason to support this study is the alteration from personal promotion and selling to one of digital marketing channels, social media. Nearly every cosmetics brand owns social media as marketing tool. Moreover, up until now, no other pharmaceutical products, such as medicines, have been mushrooming with this sort of pattern.

With *Wardah Cosmetics*' popularity among Indonesian consumers and its effort in Social Media Marketing, the study will test if Social Media Marketing does influence Purchase Intention, with the mediator of Customer Relationship, represented by Intimacy and Trust. The indirect effect will be presented to recognize whether the mediating variables are required or not, implying the direct significance between Social Media Marketing and Purchase Intention.

1.2 Research Questions

The problem formulations of this research are:

1. Does Social Media Marketing influence Intimacy at *Wardah Cosmetics* in Surabaya?

2. Does Social Media Marketing influence Trust at *Wardah Cosmetics* in Surabaya?

3. Does Intimacy influence Purchase Intention at *Wardah Cosmetics* in Surabaya?

4. Does Trust influence Purchase Intention at *Wardah Cosmetics* in Surabaya?

5. Does Social Media Marketing influence Purchase Intention at *Wardah Cosmetics* in Surabaya?

1.3 Objectives of the Study

This research is conducted to analyze:

1. The influence of Social Media Marketing on Intimacy at *Wardah Cosmetics* in Surabaya.

2. The influence of Social Media Marketing on Trust at *Wardah Cosmetics* in Surabaya.

3. The influence of Intimacy on Purchase Intention at *Wardah Cosmetics* in Surabaya.

4. The influence of Trust on Purchase Intention at *Wardah Cosmetics* in Surabaya.

5. The influence of Social Media Marketing on Purchase Intention at *Wardah Cosmetics* in Surabaya.

1.4 Significance of the Study

The benefits of this research are expected to deliver advantages toward these parties:

1. Theoretical benefits

   This research could bring better understanding and enrich the previous researches on the influence of Social Media Marketing on Customer Relationship, with Intimacy and Trust as representative variables, also Purchase Intention.

2. Practical Benefits

   Wardah Cosmetics would gain insights from this research especially on focusing in Social Media Marketing to enhance Customer Relationship, eventually, creating Purchase Intention inside customers' mind.

1.5 The Writing Systematics

The writing systematics of this study is divided into 5 chapters, arranged systematically as below:

CHAPTER 1: INTRODUCTION

This chapter includes the background of study, research questions, objectives of the study, significance of the study and writing systematics.

CHAPTER 2: LITERATURE REVIEW

This chapter elaborates the previous studies, theoretical foundation which consists of: Relationship Marketing, Social Media Marketing, Customer Relationship, Intimacy, Trust, Theory of Reasoned Action, and Purchase Intention, the relationship between variables, research framework, and hypotheses of the study.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter comprises: research design, variable identification, operational definition of variables, variables measurement, type and source of data, samples and sampling technique, also the data analysis technique.

CHAPTER 4: ANALYSIS AND DISCUSSION

This chapter consists of: respondent characteristics, data description, data analysis results which are using SEM testing, hypotheses testing, indirect effect testing and the discussion of research discovery.

CHAPTER 5: CONCLUSION AND SUGGESTIONS

As the final stage of the study, this chapter's content is the conclusion of result and suggestions which may be useful for *Wardah Cosmetics*' management also the future research.