

CHAPTER 1

INTRODUCTION

1.1 Background

Cosmetic industry with ranged products from makeup to skincare has been one of the most rapid and growing market in Indonesia. According to Statista (2018), the market amounts to US\$ 5,502 million in 2018 with annual growth of 7,2% with the “skin care” segment to be the largest market segment with a market volume of US\$ 2,022 million in 2018. The industry itself has been focusing on managerial orientation as the segment has achieved more than enough attention in Indonesian market. The dynamic of the industry has been impacting many companies that produce skincare products. The companies have important job to fulfill the needs and requirements for the customers so they can ensure the sustainability of the company itself, specifically regarding organic skincare products (Tiyanto, 2013).

The increased awareness about green product has been very impactful as it is changing the way consumers are more self-conscious when it comes to their personal care. In the year of 2016, it is found that the growth of global cosmetic market experienced an estimated 4% growth in comparison to the previous year and its market value is projected to grow by US\$ 20.1 billion between 2014 and 2019 (Statista, 2017). According to Statista, the global market for organic cosmetics experienced massive increase from 2007 to 2017 as it doubled from 7 billion dollars to 15 billion dollars. With the increased awareness of organic and natural products, it seems that the statistics reflect the increasing demands of such products in personal-care area.

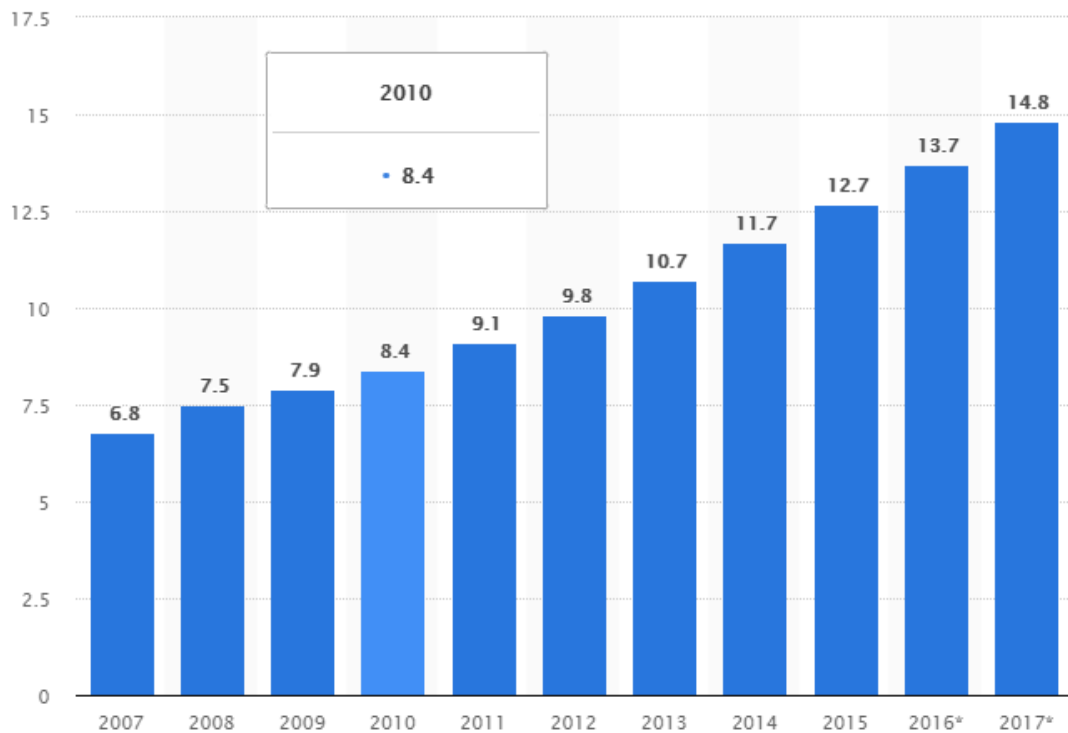


Figure 1.1: Natural Cosmetics Global Market Value
(Source: Statista.com, 2018)

As the global market value increases, ASEAN and specifically Indonesia are affected by this trend. In Indonesia, organic skincare product has been gaining plenty of attention in the current market. According to Statista (2017), 53% of consumers in Indonesia claimed that green features are more prominent in cosmetics selection decisions as the demand for “natural and organic” cosmetics is increasing. To understand what drives the Indonesian consumers to demand more organic products and how companies in Indonesia should respond to this demand is the reason the author conducted this study regarding consumers’ perception and purchase intention in organic cosmetics products.

With so much attention and demand given to organic skincare products, the industry is still unfortunately under-research. The lack of research has caused plenty of business to run in uncertainty about the validity and efficiency of their strategies. Based on the research by Mintel (2013), around 37% of new products in the cosmetic industry globally are associated with

organic; it ranges from the terms of organic, herbal, and botanical. Because of the additions in term of the terminology itself, many consumers and also players have somewhat become confused. Many of consumers and industry players remain unaware about the meaning and definition of the terminology that has made it harder for companies to strategize their marketing plan for the products and to convey their message clearly to consumers. Europe have their own Cosmetics Organic and Natural Standard (COSMOS) that applies to measure the qualification of what being known as the organic product, which states that to use the term “organic”, at least 95% of the physically processed agro-ingredients must be organic (COSMOS, 2013). Unfortunately, the same standard does not apply in so many countries, such as Indonesia, and companies have to define their own products and leave it to consumers to understand their message, which will impact consumers’ purchase intention. The definition issue has created a bridge between companies and consumers in understanding the not-yet-defined organic skincare products and make it harder for companies to understand whether the products adhere to market needs and wants (Yu-Shan & Ching-Sun, 2013). The lack of definition regulation has also caused many products self-proclaim themselves as organic and furthermore saturate the market itself. These surfacing issues are not helped by the lack of academic research towards consumers behavior towards organic skincare products market that is filled with competition.

The increased level of healthy lifestyle promotion furthermore increases the interest in skincare product, especially in social media. The preferences, interests, attitude, and the behavior of the customers have shifted towards concern of maintaining youthful appearance and at the same time controlling the quality of the products they use. The lack of understanding of the companies and the cosmetic industry as a whole towards the attitudes and behavior of the customers towards organic skincare products have caused the deficiency in growth and

development of natural skincare products in the cosmetics market. However, the awareness of environmental impact of organic items towards the purchasing behavior of the customers is not necessarily significant (Wee, 2014). For the companies to promote their products further, they have to try so many efforts in conveying the right message in the right package to the consumer audience. With the growing market of organic skincare products, Indonesia gives plenty of opportunities for skincare business to thrive alongside the global trend. This fact is added with the growth of Indonesia's population, especially the middle-class population, that serves as a huge market with so many potentials to be explored and be the place of expansion of marketing activities towards specific target consumers.

According to Kotler (Bowie & Buttle, 2016), marketing is centered on the exchange process between products and services to satisfy customers' needs with, not exclusively, monetary value. This process includes the marketing efforts to create value that will result in the satisfaction of both parties in the exchange process to better off than before the exchange took place. Marketing efforts include the activity that is conducted in the specific time frame, target customers, and geographical location that allow the customers to obtain responses whether direct or indirect based on the providence of benefits. The benefits of the consumers include discounts, coupons, loyalty programs, sales promotions, and so many others. The marketing efforts will then impact the thought-process of the consumers that will eventually affect their purchase behavior, which is the purchase of the item.

Along with the growing competition in between the skincare companies in Indonesia; many companies are now trying to market their products to their consumers. The excessive amount of promotion in terms of quantity does not necessarily translate into purchase. The behavioral background and tendencies of the customers need to be understood as it will be

important if the companies would like to obtain the loyalty of their customers in the future. Based on the background above, the purpose of this research is to analyze the perception of organic skincare products among Indonesian consumers and examine the driving factors from the perception that will eventually affect their purchase decision. The author used data and information gathered from existing publications about perception and purchase intention alongside the result of in-depth interview. This research serves as the deeper insight towards the factors that drive the customers' purchase decision towards organic skincare products in Indonesia.

1.2 Definition

1.2.1 Organics Term in Global Scope

The term “organic” is very common these days with several companies promoting their products as such. The word organic itself stems from the Greek word “bios” that refers to life or way of living (Wei, Samiee, & Lee, 2014). FDA in America does not have a definition regarding organic product but simply regulates that the certification of organic can be obtained when the agricultural ingredients have been produced under conditions that would meet the definition (FDA). As mentioned before, COSMOS defines organic products, including cosmetics, as products with at least 95% of the physically processes agro-ingredients to be organic (COSMOS, 2013). The ingredients have to follow strict standards of production, extraction, purification, and processing. There is a difference between “organic” and “natural” cosmetics products. With the at least 95% organic ingredients to obtain “organic” certification from COSMOS, the same regulation does not regulate about the percentage of ingredients to be claimed “natural”. The same regulation only differentiates between “from organic agriculture” and “made using organic ingredients” for the difference between “organic” and “natural”. Based on this regulation, the difference between organic and natural products is “organic” refers to “how the ingredients was farmed (agro-ingredients)”, while “natural” refers to the material itself. Natural ingredient does not necessarily mean organic as a cosmetic can

be classified as natural if it is composed of certified raw materials, such as vegetables and minerals, without minimum percentage (Fonseca-Santos, Correa, & Chorilli, 2015). Hence, the difference between organic and natural products refers to the percentage of the ingredients of the products.

Table 1.1:
Difference between Organic and Natural Product

Organic	Natural
At least 95% of the ingredients is organic	No minimum percentage
How the ingredients were farmed	The “nature” of the ingredients

1.2.2 Organic Cosmetics in BPOM

In Indonesia, National Agency of Drug and Food Control (Badan Pengawas Obat dan Makanan – BPOM) with its regulation PerKa BPOM No. 1/2017 only defines the term “organic” when it comes to food product. The regulation states that organic food product contains at least 95% organic ingredient from total volume excluding water and salt. It does not specifically mention organic cosmetics. When it comes to “natural” products, Indonesia does not have any kind of regulation to govern the “natural” label of the products.

In term of labeling, according to the “organic” labeling by National Accreditation Committee (Komite Akreditasi Nasional) with its regulation of SNI ISO/IEC 17065:2012, which is an identical adoption from ISO/IEC 17065:2012 ‘Conformity assessment – Requirements for bodies certifying products, processes and services’, has their own organic certification scheme. According to this organic certification scheme, the product has to be free from pesticide residue and synthetic hormones (GMO) and the production process from production to distribution to adhere to the regulation. Furthermore, BPOM has its own regulation with Keputusan Kepala BPOM No. HK.00.05.4.3870 about Good Cosmetics

Products Manufacturing Guideline (Pedoman Cara Pembuatan Kosmetik Yang Baik – CPKB) for products to be listed in BPOM. With the labeling regulation, the author makes up the definition that organic cosmetics products in this research refer to cosmetics products with 95% of its ingredients to be organic and has to be listed in BPOM.

1.2.3 Cosmetic According to BPOM

According to BPOM, the term “cosmetics” is regulated in Decision of Head of BPOM No. HK.00.05.4.1745. The regulation determines the definition in Chapter 1 that “cosmetics” is ingredient or preparation (ingredients) with the purpose to be applied on outer layer of human body (epidermis, hair, nails, lips, and the outer layer of genitals) or teeth and mouth mucous especially to clean, to perfume, to alter appearance, and or to ameliorate body odor or to protect or to maintain the body in good condition (*“Kosmetik adalah bahan atau sediaan yang dimaksudkan untuk digunakan pada bagian luar tubuh manusia (epidermis, rambut, kuku, bibir dan organ genital bagian luar) atau gigi dan mukosa mulut terutama untuk membersihkan, mewangikan, mengubah penampilan dan atau memperbaiki bau badan atau melindungi atau memelihara tubuh pada kondisi baik”*). This definition is the one that will be used in this research when it comes to cosmetics in Indonesia.

In this research, the author uses several brands with BPOM organic certification. The first is Sensatia Botanicals, a company with diverse organic skincare products that has obtained GMP certification from BPOM. GMP (Good Manufacturing Practice) certification determines that the product is “as it says on the label” and not contaminated with potentially dangerous materials. The brand was founded in Bali with many 5-stars hotels as their clients. The brand is now expanding internationally with trademark in more than 40 countries and more than 200 of its products are listed in BPOM. The second is The Bath Box brand with its popular soap

products. The Bath Box was founded in 2013 in Jakarta and markets its product to be preservative (parabens)-free. The third brand is Skin Dewi, a brand that was created because its founder's childhood allergy. The products use organic ingredients and non-toxic components only for its products.

1.2.4 Brands in this Research

To conduct this research, the author has selected three cosmetic brands that focus in producing and selling organic skincare products. Among the number of organic skincare products in Indonesia such as Sensatia Botanicals, Juara Beauty, The Bath Box, Organic Supply Co., Skin Dewi, and Utama Spice, the author chooses these three brands because they have been established and set themselves as great organic product brands among many consumers in Indonesia. Not only that, these brands have their products listed on BPOM, which is the other requirements for this research. The brands are:

1. Sensatia Botanicals



Figure 1.2: Sensatia Botanicals' Products

The company describes Sensatia Botanicals as “a feel-good company” and it was established in 2000 in Jasri, Karangasem, in the eastal coast of Bali. The company started out small with profit-sharing cooperation as its system and three employees only. After 18 months in business, Sensatia grew its business into larger scale with 23 employees. Currently, Sensatia has 65 employees with GMP-certificated production facility. Sensatia itself has become a brand that is recognized globally with trademark

in more than 40 countries and more than 200 products listed in BPOM, including soap, body lotion, etc. (Sensatia Botanicals, 2018) . The success of Sensatia has made the company signed by many prestigious clients including Alila Hotels & Resorts, The Stones Hotel Legian, Mandapa Ritz Carlton, W Retreat & Spa Bali, and many more. Sensatia manufactures and sells its own collection of organic skincare products that cater to green lifestyle while maintaining a great quality of great skin and body.

2. The Bath Box



Figure 1.3: The Bath Box' Products

The Bath Box was established in September 2013 and started as the founder's idea when she found the cure for her skin problem with goat's milk remedy (The Bath Box, 2018). The idea developed into a business that focuses in delivering a magnificent bathing experience with satisfying result and affordable price. The Bath Box manufactures organic skincare products that can answer to many needs including aging skin, sensitive skin, dry skin, and dull skin. Many of its products are listed on BPOM, such as its goat milk liquid soap "Goats Don't Lie, with BPOM Certification Number POM NA18170701748 and many others (The Bath Box, 2018). The brand has now expanding from organic soap into many other skincare products such as serums,

essences, and masks that can solve many skin problems with its own collection of organic products.

3. Skin Dewi



Figure 1.4: Skin Dewi's Products

Just like The Bath Box, Skin Dewi began as an idea of the founder because her second child has a severe condition of allergies and atopic dermatitis (Skin Dewi, 2018). Because of this, she then looked for many products but failed to find the best one. After many failures in searching for the perfect solution, she resorted into DIY (do-it-yourself) method and tried to understand more about organic products. She pursued her interest through formal education at University of Washington and later established Skin Dewi. The personal motivation of the founder has made Skin Dewi known to be the solution for many skin issues with pure, non-toxic, and high performance products with distinct results. Promoting a healthy beauty, Skin Dewi approaches beauty with holistic method by solving many skin problems through organic skincare products such as facial cream, cleansing milk, soothing gel, and many more that adjustable with each of consumer's skin condition. Skin Dewi's products have also been listed on BPOM product list such as Calendula Soothing Gel (NA18180100810) and Hazelnut Balancing Cleansing Milk (NA18181200429), among many others (BPOM, 2018).

1.3 Problem Statement

The beauty industry especially skincare products has been gaining more and more attention and profits. With the high number of US\$ 5,502 million of market in Indonesia, the demand for organic products steadily increases (Statista, 2017). Organic products are perceived to have better impact for the consumers and also the environment by providing a sustainable consumption in the long time (Hwang, 2016). Many companies answer to this increasing trend by launching many skincare products that adhere to this green consumption. For consumers, purchasing organic skincare products is what they choose to do for the better of themselves and the environment.

Despite the increasing demand, the understanding among consumers towards organic skincare products is scientifically under-researched as consumers rely solely on certification mark on the packaging to give consumers confidence in the ingredients of the products (Newerli-Guz, 2012). This shallow comprehension is followed by the lack of understanding in what it means for a product to be deemed “natural” and “organic”, especially in skincare product industry. Not many people know about the difference that was stated in the previous chapter of this research. Organic products are perceived to be better for health and environment and honest labeling combined with consumer knowledge regarding the products aid the consumers in making an educated purchase that lines up with their preference (Hsu & Chen, 2014). Because of such understanding of organic product, labeling plays a very important role in consumers’ perception.

Even though the demands have been increasing, there are not many researches that focuses on organic skincare product, especially in Indonesia. Added to this situation, many organic skincare products in Indonesia do not know specifically about what is exactly organic

skincare product. The common perception of organic skincare product is derived from the term organic and also the arising green awareness, which is that organic products said to be better for personal health and also environment (Ariyanti & Iriani, 2014). Sharing this perception, consumers in Indonesia can gain more if they have more knowledge about organic skincare product, how it is made, and what is the regulation in Indonesia. It also gives them advantage towards answering many companies' promotion and marketing tactics as well as choosing the best one in the saturated market of organic cosmetics.

Statement and reports from prior researches have driven the authors to analyze the consumers' perception regarding organic cosmetic products specifically in Indonesia. With the rise of online market, consumers are now easier to be exposed to more products that claim to be "organic" and subsequently purchase the products to satisfy their need that they perceive to be fulfilled by using the products. The author aims to understand the perception shared among consumers regarding organic skincare products so the research may be applied as a practical implication in Indonesia. With better understanding, this research can contribute in examining the organic skincare market in Indonesia to boost the integrity of the organic cosmetic industry.

1.4 Scope of the Research

Based on the topic, the study focuses in understanding factors that drive the purchase intention of the consumers towards organic skin care products. In this case, the research aims to understand the perception of the consumers in Jakarta area about organic skin care products. This study analyzes the skin care companies that have their brand circulated in the Indonesian market with the brands of Sensatia Botanicals, The Bath Box, and Skin Dewi. The research obtained the data from Indonesian skin care market through the sample population of consumers that have experience in purchasing the brands' products and analyzes the factors

that influence consumers' perception towards the brands' products. In order to provide accurate and reliable data, the researcher limited the geographical scope to the area of Jakarta and the consumers within the area.

1.5 Aims and Benefits

This research serves the aim to understand customers' perception when it comes to organic labeling of the skincare products in Indonesian market. Also, this research serves plenty of benefits for many parties. The first party that would be benefited is the skin care companies as this result of the analysis will provide them with the insight on the efficiency of their marketing and communication efforts. Based on the data, the companies will be able to forecast the budgeting to promote their products and most importantly, they will be able to strategize the message that will influence the customers in the most effective and as budget-friendly as possible. Secondly, the result will also benefit retailers and wholesalers in the supply chain as through the understanding of the customer perception, they will be able to relate with customer behavior thus they will be able to understand the sentiments of the customers towards certain skin care product to market the products to the consumers better. Through this, they will be able to understand the market and able to forecast the sales projection thus the wholesalers and retailers will be able to manage their supplies better according to the demand that is highly influenced by the perception of the customers. Lastly, this research will be equally beneficial for educators as the analysis and the result can be the exemplary studies for future knowledge that is obtained through real life cases. This will allow the students to have better grasp in communication and marketing theories and application; in which will results into better future working professionals.

1.6 Structure

In this thesis, the research is structured into 5 chapters. In the beginning, the first chapter will provide the outlook of the research. It will be consisted of the explanation of the current situations in the skincare industry, specifically the ones that focus on the organic product. Next, the scope, aims and benefits of the research; along with the structure of the research is presented.

The second chapter of this research will present the literature review based on past literatures that includes journal articles and many more. The second chapter will then be completed with the theoretical framework; in which explained the theories used and related to the topic and desired outcome of the research. In this case, the research will use several behavioral theories as the base theories of the study.

The third chapter will then further discuss the research methodology used in this research. In this case, the research will implement qualitative research by focusing on the focus group and interviews conducted to the target respondents.

The fourth chapter will then show the result of the data gathered. The data will later be analyzed to provide the results that will provide further detail on how the research that has been formulated earlier is conducted to achieve the aim and objectives of the study.

In the last chapter, the hypotheses will be proven. In this chapter as well, the conclusion of the result of the research is being drawn. In this part of this study, the researcher will also provide the recommendation to the parties that have significance in this research to be able to

understand how to utilize the result of this study. In the end, the researcher will provide suggestion for improvement that will be intended for future research purposes.