

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Research Object Overview**

Bandung is a city located in West Java Province and the capital of West Java Province. Bandung is also included as a metropolitan city such as Jakarta and Surabaya. This is because Bandung has a population more than 5 million people ([jabarprov.go.id](http://jabarprov.go.id)). Bandung is a city that is famous for the nickname Paris van Java, the nickname was given when the Dutch colonial era around 1920. The nickname is not without meaning, Bandung was given the nickname because it has air coolness and geographical conditions similar to southern France. Bandung is the one of destination for people get holiday to shopping for food and fashion. Bandung is famous of the Factory Outlet (FO), Distribution Store (Distro), and clothing line with good quality and famous in Indonesia. Clothing line is different with Distro and FO. Clothing line is the producer that produce the product using their own label or other label. A clothing line refers to "all of the clothing" a fashion company produces for a specific category ([www.apparesearch.com](http://www.apparesearch.com), 2020). FO and Distro is a distribution store that sells the product from clothing line (Rahadian, 2017).

The products offered by clothing lines in Bandung are very diverse. These products start from clothes to accessories with their own labels, but there are several clothing lines that focus products on one of the fashion items such as clothing, hats, shoes and other items (Rahadian, 2017). The price offered by this clothing line also varies according to the brand and material used on the item. The quality of clothing lines in Bandung has good and exclusive quality because of their limited production, and can compete with foreign products (Highlight Media, 2018). Besides relying on the offline system or opening their own stores, clothing lines also expand product marketing using the internet. According to Riz ‘v (2013), marketing managers

increasingly utilize online marketing for a variety of reasons including; eliminating geographical constraints, ease of accessibility, consolidation of large amounts of information into a concise online website, high margins for adjustment and intensity of outreach to potential and actual consumers around the globe. Furthermore, the Internet opens up vast opportunities for clothing line businesses that do not have offline stores. Marketing products online through various techniques including social media such as Facebook, Twitter; including consumer blogs to encourage viral marketing (Riz ‘V, 2013). So the marketing of clothing line products is not only in Indonesia, but even abroad. Sometimes the customer's personal blog provides content for comments or reviews of some existing clothing line products so that the customers can sort out good clothing lines and low prices. In Bandung, there are several locations where many FO and distribution outlets are on Cihampelas Street, Trunojoyo Street, and Sultan Agung Street. In addition to these places, there are still many FO and distributions scattered in Bandung.

## **1.2 Research Background**

The textile industry is one of the major segments and currently records the highest production growth among other sectors during the first quarter of 2019 (kemenperin.go.id, 2019). Based on the Central Statistics Agency (BPS), in the first 3 months of 2019 the production of the Textile industry increased by 29.19%. Textile industry sector by q-t-q increased by 8.97% and came in second place after furniture industry. According to Ernovian G. Ismy, Secretary General of the Indonesian Textile Association (API) the demand for clothing products is increasing and shows that the consensus looks consumptive and fashionable (kemenperin.go.id, 2019). In Indonesia, fashion has grown and quite contributed greatly to the country. The development of Non-Oil and Gas exports (sector) shows that the apparel industry is indeed competent and has a role in increasing Indonesia's income.

Based on the Summary of Regional Financial Statistics of West Java Province October 2019 Vol. 19 No. October 10, 2019, for the province of West Java the largest value of non-oil exports by category of goods, owned by the Mechanical and Mechanical Aircraft, Electronic Equipment and Parts group of USD 548.73 million; followed by the Textile and Articles of Textile group of USD 504.11 million; and the Vehicle, Aircraft, Vehicles and Equipment group of USD 418.11 million. Furthermore, in terms of volume, the largest non-oil and gas exports were found in the Textile and Textile Products group with a volume of 100.33 kilotons. This shows that the textile industry influences inflation in West Java and even Indonesia. Here is a picture that shows the industry in the city of Bandung.



Figure 1.1 Number of Industries in Bandung 2018

Source: <http://disdagin.bandung.go.id/>, 2019

From the data above explains that the textile industry and textile products are ranked first with a total of 1189 small industry units, 358 medium industries and the total of all textile industry in Bandung are 1.547. The data states that the textile industry has an important role for Bandung's income. Bandung is indeed famous for the industry in the field of fashionable clothing. Clothing line is indeed a business sector that has great opportunities in doing business, because many teenagers in Indonesia who are looking for fashion brands to Bandung through online even come to their stores directly.



**Figure 1.2 Indonesia Local Clothing**

Source: Highlight.id, 2018

One aspect that is still rarely studied in terms of increasing the competitiveness of SMEs is supply chain management. As befits SMEs, there are many obstacles faced by them in practicing supply chain management. The proven competitiveness of its contribution to GDP can be strengthened by the relationship model in the supply chain. The supply chain requires collaboration among supplier partners so that it can foster a strong relationship between them (Papakiriakopoulos and Pramatari, 2010). The use of technology, particularly information and communication technology, has also been made a lot of efforts to improve the competitiveness of SMEs by emphasizing the

management of information on the downstream side (consumers / markets), which is alleged to be one of the factors causing the weak competitiveness of SMEs, and also on the upstream side (suppliers). One of the conditions that must be met in the implementation of supply chain management is the collaboration between entities such as partners in the supply chain system; SMEs themselves, suppliers and distributors. Therefore, SMEs need to collaborate in order to solve these common problems. Cooperation management in the supply chain requires coordination and integration both within and between companies to achieve effective supply chain management, service quality and optimal company profits through efficiency carried out with the right strategy (Anatan, 2010:66-77).

Clothing line is one part of the textile industry that produces a fashion design, whether it's clothes, shirts and so on (Syahid, 2018). Furthermore, clothing line business has good market prospects, because clothing is everyone's needs that must be met. The Clothing line business will never end, it's just that the trend is always changing (Syahid, 2018). Local fashion brands are packaged in the concept of clothing distribution is very popular in Indonesia and local brands have their own fans who are fairly loyal. Various local clothing line ways are also carried out to introduce their products either through online promotions or by participating in fashion events (Highlight, 2018). Currently clothing companies in the city of Bandung are opposed to unfavourable competition and quite heavy competition, not only from other companies' clothing companies, but also from companies that produce goods in bulk, such as brands that are sold in department stores, and products - products which are foreign brands that have flooded the Indonesian market (Soei et al., 2015). The increasing need for fashion for young people triggers the development of the clothing line business, so that each clothing line has its own characteristics and advantages and makes competition more competitive. Every clothing line is required to plan effective strategies in dealing with competition (Kuncoro and Santoso 2018). There are 102 clothing and distributions scattered in Bandung which are registered as Small Medium Enterprise (SME) since 2015 (disperindag.jabarprov.go.id, 2019). From these data,

Bandung shows that Bandung has competence in the clothing industry. The dominant market for this industry is teenagers (Saravan and Venkatsamy, 2015).

Fashion style among adolescents has become an international culture adapted from western culture, thus changing one's culture and lifestyle. Despite the fact that there are people who appear to be living with low quality of life and their income is below the minimum amount of normal life, most in the upper brackets are interested in buying foreign brands so that they get high level of visibility and also differentiate their lifestyle from the others. This happens because of their tendency to live in the fashion of modern countries such as the US (Tyaswara et al., 2017), this kind of behaviour is more common in young people and adolescents (Kumar and et al., 2008). Consumers may intend to buy a particular brand because they feel the brand offers features, quality, or the right emotional benefits (Kumar et al., 2008). Quality is perceived as a subjective consumer assessment of overall brand superiority or superiority (Yoo et al., 2000).

Similarly, Keller (2001) defines brand valuation as consumers' personal opinions about brands, based on how they combine the performance and image of the association, including perceived quality, credibility, consideration, and excellence. These factors influence the tendency of young people (teenagers) to choose an outside brand or from other country. There are some differences between Indonesian local products and foreign products such as low quality but not comparable prices, lack of product innovation which usually local brands will emulate outside product innovation, and locations that are less strategic to open outlets (Utami, 2010). Besides that, it will not escape the habit of Indonesians as followers in the sense of following others, especially for life style (Yulistara, 2018). In Indonesia, there are many cases of counterfeiting or trademark similarities which tend to increase from year to year and young people become consumers who buy many of these exclusive branded fashion products (Hadiwijaya, 2015). Things like this that make Indonesian local products considered less innovative than local products.

Customer relations has an important role to build long-term relationships with customers, in order to find out their complaints and increase overall satisfaction (Tan

et al., 1999). Referring to improving CRM can help organizations to provide value, so companies can build loyalty through customer satisfaction (Cox, 2004).

Usually prospective customers can find examples of customer relationships with local brands, through YouTube reviews, Instagram, online forums, etc. Usually comments from customers are given positively and negatively as suggestions for the brand. According to Sundram (2011), customer relations by giving a review of the product, then the right merchandise and various kinds of products available to customers. This relationship is considered important because CRM can have a significant impact in terms of how you manage a company's complete value chain (Gharakhani et al., 2012). The CRM initiative has resulted in increased competitiveness for many companies as witnessed by higher revenues and lower operating costs, managing customer relationships effectively and efficiently increasing customer satisfaction and retention rates.

Supplier relationship management (SRM) is an important aspect for manufacturing companies to ensure reliable and frequent supply of shipments in today's dynamic and competitive environment (Al-Abdallah, 2014). According to Abrosioni (2019), the role of purchasing and supplier management is very strategic in the fashion industry, its main role is to make fabrics and other products needed for the collection process available for other functions from design to production, packaging, and distribution. Emphasis must be given to suppliers to have two souls: one is very creative, and the other is very flexible and capable of fast delivery to customers that is important to be a competitive supplier (Guercini and Runfola, 2004). For production phases that do not occur in the company, suppliers are usually chosen carefully and the company controls or monitors their operations (Caniato et al., 2011). Value creation activities and buyer dependency, and to determine what supplier relationship management activities can reduce or increase dependency wherein the activity of creating value learning between companies and supplier involvement in buyer-supplier relations can increase buyer dependence on its suppliers, whereas supplier orientation does not (Singh et al., 2017). Optimal SRM can ensure that there is a smooth flow of

material and information between suppliers and companies and the right products are available at the right time and thus increase the company's SCP (Gandhi et al., 2017).

In addition, the thing that needs to be considered and has a relationship with SRM is that Goal Congruence (GC) refers to the establishment of a mutually agreed vision among supply chain partners to achieve specific general goals for each material flow without supplier limits to save and harmonize the company's performance in the goal of understanding collaboration among supply chain partners considered key to partnerships in the supply chain so key customers get a unique impression of the product (Gandhi et al., 2017). Goal congruence refers to the degree of similarity in performance goals among team members and has a correlated positively with team performance (Bradley and White, 2006). This partner means that much collaboration between partners will be needed to ensure that there is a coordinated product flow directly from suppliers to retail stores (Sundram et al., 2011). In working together as partners in interdependent development with goals set between individual goals and team goals that acceptance of goals or commitment to goals does not take into account differences in performance, team goals contribute to more feelings of cooperation than individual goals (Mitchell and Silver, 1990). If the goals of all partners in the supply chain are properly and appropriately aligned to achieve GC, FP will inevitably increase (Larson and Kulchitsky, 2000).

To survive and compete in the current global economy, the manufacturing sector is very necessary to create, share and disseminate current and appropriate knowledge and information (Lotfi et al., 2013). Things that need to be considered in SCMP are Information Sharing (IS) because IS can be said to be the heart of supply chain collaboration (Min et al., 2005). IS consists of frequent, authentic, and personal contacts between buyers and suppliers which are used to find shared solutions about customer feedback, retailers need to share information with suppliers (Gandhi et al., 2017). Ensure that many supplier product problems are caused by poor communication between supply chain partners (Newman and Rhee, 1990). Therefore, IS in the supply



chain must ensure the smooth flow of information and thus ensure the SCP is improved. IS refers to the attitude of trust and commitment which in turn leads to increased satisfaction and FP (Nyaga et al., 2010). For example a product that matches consumer demand makes it closer and changes in the market can be anticipated effectively. The widespread use of advanced information technology in supply chains, such as Electronic Data Interchange (EDI) and the Web (Lotfi et al., 2013). In addition, consumers can also provide feedback in return which can be used as ammunition by producers in making better decisions for the production of further goods (Gandhi et al., 2017).

Supply chains have become an important part of competitive advantage for business organizations (Sukati et al., 2012). In organizations, such as manufacturers, the supply chain includes all functions involved in receiving and filling customer requests which include new product development, marketing, operations, distribution, finance, customer service and other functions related to serving customer requests (Chopra and Meindl, 2002). Every actor in the supply chain of the fashion industry must understand the role in order to continue to survive and develop in their fields. Because every year more and more competitors, thus making consumers more selective (Fitriani et al., 2018). Implementing an SCM system is expected to increase the efficiency of clothing line production and streamline the distribution of goods.



**Figure 1.3 SCM Activity**

**Source: Processed by author, 2020**

SCM can integrate the overall management of clothing lines related to supply chain management from upstream to downstream, so that a company is able to produce quality products, the roles of various parties starting from suppliers to end consumers receiving finished goods (Joni, 2018). The importance of various parties supporting the creation of quality products requires a good Supply Chain Management (SCM) process. SCM is a key factor in improving company performance to achieve its goals in winning competition and increasing customer service. Supply Chain Management is one of the crucial processes in which the flow of exchange of raw materials, information between companies occurs.

### **1.3 Research Problem Statement**

In running a business that implements a SCM system, it is necessary to pay attention to details on each of the factors that exist to achieve good performance between the company and partners, especially in the clothing line business. Supply Chain Management (SCM) can be interpreted as a production movement related to product coordination and information flow between suppliers, manufacturers, distributors, retailers, and customers by sharing information between suppliers and retailers, appropriately and coordinating production decision making (Kumar and Pugazhendhi, 2012). There are 102 clothing lines and distribution that are spread in Bandung registered as Small and Medium Enterprises (UKM) since 2015 (<http://disperindag.jabarprov.go.id/>, 2019). From this data, Bandung shows that Bandung is competent in the clothing industry and is dubbed as the fashion city. In running a business that implements the SCM system, it is necessary to pay attention to details on each of the existing factors to achieve good performance between the company and partners, especially in the Clothing Line business. In the continuation of the performance of business line businesses need to pay attention to Customer Relationship Management (CRM), customers have an important role to build long-term

relationships with customers, to find out their complaints and increase overall satisfaction (Tan et al., 1999).



**Figure 1.4 Online Discussion from Kaskus**

**Source: kaskus.co.id, 2016**

In Indonesia, especially in Bandung, customers will usually provide feedback through the reviews they provide through social media such as YouTube, Instagram, online forums, etc. Usually comments from customers are given positively and negatively as a suggestion for brands to improve brand quality and innovation. There are several clothing lines in Bandung that cannot achieve customer satisfaction. This problem lies in poor design and quality with many competitive competitors.

Suppliers in the clothing business line will also be a benchmark in the smooth business. Some suppliers as vendors do not use their own model photo. This can lead to problems with the results of the production that is not appropriate. Furthermore, an experienced supplier will improve the relationship between partners to partners and provide good service (Bandungkaospolos.com, 2020). Cooperation between partners

has a common goal known as Goal Congruence. Goal congruence refers to forming a mutually agreed vision among supply chain partners to achieve certain common goals for each material flow without suppliers to save and harmonize company performance with the aim of understanding collaboration among supply chain partners who are considered key to partnerships in the supply chain so that key customers get a unique impression of the product (Gandhi et al., 2017). To survive and compete in the current global economy, the manufacturing sector is very necessary to create, share and disseminate current and appropriate knowledge and information (Lotfi et al., 2013).

Customers can find various information about the product of the desired brand by accessing it via Instagram, and the web of the relevant brand. But there are some clothing lines in Bandung that don't use the web and Instagram as a marketing and communication media with customers. This makes it difficult for the clothing line to be difficult to develop and lose competitiveness only by relying on the offline store. Because prospective customers cannot find out information related to the clothing line.

Based on previous research, there are still very few studies that discuss the factors that influence the performance of SCM in clothing line companies, so this research can be done. While the object of the previous study was a retail company in India. The problems contained in previous studies are more concerned with general issues in the retail industry in India. In addition, previous research has focused more on its position as a retailer and does not examine too deeply on other variables. While the research being conducted now will be much more in assessing and identifying the problems that exist in each variable for the clothing line in Bandung. So you can find out more about what influences and know how much influence these factors have on the implementation of SCMP and also strengthen the strategic role of SCMP through its contribution to its impact on SCP and FP. The results of this study will prove better for the clothing line business to be more organized and can improve their work practices in the supply chain field and can improve their overall performance.

#### **1.4 Research Question**

1. Does Customer Relationship Management influence Supply Chain Performance?
2. Does Supplier Relationship Management influence Supply Chan Performance?
3. Does Goal Congruence influence Supply Chan Performance?
4. Does Information Sharing influence Supply Chan Performance?
5. Does Supply Chan Performance influence Firm Performance?
6. Does Customer Relationship Management influence Firm Performance?
7. Does Supplier Relationship Management influence Firm Performance?
8. Does Goal Congruence influence Firm Performance?
9. Does Information Sharing influence Firm Performance?
10. Is the Supply Chain Performance mediating between Customer Relationship Management and Firm Performance?
11. Is the Supply Chain Performance mediating between supplier Relationship Management and Firm Performance?
12. Is the Supply Chain Performance mediating between Goal Congruence and Firm Performance?
13. Is the Supply Chain Performance mediating between Information Sharing and Firm Performance?

#### **1.5 Research Objective**

1. To know the influence between Customer Relationship Management and Supply Chain Performance.
2. To know the influence between Supplier Relationship Management and Supply Chain Performance.
3. To know the influence between Goal Congruence and Supply Chain Performance.
4. To know the influence between Information Sharing and Supply Chain Performance.

5. To know the influence between Supply Chain Performance and Firm Performance.
6. To know the influence between Customer Relationship Management and Firm Performance.
7. To know the influence between Supplier Relationship Management and Firm Performance.
8. To know the influence between Goal Congruence and Firm Performance.
9. To know the influence between Information Sharing and Firm Performance.
10. To know that Supply Chain Performance mediating between Customer Relationship Management and Firm Performance.
11. To know that Supply Chain Performance mediating between Supplier Relationship Management and Firm Performance.
12. To know that Supply Chain Performance mediating Goal Congruence Sharing and Firm Performance.
13. To know that Supply Chain Performance mediating between Information Sharing and Firm Performance.

## **1.6 Significant Research**

### **1.6.1 Theoretical Significant**

1. For academics, the results from this research are expected to improve understanding of Supply Chain Management Practices (SCMP) analysis of Firm Performance, especially in the clothing line business in Indonesia or abroad. So that, this research can be a reference to containment related to SCMP.
2. For firms related to clothing lines, the results of this research are expected to provide benefits to firms regarding SCMP that affect firm performance. So the firms can improve its performance to be more effective and efficient than before.

3. For further research, this research can be used as a reference and basis for further research, especially related to the SCMP in firm performance.

### **1.6.2 Practical Significant**

The results of this research are expected to contribute and help for firms engaged in the clothing line, especially in Indonesia. So that it can provide advice in improving firm performance for the long term and assist in decision-making according to SCM.

### **1.7 Research Scope**

This research is about company performance which is influenced by Supply Chain Management Practices. The object of this research is the clothing line in Bandung. This research examines whether company performance can be influenced by supply chain management practices which include Customer Relationship Management, Supplier Relationship Management, Goal Congruence, and Information Sharing. The sample used is from the clothing line itself. Because there are more than 100 clothing lines registered in Bandung, they need to improve their company's performance in terms of SCM. So that the company's performance can be better and can be seen from the perspective of their customers. As has been explained in table 1.1, here are some clothing lines in Bandung.