

## CHAPTER 1 INTRODUCTION

### 1.1 Object Overview



**Figure 1.1 Logo PT. Paragon**

PT Paragon Technology and Innovation (PTI) is a company engaged in the production of cosmetics. This company was founded by Dra. Hj. Nurhayati Subakat, Apt who is a pharmacy graduate graduated from the Bandung Institute of Technology (ITB). In 1995, the company introduced their cosmetic brand under the name Wardah Cosmetics. Then, in 1999, PT Pusaka Tradition Ibu through its factory received halal certification from LPPOM MUI, with the cosmetic brand Wardah as the pioneer of halal brands in Indonesia. PT Paragon Technology and Innovation has been in business since 1985 under the name PT Pusaka Tradition Mother. Their pioneer brand was called Putri, and their tagline read "Salon's Best Choice." (Waruwu, 2019).



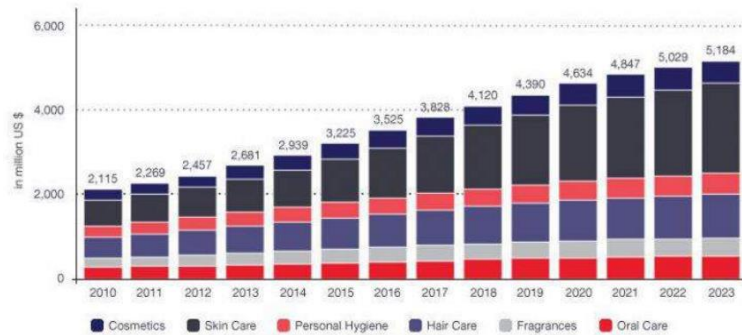
**Figure 1.2 Logo of Wardah**

The Wardah brand no longer sounds foreign to the community because many products from Wardah accompany women in fulfilling their various needs in the world of care and dealing with various kinds of problems, from small to large (Raja Cantik, 2020).

## **1.2 Background**

According to Doddy Rahadi as Head of the Industrial Research and Development Agency (BPPI) of the Ministry of Industry, Indonesia has a comparative advantage compared to several countries producing herbal and cosmetic products made from natural ingredients such as China, Malaysia and Thailand (Lionita, 2020). Along with the increasing population of the younger generation or millennial generation, Indonesia will have a large market so that the cosmetic industry will be prospective and promising for producers who want to develop it domestically (Lionita, 2020). This is reinforced by the statement from the Association of Indonesian Cosmetics Companies that the country's cosmetic industry will continue to grow positively (Wijayanto, 2020). According to Achmad Sigit Dwiwahjono as Director General of the Chemical, Pharmaceutical, and Textile Industries of the Ministry of Industry, quoted from an article in one online media, the increasing growth is driven by domestic market demand and exports which are increasing every year. This is influenced by the trend of people starting to pay attention to body care products as a major.

According to data from the Ministry of Industry, the number of companies engaged in the cosmetic industry in Indonesia in 2017 increased to 153 companies, bringing the total to more than 760 companies (Kurniawan, 2019). In 2018 the Ministry of Industry noted that the export value of the cosmetics industry increased by 29.8% to US\$677 compared to the previous year which only reached US\$521 (Business News, 2019). The following in Figure 1.1 is data on the growth of the cosmetic industry in Indonesia.



**Figure 1.3 Cosmetics Growth in Indonesia**

*Source : Cekindo, 2020*

Halal cosmetic products have long been a favorite of almost all Indonesians, and the cosmetic brand's image is very good, so many people trust it and the development of increasingly sophisticated skincare and cosmetics certainly causes an increase in the need for halal products in Indonesia. Aside from Wardah, many local cosmetic brands have halal certification, including Somethinc, Avoskin, Safi, Sariayu, BLP, and many more. All of these brands have succeeded in capturing a share of the cosmetic market due to customer trust, electronic word of mouth that has increased in tandem with promotions, and the presence of chemicals that are good for the skin and safe.

Along with the increasing population of the younger generation or millennial generation, Indonesia will have a large market so that the cosmetic industry will be prospective and promising for producers who want to develop it domestically (Lionita, 2020). This is reinforced by the statement from the Association of Indonesian Cosmetics Companies that the country's cosmetic industry will continue to grow positively (Wijayanto, 2020). The very rapid growth of the cosmetic industry will certainly appear various kinds of products that compete to highlight the advantages of their products, one of which is cosmetic products that have a halal label. In Indonesia, the development of halal cosmetics is increasing due to high market demand, where people are now aware of the importance of using halal cosmetics, halal cosmetics are the people's choice in

addition to beautifying themselves but also raw materials that are safe to use for the skin, so consumers feel calm in using them. halal cosmetics (fajriana, 2019).

Halal cosmetics must obtain a halal certificate from the Institute for the Study of Food, Drugs and Cosmetics of the Indonesian Ulema Council (LPPOM MUI, 2018). With this institution, the public will find it easier to obtain halal products, because consumers, especially Muslims, can ensure which products already have a halal label and are suitable for use.

- |                                 |                            |
|---------------------------------|----------------------------|
| 1. Wardah Kosmetik              | 6. Amara Halal Kosmetik    |
| 2. Sariayu                      | 7. Safi                    |
| 3. By Lizzie Parra (BLP Beauty) | 8. L'Oreal                 |
| 4. Zoya kosmetik                | 9. ForestSecret            |
| 5. ESQA                         | 10. Olive Natural Skincare |

**Figure 1.4 List of Halal Cosmetics in Indonesia**

*Source : Kumparan, 2019*

One of the many different brands that have been granted halal certification, Wardah is one of such brands. Wardah is a pioneer in the creation of halal-certified beauty goods that share the notion that the halal way of life and beauty products may be beautifully blended. All of Wardah's products adhere to the halal dietary and lifestyle requirements (PT Paragon Technology and Innovation, 2022). According to Sari Chairunnisa, who serves as Director of Research and Development at PT Paragon Technology and Innovation, "From the year 1999, the World Halal Council has recognized Wardah as a pioneering halal cosmetic brand originating in Indonesia. From the beginning of the product design process all the way through production, Wardah places an emphasis on halal compliance and high product quality " (Salsabila, 2019) Wardah offers a wide variety of goods that have been modified to cater to the preferences of a variety of customers.

In order to get the attention of consumers and be counted as a trusted halal brand when marketing halal-labeled cosmetic products, it is necessary to promote

the company, one of which is through social media platforms. At the moment, social media promotions are heavily collaborating with beauty influencers or rising artists in order to increase the number of viewers and the general public's attention. Typically, these influencers will use hashtags related to the cosmetic products they promote and will challenge all of their followers. From there, a trend, such as a makeup trend or a cosmetic product review, will emerge.

At this time the demand for halal cosmetics is very large, so PT Paragon Technology and Innovation (PTI) is relevant to expand to Malaysia which has characteristics similar to Indonesia, currently there are 289 outlets in Malaysia that sell their products, one of which is the product. Wardah (Setiawan, 2018). Recently the company has exported 6 containers of Wardah cosmetics and facial treatments worth 22.9 billion to Malaysia (Ekarina, 2020). PTI, the manufacturer of Wardah brand cosmetics, in maintaining its market share, will continue to promote on various digital and print media platforms and will continue to improve the quality of its products in the future.



**Figure 1.5 Wardah brand is the market leader for halal product in Indonesia**

*Source : Webinar Leaders Talks 2020*

According to Dra. Hj. Nurhayati Subakat as Commissioner of PT Paragon Technology and Innovation, Wardah is currently the market leader in Indonesia with the make up category no 1, moisturizer no 1, cleanser no 3 as shown in Figure 1.5 and beat multinational brands that are quite strong in the world. Indonesia, at that time the multinational brand that was defeated was a brand from the UK. Shabrina as Wardah's brand manager, also said that Wardah's market position in

early 2020, for the e-commerce segment experienced a significant increase and for development in retail and beauty product stores also experienced growth so that PTI remained focused on both sales channels (Hidayat & Handoyo, 2020).

With these market challenges, Wardah will continue to innovate to present better products and to maintain Wardah's position as a market leader (Rahayu & Tendi, 2019). It can be concluded that Wardah's position as a market leader in the cosmetic industry, Wardah is included in the category of sales that earn high income, where from the high sales results due to the high public interest in buying the Wardah brand.

Based on the explanation above, the authors are interested in conducting research with the title “The Influence Of E-WOM and Brand Image On Purchasing Decisions On Halal Cosmetics Brand In Indonesia”.

### **1.3 Problem Statements**

In addition to being considered from a halal point of view, electronic word of mouth is another aspect that is supposed to affect purchasing decisions. According to Kotler and Keller (2016), electronic word of mouth marketing is marketing that makes use of the internet to create word of mouth impacts in order to support marketing efforts and objectives. E-WOM can reach a much wider range, regardless of whether these people know each other. Viral marketing is a form of word of mouth or news that spreads from one mouse click to the next, just like a virus. This type of marketing encourages customers to tell others about the products and services developed by the company in the form of audio, video, and written communication.

One of the cosmetics with the well-known halal label in Indonesia is Wardah Cosmetics owned by the company PT Paragon Technology and Innovation. The Wardah brand is still a pioneer in the halal cosmetic category in Indonesia. On the PT Paragon Technology and Innovation website it says that by implementing a quality in process culture, the production team has the principle of always maintaining quality and standards from one process to the next (PT. Paragon Technology and Innovation, 2021). This is what makes the Wardah brand so trusted by the people in Indonesia in the halal cosmetics category. This can be proven by

Wardah's products being ranked number one in Muslim-friendly local makeup brands as the pioneers of halal makeup in Indonesia (Nanwani, 2021).

The development of Wardah products that carry the halal label raises the question of how far the halal product image on Wardah can influence purchasing decisions by looking at the current situation, Muslim communities are almost completely dependent on products made by non-Muslims and their awareness and knowledge of halal products is still relatively low. In addition, the halal label is often correlated with certain religious teachings, in fact the halal label attached to various products actually has benefits that can be felt by everyone regardless of religion. On the other hand, Wardah products are also local products that need to maintain their brand image so that they are not inferior to products that are not yet halal-certified or products from abroad that are soaring.

#### **1.4 Research Question**

Based on the background of the research above, the authors specifically formulated the research questions as follows :

1. How much do the rate of E-WOM (Information Quality, Information Quantity, and Information Credibility), Brand Image and Halal Product Image of Wardah Cosmetic based on Respondent?
2. How much do the possible of Purchase Intention and Purchase Decision of Respondent toward Wardah Cosmetic?
3. Do E-WOM (Information Quality, Information Quantity, and Information Credibility), Brand Image have any influence Purchase Decision through Halal Product Image and Purchase Intention?

#### **1.5 Research Objectives**

1. To analysis the rate of E-WOM, Brand Image, Information Quality, Information Quantity, Information Credibility, and Halal Product Image of Wardah Cosmetic based on Respondent
2. To find out the possible Purchase Intentions and Purchase Decisions of Respondents for Wardah Cosmetics

3. To find out whether E-WOM, Brand Image, Information Quality, Information Quantity, Information Credibility have any influence on Purchasing Intention and Purchase Decision through Halal Product Image.

### **1.6 Scope of the Study**

Problem limitations are used to avoid irregularities or broadening of the subject matter, allowing the research to be more targeted and facilitating discussion, ensuring that the researcher's goal is met. The following are the study's limitations:

1. This research is about the influence of Electronic Word of Mouth and Brand Image on purchasing decisions through halal product image with a case study of Wardah cosmetics
2. Respondents who are halal cosmetics users
3. This study uses independent variables, namely information quality, information quantity, information credibility, and brand image. Mediating variables are halal product image and purchase intention. For the dependent variable, the purchase decision is selected.

### **1.7 Significant of the Study**

The authors hopes that this research can answer the written Problem Statements and Research Questions, which are divided into two significances. Namely Practical and Theoretical Significance.

#### **1. Theoretical Significance**

This research can provide answers to questions related to the relationship between Electronic Word of Mouth and Brand Image that can affect Product Purchase Decisions through the Halal Product Image on Wardah Cosmetics.

#### **2. Practical Significance**

##### **a. For the readers**

The result of the research can give information for readers.

##### **b. Other researchers**

The result of this study is expected to give additional information and to provide useful knowledge for reference for future research.



## **1.8 Systematic of Writing**

To provide a clear picture of the research, the author compiles a systematic writing that contains information about the material and things discussed in each chapter so that this thesis can be directed and in accordance with its purpose. The systematic writing of this research is as follows:

### **CHAPTER I INTRODUCTION**

This chapter is a general explanation of the object overview, research background, problem statements, research questions, research objectives, significance of research, scope of research and systematic of writing.

### **CHAPTER II LITERATURE REVIEW**

This chapter presents a summary of the theory, previous research, framework thinking, and hypotheses.

### **CHAPTER III RESEARCH METHOD**

This chapter explains the description of the type of research, operational variables, stages research, population and research sampling techniques, data collection and analysis techniques data used in research.

### **CHAPTER IV RESULTS AND DISCUSSION**

This chapter contains findings in the data that have been successfully analysed by proving the research hypothesis.

### **CHAPTER V CONCLUSIONS AND SUGGESTIONS**

This chapter discusses conclusions and suggestions as a final result and writing this final project