

## CHAPTER I INTRODUCTION

### 1.1 Research Background

In today's world, most people have started to develop with the times, starting from parents, children, housewives, office workers, to small children. Everyone now has convenient access to internet use. Starting from remote places to big cities, Indonesian citizens can now access the internet easily and cheaply from their homes.

The Indonesian Internet Service Providers Association (APJII) predicts that out of Indonesia's 278,696,200 population in 2023, 221,563,479 will be utilizing the internet by 2024. According to the 2024 internet penetration survey results released by APJII, Indonesia's internet penetration rate has reached 79.5%. Compared to the previous period, there was an increase of 1.4%. As of 2018, Indonesia's internet penetration has reached 64.8%. Subsequently, the internet penetration rates were 73.7% in 2020, 77.01% in 2022, and 78.19% in 2023.

In terms of gender, Indonesia's internet penetration is primarily contributed by men at 50.7%, followed closely by women at 49.1%. Gen Z (born between 1997 and 2012) represents the biggest age group of internet users, accounting for 34.40% of total users. This is followed by millennials (born between 1981 and 1996), who account for 30.62%.

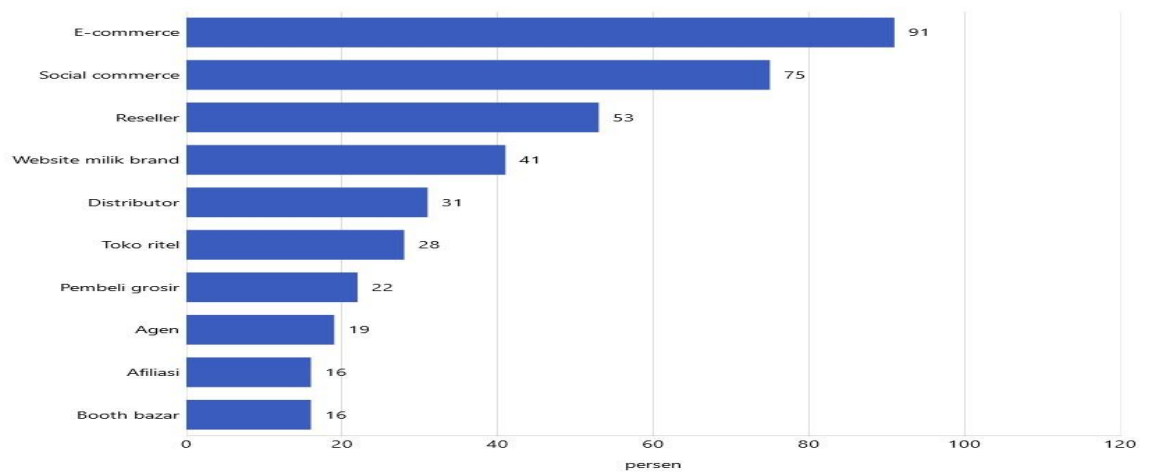


Figure 1. 1 Channels Rising Brand Companies Use to Market Their Products (October 2023) (source: Databoks)

Most growing companies, or rising brands, focus more on selling through online channels than offline. This is recorded in Beyond the Digital Frontier, a research report resulting from a collaboration between Katadata Insight Center (KIC) and social commerce service provider Evermos. KIC conducted a survey of 32 rising brand companies that contributed the largest gross merchandise value (GMV) on the Evermos application.

The findings indicated that 91% of emerging brands marketed their products via e-commerce platforms like Tokopedia, Shopee, Lazada, and others. Additionally, 75% promoted their products through social commerce channels, including TikTok Shop, Instagram Shopping, Facebook Shops, WhatsApp, and more.

Meanwhile, those using offline marketing channels such as distributors, retail stores, wholesalers, agents, and bazaars are much smaller in proportion, as shown in the graph above. "It is clear that most rising brands prioritize online channels, considering them more important than offline channels," said the KIC team in its

report. "This condition proves the importance of the online market in today's business landscape," he continued.

According to KIC, this rising brand group prioritizes online sales because they can access a wide market without high costs. Online channels can also help rising brands reach specific target markets, because there are data analysis features to understand customer preferences. However, KIC found that Indonesians who actively shop online are still very few, with an estimate of around 33.4% of the total population.

"Focusing only on online channels means ignoring more than half of Indonesian consumers," said the KIC team. KIC also found that local companies that are able to generate sales of more than IDR 500 billion per year generally have stronger offline marketing performance than online. "Although online channels are important for growth in this digital era, market leaders are those who have strong roots in offline channels," said the KIC team.

Of the various things sold on e-commerce, clothing is one of the most popular and purchased on the site. A variety of needs from uniforms, home clothes and trendy formal clothes are sold at affordable prices. and usually in e-commerce there are also many interesting events such as discounts and free shipping which increasingly attract customers shopping interest especially gen-z and millennial customer



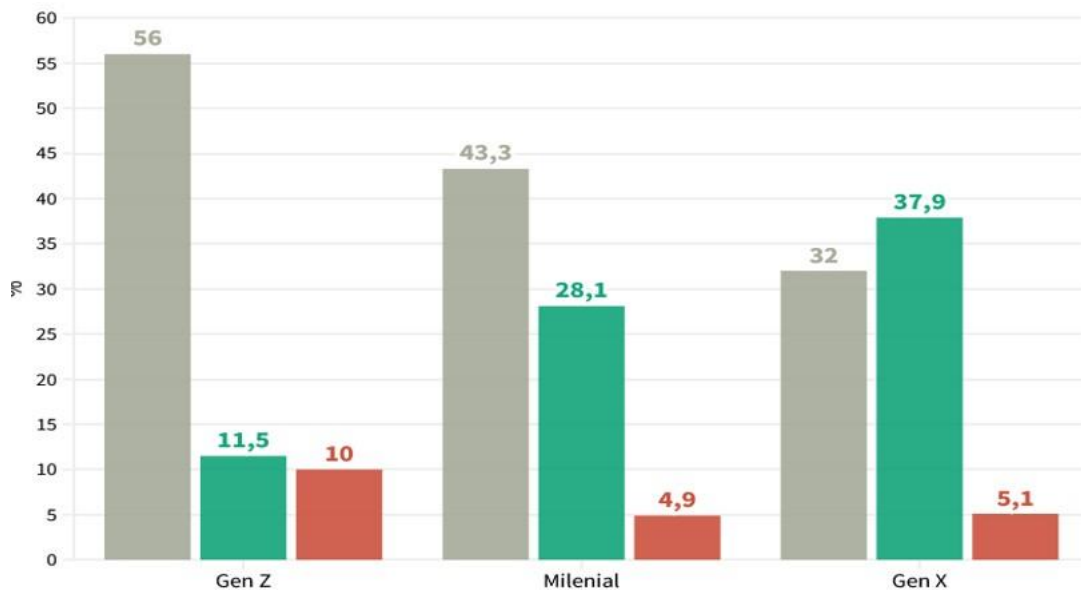


Figure 1. 2 Item most purchase by 3 generations (source: dataIndonesia)

According to Alvara Research Center survey results, clothing is the item most often purchased by generation Z and millennials online. As many as 56% of generation Z and 43.3% of millennials admitted that they regularly shop for clothes rather than other items. This is also because the trend season passes relatively quickly, so many Gen-Z and Millennials buy clothes because they are required by the trends that are currently in season at that time, and also so that they are not left behind compared to other colleagues in terms of fashion.

Naturally, internet marketing does not equate to a trustworthy online store; a company's primary objective, whether online or offline, is to satisfy its customers. Surviving and even developing amidst the onslaught of online shopping is not easy. A number of considerations must be made, such as client satisfaction, service quality, and brand image.

The development and growth of an apparel company should also prioritize a number of aspects, such as service quality. A company's ability to provide

highquality services is essential to its expansion. High-quality service, as anticipated, will lead to customer satisfaction. According to Gross et al. and Padlee et al. (2020), service quality evaluates how well a company provides services that meet customer expectations. Service quality is defined as meeting customer needs during service delivery. It is the company's responsibility to ensure high-quality services when interacting with consumers. In any product or service-based business, service quality is undoubtedly a critical factor that plays a key role in the company's survival, To remain competitive with other businesses or industries in the same field. Service quality is a significant concern, as it reflects how a business operates. If a business aims for high levels of customer satisfaction, it must focus on enhancing its service quality, If a business fails to deliver high-quality and satisfying services, customers are likely to look for and switch to competing businesses that can offer better service quality (Kotler & Keller, 2016).

Apart from service quality, business owners should also take into account the strength of their brand. Currently, businesses are facing greater challenges in attracting more customers due to fierce competition. Businesses are finding it progressively difficult to capture market share due to numerous competitors offering diverse advantages, such as superior product quality, excellent service, and a strong brand image. The perception customers have of a brand is known as brand image, and it is influenced by how customers feel, think, and assess the brand Lee et al., (2019). One reason for this is that a product's brand enhances its value. For a brand to establish a strong brand image, it must hold a unique position in the minds of its target audience, in addition to considering the feelings of its customers.



A product that has a strong brand image is easier for consumers to remember and identify. Brand image is used to distinguish one product from another in particular product categories. For a business to thrive in a highly competitive market, brand image becomes a vital strategic element. By highlighting the positive attributes of a company, brand image can affect customer feelings and emotions, as well as shape individual perceptions when selecting a product.

Revenue and the company's reputation may both be improved by evaluating and improving service quality. Service quality directly impacts a business's ability to meet customer needs and sustain a competitive advantage, regardless of the industry (Saraswati, E. 2022). The services offered to customers can yield numerous benefits for both the company and the consumer. For companies, quality service can enhance consumer trust, ensure a longer lifespan for the business, foster strong relationships with customers, create a positive company image, and more. Companies can gain a positive reputation in the public eye when their services are delivered effectively and meet consumer expectations. If a company can consistently deliver outstanding services to consumers without discrimination, it will become the preferred choice for consumers when purchasing the products it offers.

Amidst the numerous clothing stores and e-commerce platforms facing fierce competition, there are still offline shops such as Ali Pemda which was established in 2000 in a corner of Limau Manis which is still surviving and growing even amidst the booming online shopping and other e-commerce.

Researchers are conducting a study in West Sumatra, specifically in Padang, Limau Manis to assess how brand image and service quality influence customer satisfaction. The researcher will identify issues related to brand image and services to develop effective, creative, and innovative marketing strategies using various indicators, allowing them to assess the influence of the marketing strategies employed. Drawing from the research background, the researchers are keen to conduct additional studies under the title:

**“THE EFFECT OF BRAND IMAGE AND SERVICE QUALITY ON  
CUSTOMER SATISFACTION WITH CUSTOMER LOYALTY AS  
MEDIATING VARIABLE OF LOCAL CLOTHING STORE IN PADANG  
(CASE STUDY OF ALI PEMDA)”**

**1.2 Problem Statement**

1. How Brand Image affect Customer Loyalty in Ali Pemda Clothing Store Limau Manis?
2. How Service Quality effect Customer Loyalty in Ali Pemda Clothing Store Limau Manis?
3. How Brand Image affect Customer Satisfaction in Ali Pemda Clothing Store Limau Manis?
4. How Service Quality effect Customer Satisfaction in Ali Pemda Clothing Store Limau Manis?
5. How Customer Satisfaction affect Customer Loyalty in Ali Pemda Clothing Store Limau Manis?

### 1.3 Research Objective

1. To analyze the effect of brand image on customer loyalty in Ali Pemda Clothing Store Limau Manis.
2. To analyze the effect of service quality on customer loyalty in Ali Pemda Clothing Store Limau Manis.
3. To analyze the effect of brand image on customer satisfaction in Ali Pemda Clothing Store Limau Manis.
4. To analyze the effect of service quality on customer satisfaction in Ali Pemda Clothing Store Limau Manis.
5. To analyze the effect of customer satisfaction on customer loyalty in Ali Pemda Clothing Store Limau Manis

### 1.4 Research Contribution

The end result and contribution of this examine goal to growth the perception and understanding of researcher and in addition studies approximately carrier best and logo photograph on consumer satisfaction, then it may be reference for corporation in enhancing and growing their advertising approach to growth consumer satisfaction. It can also serve as a reference and perspective for the network when evaluating local stores.

### 1.5 Scope of Research

This research will focus on service quality and brand image as independent variables, while customer satisfaction will be treated as the dependent variable. The study will specifically target customers of the Ali Pemda clothing store located in Limau Manis.



## **1.6 Research Outline**

### **CHAPTER I: Introduction**

This chapter gives a summary of the subjects that will be discussed. The beginning covers the background of the research, problem statement, research goals, research contributions, study boundaries, and thesis structure.

### **CHAPTER II: Literature Review**

This chapter presents a conceptual and systematic overview of the variables, along with the hypotheses that support each variable used for analysis and the framework for developing the research questions.

### **CHAPTER III: Research methods**

This chapter outlines the research methodology and systematic data collection methods that will be analyzed according to the research objectives and established hypotheses.

### **CHAPTER IV: Data Analysis and Discussion**

This chapter includes information about the characteristics of the respondents, descriptive analysis, instrument testing, and the research findings.

### **CHAPTER V: Closing**

This chapter discusses the conclusions drawn from the research findings, the implications of the study, the limitations encountered, and recommendations for future research.

