

Chapter I

Introduction

I.1 Background

The fashion industry is a million-dollar industry that produces and sells clothes and other fashion accessories such as bags, shoes, necklaces, and many others. In 2016, the Fashion industry estimated worth was \$2.4 trillion globally (CNN style, 2020). According to the Ministry of Industry of Indonesia, Indonesia's fashion and textile industry has been growing for the past three years since 2017. In 2019, the growth rate of this industry reached 15,35% and has the steadiest growth compared to other sectors such as furniture, pharmacy, services, and paper industry (Kementerian Perindustrian Republik Indonesia, 2020). Indonesia is in the process of “Making Indonesia 4.0” by the year 2030. The fashion industry is one of the top 5 priorities by the ministry of industry of Indonesia for “Making Indonesia 4.0” (Kementerian Perindustrian Republik Indonesia, 2018) since this industry has a high competitiveness level and integrated industrial structure (Kementerian Perindustrian Republik Indonesia, 2019).

Industries that Experienced an Increase in Growth in 2019 (% , yoy)

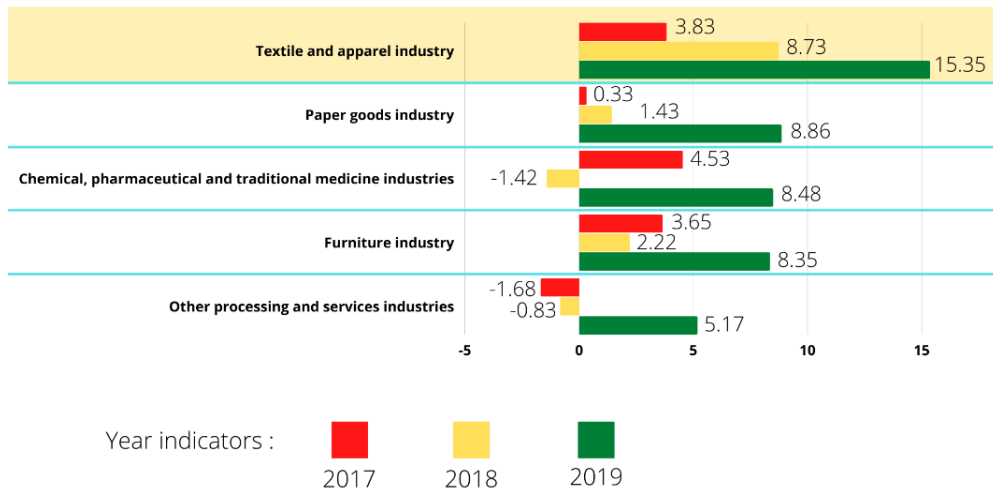


Figure 1 Industry Growth

Source: Kementerian Perindustrian Republik Indonesia (2019)

The overall growth in this industry in 2019 shows a positive sign. However, in the fourth quartile of 2019, the growth had a cutback and only reached 7.37%, which is lower than the year 2018 fourth quartile, 7.95%. One of the reasons for this situation is caused by the decrease in household consumption in the fashion sector. The declining household incomes cause a reduction in consumption as the effect of Covid-19 Pandemic (Kementerian Perindustrian Republik Indonesia, 2020).

Industries that Experienced Growth Deceleration in the 4th Quartile of 2019 (%yoy)

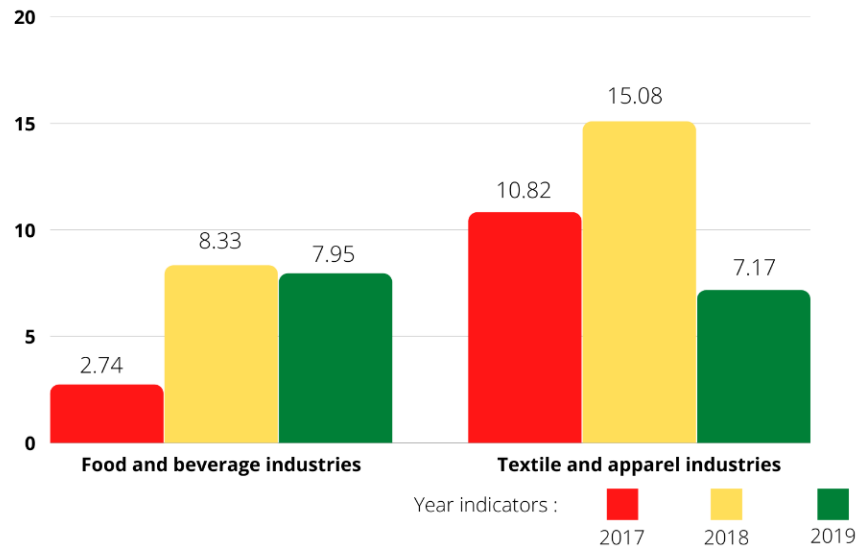


Figure 2 Industry Growth Deceleration

Source: Kementerian Perindustrian Republik Indonesia (2019)

Growth of Household Apparel Consumption (yoy)

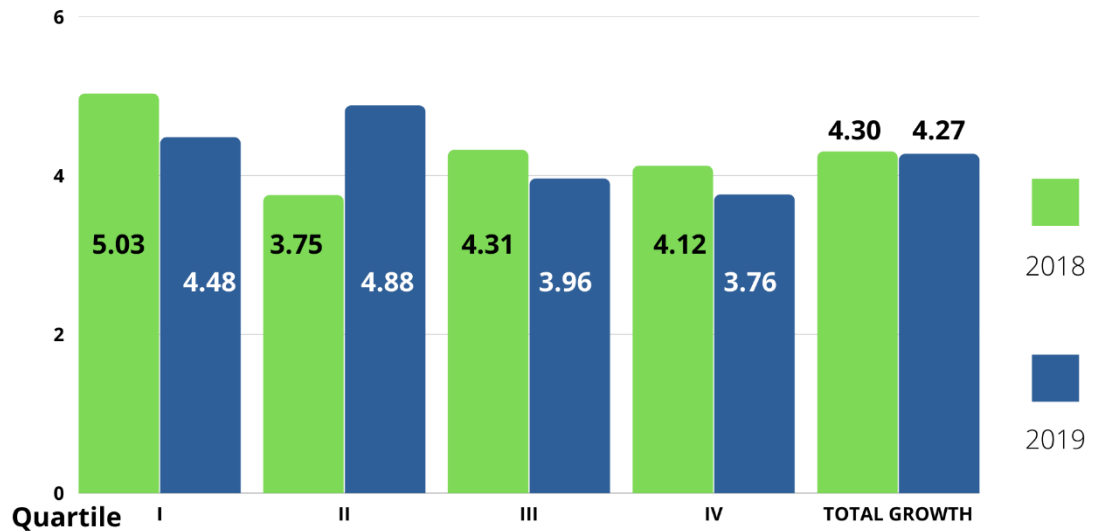


Figure 3 Household Apparel Consumption Growth

Source: Kementerian Perindustrian Republik Indonesia (2019)

In late 2019, a pandemic caused by the outbursts of Corona Virus has affected the world in various ways, starting from the health aspect to the world's politics and economic aspect. Indonesia's government implemented Large-Scale Social Restrictions (Pembatasan Sosial Berskala Besar, also known as **PSBB**) and Covid-19 health protocols such as wearing masks, periodic disinfecting, and many others to minimize the spread of the virus. The government's regulations restricted all forms of activities in the country, starting from education, health care to businesses and affecting many other sectors (Tobing, 2020). During this pandemic, many businesses have stopped expanding and shutting down their businesses (Akhlas, 2020), and it is predicted that more than 3.5 million people in Indonesia could lose their jobs (BBC, 2020). As a result, the buyer's purchasing power has decreased drastically and experienced a shift in purchasing behavior. The fashion industry is also affected by the changes that happened during the pandemic. The number of sales for clothes took a 50% downturn and created a significant industry transformation (Segran, 2020). Small to medium size fashion enterprises are having difficulty in sustaining their business activities because of the Covid-19 (CNN Indonesia, 2020). This situation hit heavily on the office and formal wear categories because people focused more on their primary needs, such as food, water, and electricity, which left no to little disposable income for buying clothes that are considered less critical.

Although clothing is considered a secondary need, the market for loungewear has increased in this pandemic. This is caused by the changes in the working environment and mindset of the people. During the pandemic, almost all the companies implemented a new working environment where people are instructed to work from home. This changed in the working environment has shaped a new behavior in their choices of clothing. People lean more towards the comfortable style as their primary choice of clothing. Therefore, the loungewear market has increase up to 37.7 billion USD globally as shown in figure 4 (Sabanoglu, 2020). Loungewear is a type of clothing usually designed for relaxing at home (Webster, 2019). This type of

clothing has the characteristic of being loose and stretchy, making people feel comfortable wearing them all day long (Cambridge dictionary, 2021).



Figure 4 Retail global sales of loungewear market from 2012-2021 (in billion USD)

Source: Statista.com (2021)

In Indonesia, this trend has dominated the market since the end of the year 2020 and is expected to last throughout the year 2021 (Aninda, 2021). This makes the apparel market becomes more competitive, during the year 2012-2017 fashion customers have been more sensitive towards prices and paid more attention into the value of money they spend. As the results the apparel industry showed a downward slope in the product pricing (Gerards et al, 2018). This situation might get worst during a crisis due to the downturn in the consumers income resulting people to be more sensitive for every Rp1 increase in the price of the product.

I.2 Problem Formulation

In this Covid-19 pandemic, people are more conscious and careful when purchasing goods and services. Many factors are affecting consumer behavior, such as social status, income, price, or culture. In this crisis, most people experience a significant drop in their income level. Income plays a big part in the consumers' purchasing behavior since it is the first thing they need to buy goods and services. Lower-income people have lower purchasing power and caused the consumer to be more price-sensitive towards their products. Price sensitivity is defined as the tool to measure the impact of price on the consumers' purchasing behavior (Kagan, 2020). It measures the percentage of sales loss that caused by the increase in every dollar on the product price (Yu, 2021). During crisis people tend to purchase goods and services in small quantity however the frequency of shopping increased during the crisis (McKenzie et al, 2011) especially in the primary goods categories. There are many studies done regarding the changes in consumers' purchasing behavior towards primary goods such as food, healthcare, and others. However, there are still little information available for the consumers' behavioral changes towards fashion products. Despite the lower-income level, the market of loungewear has been increasing and experiencing a boom in their sales since the early year 2020. Therefore, this research is intended to determine what impact does income and price sensitivity have in the changed purchasing behavior when buying loungewear during the Covid-19 pandemic and explain why there is an increase in sales while income is decreasing.

I.3 Research Objective

This research aims to find out the changes and influences of income and price sensitivity made towards the purchasing behaviour of loungewear. By referring to the problem formulation above, the objectives of this research are as follows:

1. What are the effects of income on the changed consumers' purchasing behaviour of loungewear during the Covid-19 pandemic?
2. What are the effects of price sensitivity on the changed consumers' purchasing behaviour of loungewear during the Covid-19 pandemic?
3. What changes does income and price sensitivity caused in the loungewear market purchasing behaviour?

I.4 Research Benefit

I.4.1 Theoretical Benefit

Theoretically, this study will provide knowledge on how income level and price sensitivity changed the buying behavior of loungewear and the overall market of loungewear.

I.4.2 Practical Benefit

Practically, this study can provide more inputs for the fashion companies when deciding on their pricing strategy.