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INFLUENCE OF REFERENCE GROUP INDICATORS TO THE IMAGE OF MODERN RETAIL (CASE IN INDONESIA)

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Abstract

This study aims to analyze the influence of the reference group to the image of modern retail in Medan. The research population is modern retail consumers in Medan. The samples in this study were consumers who shop at Indomaret, Alfa Mart and Alfa Midi modern retailers in Medan City, Indonesia and the sample size obtained was 204 by the fraction sample method. This study analysis uses a Structural Equation Modeling (SEM). The results concluded that the reference group has a significant effect on the modern retail images.

Keywords: consumers, reference group, image of modern retail

JEL Code: D91, L81, M31.

1. INTRODUCTION

The retail marketing tends to change, due to changes in consumer behavior in shopping, consumer needs, technological changes and business development. Nowadays, many modern retails are growing rapidly and going to compete with another modern retail, and even online retailers in Medan, Indonesia. In the modern era, the growth of modern stores, such as Indomaret, Alfamart and Alfa Midi, is very rapid in the distribution of Medan. Modern shops can be found in every region of a particular area and even coincide with another retail. The competition of modern retail businesses encourages the indulgence on the quality of service (QoS) to consumers to fulfill the needs of daily living with the concept of complete needs, pleasant atmosphere of comfort, with organized retail patterns and sustainable marketing. Modern retail businesses in Indonesia have generally proven their reliability and existence, supermarkets thrive in strategic places. This explosion of growth was due to the population growth and increasing income of the population (Khodami *et al.*, 2011, Makgosa, 2011, Tarmizi *et al.*, 2016; Muda *et al.*, 2018). The image of modern retail will be influenced by reference group as well. In line with what Dawson (2010) stated, that the reference group has a positive and significant effect on the image of the institution. Reference group can provide good information to prospective customers regarding to the recommended condition of modern retail, so that prospective consumers will assume that the image of modern retail is positive. Moreover, Frouzan *et al.*, (2012) stated that there is a reference group influence on the image of the institution. Meng *et al.*, (2007) believes that shopping becomes a leisure pursuit. He added that due to the rapid development of shopping centers, both retailers and developers are

trying to make it more than a pleasure activity. If the store atmosphere is well managed and making consumers feel comfortable, the consumers are going to linger in the store. It will stimulate the growth in the number of buyers that will increase retail marketing performance (Balakrishnan, 1996; Ailawad *et al.*, 2001; Situmorang *et al.*, 2017 and Marhayanie *et al.*, 2018).

Store atmosphere which is made as attractive as possible can have a positive effect and will provide benefits for the company (Alves and Raposo, 2010; Pragita *et al.*, 2013 and Lily, 2014). Four determinants to assess store atmosphere according to Berman (2002) are: exterior, general interior, store layout, interior display. This store atmosphere greatly affects consumer psychography. Ndubisi (2005) defines psychography as a study of what constitutes a consumer psychologically. There are two concepts in psychography, the first, giving an image of the psychological characteristics of consumers that is more at identification of consumer personality (self concept). Second, looking at psychography as a study of activities, interests, opinions. But in practice, psychographics are used to measure the lifestyle of consumers by analyzing activities-interests, and opinions. Activities explain how consumers observe places that will be used as shopping targets. Sales growth continues to increase every year in line with the increase in new store openings nationally every year, which is shown in the following Table 1:

Table 1. The Growth of Modern Retail Stores Nationally from 2013 to 2016

No	Brand	2013	2014	2015	2016	2017
1	ALFA MIDI	719	843	1.063	1.222	1300
2	ALFA MART	8557	9600	11.115	12.366	12.710
3	INDO MARET	8814	9300	12.195	13.900	14.200

Source : Annual Report PT. Midi Utama Indonesia.Tbk , PT. Sumber Alfaria Trijaya, Annual Report PT. Indoritel Makmur Internasional.tbk.(2017).

The rapid growth of the e-commerce market share in Indonesia is beyond doubt. Data from the ICD research institute predicts that the e-commerce market in Indonesia will grow 42% from 2012-2017. Some large VC (Venture Capital) such as Rocket Internet, Cyber Agent, East Ventures, and Ideo Source have even invested in e-commerce companies which are based in Indonesia, such as Lazada and Zalora, Berrybenka, Tokopedia, Bilna, Saqina, VIP Plaza, Ralali and many more. They are some examples of e-commerce companies that are successful in exploiting e-commerce market opportunities in Indonesia (Sadalia *et al.*, 2017 and Tambunan *et al.*, 2018). Supported by the number of internet users reaching 82 million or around 30% of the total population in Indonesia, the e-commerce market will be a threat for modern retails. It can happen if they do not continuously carry out various reinforcement to strengthen their marketing strategies, especially strategies in the reference group, perceived value, organized retail, continuously improve and modify store atmosphere and consumer psychography for modern retails (Pelham, 1997 and Cheng *et al.*, 2009). In this study the Exogenous Reference Group variables include three constructs, namely: Informational Influence, Normative Influence and Identification Influence. Exogenous variables perceived value includes six constructs (Pelman, 1999; Heinonen, 2004; Chu, 2009; Helena, 2010 and Chen *et al.*, 2013), namely: costs incurred by customers according to the services offered, costs incurred by customers for the company's products/services are the same as customer costs for similar company, costs incurred by customers can be adjusted to products/services offered, the company is flexible in responding to customer requests, the

company has the ability to customize products and services according to customers' tastes, the company can change the way it serves customers to be easier.

2.1. Literature Review

2.1.1. Reference Group

According to Kotler (2012), the reference group is a group that has a direct or indirect influence on a person's attitude and behavior. According to Zia (2011), a reference group (preference group) is an individual or group of people that significantly affects someone. According to Dhurup *et al.*, (2013) the reference group is defined as a person or group of people who significantly influence an individual's behavior. Indirect reference group consists of people or groups who each have no direct contact, such as movie stars, sports heroes, political leaders, or people who are well-dressed and look attractive on a street corner (Schiffman, *et al*, 2012). Reference group is very important things and ideas that have a big influence on consumer behavior. Thus, a reference group is any person or group that is considered as a comparison (reference) for someone in forming general or special values, or in behaving. From a marketing perspective, a reference group is a group that is considered as a reference basis for someone in determining their purchasing or consumption decisions.

Reference group is group of people who are considered capable of having influence, aspirations and even behavior towards others directly. Moreover, they are also considered as a comparison for someone in forming general/special values and attitudes or specific guidelines for reference group behavior providing standards that can be perspective for determinants about how someone thinks or behaves and this group is useful as someone's reference in decision making. Reference group has influence in consumers' decision making. This group always gives color or input even influences someone in doing something in the purchase (Heung, 2012; Hussain *et al.*, 2012; Rena, 2013 and Handoko *et al.*,2017). Influences of reference group according to Hsiung, *et al.*, (2013), there are three influences of reference group, namely:

1. Informational influence occurs when an individual uses the behavior and opinions of reference group members as a useful contribution of information. This informational influence can provide an overview, knowledge and information needed by consumers in decision making.
2. Normative influence, sometimes refers to utilitarian influences, occurs when individuals meet group expectations to get direct rewards for avoiding sanctions. This influence is also useful for groups of consumers who want rewards from a decision in a purchase made by consumers (Slater, 1994; Swinyard, 1997; Singh, 2007 and Srivastava, 2008).
3. Identification influence, also referred to as Value-Expressive influence, occurs when individuals have experienced internal values and norms. Based on these opinions, it can be concluded that the reference group is someone or group that influences a person's behavior in the process of purchasing a product or service.

2.1.2. Institutional Image

Image is a function of consumer experience and expectations. When consumers build expectations and reality of experience in the form of technical and functional service quality. Image of Modern Retail that is less tangible or clear may affect employees' attitudes towards the company where they work. Dimensions of Institutional Image according to Kotler and Keller (2006) are explained through the function of brand equity,

that the brand equity will be higher along with the increasing dimensions of the Institutional Image itself; the dimensions of the Institution Image are as follows:

1. company recognition
2. affinity
3. company reputation
4. company loyalty
5. domain
6. Other assets such as patents, trading stamps, and distribution channels

2.1.3. Modern Retails

According to Pride (2014) Retailing focuses on activities that are needed to facilitate exchanges with the ultimate consumers. Retail is entered into for personal, family or household purposes. Retail activities usually take place in a service establishment. Retail sales are more focused on serving home consumers who always shop to meet their needs. According to Kocamaz and Yalcin (2003), "Retail mix is a combination of retail factors used to satisfy customer needs and influence their decision to buy". These factors are location merchandise, price, promotion, service and store atmosphere. According to Kotler (2015) retails are all activities that involve the sale of goods and services directly to end consumers for personal use not for business.

2.1.4. Framework

The conceptual framework of this research is as follows:

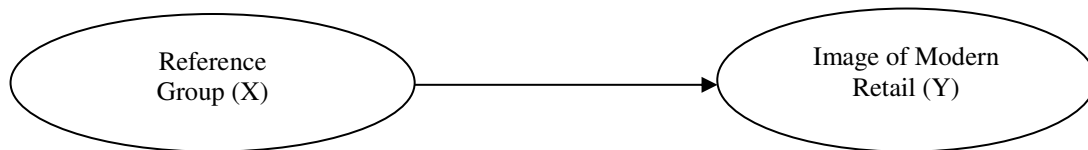


Figure 1. Research Conceptual Framework Model

3. RESEARCH METHOD

Descriptive research aims to obtain an overview of the research variables. The unit of analysis of this study is the chosen Modern Retails limited to Alfa Mart, Alfa Midi and Indo March in Medan. The observation unit is consumers who shop at Alfa Mart, Alfa Midi and Indo March and shop employees (modern retails). The modeling and solution technique that will be used as an analysis tool in this dissertation is SEM-AMOS. The research method used is the survey research method. The reason why using survey method is because data for descriptive research can be done through several techniques: surveys, primary data, and observations (Umar, 2003; Nasreen *et al*, 2010; Muda *et al.*, 2017; and Sihombing *et al.*, 2018). Operationalising Variables shows in Table 2:

Table 3. Definitions of Operationalising Variables and Research Indicators

No	Variable	Definition	Indicator	Scale
1	Reference Group (X)	Individuals or groups that encourage customers to buy a particular product consisting of normative reference group including friends and family, comparative reference group	1. Informational influence occurs when an individual uses group members' behavior and opinions.	Likert

	including educational community leaders, and multiple reference groups.	2. Normative influence, refers to utilitarian influences, occurs when an individual fulfills group expectations for immediate reward to avoid sanctions. 3. Identification influence, occurs when an individual has internalized group values and norms. (Kotler and Armstrong, <i>et al</i> , 2014)	
2	Institutional Image (Y) The image of the institution as the creation and development of a positive image for a brand, can be measured through indicators on the dimensions of brand value, brand characteristics, and brand associations.	1. company recognition 2. affinity 3. company reputation 4. company loyalty (Source: Kotler, 2002)	Likert

3.1. Data Source, Research Population and Research Sample

3.1.1. Research Population

Population is the overall unit of analysis that becomes the focus of attention in research. The population in this study are consumers who shop in modern retail (focus on the consumers of Alfa Midi, Alfa Mart and Indomaret) in Medan in 21 sub-districts, which are divided into several clusters based on population grouping in the sub-districts of Medan, Indonesia.

3.1.2. Research Sample

Determination of the sample uses proportional purposive random sampling technique (Sugiyono, 2002).

Table 2. Calculation on Determination of Number of Samples from Each Strata

No	Sub-district	Number of Sample
1	Medan Tuntungan	$68.438 : 2.006.142 \times 204 = 7$
2	Medan Johor	$108.911 : 2.006.142 \times 204 = 11$
3	Medan Amplas	$104.455 : 2.006.142 \times 204 = 11$
4	Medan Denai	$133.742 : 2.006.142 \times 204 = 14$
5	Medan Area	$108.317 : 2.006.142 \times 204 = 11$
6	Medan Kota	$82.901 : 2.006.142 \times 204 = 8$
7	Medan Maimun	$47.137 : 2.006.142 \times 204 = 5$
8	Medan Polonia	$49.040 : 2.006.142 \times 204 = 5$
9	Medan Baru	$42.221 : 2.006.142 \times 204 = 4$
10	Medan Selayang	$81.035 : 2.006.142 \times 204 = 8$
11	Medan Sunggal	$106.759 : 2.006.142 \times 204 = 11$
12	Medan Helvetia	$136.216 : 2.006.142 \times 204 = 14$

13	Medan Petisah	66.070: 2.006.142 x 204	=	7
14	Medan Barat	77.839: 2.006.142 x 204	=	7
15	Medan Timur	110.492: 2.006.142 x 204	=	11
16	Medan Perjuangan	99.580: 2.006.142 x 204	=	10
17	Medan Tembung	135.188: 2.006.142 x 204	=	14
18	Medan Deli	141.787: 2.006.142 x 204	=	14
19	Medan Labuhan	100.184: 2.006.142 x 204	=	10
20	Medan Marelan	112.563: 2.006.142 x 204	=	12
21	Medan Belawan	93.356: 2.006.142 x 204	=	10
Total Number				204

Source: Data processed (2018).

3.1.3. Structural Equation Model

The mathematical equation for the measurement model is as follows:

Table 3. Measurement Equation Model

Variable	Indicator	Measurement Equation
Reference Group (X)	X _{1.1}	X _{1.1} = λ _{1.1} X _{1.1} + δ _{1.1}
	X _{1.2}	X _{1.2} = λ _{1.2} X _{1.2} + δ _{1.2}
	X _{3.1}	X _{1.3} = λ _{1.3} X _{1.3} + δ _{1.3}
	X _{4.1}	X _{1.4} = λ _{1.4} X _{1.4} + δ _{1.4}
	X _{5.1}	X _{1.5} = λ _{1.5} X _{1.5} + δ _{1.5}
Image of Modern Retail (Y)	Z _{1.1}	Y _{1.1} = β _{1.1} Y _{1.1} + ε _{1.1}
	Z _{1.2}	Y _{1.2} = β _{1.2} Y _{1.2} + ε _{1.2}
	Z _{1.3}	Y _{1.3} = β _{1.3} Y _{1.3} + ε _{1.3}
	Z _{1.4}	Y _{1.4} = β _{1.4} Y _{1.4} + ε _{1.4}
	Z _{1.5}	Y _{1.5} = β _{1.5} Y _{1.5} + ε _{1.5}

3.1.3.1. Structural Model Testing

The final results of the structural model testing and the significance of the model are carried out using the bootstrap method (non-parametric method) because PLS does not use the assumption that data is normally distributed so that parametric testing of significance cannot be done (Hair *et al.*, 2015).

3.1.3.2. Effect Size (f²)

Effect size is used to see the effect of each exogenous latent variable in forming endogenous latent variables (Marhayanie *et al.*, 2017; Muda *et al.*, 2018 and Yahya *et al.*, 2018). Effect size measures the contribution between each variable to the formation of R². Calculation of effect size as follows:

$$f^2 = \frac{R^2 \text{ Moderation Model} - R^2 \text{ Non - moderation Model}}{1 - R^2 \text{ Moderation Model}}$$

The value of f² determines the dimension of the influence of each variable. The reference value used are 0.02; 0.15, and 0.35 which indicate weak, moderate, and strong influences (Hair *et al.*, 2014). By knowing the effect size of each exogenous variable, we

can find out the importance of the variables that form the endogenous variables of the study.

4. RESULT AND DISCUSSION

4.1. Result

4.1.1. Characteristics of Respondents

Table 4. Characteristics of Respondents based on Gender

Gender	Number (Person)	(%)
Men	98	48 %
Women	106	52 %
Total	204	100 %

Source : Data Tabulation (2018).

The results of research based on gender on Table 4 show that men are 98 people (48%) and women are 106 people (52%). The data shows that more women came to shop at Alfa Mart, Alfa Midi and Indomaret which were respondents in this study.

4.1.2. Validity and Reliability Testing

4.1.2.1. Reference Group Variable (X)

The test result of the validity of the Reference Group variable (X) can be seen in Table 5 below:

Table 5. Testing Validity of Reference Groups (X)

Questionnaire Item Question	Conclusion Criteria		Conclusion
	r_{count}	r_{table}	
Reference Group 1	0,545	0,300	Valid
Reference Group 2	0,589	0,300	Valid
Reference Group 3	0,602	0,300	Valid
Reference Group 4	0,561	0,300	Valid
Reference Group 5	0,596	0,300	Valid

Source: data processed (2018).

Table 5 shows that each questionnaire from the Reference Group variable (X) has $r_{count} > r_{table}$ which means that the score of the question is positively correlated with the total score of the construct, so it can be concluded that H_a is accepted and H_0 is rejected. In other words, each questionnaire from the Reference Group variable has a valid value, so it can be stated that each instrument that is an indicator of the Reference Group variable is able to measure these variables.

4.1.2.2. Image of Modern Retail Variable (Y)

The results of testing the validity of Modern Retail Image (Y) variables as follows:

Table 6. Testing Validity of Image of Modern Retail (Y)

Questionnaire Item Question	Conclusion Criteria		Conclusion
	R_{count}	R_{table}	
Image of Modern Retail 1	0,532	0,300	Valid
Image of Modern Retail 2	0,503	0,300	Valid
Image of Modern Retail 3	0,485	0,300	Valid
Image of Modern Retail 4	0,562	0,300	Valid
Image of Modern Retail 5	0,488	0,300	Valid

Source: data processed (2018).

The Table 6 shows that each questionnaire from the Image of Modern Retail variable (Y) has $r_{count} > r_{table}$, which means that the score of the question is positively

correlated with the total score of the construct, so it can be concluded that H_a is accepted and H_0 is rejected. In other words, each questionnaire from the Modern Retail Image variable has a valid value, so it can be stated that each instrument is a variable indicator of Image of Modern Retail.

4.1.3. Reliability Testing

Based on the data processed results is found:

Table 7. Testing Reliability of Research Instrument

Construct Variable	Conclusion Criteria		Conclusion
	r_{count}	r_{table}	
Reference Group	0,798	0,600	Realible
Image of Modern Retail	0,747	0,600	Realible

Source: data processed (2018).

The Table 7 shows that the seven construct variables in this study have met the reliability element of this study. Thus all research instruments can represent the research variables which can be carried out on the next test.

4.1.3. Structural Equation Modelling Analysis (SEM)

Univariate Normality test results are in the following Table 8:

Table 8. Univariate and Multivariate Normality Test Result

Variable	min	max	skew	c.r.	kurtosis	c.r.
KPR5	3.000	5.000	-.211	-1.231	-.818	-2.384
KPR4	3.000	5.000	-.381	-2.220	-.880	-2.565
KPR3	3.000	5.000	-.161	-.939	-.765	-2.232
KPR2	3.000	5.000	-.165	-.964	-.626	-1.824
KPR1	3.000	5.000	-.241	-1.403	-.880	-2.567
CRM5	3.000	5.000	-.026	-.153	-.706	-2.058
CRM4	3.000	5.000	.020	.115	-.342	-.998
CRM3	3.000	5.000	.144	.841	-.523	-1.526
CRM2	3.000	5.000	.043	.249	-.266	-.774
CRM1	3.000	5.000	-.032	-.186	-.895	-2.608
Multivariate					14.507	2.036

Source: Data processed, (2018).

The Table 8 shows that univariate C.R. from Kurtosis show several values that are more than ± 2.58 . Some indicators that show values exceeding the expected value of ± 2.58 are CRM_1 with a value of C.R. amounting to -2.608, then the SA_2 indicator with a value of C.R. amounting to 2.687, then the indicator ND_2 with the value C.R. amounting to 2,673. Univariate indicators are not normal. Test results for the Goodness of fit Index: The Structure Equation Modeling can be arranged in the following Table 9:

Table 9. Goodness of fit Index Testing

No	Goodness of fit	Cut of Value	Result	Conclusion
1	Chi Square	\leq Chi Square _{-tabel} in sig. 5% (0.05)(565,748)	551,147	<i>fit</i>
2	Probability	>0,05	0,112	<i>fit</i>
3	IFI	>0.95	0,983	<i>fit</i>
4	TLI	>0.90	0,980	<i>fit</i>
5	CFI	>0.90	0,982	<i>fit</i>
6	NFI	>0.90	0,805	Marginal

7	RMSEA	<0,08	0,019	<i>fit</i>
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Source: data processed, (2018).

4.1.4. Influence Analysis

This hypothesis testing is based on the following Table 10:

Table 10. Estimation Result of C.R (Critical Ratio) and P-Value

			Estimate	S.E.	C.R.	P	Label
Citra_Ritel_Modern	<---	Reference_Group	.263	.105	2.512	.012	par_38

Source: Data Processed, 2018

The Table 10 shows that the Reference Group probability value influences the Image of Modern Retail of 0.012. The probability value is smaller than 0.05 ($0.012 < 0.05$) so that it can be concluded that the Reference Group has a significant effect on Image of Modern Retail. To find out how much influence of the Reference Group, Perceptive Value, Organized Retail, Store Atmosphere and Consumer Psychography affect Image of Modern Retail and Retail Marketing Performance are indicated by the value of Standarized Estimates (Shukla and Jain, 2007; Satish and Raju, 2010). Standarized Estimates value of this research can be seen in the following Table 11:

Table 11. Standardized Estimates

			Estimate
Image of _Modern_Retail	<---	Reference_Group	.210

Source : Data processed (2018)

4.1.5. Influence of Reference Group on Image of Modern Retail

The Table 11 shows the Reference Group Probability value affecting the Image of Modern Retail of 0.012. The Probability Value is less than 0.05 ($0.012 < 0.05$) so it can be concluded that the Reference Group has a significant effect on Image of Modern Retail.

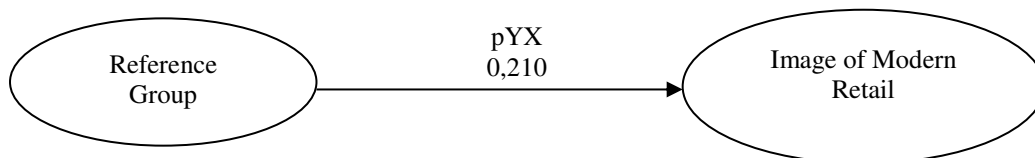


Figure 2. Direct Influence of X on Y

The magnitude of the influence of the Reference Group affects the Image of Modern Retail indicated by the Standarized Estimates value of 0.210. This means that every time there is a change in the Reference Group by a certain unit, it will increase the Image of Modern Retail by 0.210.

4.2. Discussion

The magnitude of the influence of the Reference Group affects the Image of Modern Retail indicated by the Standarized Estimates value of 0.210. This means that if there is a change in the Reference Group by a certain unit, it will increase the Image of Modern Retail by 0.210. The results of this study are in line with Menon research (2006). Reference group can directly or indirectly influence consumers to trust brand image (Institutional image). According to Kotler, (2002), the reference group is defined as a group that has a direct or indirect influence on one's attitude and behavior. It can be understood that a reference group is a group of certain people who can give encouragement and influence to customers to buy a particular product that is recommended, specifically a person or group of people who can provide

recommendations to prospective consumers in choosing and determining a place to shop or modern retail where they get daily needs. Referring to the explanation above, this study uses multiple reference groups as dimensions of the reference group, such as the use of several reference groups in determining shopping choices, including normative reference groups and comparative reference groups. Normatively, references can be obtained either from a group of friends or family that will be measured by indicators of how far the prospective consumer is able to follow and comply with the norms in the group, as well as how far the prospective consumer can behave as reference group.

A reference group can be obtained comparatively from a group of community leaders who are considered to have succeeded or achieved success by gaining comfort and satisfaction as well as certain self-values of modern retails that consumers are aiming for. The Reference Group in this study affects the Institutional Image which is something that can give an impression, either positively or negatively for the community as potential customers, the dimensions in question include visual logos, product quality, service quality, awareness of reputation or achievements of modern retails. Reference groups can provide good information to prospective customers regarding the conditions of the shopping place or the modern retail destination, so that prospective consumers will assume that the modern retail image is positive. This is in line with what was suggested by Chen, *et al.* (2011) who found that the reference group has a positive and significant effect on Institutional Image. This research is in line with Anselmsson and Johansson (2007) who found that reference group has implications for brand relations, brand loyalty, and choice. Recent research shows that consumers form relationships with brands in ways that are very similar to how they form relationships with others. The results of the Reference Group research affect the Image of Modern Retail, means that the Reference Group is able to provide pressure or influence on the Retail Image that is perceived by consumers.

5. Conclusion and Sugestion

5.1. Conclusion

Reference Group has a significant effect on Image of Modern Retails. This means that there is a real and strong influence of the Reference Group on Image of Modern Retail. The image of modern retail is also influenced by reference groups. Reference groups can provide good information to prospective customers regarding the recommended condition of modern retail, so that prospective consumers will assume that the image of modern retailers is positive.

5.2. Sugestion

1. Further research is needed such as adding emotional branding factors to retail image as an intervening variable to provide the indirect influence of reference group, perceived value, organized retail, store atmosphere and consumer psychography on the image of modern retails.
2. Modern retailers need to carry out periodic market mapping, provide the latest items, to adjust to the latest and adaptive technological developments, in order to map the market routinely, quickly find new ways, new items, new entertainment, and technology so The perceived value of the reference group will influence the Consumer Psychography of Image of Modern Retail.

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