

CHAPTER I

INTRODUCTION

A. Background

Globalization is the widespread influence of culture and science throughout the world. Normally, globalization is synonymous with both technological and science, and also in the field of communication. Progress in information technology allows international news to be known to the entire world in seconds. Globalization is a phenomenon that is inevitable, arguably globalization is something that will definitely happen. But in addition to providing economic benefits, it also brings many implications for many aspects of human life which ultimately make people adapt to the changes that occur (Paulus Rudolf, 2014). This caused a shift in lifestyle, as an example of the entry of Western culture into Eastern cultural life through the internet. This can cause Easterners to follow the Western lifestyle. In this case, according to Suneki (2012), globalization is considered as a process where events, decisions and activities in other parts of the world can affect individuals or communities in other parts of the world.

The growth of the Muslim population in countries that are predominantly Muslim and where Islam has become a minority in the world in recent years has significantly increased (Rosita, 2018). The Muslim population is the second largest population and the fastest growing

religion globally in 2015 and is expected to offer more opportunities for companies operating in this market by 2030 when it reaches 26% of the global population. Due to the growth of the Muslim population that has increased significantly globally this is what causes people to be interested in understanding the behaviour of Muslim consumers and want to explore the meaning of Islam itself (Yeo, 2018). This led to the emergence of increased demand for halal products because the Muslim community wants halal products to consume.

For Muslims, consuming halal products is an obligation. We will get sin if we consume products that are unclean. Halal and illegitimate products for Muslims refer to the Qur'an and Hadith. For example is in *Surah Al-Baqarah* verse 168:

نَهَى ۙ الشَّيْطَانَ خُطَوَاتٍ تَتَّبِعُوا وَلَا طَيِّبًا حَلَالًا الْأَرْضِ فِي مِمَّا كُلُّوا النَّاسُ أَيُّهَا يَا
مُيَبِّنٌ عَدُوٌّ لَكُمْ

"O men, eat the lawful things better than what is on the earth, and do not follow the steps of shaitan, for the shaitan is the real enemy to you" (Surah al-Baqarah: 168).

بَاغٍ غَيْرِ اضْطُرَّ فَمَنْ ۙ اللَّهُ لِيُغَيِّرَ بِهِ أَهْلًا وَمَا الْخَنِزِيرُ وَلَحْمَ وَالِدَمِ الْمَيْتَةِ عَلَيْكُمْ حَرَّمَ إِنَّمَا
حَيْمَرَ غَفُورٌ اللَّهُ إِنَّ ۙ عَلَيْهِ إِنَّمَا فَلَا عَادٍ وَلَا

“Verily Allah only forbids you carcasses, blood, pork, and animals (when slaughtered) called (names) other than Allah. But whoever is forced to eat while he does not want it and does not exceed the limit, there

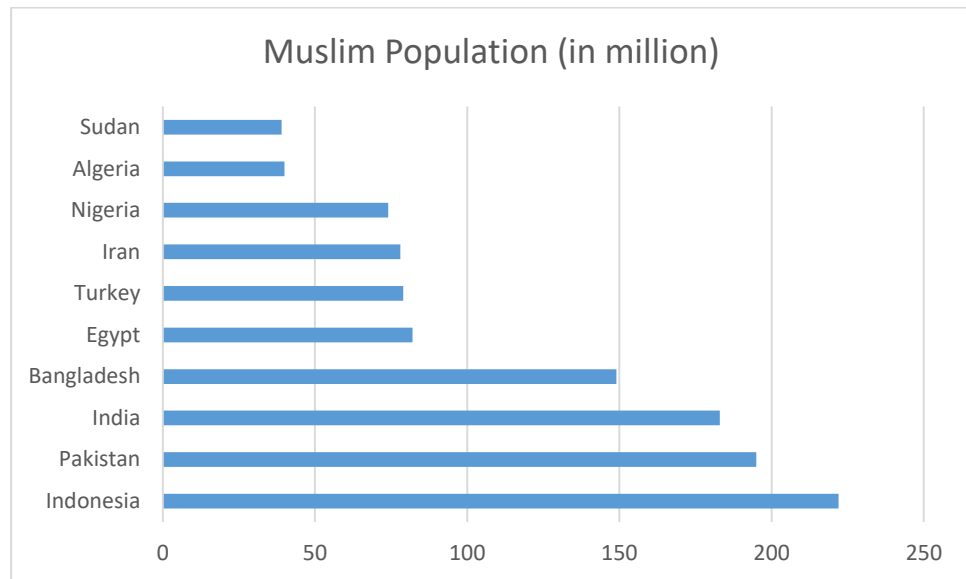
is no sin for him. Allah is Forgiving, Most Merciful.” (Surah Al-Baqarah: 173)

For a Muslim, it is obligatory to consume everything that is lawful. The word Halal comes from the verb "HALLA" which means permitted, legislative, permitted, legitimized, and not prohibited. Furthermore, in chemical disciplines, anything that can dissolve, be polluted, can be transformed into liquid, decomposed. And stay away from everything that is Haram, where Haram is completely contrary to the concept of Halal, whatever, action, activities that consider "taboo, make mistakes and offend according to Islamic jurisdiction. The word Haram comes from the verb "HARRAMA" which means prohibited, prohibited and non-jurisdiction in Islam (Majid, 2015).

Refer from the halal concept that has become a concentration in Islam, halal industry has become a rapidly growing business in the world both in the field of food or non-food. According to the Halal Industry Development Corporation (HDC), the worldwide human population reaches 1.8 billion with a global halal market estimated at US \$ 2.3 trillion per year including the food and non-food sectors. According to the DEW Research Centre, Muslims are expected to represent 27.5% of the global population by 2030 which has increased by more than 37.5% from 2010 (Aziz, 2017). Development of Halal The automatic industry creates promising business opportunities in the food and non-food sectors globally.

Lately, not only has Halal food experienced an increase in demand but also Halal cosmetics that Muslim women use daily. Halal cosmetics are cosmetics as they are commonly used in the human body which have the purpose of cleaning, beautifying, or changing appearance without changing body shape. Lately it is known that the Halal market is around \$ 1.62 trillion per year and is anticipated to increase to \$ 2.47 trillion by 2018. The halal cosmetics market represents 7 percent of the global market with \$ 54 billion, and is expected to reach \$ 80 billion with a growth of 6.8% during the period 2014 - 2020 (Al-Hajla, 2017). The development of the Halal Cosmetics industry proves that the awareness of Muslims with halal products that enter or absorbed into the body is increasing.

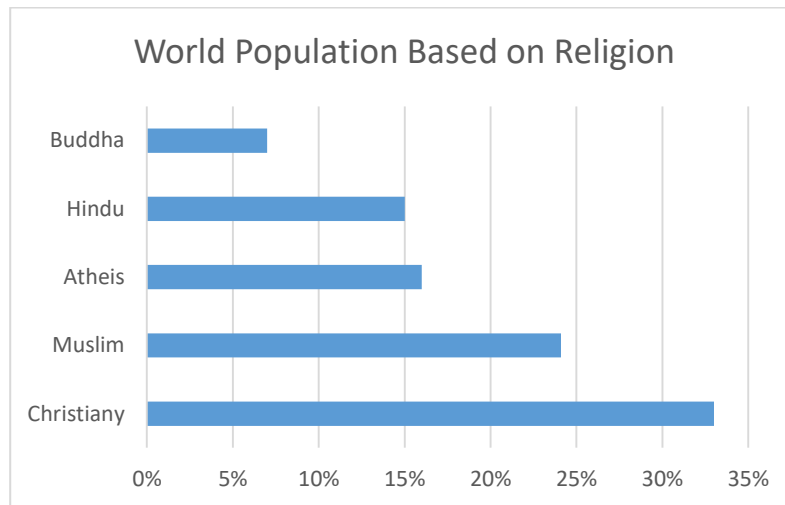
The development of the halal cosmetics industry cannot be separated from the increasing Muslim population in the world. The Muslim population is the second largest population and the fastest growing religion globally in 2015 and is expected to offer more opportunities for companies operating in this market by 2030 when it reaches 26% of the global population (Yeo, 2018). The Muslim population in Indonesia ranks first with the largest population in the world with approximately 222,000 million Muslims and is followed by Pakistan with a population of around 195,000 million Muslims.



Source: <https://support.muslimpro.com/hc/id/articles/115002006087-Top-10-Populasi-Umat-Muslim-Terbesar-di-Dunia>

Figure 1. 1 10 Largest Muslim Population in the World

In Indonesia itself, the majority of the population is Muslim. With the figure described above, the followers of Islam amounted to 222,000 million people or 87.2% of the total population. The Muslim population is concentrated in the Asia-Pacific region (62%). Then some others are spread in the Middle East and North Africa (20%), sub-Saharan Africa (16%), and in Europe (3%). Meanwhile the Muslim population in North America, Latin America and the Caribbean is less than 1%. The large Muslim population in Indonesia can open business opportunities in the halal cosmetics field because of the many requests for halal cosmetics themselves. Because halal cosmetics can be used by all people, it is not aimed at Muslims.



Source: <https://www.pewforum.org/2012/12/18/global-religious-landscape-exec/>

Figure 1. 2 World Population Based on Religion

Based on figure 1.3, Christiany is the first largest populatation in the world. Means found 2.2 billion Christians (32% of the world population), 1.6 billion Muslims (23%), 1 billion Hindus (15%), almost 500 million Buddhists (7%) and 14 million Jews (0 , 2%) worldwide in 2010. In addition, more than 400 million people (6%) practice various traditional religions or traditional religions, including traditional African religion, Chinese folk religion, Native Americans, Native Americans. aboriginal religions and Australian religions. An estimated 58 million people - a little less than 1% of the global population - include other religions, including the Baha religion, Jainism, Sikhism, Shintoism, Taoism, Tenrikyo, Wicca, and Zoroastrianism, to name just a few. This could be an opportunities that Halal cosmetics isn't only focus to Muslim community but also all religion in the whole world because halal labelled cosmetics can be enjoyed by all people with all religious backgrounds.

The beauty industry market in Indonesia is not only entered by domestic players but also many foreign players who enter the beauty market in Indonesia. Many beauty brands are traded in Indonesia, the most popular local brand is Wardah. While Maybeline has attracted many consumers in Indonesia long before the local beauty brand in Indonesia dominated the market.



Source: <http://www.markplusinc.com/halal-and-herbal-the-two-emerging-buzzwords-in-indonesias-cosmetics-market/>

Figure 1. 3 Women's Favourite Cosmetic Survey in Indonesia

At first, there were not many cosmetics that included halal labels on their products. Then, in 2005 Wardah already had halal certification by LPPOM MUI and then this trend began to be followed by competitors in other Halal cosmetics markets. In the survey above, not only cosmetics brands were halal but also non-Halal cosmetics such as Maybeline and Revlon. In Indonesia there are around 41 brands of beauty products that already have halal certification from the Institute for Food, Drug and Cosmetic Studies of the Indonesian Ulema Council (LPPOM MUI). This

number is still relatively small when compared to the number of cosmetic products in Indonesia ranging from local brands to foreign brands.

Based on figure 1.2 above, Wardah experienced a high level of purchase due to the high level of consumer awareness of the halal products they consumed. This has led to an increase in the popularity of halal cosmetic products in Indonesia. However, with the increase in information technology today there are also many non-Halal cosmetics from abroad that enter Indonesia and are consumed by Muslim women. This will be a polemic for Muslim women because in fact, the non-Halal cosmetics used will enter the skin.

The rise of cosmetic products today is undeniably caused by technological developments. For ordinary people, beauty products that can make bright in a short time are the best. In fact, behind that, there are many chemicals that are harmful to the skin and also substances that are prohibited by Islamic law or haram. Chemicals such as *Methyl & Propyl & Butyl & Ethyl Paraben, Propylene Glycol, Triclosan, and Hydroquinone* are very easy to find in the market of cosmetic products if consumers are not keen on buying. Those chemical ingredients are very dangerous because it might contain carcinogenic. While carcinogenic means any substances that cause cancer by changing deoxyribonucleic acid (DNA) in the body's cells, and this interferes with biological processes.

Table 1. 1
Case of the of Illegal and Dangerous Cosmetics
in Yogyakarta

No.	Case	Information
1.	BPOM Releases Illegal and Dangerous Cosmetic Findings in Yogyakarta (2017)	<p>The Yogyakarta Food and Drug Administration (BPOM) examined at least 62 cosmetic distribution facilities in five regencies and cities in Yogyakarta. 62 facilities monitored are distributors of cosmetics, beauty clinics, notifiers, and supermarkets. From 62 distribution facilities examined, 26 facilities including or more than 35 percent of facilities monitored did not meet the requirements. Drug has been found without distribution permit containing dangerous ingredients which are prohibited from being used in cosmetics.</p> <p>The most cases found were products that did not have distribution permits in 13 facilities and 11 facilities including having dangerous ingredients in the cosmetics content. Sanctions to be received by the perpetrator are in the form of administrative sanctions and destruction of goods.</p> <p>(source: jogja.tribunnews.com, December 2017)</p>
2.	Thousands of Illegal and Dangerous Cosmetics Confiscated from 48 Shops in Yogya (2018)	BPOM Yogyakarta attracts 416 items or 2,936 cosmetic product packaging without marketing authorization and contains dangerous ingredients. This cosmetics was confiscated from 48 shops and supermarkets in the DIY area. In addition 29 packages were also found consisting of 13 items containing

		<p>dangerous ingredients in cosmetics.</p> <p>There are 403 items or 2907 cosmetic product packaging without distribution permits with an economic value around Rp 89 million. For cosmetic products containing hazardous ingredients there are 29 packages consisting of 13 items and the economic value is Rp 580 thousand. So that the total operating findings were 416 items and 2,936 packages with an economic value of Rp.89,576,000</p> <p>Head of BPOM Yogyakarta, Sandra MP, explained that there are three types of hazardous substances in cosmetics, namely hydroquinone, retinoic acid, and mercury. These three substances should not be added to cosmetic products because they can endanger health and can trigger cancer.</p> <p>(source: merdeka.com, July 2018)</p>
3.	<p>BPOM Yogyakarta Confiscates Dangerous Cosmetic Products Worth IDR 1.8 Billion (2009)</p>	<p>BPOM Yogyakarta seized illegal and dangerous cosmetic products. This illegal and dangerous cosmetic product has an estimated value of Rp. 1,825 billion obtained from the Yogyakarta City area and Sleman Regency. Confiscated beauty products do not have marketing authorization and are in the form of cosmetics for hair, milk bath soap, facial cleansers and various special health products for femininity.</p> <p>The products and chemicals obtained by the officers have been confiscated which among them are obtained from beauty salons in the Gamping District of</p>

		<p>Sleman, valued at Rp. 1,350 billion. A beauty salon in the Nogotirto area of Sleman worth IDR 400 million and a cosmetic wholesale shop on Diponegoro Street, Yogyakarta City worth IDR 50 million and an iron shop on Palagan Street, Sleman worth IDR 25 million.</p> <p>The cosmetic products that are put into operation include local production, namely PT. Natural Nusantara Yogyakarta. Entrepreneurs who sell products without marketing authorization can be charged with Law no. 23 of 1992 concerning health with the threat of a maximum sentence of seven years in prison and a fine of up to Rp 140 million, (source: detik.com, September 2009)</p>
4.	Marketed Online, 6,059 Illegal Cosmetic Packaging in Yogya Police Confiscated (2015)	<p>Thousands of illegal cosmetics of various types that are going to be sold through online sales have been secured by the Police Directorate of Drug Narcotics in Yogyakarta. The mode is that cosmetic products without marketing authorization are very similar to genuine cosmetic products but are sold at much cheaper prices than official ones.</p> <p>(source: detik.com, July 2015)</p>
5.	Yogyakarta BPOM Secure Thousands of Illegal Cosmetics (2016)	<p>2,642 packaged illegal cosmetics and containing dangerous substances circulating in five regencies / cities of Yogyakarta have been secured by BBPOM Yogyakarta. The economic value estimated from illegal and dangerous cosmetic products is estimated at Rp. 231.2 million.</p> <p>From the results of laboratory tests,</p>

		<p>several harmful chemicals contained in cosmetics are rodamin B, carcinogenic, hydroquinone, mercury and retinoic acid. Retinoic acid for lightening and anti-acne should not be used for cosmetic ingredients, except as a prescription drug because it can cause dry and flaky skin.</p> <p>(source: nasional.republika.com, May 2016)</p>
--	--	--

This study was conducted to determine how consumer's ability in purchasing halal labelled cosmetics in Yogyakarta using Contingent Valuation Method (CVM). To take a sample of this research, the author take the under graduate students in Universitas Sanata Dharma and Universitas Atma Jaya Yogyakarta. The reason behind why the author choose Universitas Kristen Duta Wacana, Universitas Sanata Dharma, and Universitas Atma Jaya Yogyakarta as a sample because location at those universities are right in the middle city of Yogyakarta. Those universities are the universities that adapt Christian principle in order to learn and study. According to Kamaruddin (2012), two locations were chosen due to its location that reflects the lifestyle of the urban and rural Muslim population. The objective of Contingent Valuation Method (CVM) is to determine the willingness to pay (WTP) of the community and a desire (willingness to accept).

In order to develop the Halal Industry especially Halal Cosmetics in Indonesia, it needs an awareness from Muslim and Non Muslim

community itself to consume halal labelled cosmetics and also support from government, communities, and institutions. The halal cosmetics development is important to increase sales by creating beauty products with halal label as Indonesia has big Muslim population. So that the author took **“Analysis Factors of Willingness to Pay for Halal Labelled Cosmetics on Non-Muslim Community in Yogyakarta (Study at Universitas Kristen Duta Wacana, Universitas Sanata Dharma and Universitas Atma Jaya Yogyakarta, Special Region of Yogyakarta)”**

B. Limitation of Research Problem

In order to conduct the research which is consistent with the objectives, hence the author sets the following restriction:

1. The research is done only for non-Muslim women student who study in Universitas Kristen Duta Wacana, Universitas Sanata Dharma, and Universitas Atma Jaya Yogyakarta.
2. The dependent variable of this research is willingness to pay. And for the independent variables of this research are education level, consumers' awareness, religious belief, income level, age and purchase frequency.
3. In this research, the author used price of product to analyse the WTP of halal labelled on the cosmetics product because it was constrained by time and costs to analyse the halal labelled itself. The halal labelled also come along with the cosmetics product, so it makes difficult for separating halal labels from the product itself.

4. The bidding method used is an open-ended question technique in questionnaire. The open-ended question is done by giving open question to respondents about what value they want to pay to get halal labelled cosmetics product. The respondents will respond directly to the maximum value that they willing to pay to get halal labelled product.

C. Formulation of Problem

In this research, the author has some formulation of problem, they are:

1. How much the Willingness to Pay for halal labelled cosmetics product on non-Muslim community in Yogyakarta?
2. How does knowledge of product have a significant effect on willingness to pay for halal cosmetics at three selected universities in Yogyakarta?
3. How does the promotion of product have a significant effect on the willingness to pay for halal cosmetics at three selected universities in Yogyakarta?
4. How does consumers' awareness to consume halal products have a significant effect on willingness to pay for halal cosmetics at three selected universities in Yogyakarta?
5. How does the frequency of purchases have a significant effect on willingness to pay for halal cosmetics at three selected universities in Yogyakarta?

6. How does income have a significant effect on willingness to pay for halal cosmetics at three selected universities in Yogyakarta?

D. Research Objectives

Based on the introduction and problem statement, the objectives of the research are:

1. To know the WTP value for halal labelled cosmetics on non-Muslim community in Yogyakarta.
2. To analyse the influence of knowledge of product on willingness to pay for halal cosmetics in Yogyakarta.
3. To analyse the influence of promotion of product on the willingness to pay for halal cosmetics in Yogyakarta.
4. To analyse the influence of consumers' awareness of consuming halal products on the willingness to pay for halal cosmetics in Yogyakarta.
5. To analyse the effect of purchasing frequency on willingness to pay for halal cosmetics in Yogyakarta.
6. To analyse the influence of income on willingness to pay for halal cosmetics in Yogyakarta.

E. Research Benefit

1. Theoretical benefit

Theoretically, the results of this study are expected to contribute ideas in adding knowledge and also as a source of useful information about willingness to pay (WTP) of cosmetics halal products.

2. Practical benefit

Practically, the results of this study are expected to solve problems for prospective entrepreneurs who want to move in the field of beauty and also for managers of marketing beauty companies in the field of halal cosmetics sales related to consumers' willingness to pay (WTP).