

Chapter 1

INTRODUCTION

1.1. Background of the Study

Small and medium enterprises is business enterprise owned by individuals or firms which meet the criteria of small and medium business enterprises as stipulated in the Indonesian Law number 20 year 2008 regarding Micro, Small and Medium Enterprises. The classification of micro, small, and medium enterprise can be seen in Table 1.1.

Table 1.1
Classification of Micro, Small, and Medium Enterprises

Classification	Revenue	Asset
Micro	Maximum of 50 million rupiah	Maximum of 50 million rupiah
Small	300 million – 2.5 billion rupiah	50 million – 500 million rupiah
Medium	>2.5 billion rupiah – 50 billion rupiah	500 million – 10 billion rupiah

Source: UU no. 20 tahun 2008 tentang UMKM

According to the report released in 2016 by Indonesian Ministry of Cooperatives Small and Medium Enterprises, the number of small and medium enterprises in Indonesia is recorded at 740,785 units.

These numbers are relatively very superior compared to the numbers of big enterprises in Indonesia which is recorded at 4,987 units. The growth of small and medium business enterprises from 2013 to 2015 is recorded at 4.88% (Ministry of Cooperatives, Small and Medium Business Enterprises Annual Report 2016). Realizing the numbers and growth of small and medium enterprises, it is appropriate to deliver more attention in those sections. The numbers of small and medium enterprises have a positive relationship towards their role in Indonesian economic. At the report released by the ministry of cooperatives, small, and medium enterprises in 2016, it is recorded that 9,519,616 work force are absorbed and the number is nearly triple the workforce absorbed in big enterprises. Kuncoro (2013), economy and business observer, stated that small and medium enterprises is a solution towards unemployment in Indonesia.

Even though small and medium enterprises play a considerably big role in the Indonesian economy, it has to be admitted that such enterprise sometimes faces problems in selling their products or services. The main reason for such phenomena is caused by the lack of capital or source of funding. Small and medium business enterprise doesn't have enough resources to market their product or services in popular magazine ads, television ads, or billboards. In addition to the lack of resources to do marketing activities, small and medium enterprises rarely can afford a decent physical store. Such condition disadvantages small and business management, whereas the existence

of physical store can build customer trust which is crucial for businesses (Leman, 2016).

On the other hand, in an era where technology develops rapidly, nowadays physical store can be substituted with online store. A store role isn't always as a place to do transaction or purchase. Existence of a store may influence customer perceived value, and trust. From visiting a store, customer may see how well store is managed, how well products are displayed, and how well customers are treated while visiting store. During the traditional era, having a physical store is a must, but now in the era of technology it can be substituted by having an online store. From an online store, customer can experience most things which can be experienced in a physical store aside of physically touch and feel the product. These days, online store becomes more and more crucial because of its ability to provide more convenience also to lower customer search cost.

Social media may appear as a platform of an online store. Social media itself is an online applications and platforms which aims to facilitate interactions, collaborations and sharing of content (Richter and Koch, 2007). With the existence of social media in the online world, companies can engage loyal consumer, potential consumers and stimulate people's perceptions toward their product, then to share information, and to understand more about the consumer (Brodie et al., 2013). Particularly in this study, the social media which is studied is Instagram.

Instagram is chosen because of the huge number of daily active users reaching 400 million (Shah, 2017). Within that number, 5 million accounts are registered as business. From the data provided above, it is not wrong to assume that Instagram has emerged as a business platform or simply saying, an online store. In Indonesia there are 45 million Instagram users based on an article released by *Jakartaglobe* in July 2017. Meaning, by using Instagram as an online shopping platform, a business can reach nearly 20% of Indonesian total population. The use of Instagram as an online store platform has been practiced by many business, varying from small up to big businesses. Small and medium business owners chose Instagram because creating an Instagram account is free, this doesn't burden the business which is very limited in capital. Big businesses chose Instagram because of its ability to reach many customers or potential customers.

Instagram works as a media to share photos and videos which is used by business owners to share their products or activities. Photos and videos uploaded by business owners provide information about the business. Information uploaded in Instagram profile might create certain perception towards a business. The perception created in customer's mind then might influence customer whether to purchase products. For small and medium enterprises which are limited in capital, using Instagram might be the most effective and efficient way to share information about the business. It does not cost money to

create and the easy to use feature, not to mention its ability to reach 45 million people.

Having an Instagram profile, on the other hand, doesn't guarantee small and medium enterprises in becoming successful as Instagram profiles have to provide good quality information. Based on Wang and Strong (1996), good quality information criteria are accurate, relevant, interpretable, accessible, and create value. Studies have shown that consumers consider social media as more trustworthy sources of information than the traditional instruments of marketing communications used by companies (Karakaya and Barnes, 2010). Previous study conducted by Hotlan (2014) found that information quality has a positive and significance impact towards trust. In contrary, a study by Katarina (2017) found information quality does not have positive and significant impact towards trust.

The base theory of information quality was taken from The DeLone and McLean Model of Information System Success (2003). The studies stated information quality does have an impact towards net benefits through user satisfaction and intention to use. Web content should be personalized, complete, relevant, easy to understand, and secure if we expect prospective buyers or suppliers to initiate transactions via the Internet and return to a site on a regular basis (DeLone and McLean, 2003).

In the shopping sites context where neither the buyer nor seller can be face-to-face with the other party directly, trust becomes an important part in stimulating consumer purchase intention as trust

impacts behavior and behavioral intent (Singh and Sirdeshmukh, 2000). Understanding consumer trust on online retailing is vital. Research indicates that online shopping is associated with risks such as product performance risk, financial risk, and time or convenience risk (Forsythe et al., 2006). Some consumers are worried of being cheated by the sellers as they do not meet the seller or feel the product directly prior to purchase (Kamel and Hussein 2002).

Information quality doesn't only have an impact towards trusts. There are numbers of studies which analyse the information quality and its impact towards purchase intention. Purchase intention can be defined as a consumer's conscious plan or intention to make an effort to purchase a product (Spears and Singh, 2004). According to Kotler (2005), purchase intentions are affected by internal consumer behavior (perception, attitude, and motivation) and external factors (family roles, and group influence).

As the internet is used more extensively by customers, a business should pay more attention to website development since customers will likely to gather information from a website with good information quality. Information quality refers to the amount, accuracy and the form of information about the products and services offered on a website (Nusair and Kandampully, 2008). Website presentation will ensure potential customer to be initially drawn in, but the website content is still the critical issue in online purchase (Sam and Tahir, 2009). In the study conducted by Sam and Tahir, information quality is proved to be positively related to online purchase intention. The

result of Sam and Tahir is supported by Hotlan as he also stated that good information quality creates purchase intention among customer in the study conducted in 2014.

Customer purchase intention is influenced by numbers of aspects. In fact, the most influential aspects may be customer perceived value. Researchers have identified perceived value as major driving factor for customer purchase intention (Chang et al, 2014). The study done by Chang therefore strengthen the statement of a similar study done in 2012 by Chen and Chang which stated that perceived value has a positive impact towards customer purchase intention. According to Utility Theory, the probability of purchase intention will increase, when consumers acquire more benefits than they pay for a product (Dickson and Sawyer, 1990). Study by Chi et al. (2009) finds that consumers will follow perceived value of a product/service to make purchase decision.

In this study, researcher would like to know how big the impact of information quality on Instagram as an online platform and information provider. Researcher would like to observe how information conveyed on Instagram profile of small and medium enterprises might influence customer perceived quality and trust. In addition, the ultimate goal is to analyse how the use of Instagram might increase the probability of customer purchase intention. The object of the study will be the Instagram profile of Kovalen Coffee. Kovalen Coffee is a small coffee business and categorized as small and medium enterprises as its yearly revenue hasn't yet reach 300

million rupiahs. Coffee business is chosen as Indonesia is world's number 4 biggest coffee producer, producing 639.3 thousand tonnes in 2016 as can be seen in Figure 1.1 (Databoks, 2016). On the contrary, even though Indonesia is in the top four world coffee producer, coffee consumption in Indonesia is still very low. Indonesia's coffee consumption is recorded at 276 thousand tonnes in 2016, meaning there are 363.3 thousand tonnes production surplus from the local consumption (Databoks, 2016).

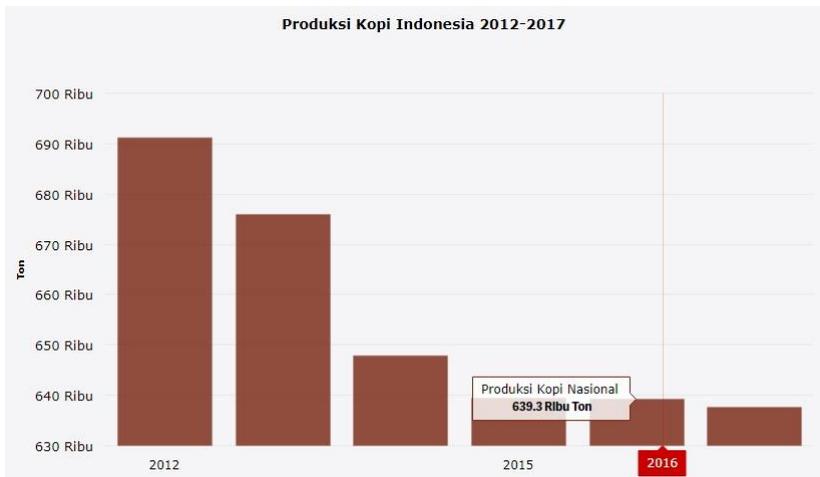


Figure 1.1 Indonesia Coffee Production

Source: Databoks (2017)

Based on the phenomena and condition explained, researcher would like to conduct a research regarding Instagram capability to stimulate customer purchase intention especially in the coffee business sector. The title of the research is “The Impact Analysis of Information

Quality towards Purchase Intention Through Perceived Value and Trust on Kovalen Coffee's Instagram Profile”.

1.2. Research Question

From the background stated above, the research questions for this study can be formulated as:

1. Does information quality on Instagram have an effect towards customer perceived value?
2. Does information quality on Instagram have an effect towards customer trust?
3. Does information quality on Instagram have an effect towards customer purchase intention?
4. Does information quality on Instagram have an effect towards customer purchase intention through customer perceived value?
5. Does information quality on Instagram have an effect towards customer purchase intention through customer trust?

1.3. Objective of the Study

From the research question above, this study aims at:

1. Determining the impact of information quality on Instagram towards customer perceived value.
2. Determining the impact of information quality on Instagram towards customer trust.
3. Determining the impact of information quality on Instagram towards customer purchase intention.

4. Determining the impact of information quality on Instagram towards customer purchase intention through customer perceived value.
5. Determining the impact of information quality on Instagram towards customer purchase intention through customer trust.

1.4. Significance of the Study

From the elaborated objectives, this study is expected to provide significant theoretical and practical benefit.

1.4.1. Theoretical Benefit

1. To provide further studies on the influence of Instagram Profile as an information provider on purchase intention.
2. To provide additional information or issues about Instagram for business use.

1.4.2. Practical Benefit

1. To help owner of small and medium enterprises in realizing the importance of using Instagram as an information provider.
2. To help owner of small and medium enterprises in increasing customer purchase intention by using Instagram as an information provider.