

CHAPTER 1

INTRODUCTION

1.1. Background of the Study

The growth of internet users in Indonesia has increased significantly for the past several years. In 2017 alone, there are over 100 million people have accessed the internet from both phone and computer where it marked Indonesia as one of the biggest online market worldwide. Easy access of the internet creates many opportunities and people are utilizing it to sell things online. With the increasing number of internet users, online business will be more improved and grow rapidly due to the cost to open up a business is cheaper than traditional business because online business can eliminate huge cost that associated with offline or retail business such as pricey office or long-term lease for warehouses, stocking inventory, and reduce financial risk (www.entrepreneur.com, 2015). Due to the growing number of internet users and online sellers, new online-based businesses (web-based and third-party-based) see this as a great opportunity to sell various kind of products. This situation gives customers an option whether to shop online or in-store. For example, products provided by online-based stores can possibly fulfill customers' need from A to Z in just one online store whereas offline-based stores can only sell certain types of goods in each store. Due to this situation, competition began to emerge.

Competition in business, especially in retail, is considered very attractive yet challenging since it has many potential customers and generate big revenue where on the other hand the competition is very tight. Both traditional and modern retailers are forced to compete against each other to win the market. This situation creates an imbalance that is unfavorable for traditional retailers. In 2017, we have seen a lot of major player from traditional retailer industries, convenience stores, and franchise retail business forced to close their stores and businesses due to tight competition in the market. For example, 7-Eleven closing more than 150 stores in Indonesia, Lotus department, and Debenhams that closed effectively by the end of 2017. On the other hand, the condition in e-commerce business is different. In 2017, there was an increase in e-commerce transaction with total overall sales of \$7.056 million or IDR 108.4 Trillion (www.statista.com, 2017).

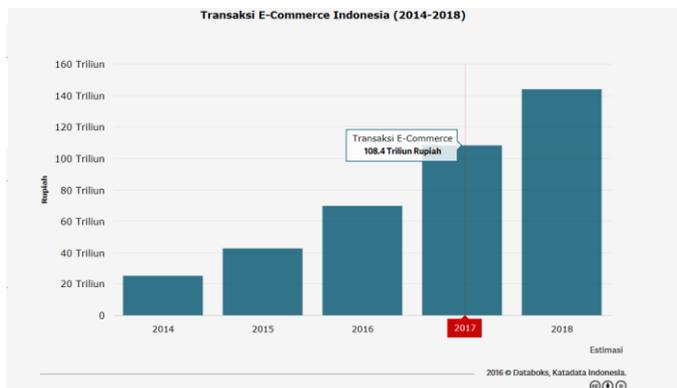


Figure 1.1 E-Commerce Transaction Graphic

Source: www.databoks.katadata.co.id (2017)

Due to the increase in sales, e-commerce businesses are expected to grow rapidly for the next several years. This is also supported by a survey done by www.indonesia-investment.com (2017) that found 2 out of every 5 Indonesia people prefer to buy a product online after having seen it in offline store. This shows that people buying behavior have shifted from direct in-store purchase to online purchase. It is in line with research result done by Rudolph et al., in Schmid and Axhausen (2017) that states the shifting of customers buying behavior from traditional market towards modern online shopping has been going for some time. People change their behavior in matter of shopping, from shopping at mall or retail stores to online stores. The reason why it shifts because e-commerce platforms often offers many benefits such as, various type of product, more payment option, accessibility, security, promotion code, discount, cashback, free delivery, membership, etc. These are the reasons why online shopping looks appealing for a lot of people. Due to this situation, online businesses see this as an opportunity to broaden their business. They want to attract new customers as well as retain old customers. This is vital because customers are the heart of business. Therefore, businesses have to satisfy their customers by meeting their expectations. There are many ways to fulfill their expectation, such as keeping a good brand image, providing excellent service, and offering various promotions.

Today business is not only about how you create big revenues but also how you create brand image for the company. Good sales

without good brand image would be useless for a long run because it has a power to change or shape the people's perception and how they react towards it. People tend to buy things from a platform that is trusted and have a positive brand image. By knowing so, people feel more secure and comfortable knowing that they will not get scammed. This shows that consumer's perception about brand image of the company affects customers satisfaction where a positive brand image will result in higher customer satisfaction and vice versa (Beladin and Dwiyanto, 2013). Therefore, creating a good brand image is important for businesses because it shapes customer's perception which will lead them to feel satisfied by using products or services (Yana, Suharyono, and Abdillah, 2015). This is also in line with research result done by Pramudyo (2012) where the role of brand image is to influence consumer's perception and expectation about goods or services where it eventually affects customer satisfaction.

Other than creating good brand image, business everywhere must provide excellent service quality. Service quality according to sulistiono in Aryadhe (2016) stated that service quality is a form of service provided by the retail businesses to consumers. Service quality encourages customers to establish strong relationship with the company, and for the long run this can enable the company to understand more about the expectations and needs of its customers. Therefore, enhancing customers satisfaction through a pleasant customer experience is a must for every business (Alamry, 2017). This

is also in line with a research done by Rizan and Andika (2011) that found a positive impact on service quality and customer satisfaction.

Sales Promotion is another type of how business attract new customer and maintain the old one. Kotler (2009) stated that sales promotion is the core and most important ingredients in marketing campaigns which consist of a collection of incentives tools (Product sample, discount, gift, promotion that is related to some event or holiday, etc). It is formed to offer customers a reason to buy either potential or existing customers. Past research done by Basuki and Devi (2016) found that sales promotion has a positive impact on customers satisfaction.

There are many e-commerce businesses that compete in Indonesia market and one of them is Tokopedia. It is considered as one of the biggest e-commerce that act as a middleman for the buyer and seller (www.demystifyasiacom, 2016). Founded in 2009 by Mr. William Tanuwijaya and Mr. leontinus Alpha Edison and within 9 years they won 2 awards which is in 2014 for the marketeers of the year in e-commerce sector (www.metrotvnews.com, 2014) and second award for best company in consumer industry in 2016 (www.tempo.co, 2016) and receive investment for more than \$1.3 billion from several investors including Alibaba (www.swa.co.id, 2018). Tokopedia offer millions of products and divided into 21 categories from A to Z. According to www.alexacom (statistic analyst company and website) (2017), Tokopedia become a number 1 in

Indonesia e-commerce most visited page category and number 5 in overall Indonesia most visited page category. The total number of seller shot up to 2,6 million (www.swa.co.id, 2018) and total value of items purchased reach 1 trillion rupiah per month with total number of product sold per month has reach 16.5 million (www.swa.co.id, 2016)

In Tokopedia website, they provide a message about Tokopedia as a place that is safe and convenient for buying and selling product (www.tokopedia.com). Their famous tagline is “Sudah cek Tokopedia belum” and the message that they want to deliver is that everything we need are available in Tokopedia and we need to check their website (www.dailysocial.id, 2015). Tokopedia also offered escrow facility (Rekening Bersama) for the safest and secure payment when you paid you product, and if your product received in bad condition or not as what you have ordered then you can get your money back without any fees (www.tokopedia.com)

TECHINASIA.com in their website (2017) found that e-commerce in Indonesia created and offered a lot of great things to support their service, such as improvisation on the delivery service where in 2017 Bukalapak collaborate with Gojek for the instant delivery service in the same day as the buyer paid the products. Tokopedia also have the same strategy by collaborating with Gojek and Grab in delivery service. Each of e-commerce customer service also developed a BOT and creating real customer service that we can reach by E-mail or from the website chats that handle any customer

complaint, question, and suggestion 24/7. Now e-commerce also develops mobile apps because of the simplicity, it can be open everywhere, anywhere and anytime. Tokopedia now offer a membership loyalty program where every purchase you made will be converted into points that can be exchange with a promotion code contain cashback or free delivery.

Sales promotion is very crucial for the e-commerce sector to gain new customers and maintain the old one to do another re-purchase. Coupon contains cashback or free delivery can boost customers shopping experience in Tokopedia. Especially when there is a special day for online shopping, many interesting promos are offered to customers to increase their shopping interest and last HARBOLNAS moment in 2017 made a new record of sales with value 4.7 Trillion Rupiah in 3 days (databoks.katadata.co.id, 2017)

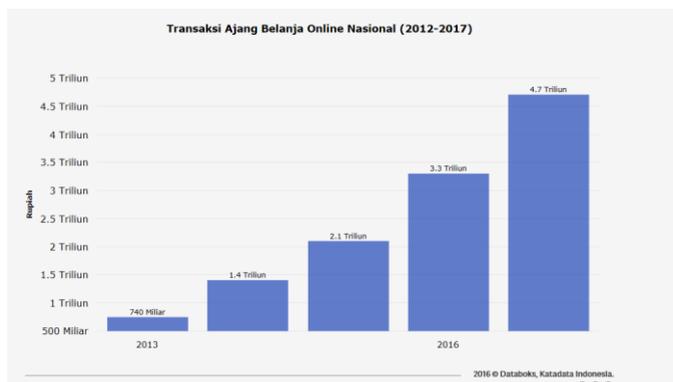


Figure 1.2 HARBOLNAS Transaction Chart

Source: <https://databoks.katadata.co.id> (2017)

With the growing number of Internet and mobile phone users, it would be very challenging for e-commerce business to gain more revenue and by gaining more revenue, they need to increase and maintain every customer to come back and buy some product. Which means that repurchase intention must be retained or increase. The intention to do a repurchase can only be done by having a satisfaction from the past purchase, and satisfaction may be influenced by promotion, service quality, and brand image.

Previous research conducted by Malik, Ghafoor, and Iqbal (2012) in Pakistan aim to know the impact of brand image, service quality and price on customer satisfaction. Found that brand image and service quality have a positive impact on customer satisfaction. Previous research from Basuki and Devi (2016) about impact of brand image and sales promotion to customer satisfaction with customer trust as mediator also found positive impact for the brand image and sales promotion to customer satisfaction. Another research from Feng and Yanru (2013) in China aim to know the relationship among Customer Satisfaction, Brand Loyalty, and Repurchase Intention. Found that customer satisfaction was the key factor to improve repurchase intention.

This research will analyze the impact of brand image, service quality, and sales promotion with its relationship with the repurchase intention through customer satisfaction. These variables are researched because in their past research, there is a significant impact

from brand image, service quality and promotion towards repurchase intention through customer satisfaction.

Based on the above background a research entitled “**The Impact of Brand Image, Service Quality, and Sales Promotion towards Repurchase Intention through Customer Satisfaction of Tokopedia in Surabaya**” will be conducted.

1.2 Research question

Research question are formulated as follows:

- 1 Does brand image of PT. TOKOPEDIA have a positive impact on customer satisfaction in Surabaya?
- 2 Does service quality of PT. TOKOPEDIA have a positive impact on customer satisfaction in Surabaya?
- 3 Does sales promotion of PT. TOKOPEDIA have a positive impact on customer satisfaction in Surabaya?
- 4 Does customer satisfaction of PT. TOKOPEDIA have a positive impact on repurchase intention in Surabaya?

1.3 Objectives

The objectives of my study are as follows:

- 1 To analyze the impact of brand image towards customer satisfaction of PT. TOKOPEDIA in Surabaya
- 2 To analyze the impact of service quality towards customer satisfaction of PT. TOKOPEDIA in Surabaya.

- 3 To analyze the impact of sales promotion towards customer satisfaction of PT. TOKOPEDIA in Surabaya.
- 4 To analyze the impact of customer satisfaction to repurchase intention of PT. TOKOPEDIA in Surabaya

1.4 Significance of the study

From the objective of this study, it is expected to provide theoretical and practical benefit

1. Theoretical benefit

To provide further studies about the brand image, service quality, and price on repurchase intention through customer satisfaction.

2. Practical benefit

To provide additional information and problems that help another e-commerce company to grow bigger and more profitable.

1.5 Writing Systematic

The systematic of writing this study is divided into five chapters and arranged as follows:

Chapter 1. Introduction

This chapter consists of background of the study, research questions, research objectives, significant of the study, and writing systematic of this study.

Chapter 2. Literature Review

This chapter presents the previous study, relevant journal, theoretical background and hypothesis. The theoretical background explains about brand image, service quality, sales promotion, customer satisfaction, repurchase intention, and the relationship among variables.

Chapter 3. Research Methodology

This chapter describes the process of analyzing data including research design, identification of variable, operational definition, type of source data, variable measurement, data collection method, population, sample and sampling technique, data analysis technique, validity and reliability, and hypothesis testing.

Chapter 4. Analysis and Discussion

This chapter consists of research data description, data analysis, and discussion. It is also discussing about respondent description, research variable statistic descriptions, and hypothesis testing.

Chapter 5. Conclusion and Suggestion

This chapter is the closing of this study that consists of conclusion and suggestion for the research object and for the company or researcher to do a further research.