

# CHAPTER I

## INTRODUCTION

### 1.1 Background

As the time goes by, the world keep improving as well as the technology have grow rapidly and keep evolving since 1980 and continues until today, from the emergence of websites, touch screen cell phones, many useful applications. This was the proof that the world starts changing to digital era and technology is one of human needs in daily basis because its provide facilities that works efficient and effectively so many people depends on it.

Technology in Indonesia now already entered the era of the industrial revolution 4.0 technologies, where there have been many changes and transformations in optimizing technology. One of the optimizers is digital transformation. In digital transformation, the use of the internet will be more widespread and easier to obtain. Internet Service Providers Association Indonesia (APJII, 2020) published data of 196.71 million people out of 266.91 million Indonesians who use the internet (73.7%), the majority of intensity of internet access is social media 51.5%, communication via online messages 32.9%, and on the author's focus, namely online shopping amounting to 1.3% only (**Figure 1.1**). This is due in large part Internet users who have not taken advantage of buying and selling facilities online at goods / services.

On Figure 1.2 shows how many times Indonesian buys their necessities via online in a month, where 43,2% never buy via online, 29,3% answer not necessarily there are transactions in a month, and 15,1% buy once per month via online. In other data

about the reasons many Indonesian didn't buy goods / service online, 12.9% prefer buy directly to store because the goods were immediately obtained, 7.5% can't use the application yet, 6.7% worried the goods didn't match the specification (**Figure 1.3**).

Internet users in Indonesia are more likely to only use the internet limited to interacting on social media as well information search. Based on these data, the author concluded that the majority of users the internet prefers to make transactions buying and selling in a conventional manner between the seller and the buyer on same time and place compared by doing online shopping with the media Internet. Though it tends to be more troublesome and costs money and time the more so, the reason for concern would be the occurrence of fraud becomes a consideration consumer in doing online transactions (Christian and Nuari, 2016).

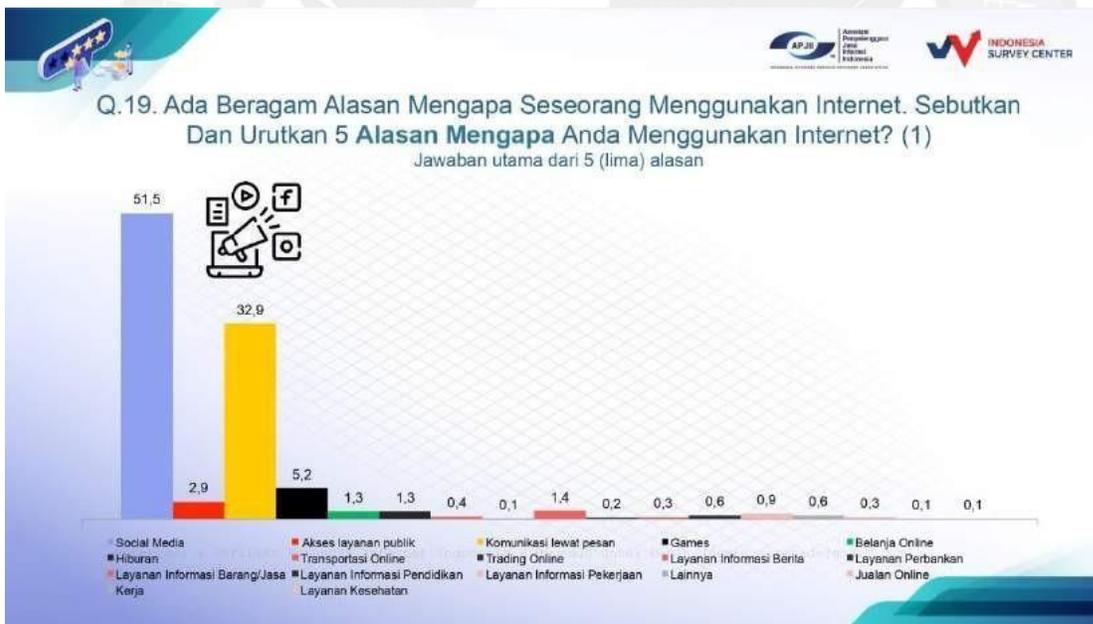


Figure 1.1 The majority of intensity of internet access  
Source: APJII, 2020



Figure 1.2 How many times a month Indonesian buy necessities online  
Source: APJII, 2020

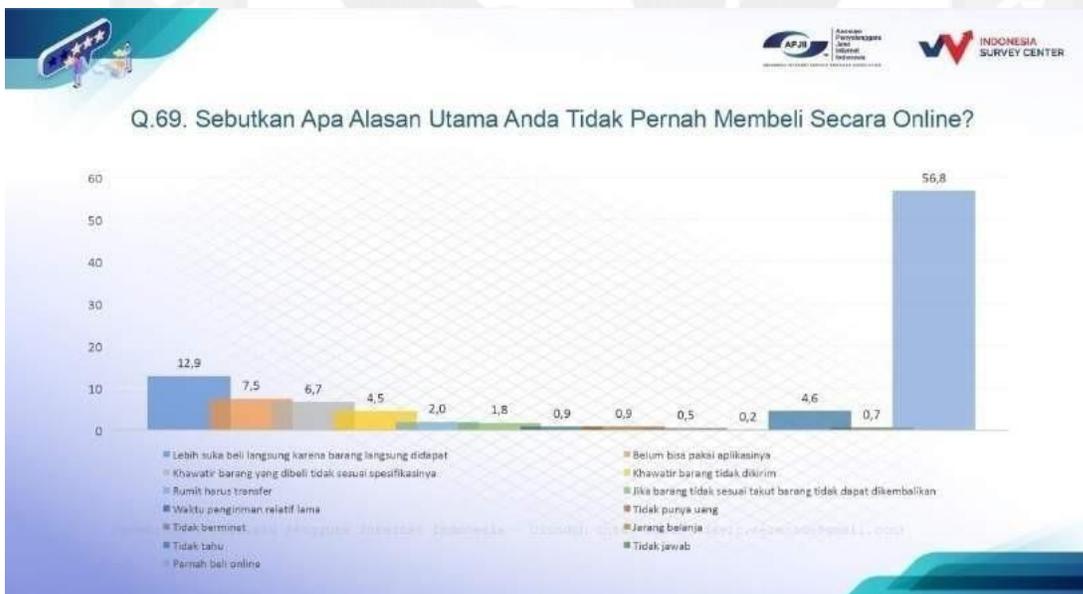


Figure 1.3 The reasons many Indonesian didn't buy goods / service online  
Source: APJII, 2020

On the other hand, the advancement of the digital world has provided many advances and changes in various conventional behaviors. Web-based platforms facilitate online behavior whereby the real-world social relationships of drugs migrate to cyberspace. One of these behaviors is shopping behavior. Shopping that was previously done face-to-face, can now be done online without having to meet directly between the seller and the buyer. There are many platforms for online shopping today, for example there are official store applications, e-commerce, and social media platforms. The advancement of internet technology that facilitates e-commerce activities has changed the behavior of consumers and companies. The availability of an e-commerce platform as a shopping medium allows customers to shop comfortably, compare products and prices effectively, and arrange for immediate product delivery. (Chang, Chou, and Lo, 2014; Yeo, Goh, and Rezaei, 2017).

Customer loyalty is one of the keys of success to achieve maximum profit in business, loyalty is defined as commitment to buy or subscribe to certain products or services in the future, not only in the short term but in a sustainable competitive advantage, despite the influence of situations and marketing efforts that have the potential to cause behavior change (Kotler and Armstrong, 2016). Customers who are loyal because they are satisfied and want to continue the buying relationship are a measure of the closeness of the customer to a product and brand. Customer loyalty is a person who buys especially those who buy regularly and repeatedly (Quan et al., 2020). In this research, the author focused on the customer e-loyalty, many things that affect customer e-loyalty, including e-service quality and e-satisfaction.

Customer satisfaction is the most important factor in various business activities. Customer satisfaction is the consumer's response to the evaluation of the perceived mismatch between previous expectations and perceived product performance. By satisfying the wants and needs of the customers, it will have a positive impact on the company. If the customers are satisfied with a product, of course the customer will always use or consumes the product continuously (Kotler and Armstorng, 2016).

Same as the customer e-satisfaction, they will satisfy if the application performance exceeds customer expectations. One of the factors that affect customer e-satisfaction is e-service quality that provided by application.

According to Blut (2016), Measurement of e-service quality contains four attributes: design, customer service, security / privacy, and compliance. Design refers to the elements of the customer experience with the application, including information quality, application aesthetics, ease of application, personalization, product selection, purchase process, price offering, and system availability so as to attract customers to visit it. Customer service refers to the service level and handling return / return policy during and after the sale (Blut, 2016). Offline stores always have service staff who help customers in the buying process. In online stores, customers sometimes carry out the entire buying process on their own without the help of customer service (McLean and Wilson, 2016). Some online stores provide customer service that allows customers to ask for more detailed information regarding the product they want to buy. Companies usually use web-based synchronous media such as live chat facilities, online help desks, and social networking sites (Turel and Connelly, 2013).

Security/privacy refers to the security of credit card payments and privacy of shared information (Blut, 2016). Online shops must prioritize assurance and security to increase credibility and service quality (Wang et al., 2015). When customers buy goods online, they need to enter personal information such as names, addresses and contact numbers, including credit card information. Customers tend to worry about the online store, whether they will protect customers from fraud after transacting. Fulfillment refers to activities that ensure customers receive what they ordered, including delivery times, order accuracy, and delivery conditions (Blut, 2016). This attribute can only be assessed after payment has been made. The assumption of postpaid customers is more likely to occur in online shopping than in an offline shopping environment because customers cannot see the product in person before

they buy it. Companies must ensure delivery conditions, order accuracy, and on time delivery to provide superior service quality to customers.

The quality of e-service has a direct and indirect positive effect on satisfaction. Customer satisfaction is a consequence of the customer experience during the buying process, and plays an important role in influencing future customer behavior, such as repurchase and online loyalty (Pereira et al., 2016). A satisfied online customer would likely shop again and recommend it to others, while a dissatisfied customer would leave his/her online retailer with or without any complaint (Pereira et al., 2016).

UNIQLO is a Japanese company in the field of casual wear product planning, production and distribution. The company opened a casual clothing retail store under the brand UNIQLO (ユニクロ) The name UNIQLO comes from the first shop called Unique Clothing Warehouse which opened Tadashi Yanai in Hiroshima City, Hiroshima Prefecture on June 2, 1984. Initially, the brand was going to be registered under the name “uni-clo” from the contraction of “unique clothing”. However, due to the misread of the word “C” as “Q” by the staff of registration, the brand “UNIQLO” was born, UNIQLO continues to grow by providing high quality casual wear through the entire process from product planning, production, distribution and marketing at very affordable prices for the public (Mirza et al., 2020). UNIQLO has full-grown to quite 1,300 stores in fifteen countries, through around Asia, London, the USA, and Europe.

In acknowledging UNIQLO's Core competencies, UNIQLO works to develop their international operations, they recognize that UNIQLO's strength is making basic casual wear. In addition to product shows coupled with latent client trends and desires, it is important every season to develop basics, which measure UNIQLO's core competencies. Even with normal things, UNIQLO insists on uncompromisingly reviewing and developing materials and details to give new life to each item. In addition, in order to keep growing in Japan and building a whole that is attractive to

customers around the world, normalcy is increasingly required for each category including cut and sew, outerwear, knitwear, and underwear to drive sales. That's why developing merchandise only customers at UNIQLO will realize is so important. Thus far, they need drawn on their strengths in materials to develop fleece, "Heat-Tech", "AIRism", a different original product (Mirza et al., 2020).

Over time, UNIQLO has become a famous fast fashion brand in Asia and even internationally, the fourth largest clothing brand in the world, and the first major Asian parity clothing. Even though Indonesia has a large market potential, UNIQLO or other fast fashion retailers will not be able to survive and develop without the loyalty of its customers, especially in today's digital era. Customer loyalty is one of the keys to success in achieving maximum profit in business, loyalty is defined as a commitment to buy or subscribe to certain products or services in the future, not only in the short term but in a sustainable competitive advantage, although influential situations and marketing efforts that have the potential to lead to behavior change (Kotler and Armstrong, 2016).

| 2019 | 2018 | Logo  | Name          | Country   | 2019             | 2018             | 2019 | 2018 |
|------|------|---|---------------|---|------------------|------------------|------|------|
| 1 =  | 1    |  | Nike          |  | IDR 481,952,728M | IDR 377,157,158M | AAA  | AAA  |
| 2 ^  | 3    |  | Zara          |  | IDR 273,875,725M | IDR 234,830,732M | AAA  | AAA  |
| 3 ^  | 4    |  | Adidas        |  | IDR 247,794,857M | IDR 192,337,729M | AAA- | AAA- |
| 4 v  | 2    |  | H&M           |  | IDR 235,999,405M | IDR 255,104,010M | AAA- | AAA  |
| 5 ^  | 8    |  | Gucci         |  | IDR 217,957,633M | IDR 115,638,724M | AAA  | AAA  |
| 6 =  | 6    |  | Cartier       |  | IDR 202,801,397M | IDR 131,927,879M | AAA- | AAA- |
| 7 v  | 5    |  | Louis Vuitton |  | IDR 201,807,195M | IDR 141,105,893M | AAA  | AAA  |
| 8 ^  | 9    |  | Uniqlo        |  | IDR 178,254,348M | IDR 108,976,722M | AA   | AA-  |
| 9 v  | 7    |  | Hermès        |  | IDR 162,336,108M | IDR 128,425,727M | AAA  | AAA  |
| 10 = | 10   |  | Rolex         |  | IDR 119,622,268M | IDR 85,581,270M  | AAA+ | AAA  |

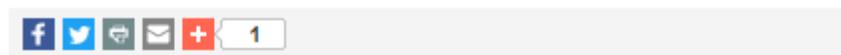
Figure 1.4 Apparel 50 2019 Ranking

Source: Brand Directory (2019)

UNIQLO is experiencing fierce competition from other fast fashion brands such as Nike, Adidas, Zara, H&M, as well as a risky threat from other fast fashion brands (Figure 1.4). Therefore, UNIQLO realizes that core competitiveness such as fast and fashion is not enough, so it has switched to a technology-based lifestyle concept.. That's why UNIQLO changed its brand slogan from "Made For All" to "LifeWear", and took action to combine elements of offline and online retail to maintain the customer loyalty and e-loyalty (Mirza et al., 2020).

Then on 16 October 2012, PT. Fast Retailing Indonesia was build and located in South Jakarta, UNIQLO already has 26 outlets throughout Indonesia. UNIQLO wants to increase the clothing chain's online sales ratio to 20%, said Fast Retailing chairman and CEO Tadashi Yanai in an interview (Sebayang, 2018).

### 2019 Index Rankings: Indonesia Fashion Retailers



#### Top Index Rankings

| Rank | Brand    | 2019 Score |
|------|----------|------------|
| 1    | Adidas   | 46.6       |
| 2    | Nike     | 43.8       |
| 3    | Levi's   | 29.4       |
| 4    | Reebok   | 22.6       |
| 5    | Converse | 21.4       |

Figure 1.5 2019 Index Rankings: Indonesia Fashion Retailers

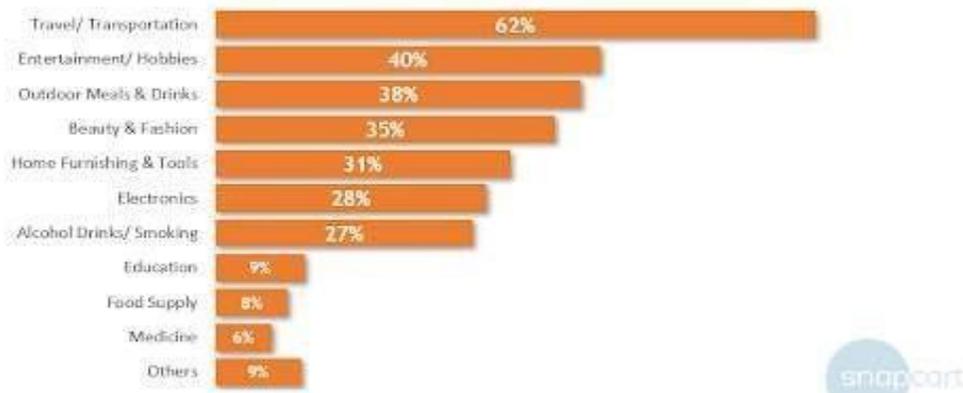
Source: YouGov BrandIndex (2019)

YouGov BrandIndex (2019) shows the brands with the highest average Index scores for the 12 month period from July 1, 2018 through June 30, 2019 where the brands were ranked based on the Index score, which is a measure of overall brand health calculated by taking the average of Quality, Value, Satisfaction, Recommend, and Reputation. From the figure 1.5 shows that UNIQLO outperform from other brands that place in lower rank on the last figure 1.4 (Levi's 30, Reebok 50, Converse 46) in Indonesia, where customer more likely to be satisfied of the quality of other brand than to UNIQLO that impact on the loyalty.

But all economic activities and community activities stop in the year 2020 is due to a COVID-19 pandemic which has made consumer behavior patterns change. UNIQLO is one of the companies affected by COVID-19. Offline retail had a massive decline in sales and traffic at the start of the crises, retailers are shuttering their doors for consumer and worker safety or in compliance with government orders. Entering March, after Indonesia confirmed its first case, sales immediately fell. This is because the COVID-19 outbreak has caused a significant drop in the rate of visits to malls. Based on Snapcart (2020) Survey on COVID-19 impact on shopping habits of Indonesian consumers, 35% of people now buying less or stopped buying Beauty & Fashion item because quarantine (**Figure 1.6**).

With the lockdown and many shops closed, e-commerce has taken off, Consumers have also increased their use of omnichannel services such as contactless payments, social trading, virtual consulting, and curbside pickup. This is a new behavior that they plan to continue. Retailers need to improve shopping efficiency, both online and offline, and be prepared to respond to rapidly changing needs as the pandemic develops. Increased use of digital requires retailers to increase their investment substantially in omnichannel capabilities.

Which of the categories below are you now buying **LESS** of or **STOPPED** buying because of the quarantine?



Source: Snapcart Survey on COVID-19 Impact on Shopping Habits of Indonesian Consumers, April 2020  
PT-Snapcart Digital Indonesia

Figure 1.6 COVID-19 impact on Indonesian shopper habits  
Source: PT. Snapcart Digital Indonesia (2020)

There is a comparison between UNIQLO online store in America and Indonesia, customer can purchase directly from the online store in America and can be purchased all around America area but in Indonesia the customer need LINE application because later when you press the order button in the online store, you will be directed to order via the LINE application and now the online store only available on the Jakarta, Depok, Tangerang, Bekasi, and Surabaya area (more precisely, it can only be a maximum of 40 KM from the offline store area), another example is if customer want to ask anything in America online store, they provide a bot chat in the online store to serve the customer but in Indonesia it is the same as ordering, if customers have questions, they must ask them through the LINE application. So the author concluded that UNIQLO online store service feature in America is more efficient and can be used in all areas of America, unlike in Indonesia which is less efficient and only applies in some specific area that affects e-loyalty of UNIQLO online store.

Consumer satisfaction is not forever caused by the e-service quality factor of the websites he visited. The offer is given, product information, prices and also website design has an important role in producing deep consumer satisfaction using an e-commerce website, improving e-service quality will make more e-commerce websites interesting and valuable which later helps to achieve more customer satisfaction high (Christian and Nuari, 2016). from the research conducted by Michael Christian and Vincent Nuari (2016), which states that the variables of *e-service quality*, *overall e-service quality*, and *e-satisfaction* have an effect on the *e-loyalty* variable, so this research replicates the research. In this thesis, the author interested to research how UNIQLO maintain the customer loyalty in the digital era, what service that UNIQLO provide to customers to survive and stay competitive among the competitors on the thesis entitled **“THE RELATIONSHIP OF SERVICE QUALITY ON CUSTOMER LOYALTY MEDIATED BY OVERALL SERVICE QUALITY AND SATISFACTION OF UNIQLO ONLINE STORE IN JABODETABEK”**.

## **1.2 Research Question**

Based on the background outlined, the research questions are formulated as follow:

1. Does e-service quality have a relationship with e-satisfaction of UNIQLO customers?
2. Does overall e-service quality have a relationship with e-loyalty of UNIQLO customers?
3. Does e-satisfaction of customer have a relationship with e-loyalty of UNIQLO customers?

## **1.3 Research Purpose**

The Purpose of the research is to know the significant impact of e-service quality and e-satisfaction on e-loyalty of UNIQLO customers in Indonesia, so this research proposed for the following purposes:

1. To analyze the relationship of e-service quality on e-satisfaction of UNIQLO customers.
2. To know the relationship of overall e-service quality on e-loyalty of UNIQLO customers.
3. To know the relationship of e-satisfaction on e-loyalty of UNIQLO customers.

## 1.4 Systematic Research

### Chapter 1: Introduction

In this chapter, the author explains the background of the title taken for research. There is also the formulation of the problem to be studied, objectives research, and also systematic research.

### Chapter 2: Literature Review

In this chapter, it is given about theories that have been valid from many experts regarding the research topics taken, namely the theory of *e-service quality*, *overall e-service quality*, *e-satisfaction*, and *also e-loyalty*. In addition, it also includes related hypotheses and the research model in order to prove it the effectiveness of the research.

### Chapter 3: Research Methodology

This chapter discusses the research methodology used in this research, which includes the research paradigm, research design, population and sample, measurements variable, conceptual and operational definition, measurements scale, data collection method, data analysis method, and pretest result in this research.

### Chapter 4: Results and Discussion

In this chapter, discusses the results of the research descriptions obtained from data analysis, data problem solving, and processing data collection, testing and calculations are carried out using the SmartPLS program.

### Chapter 5: Conclusions and Suggestions

In this chapter, discusses the conclusions and suggestions regarding research obtained from the stages in the previous chapters that can also be useful for the intended company to be beneficial for the progress of the company.