

CHAPTER I

INTRODUCTION

1.1 Research Background

Nowadays, the world is facing a world of digital based era. Digital era is when all the technology is increasing and can speed up the process of knowledge for the purposes of economic and also social (igi-global.com). Everything that people do mostly using internet that can be accessed from their mobile phone. Right now, people are starting to move their habit in real-life to digital, for example instead of go shopping in the mall, they will most likely to choose to go shopping at the online store. Another example is most of the people in this era spend more time to open their social media application instead of hangout with their friends, or even when they're hangout with their friends, they will barely speak to each other and more focus on their social media. Below are the data of statistical indicators for both in Asia-Pacific and the world's internet, mobile, and social media users



Figure 1.1 “Digital Around The World 2018”

Source: we are social



Figure 1.2 “Digital in Asia-Pacific 2018”

Source: we are social

For this past decade, many firms choose to expand their business by acquiring a successful brand to reduce the cost to make a product development (Awan, Ho and Khan, 2017). Many firms choose to implying merger and acquisition practice because it is easy and doesn’t take much effort as when the firms choose to build a new business. The practice of merger and acquisition has gain significant effect for the company over decade. It’s also used to make the company attained more recognition for their brand. The phenomenon of this research is the activity that Grab doing towards Uber that acquisition the Uber in South East Asia make us want to research the result before and after acquisition. Evans (2000) stated there are four strategic reasons that the best mergers seem to have; positioning, gap-filling, organizational competencies, and broader market access. Mostly firms use merger and acquisition as an exit strategy for them. Here are top 10 mergers and acquisition list in Southeast Asia seen from their value.

Top 10 M&As in SEA by Value

Company	Amount (in USD)	Vertical	HQ	Acquisition Date	Acquired By / Merged With
Jobstreet	586,000,000	Professional services	Malaysia	November 21, 2014	SEEK Asia
iProperty	534,000,000	Classifieds	Malaysia	November 2, 2015	REA Group
Viki	200,000,000	Entertainment	Singapore	September 2, 2013	Rakuten
Nonstop Games	100,000,000*	Gaming	Singapore	August 13th, 2014	King
Asian Food Channel	66,000,000	Media	Singapore	April 15, 2013	Scripps Network
Detik	60,000,000	Media	Indonesia	August 4, 2011	Para Group
sgCarMart	48,000,000	Classifieds	Singapore	April 1, 2013	Singapore Press Holdings
TransferTo	38,000,000	Payments	Singapore	August 4, 2010	Ingenico
MetroDeal	30,000,000	Ecommerce	Philippines	June 30, 2015	Transcosmos
Zopim	30,000,000	SaaS	Singapore	March 1, 2014	Zendesk
Luxola	Undisclosed	Ecommerce	Singapore	July 8, 2015	LVMH

* \$32M upfront, with additional \$68M in performance-based incentives

Source: "Cheatsheet of startup Acquisitions in Southeast Asia". Lee, T. December 24, 2015. Available on the Tech in Asia Website, "<https://www.techinasia.com/cheatsheet-of-technology-startup-acquisitions-in-southeast-asia>"

Figure 1.3 "Top 10 Merger and Acquisition in Southeast Asia by Value"

Source: Business Insider Australia

Apart from the data above, according to Mergermarket (2014), from the total \$599,1 billion global mergers and acquisitions, in the first-quarter of 2014 around \$54.3 billion are contributed by technology sector. Based on these, researchers conduct two presurvey. The first presurvey will be asking the respondents to write down maximum five international companies in Indonesia who did merger and acquisition. The second presurvey will consists of top four merger and acquisition based on the highest number in the first presurvey, and later it will be distributed and voted again by the respondents to pick the top 2

companies. Based on the results, researchers choose *Facebook-Instagram* and *Alibaba-Lazada* acquisitions as research object.

Social media is a word that we usually heard these past years, especially among those millennial generation. Social media is a tool for people to communicate and share information by using application that connected to internet (lifewire.com). There are a lot of social media application, like Facebook, Instagram, twitter, snapchat, etc. Below are the statistics data of social media used worldwide.

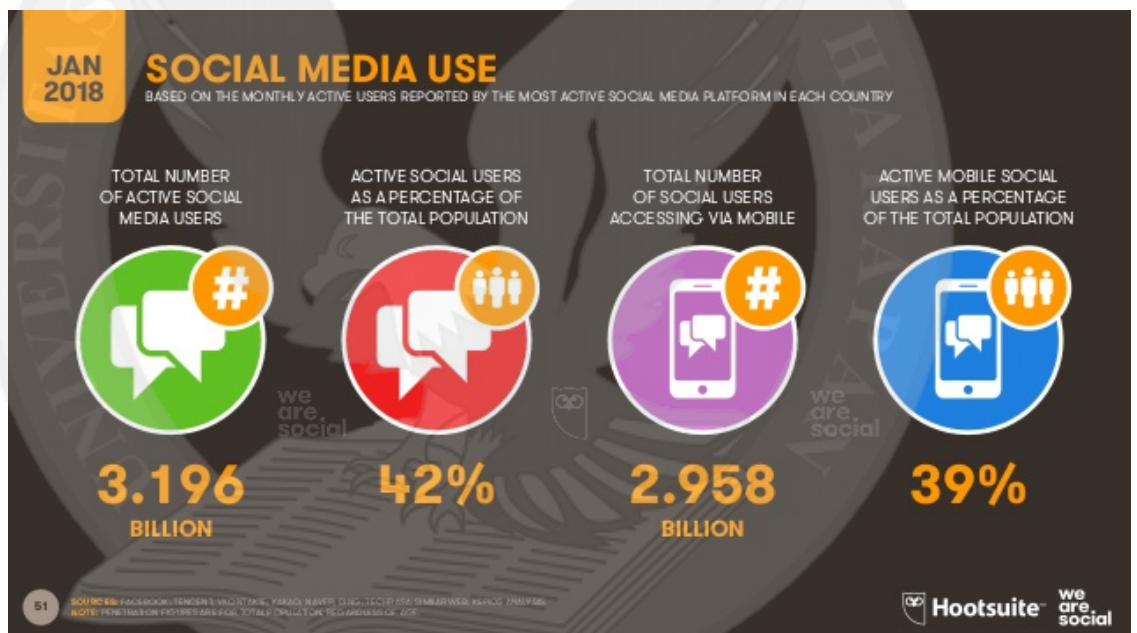


Figure 1.4 “Social Media Use”

Source: We are Social

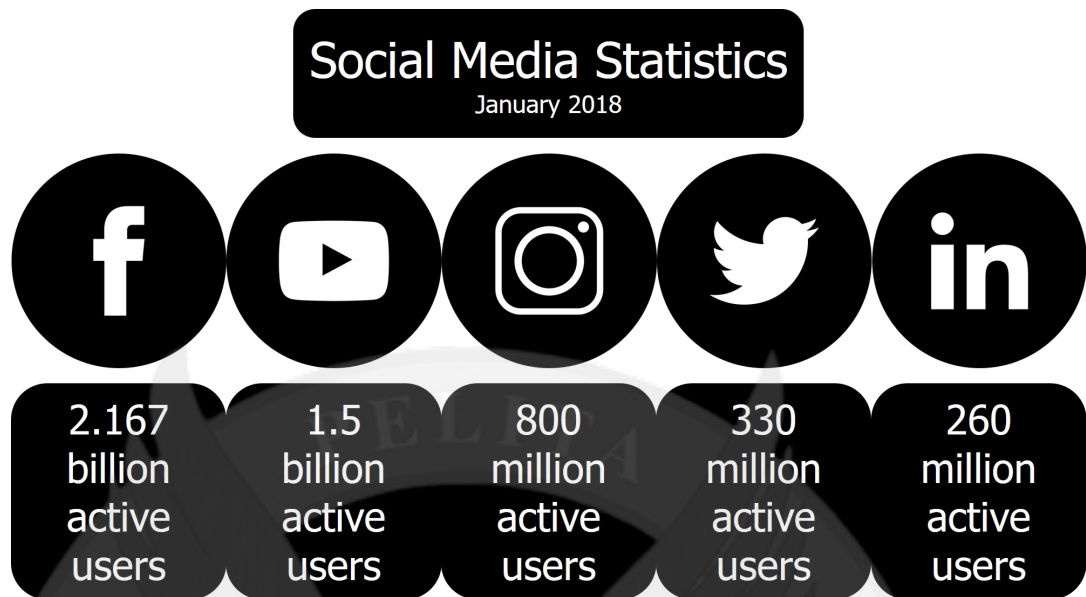


Figure 1.5 “Social Media Statistics”

Source: Bham Digital

From figure 1.5, Facebook is the most popular social media with 2.167 billion active users in January 2018. Facebook was founded on February 4, 2004 by Mark Zuckerberg and his three other fellow friends and roommate in Harvard University. Its headquarters is at Menlo Park, California. Up to June 30, 2018 Facebook has the total of 30,275 employees. Also, the average monthly active users of Facebook until June 30, 2018 were 2.23 billion. Facebook has more than 20 international offices around the world. Facebook has a mission to let people have the power to build community and bring people closer. At first, Facebook was called “The Facebook” and still in the form of website base, later on September 20, 2005, the word ‘the’ drops and become ‘Facebook’ only. On April 1, 2006, Facebook officially launch their mobile application (newsroom.fb.com). Facebook continuously upgrading their

application to serves their users better and better. All Facebook active users come from all around the world and increasing every single day. Below are the data of Facebook top countries active users.



Figure 1.6 “Facebook’s Top Countries and Cities”

Source: we are social

From the figure above, Indonesia is included in top 10 countries who have largest number of active users on Facebook. This data makes Indonesia has the largest active numbers in Southeast Asian countries (jakartapost.com). Here is also the data of Facebook usage in Indonesia.

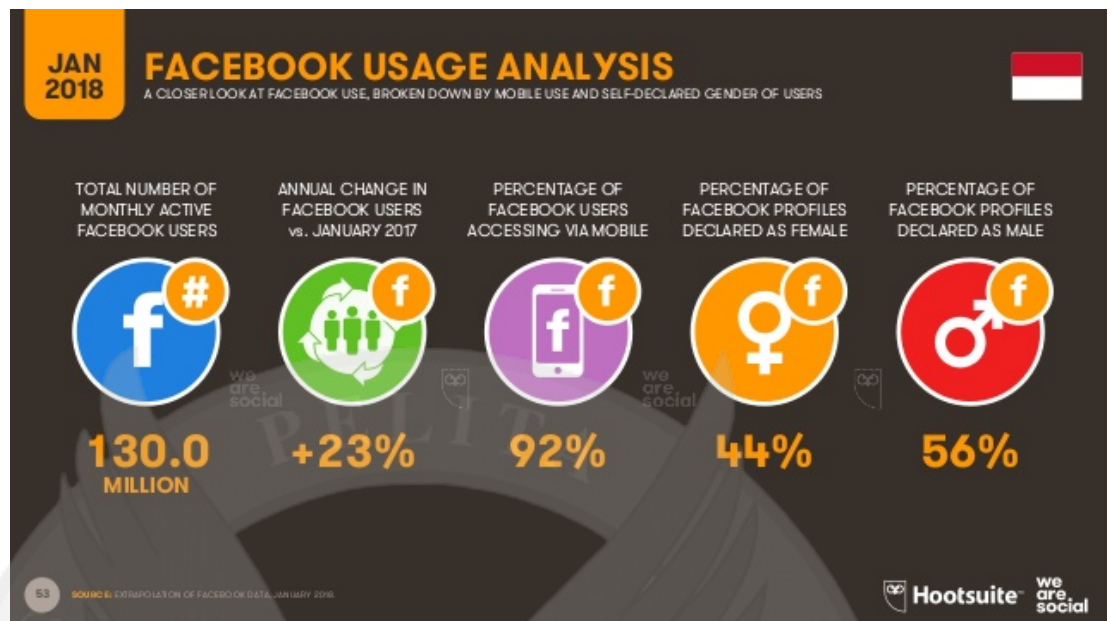


Figure 1.7 “Facebook Usage Analysis in Indonesia”

Source: we are social

Facebook growth and develop their business rapidly. From upgrading their Facebook features, insert a sticker and GIF to their application, and many more. One of the most used ways to expand their business to the whole new level is by acquiring another successful brand. From 2005 until now, there are about 66 acquisitions that had been done by Facebook. The first acquisition was Aboutface on August 23, 2005. The recent acquisition held by Facebook was Fayteq on August 2017. Facebook also acquiring photo-sharing application, Instagram with the amount of \$1 billion (in cash and stock) on April 9, 2012 (techwyse.com). The news of the acquisition of Instagram by Facebook than become an acquisition highlight of the year. Before Facebook acquired Instagram, Facebook is already well-known by people as a application that could upload photos, make a long status and also could like friends or people post. But, as the time goes by, Facebook faced a crisis that many of Facebook’s

users that are getting bored with the application. So, Facebook think if they acquired Instagram, then they could make Facebook a success application again using the reference Facebook get from Instagram.

Instagram is the first mobile photo-sharing application founded by Kevin Systrom and Mike Krieger on October 2010. Instagram first launched only on app store in iPhone, then later on April 3, 2012 officially launched in android phones. On December 2011, Instagram get an iPhone App of The Year. On April 9, 2012 the founders of Instagram finally sold their application to Facebook worth \$1 billion in cash and stock (instagram-post.com). Throughout the years, Instagram already upgrading and developing their application from only photo-sharing, until the IGTV, Instagram's stories and also direct message.

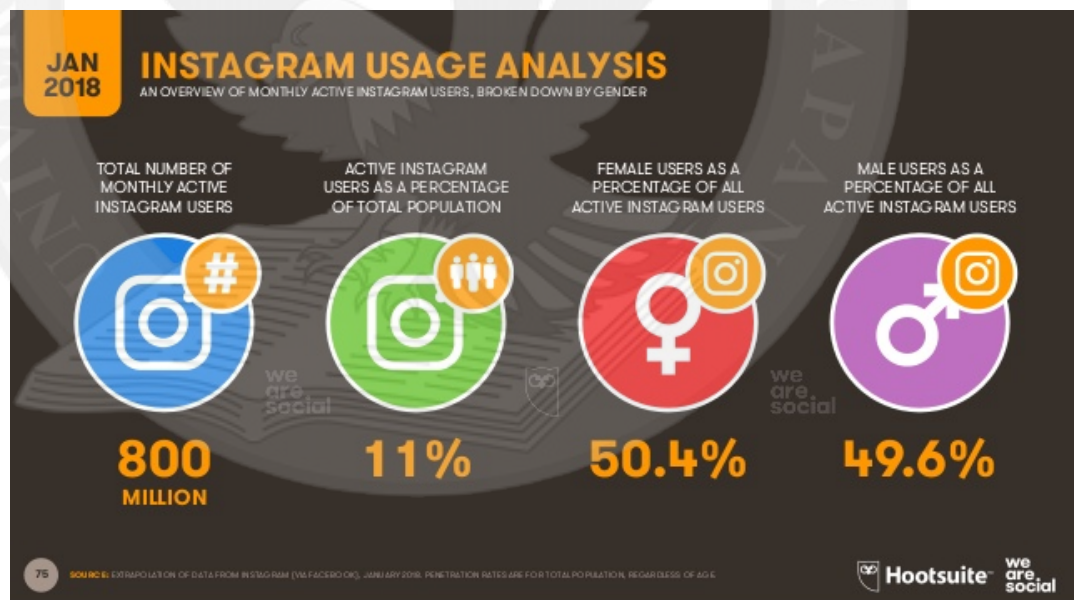


Figure 1.8 “Instagram Usage Analysis”

Source: we are social

From the figure above, we can see the total number of Instagram monthly active users up to January 2018 are about 800 million, and about 50,4% of the

active users were dominated by female users, and the rest 49,6% by male users. The total of 800 millions of monthly active users came from the users around the world, below are the data of countries with the largest numbers of active users.

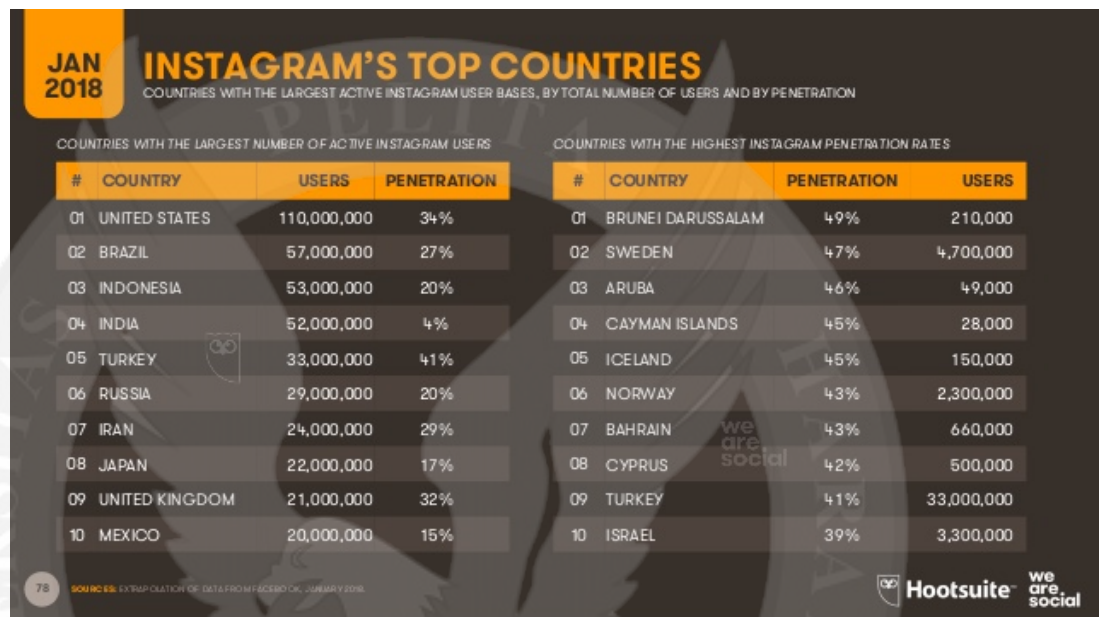


Figure 1.9 “Instagram’s Top Countries”

Source: we are social

United States was the country with the largest number of active Instagram’s users, with 110 million users up to January 2018 and followed by Brazil with 67 million users. Indonesia included in the top 3 with, 53 million users. This number overcome India with only 52 million users and also Mexico with 20 million users. In Indonesia, most of the people are using Instagram especially the Instagram stories features. According to Jakarta Globe (2017) Indonesia has the highest number of Instagram stories features active users in the world, with the number of usages are twice from the average users.

As we know, on April 9, 2012 the founders of Instagram finally made a huge decision to sell their application to Facebook. The news of the acquisition then become the Unbelievable Exit of The Year (businessinsider.com). Many people think that Systrom (CEO and Founder of Instagram) has made a wrong decision with sold their application to Facebook with only \$1 billion, while on the other hand on 2015 Facebook bought WhatsApp with \$15 billion and at that time only had 500 million users. There are several reasons why Facebook wants to acquired Instagram, the first reasons because Facebook doesn't want their competitor to buy Instagram first, second reason are the data inside Instagram. Many Instagram users share a photo of their hobbies like skiing, eating, or any other, and that is the data Facebook looking from Instagram. From the data Facebook obtained from Instagram, then Facebook can make better mobile advertisement in the future. The third reason was because Facebook wants to increasing Facebook version to make their users happy. The last reason was because at that time, Facebook had a crisis when the people think that Facebook isn't that cool anymore. That's why Facebook bought Instagram to reach out the young generation. Instagram in 2010 is totally different with Instagram now. On 2010, before Instagram is acquired by Facebook, Instagram is a mobile photos application that give the users easy access to upload a more-clearly photo, photo-centric, and also many options of filters that can be used. Besides that, on 2010, Instagram giving the users accessed to uploading a photo in a polaroid style and also used a retro filter, so the users could feel like they back to the era before there was a digital camera.

Based on the pre-survey, Pelita Harapan University students are aware of Facebook and Instagram company. The impact of the acquisition for Pelita Harapan University students, they feel the different especially for Instagram in before and after acquisition. Like before the acquisition, Instagram mostly just an ordinary application that provide the users to upload a polaroid-size photo with a retro filter. Later on, after Instagram finally being acquired by Facebook, slow but sure the features of Instagram adapted from Facebook features, for example after the acquisition Instagram begin to add a direct message that before could only be used in Facebook (messenger). Another example is the story and live features on Facebook that also included in Instagram.

Alibaba is a largest e-commerce application based on China, founded by 18 people led by Jack Ma on 1999. Alibaba who led by Jack Ma have a vision to make a small business can compete, domestic and globally and that will be a company at least for 102 years means that Alibaba will be spanned for three decades. Alibaba have a value which is customer first, teamwork, embrace change, integrity, passion, commitment. Customer first means that the group of consumers, merchants and enterprises must be their priority. Teamwork that Alibaba believe that teamwork can make an ordinary people can reach an extraordinary thing. Embrace change is Alibaba can quickly change because the world always fast changing, and Alibaba must be flexible and innovative to adapt with new business condition to make their company to sustain. Integrity, they expect their people to have a high standard, honesty to deliver their commitments. Passion, they approach their people to get everything with fire their belly and never give up on doing anything that they believe that is right.

Commitment, their employees who can demonstrate the perseverance and excellence are richly rewarded.

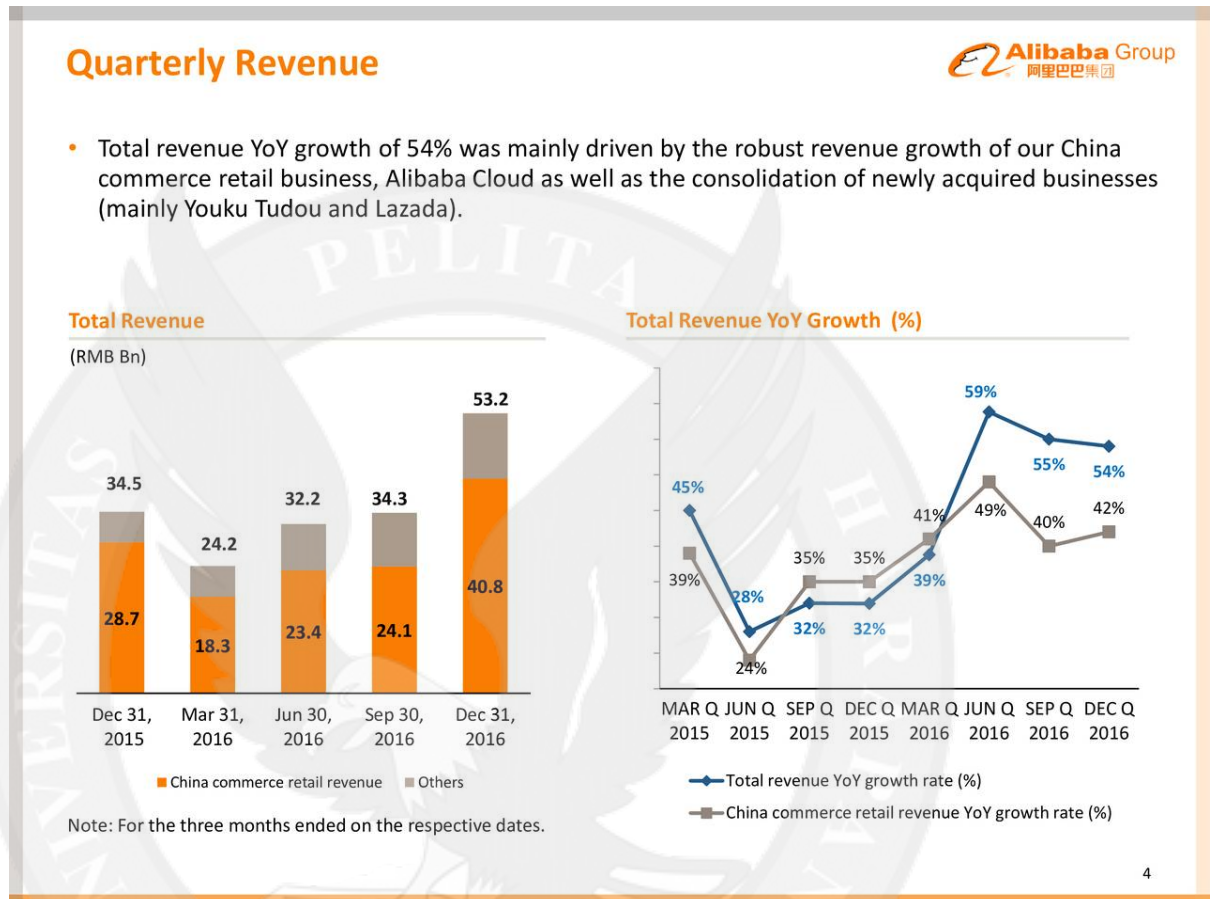


Figure 1.10 “Revenue of Alibaba after acquisition on Q3 2016”

Source: Alibaba Group

From the graphic, that Alibaba reach growth by 54% after acquisition which mainly by Lazada and Youku Tudou, they reach the highest revenue on December 31st, 2016 on that year. A good move that Alibaba acquisition Lazada that can make their revenue and income increase year by year. On

graphic, on 2015 the revenue was under the china commerce retail company by 32% over 35% but on June 2016 the china commerce become 59%.



Figure 1.11 “E-commerce growth by category”

Source: we are social

E-commerce have been become the main need by human who can make them easily found what they want, on figure 1.5. Toys, diy, and hobbies become the largest category by increase 27% that consumers buy the things that support their hobby and toys by e-commerce, and we can see that offline store who sell this before decreased year by year. fashion and beauty become the second largest category that consumers always buy by increase 25% it means that many people buy clothes, skirt, pants, make up, etc. from e-commerce nowadays. The third things that consumers always buy is travel category that increase by 23%

because it easily for customer to buy a accommodation (tickets, hotel, etc.) to make their travel become easy than before.

Lazada is the company who acquisitioned by Alibaba who founded by Alexander Samwer, Rocket Internet, Oliver Samwer, and Marc Samwer and founded on 2012 become the largest e-commerce on South East Asia and the CEO now is Peng Lei, one of founder of Alibaba group. Nowadays, Lazada serve on 6 countries Indonesia, Philippines, Malaysia, Singapore, Vietnam, and Thailand. With 300 million SKU's available, that they sell from fashion until sport and hobbies. On March 2012, they only serve for Indonesia, Singapore, Philippines, Thailand, but on June they open for Vietnam and on November, they set up Tech Hub on Ho Chi Minh City to improve their focus on technology infrastructure and product development because it is so critical for develop a online shopping experience. Alibaba invested \$1 Million on Lazada or 13,7 Trillion Rupiahs to make them have 67% of stocks that they will get from Lazada. On 2017, Alibaba increase their stocks up to 83% and on 2018, Alibaba invest again for 27,5 Trillion Rupiahs (idntimes.com). Before Alibaba acquired Lazada, Alibaba wasn't too popular by Indonesia people because Alibaba hasn't provided a feature for Indonesia people that makes Indonesia people have to get the things from global. Before Alibaba acquired Lazada, Alibaba wasn't had a platform that could covered up South East Asia market at once. Meanwhile for Lazada before it's acquired by Alibaba, on 2014 Lazada is faced a bankruptcy caused by the lost that Lazada felt is increased 2 times larger from 2013, which is two trillion rupiahs. Besides that, before Lazada acquired by Alibaba, Lazada only did a Business to Customer where they sell goods for a customer from the

brand that cooperate with Lazada. On that day, Lazada acted as an incubator to build a business and not for a long-term profit and commercial. The advantage of Lazada is that Lazada has a warehouse, where many others e-commerce don't have.

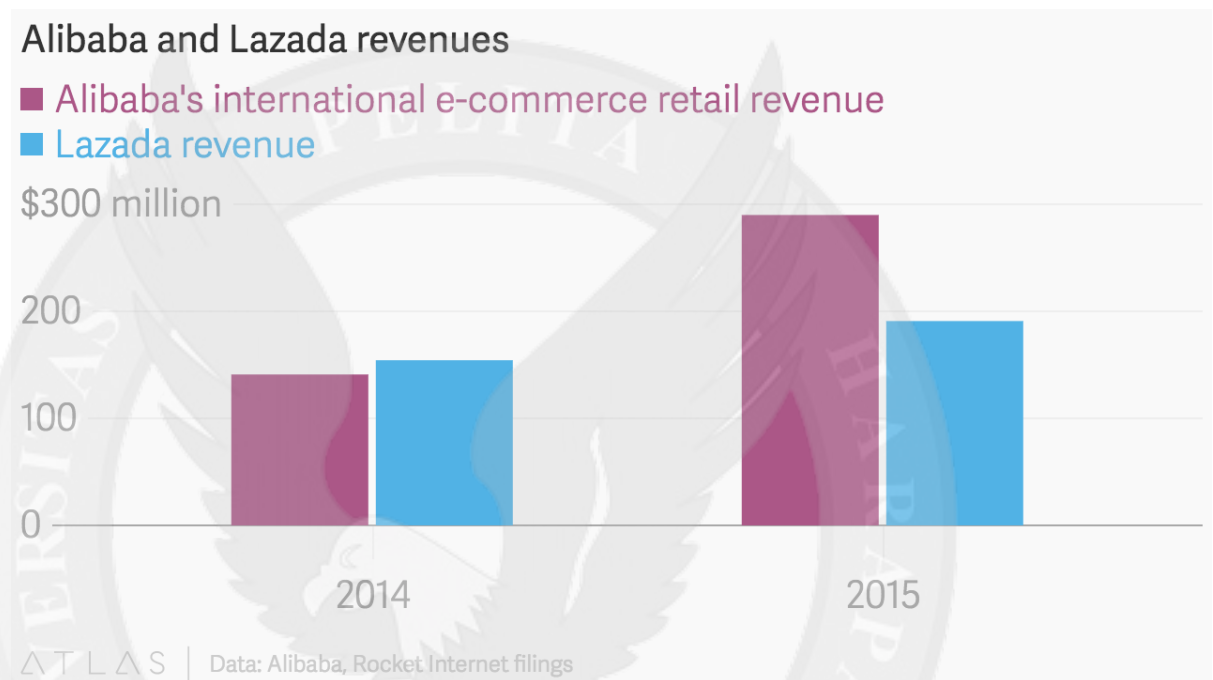


Figure 1.12 “Lazada and Alibaba Revenue”

Source: Atlas

From the graphic, revenue of Alibaba on 2014 was under Lazada's revenue. But, on 2015, Alibaba growth so fast more than Lazada and this make Alibaba on that time will reach \$300 million. Alibaba acquisition Lazada by invest a lot of money to Lazada and they want to expand their business to outsider, for Lazada, Alilbaba expand to South East Asia (CNNIndonesia.com). For acquisition Lazada, Alibaba didn't need to start from the bottom again to expand to South East Asia because Lazada was become the largest e-commerce on

South East Asia and they just need to be more innovative and just running their company as a usual. The main reason of Alibaba for acquisition Lazada is to expand their business not only at China but they want to globally without taking a high risk and they acquisition the best of the best company that will help them to expand their business and that will support the revenue of Alibaba after they acquisition the other company and on figure 1.11, the chart tell us that the revenue increase after the acquisition.

Based on the pre-survey, Pelita Harapan University students are aware and familiar with Alibaba and Lazada company. The impacts that Pelita Harapan University students feel after acquisition that Lazada acquired by Alibaba that Lazada not only serve the application for just South East Asia but now they serve globally since Alibaba acquiring their company, so the buyer or seller from South East Asia can buy or sell globally not just Asia but to the other world side.

The researchers choose *Facebook-Instagram* and *Alibaba-Lazada* as the research subject because the researchers want to find out more on how the brand equity of each main companies after they acquire other company. Also, the researchers want to learn more about other variables such as brand awareness, functionality, perceived value, etc. that also affected the brand equity of the main companies after the acquisition. In this research, researchers will focus more on Facebook-Instagram and Alibaba-Lazada companies in Indonesia.

This research is a replica of a research/journal conducted by Mahmood A. Awan, Han Chiang Ho, and Habib Ullah Khan (2017). However, this research

will completely discuss a different research sample, research object, and brand. Brand equity of *Facebook-Instagram* and *Alibaba-Lazada* companies in Indonesia before and after merger and acquisition, and also other variables that affected brand equity will be tested in this research.

1.2 Research Questions

Based on the background of this research, this paper will discuss about these problems regarding to the topics:

1. Does brand awareness of the products will cause a significant increase in the influence on brand equity after merger and acquisition?
2. Does perceived brand value of the products will cause a significant increase in the influence on brand equity after merger and acquisition?
3. Does functionality of the products will cause a significant increase in the influence on brand awareness after merger and acquisition?
4. Does functionality of the products will cause a significant increase in the influence on perceived brand value after merger and acquisition?
5. Does customer service of alliance companies will cause a significant increase in the influence on brand awareness after merger and acquisition?
6. Does customer service of alliance companies will cause a significant increase in the influence on perceived brand value after merger and acquisition?

1.3 Research Objectives

From the questions that will be discussed in this paper, this research will answer to these following questions:

1. To examine the influence of brand awareness and perceived brand value towards brand equity after merger and acquisition.
2. To examine the influence of functionality towards brand awareness and perceived brand value after merger and acquisition.
3. To examine the influence of customer service towards brand awareness and perceived brand value after merger and acquisition.

1.4 Research Contributions

This research will be beneficial by:

1. Merger and Acquisition Companies

This study contributes on merger and acquisition companies to help them to take a decision to merge or acquisition other company and see the effect of merger and acquisition towards their brand or their merge or acquisition company's brand to their revenue after merger or acquisition to their company and the impact of the merge or acquisition to their company after that.

2. Market of merge or acquisition company

This study contributes on market of merge or acquisition company to see the difference between previous and after effect of merger or acquisition to customer loyalty to the brand and see how the difference of their service and quality after merge or acquisition.

3. Research

This study contributes on the next researchers who use merger and acquisition topic for their research especially for transportation company so

they can use our research for their information about merger and acquisition phenomenon on our era.

1.5 Research Limitations

This research will have focused on Universitas Pelita Harapan students who study on Business School faculty on management major who have been studied Merger and Acquisition subject and who had been used the application at least once on their daily life.

1.6 Systematic Outline

CHAPTER I: INTRODUCTION

Chapter I will explain the detail about the background, research questions, research objective, research contribution, research limitation and the systematic outline.

CHAPTER II: LITERATURE REVIEW

In Chapter II, researchers will explain the theories about variables-variables that include and contribute in this research. In this chapter, it will explain the research model and the hypotheses too. The variable that will be explained are Merger and Acquisition, Brand, Brand equity, Brand Awareness, Perceived Brand Value, Functionality, Customer Service. There also explain about Preview Research and Framework of Variables and Hypothesis.

CHAPTER III: RESEARCH METHODOLOGY

This chapter will explain the research method that applied in this research. Start from research target, research subject and object, research design, unit analysis,

variable measurement, research variable indicators, data collection method, population and sampling, data analysis method, pre-test result, research model, and measures and procedures.

CHAPTER IV: FINDINGS AND ANALYSIS

In this chapter, it contains of the finding on this research and how the result achieved. In this research contains respondent profile, descriptive statistics, the result of measurement model evaluation, structural model result, discussion, and comparison with previous studies.

CHAPTER V: CONCLUSION AND RECOMMENDATION

In this chapter V, researchers will take the conclusion, managerial implication, and the limitations and recommendation based on this research and for the future researches.

