CHAPTER I

INTRODUCTION

## 1.1   Background of the Study

Traveling first began in the Neolithic age when people moved around to search for food using sailing vessels and when they first invented wheels. Thereafter, roads were built slowly and trade started to take place. After that, Medieval pilgrims were driven by their convictions of religion and began to travel and evangelize people. It slowly became fashionable in the 16th century for young aristocrats and wealthy upper-class men to travel to major European cities as a crowning touch to their arts and literature education designed to enlighten the young elite of Europe. Then the French revolution marked the end of the Grand Tour and it revolutionized travel. Travel was no longer limited to the privileged because traveling became cheaper, easier and safer. Young ladies also started to travel, chaperoned as appropriate by an old spinster as part of their education. As the Industrial Revolution began, the new middle class such as factory owners and managers had the time to travel. These people had more money and more time to relax and take part in recreational activities; and for the first time ever, traveling was done for the sole pleasure of it (Byttebier, 2007).

Tourism sector in Indonesia continues to record achievements with the highest growth, ranking ninth in the world, according to the World Travel and Tourism Council (WTTC). Tourism could become the largest foreign exchange earning sector, as even now it is the fourth largest national foreign exchange contributor, after palm oil (CPO), oil and gas and mining (coal) (Antara News, 2018). The tourism sector`s contribution to foreign exchange has also increased from US$12.2 billion in 2015 to US$15 billion in 2017. In 2018, the sector is expected to see foreign exchange increase to US$17 billion, as well as the 2019 projection of US$ 20 billion (Tempo, 2018).

Technological development and advancement has created an impact on almost all the aspects of the lives of modern world people and it includes the way people travel as well. In order to select the travel destination, people had to visit the office of a travel agent. Nowadays, it is not necessary as internet is there to

assist. Friends' recommendations or guidebooks are rarely used as there are plenty of websites available on the internet to help customers to locate the best travel destination (Kugel, 2013). With technological development and advancement, one thing that people consider an indispensable part of their lives is smartphones. Smartphones are devices which allow human beings to connect, stay in touch, and browse the web which can be accessed anywhere and anytime (Rahman, 2017).

According to the latest report from eMarketer, the number of smartphone users in Indonesia will increase from 55 million in 2015 to 92 million in 2019. Currently Indonesia has already become the third-largest smartphone market in the Asia-Pacific region (after China and India). The research firm added that the total number of smartphone users in the Asia Pacific has exceeded one billion users (Emarketer.com, retrieved on 25 March 2019). In Indonesia, overall about 91 percent of the population carries mobile phones while 60 percent carries smartphones. Almost 22 percent of Indonesia's population has a laptop or desktop computer while 8 percent carries a tablet-computing devices (Indonesia-investments.com, retrieved on 25 March 2019).
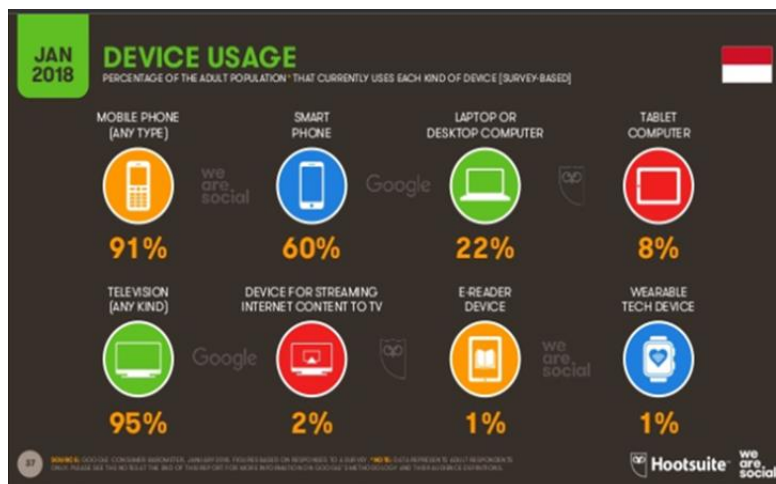
Figure 1.1 Percentage of Device Usage in Indonesia in 2018
Note. https://datareportal.com (retrieved on 25 March 2019)

The growth of smartphones users also benefit e-commerce industry. In 2016, revenue of e-commerce in Indonesia amounted to USD 6 billion, and 78 percent of current Internet users made online purchases. The industry is expected to grow by approximately 18 percent annually in the next five years, reaching a market volume of USD 16.4 billion by the end of 2020 (Das, Gryseels, Sudhir & Tan, 2016). Furthermore, Indonesia is a mobile-first nation; approximately 75

percent of the online purchases are made via mobile devices (Das, Gryseels, Sudhir & Tan, 2016). According to Statista, in 2017, 104.96 million people were accessing the internet in Indonesia and this figure is poised to grow to 133.39 million in 2021. With over 104 million internet users, Indonesia is one of the biggest online markets worldwide (Statista, 2019).

Figure 1.2 Total Amount Spent on E-Commerce by Category in Indonesia in 2018
Note. https://datareportal.com (retrieved on 25 March 2019)

Being one the biggest online markets worldwide, based on data by Hootsuite in January 2018, approximately $2,417 billion spend on travel (including accommodation), which places travel (including accommodation) as the sector that has the third highest growth in the e-commerce industry, which is 23.

Figure 1.3 E-Commerce Growth by Category in Indonesia in 2018
Note. https://datareportal.com (retrieved on 25 March 2019)

The online booking rental marketplace Airbnb started in 2007; which is co-founded by Joe Gebbia and Brian Chesky. Airbnb started when both Gebbia and Chesky struggled to pay their rent and saw an opportunity when there was a design conference coming to San Francisco and many hotels were fully booked. Knowing such opportunity, both Gebbia and Chesky grabbed the opportunity to rent out their three airbeds on their living room and provide breakfast to the guests (Salter, 2012). The next day Gebbia and Chesky created a website called airbedandbreakfast.com. Six days later they had a 30-year-old Indian man, a 35-year-old woman from Boston and a 45-year-old father of four from Utah sleeping on their floor where they charged $80 each a night (Salter, 2012).

Figure 1.4 Airbnb Logo
Note. https://google.com (retrieved on 25 March 2019)

Founded in 2008, Airbnb's mission is to create a world where people can belong through healthy travel that is local, authentic, diverse, inclusive and sustainable. Airbnb uniquely leverages technology to economically empower millions of people around the world to unlock and monetize their spaces, passions and talents to become hospitality entrepreneurs. Different from other third-party Online Travel Agent (OTA) platforms such as booking.com that distribute hotel rooms, Airbnb allows individuals, who are distinct from typical business organizations (e.g., hotels), to offer accommodation services to travelers. Hence, Airbnb not only presents a direct challenge to the hotel industry as a disruptive model but also has the potential to induce changes in travel behavior (Mao, 2017). In 2019, Airbnb's accommodation marketplace provides access to 5+ million unique places to stay in more than 81,000 cities and 191 countries. With Experiences, Airbnb offers unprecedented access to local communities and

interests through 15,000+ unique, handcrafted activities run by hosts across 1,000+ markets around the world (Airbnb, 2019).

Airbnb's business model ensure that all parties (including themselves) have a sense of accountability for how things operate. Airbnb is more than just a service; it's a community. Each transaction is an experience, instead of just a purchase. It provides a personal service that is thriving above formal hotel-client relationships because customers enjoy the trusting relationships that they form with other people (Lyons, 2014).

According to Geckoroutes (2018), Airbnb rank third after Tripadvisor and Booking, defeating Expedia and Trivago. In 2018, Airbnb's market share is 11%. Furthermore, Airbnb won the World's Leading Online Travel Accommodation Marketplace in both 2017 and 2018 (Expat Kings, 2019). With these facts, it shows that customers are loyal towards Airbnb.

Table 1.1 10 Most Popular Travel Booking Websites & Apps (Aug 2018)

Name	Rank	Opening Year	Headquarters	Market Share
Tripadvisor	1	2000	Nedham	31%
Booking	2	1996	Amsterdam	29%
Airbnb	3	2008	San Fransisco	11%
Expedia	4	1996	Bellevue	6%
Trivago	5	2005	Düsseldorf	5%

Note. GeckoRoutes.com (2018)

Loyalty refers to one's attachment or deep commitment to certain products/services (Pritchard et al., 1999). Wu and Law (2018) research based on the quality–satisfaction–loyalty framework showed that there are theoretical relationships among functionality and usability, perceived value for money and time, and satisfaction and loyalty. According to the quality–satisfaction–loyalty framework, satisfaction is an emotional reaction. Satisfaction is the extent to which customers believe their purchase experience meets their requirements (Bai et al., 2008).

Satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a product perceived in relations to his or her expectations (Kotler, 2000). Customer satisfaction is the feeling that buyers feel from a company's performance that meets their expectations. In marketing literature, customer satisfaction has been considered as a crucial factor influencing customer loyalty (Gerpott et al., 2001).

Figure 1.5 Airbnb's Customer Satisfaction
Note. Airbnb (retrieved on 25 March 2019)

Based on figure 1.5, it may be seen that Airbnb got star ranking 4.6 out of 5.0 and downloaded by more than 50 M users which show that Airbnb has a good customer satisfaction.

In e-tourism literature, functionality and usability performances have been identified as the major variables for analyzing the perceived quality of a website (Bai et al., 2008; Wang et al., 2015). Functionality performance refers to the content quality of a website, especially information about the products and services offered. In hospitality research, functionality has been empirically investigated as one of the variables of a website's p erceived quality to determine consumer satisfaction (Bai et al., 2008; Leung et al., 2016).
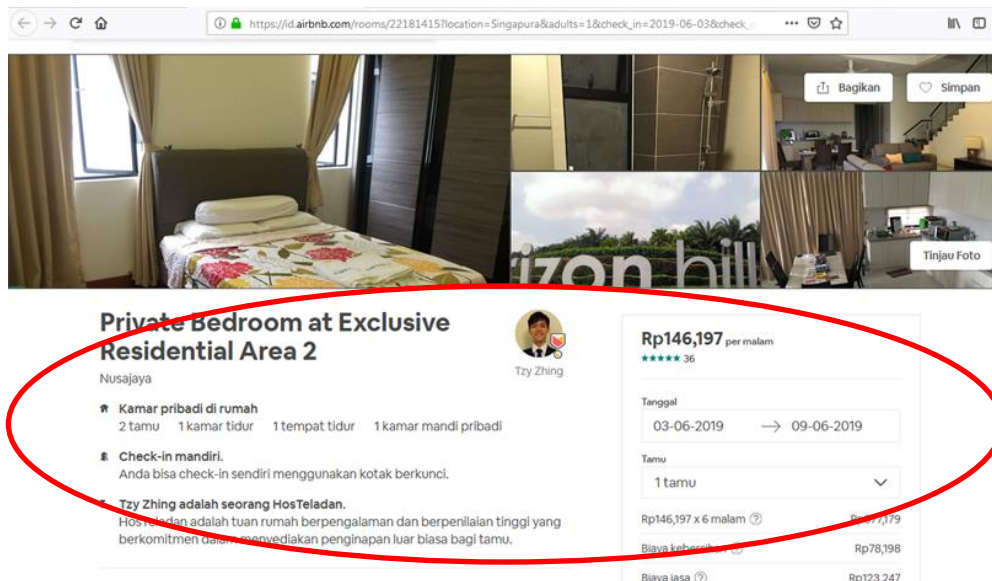

Figure 1.6 Airbnb's Functionality
Note. https://id.airbnb.com (retrieved on 21 April 2019)

Based on figure 1.6, Airbnb has a very simple search interface. The listing pages are complete with a description of any additional fees that may be included. This is a very straightforward, easy process for just about any user. In addition, Airbnb has cleverly thought out its copy and used engaging photos and videos to ensure that the interface conveys an emotional tone that helps create a sense of trust between strangers (Beaubien, 2016).

Usability, which refers to design, is another critical factor that constitutes a website's performance (Bai et al., 2008). A poorly designed website is generally unattractive to customers and can thus result in customer loss (Wang et al., 2015). Results confirmed that structure and ease of use should be considered in improving the usability of mobile websites. A recent research on hotel-related mobile apps revealed that usability performances are indispensable features that is constantly evaluated by users (Wu et al., 2018).
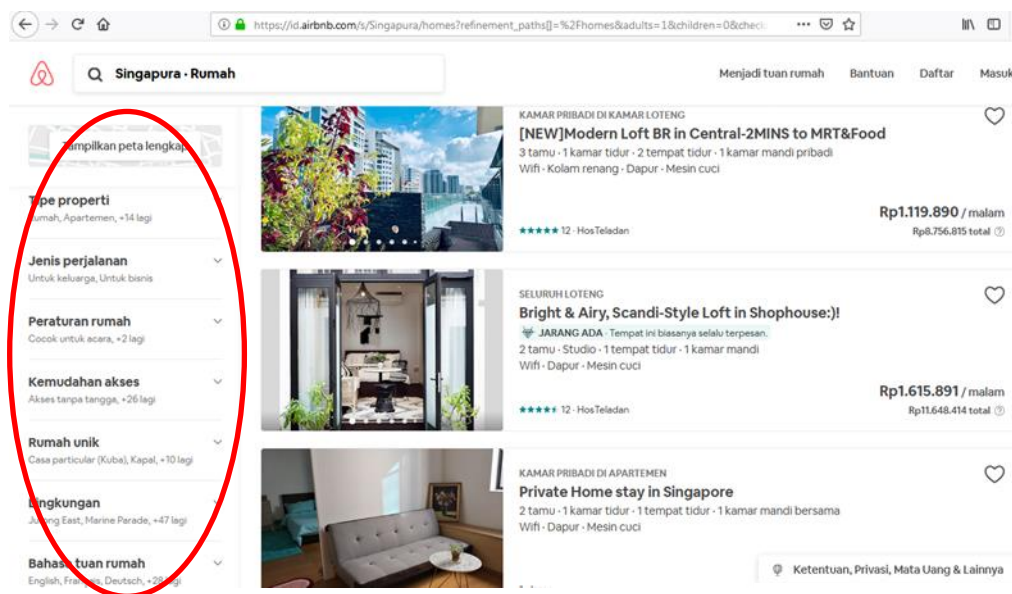

Figure 1.7 Airbnb's Usability
Note. https://id.airbnb.com (retrieved on 21 April 2019)

Based on figure 1.7, Airbnb has very good filtering options (kitchen, WIFI, washer) if customers are looking for specific amenities in their room. The user interface is pretty simple and customers can view lots of photos and details about a room from the main search results. Airbnb offers more precise filtering options and what customers see is what customers get. It is easier to book a room on Airbnb and end up satisfied with the results (Expat Kings, retrieved on 25 March 2019).

According to DeVoe and House (2012), money and time are two of the most valuable and beneficial resources for an individual to possess happiness. According to Mogilner (2010), money is closely related to utility, while time is considerably related to one's emotional fulfillment. Perceived value for money refers to the monetary benefits and sacrifices perceived by customers (Kim et al., 2013), whereas perceived value for time refers to customers' trade-off analysis of the cost of their time and the results they obtain.
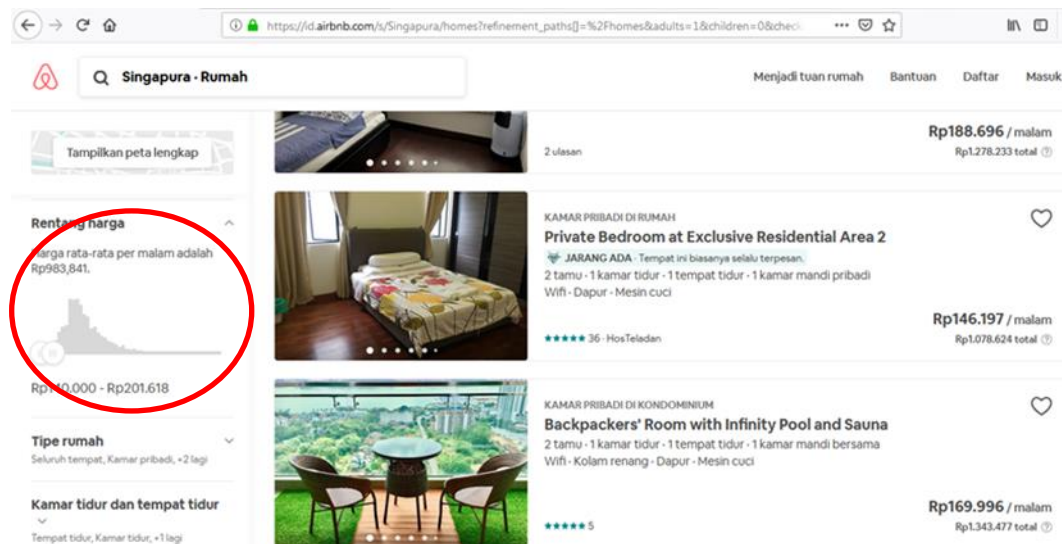

Figure 1.8 Airbnb's Value for Money
Note. https://id.airbnb.com (retrieved on 21 April 2019)

Based on figure 1.8, by using Airbnb, it allows customers to get better value for money. Airbnb allows customers to choose ranging accommodation based on their budget. Unlike other online travel agency, Airbnb allows individuals to rent out their space. As a result, many of these are affordable and allows customers to pick which type of accommodation fits them best. One of the great things about staying in a private room in an Airbnb is that customers will often get access to common facilities such as their kitchen and laundry. This is great if customers are travelling on a budget as it allows customers to cook their own meals (rather than eating out all the time) and wash their clothes without paying a premium surcharge that hotels often charge (Rozenblit, 2018).
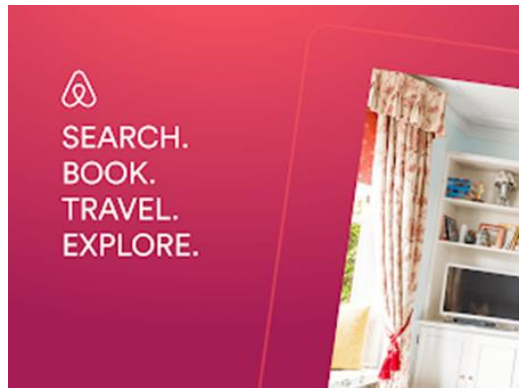
Figure 1.9 Value for Time Testimonials for Airbnb
Note. Airbnb (2019)

Based on figure 1.9, Airbnb have made it easier for guest to book accommodation. People consider these platforms as a treasure hunt. People can look for destination information, price comparison, and place availability in just one application.

1.2   Research Problems

Based on the background of the study, research problems consist of the following:

1. Does functionality has significant effect on customer satisfaction of Airbnb users in Surabaya?

2. Does usability has significant effect on customer satisfaction of Airbnb users in Surabaya?

3. Does value for money has significant effect on customer satisfaction of Airbnb users in Surabaya?

4. Does value for time has significant effect on customer satisfaction of Airbnb users in Surabaya?

5. Does customer satisfaction has significant effect on customer loyalty of Airbnb users in Surabaya?

1.3   Research Objectives

Based on the research problems, research objectives consist of the following:

1. Examine the significant effect of functionality on customer satisfaction of Airbnb users in Surabaya

2. Examine the significant effect of usability on customer satisfaction of Airbnb users in Surabaya

3. Examine the significant effect of value for money on customer satisfaction of Airbnb users in Surabaya

4. Examine the significant effect of value for time on customer satisfaction of Airbnb users in Surabaya

5. Examine the significant effect of customer satisfaction on customer loyalty of Airbnb users in Surabaya

1.4 Research Contributions

1.4.1 Theoretical Advantages

This study made its contribution as a reference in Customer Satisfaction and Customer Loyalty, by identifying the effect of functionality, usability, value for money, and value for time on customer satisfaction towards customer loyalty. This study is also a reference for further studies related to similar to the field of study.

1.4.2 Empirical Advantages

1.4.2.1 For Airbnb

The result of this study can be used for evaluation purposes by Airbnb regarding their functionality and usability and how they can improve their strategies by learning about their consumers and how to create effective strategies through the variables such as functionality, usability, value for money, and value for time.

1.4.2.2 For the researcher

This study depends the researcher's knowledge about Marketing Strategy particularly in the sub-field of marketing strategy. It gives the research a much broader awareness of the intricacy of marketing and its elements to its marketing strategy.

1.5 Research Limitations

This research mainly focuses on the analysis of Functionality, Usability, Customer Satisfaction, Value for Money, Value for Time and Customer

Satisfaction on Customer Loyalty of Airbnb. For this research, the limitation is fixed upon the area users that comes from Surabaya, age range from 18-65 years old, owned and have used Airbnb at least twice in the last two years.

1.6   Research Outlines

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

Chapter I

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

Chapter II

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

Chapter III

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

Chapter IV

This chapter organizes the logical presentation of all findings in the research questions, and focus on how these key findings relate back to the theory and prior research presented in the beginning of the study.

Chapter V

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topics by its theoretical, methodological, or substantive contributions that may be necessary to overcome the   limitations   of   existing   empirical   facts.