

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Nowadays, The internet is being widely used in people's daily life. The existence of the Internet has brought about countless advantages to the daily lives of individuals. With the help of the internet, people are able to communicate, entertain, learn, and buy products and services online. The many disadvantages of using the internet have long been discussed; as the risk of personal information theft, the virus threat, spam etc. However, as the advantages of using the internet outweigh its drawbacks, most people cannot resist adopting it and bringing it to the centre of their lives (Yoldas, 2011). Furthermore, the study of technology and how people use and interact with it on a daily basis has become increasingly more prevalent because due to its widespread use by people.

In 2016, nearly half of the world's population, 46.1%, had access to internet ("Number of Internet Users", 2017). This shows that the internet is very widespread and has a reach to so many people, especially in developed and developing countries where a large portion of the population uses the internet regularly ("World Internet Users Statistics", 2017).

Year	Internet Users**	Penetration (% of Pop)	World Population
2016*	<b>3,424,971,237</b>	46.1 %	7,432,663,275
2015*	<b>3,185,996,155</b>	43.4 %	7,349,472,099
2014	<b>2,956,385,569</b>	40.7 %	7,265,785,946
2013	<b>2,728,428,107</b>	38 %	7,181,715,139
2012	<b>2,494,736,248</b>	35.1 %	7,097,500,453
2011	<b>2,231,957,359</b>	31.8 %	7,013,427,052

Table 1.1 World population internet users. Source: <http://www.internetlivestats.com/internet-users/>

The real threat and opportunity in technology's disruption lies in the evolution of customer and employee behavior, values, and expectations. (Solis, n.d.)

The internet has brought many changes in the way we do things, but it has also brought a whole new dimension to commercial activities. Not too many years ago most people shopped in their local retail stores and had to worry about bad weather, parking their vehicle, long queues at checkout, and shopping carts with wobbly wheels. Even though online shopping has been available for a while, many people felt uncomfortable inputting their personal information such as name, address, and credit card details to shops online. This has all changed in recent years (“Growth of Online Retail and Shopping,” n.d.). In 2015, 7.4% of all retail spending is done through the internet and 45.4% of internet users have purchased online (Saleh, 2016).

In 2016, total retail sales across the globe will reach \$22.049 trillion, up 6.0% from the previous year. eMarketer estimates sales will top \$27 trillion in 2020, even as annual growth rates slow over the next few years. However, retail through e-commerce sales will reach \$1.915 trillion in 2016, which would account for 8.7% of the total spending on retail worldwide. Even though the rate of growth for retail sales overall has subdued, the sales from the digital and e-commerce section continue to expand at an increasing rate, with a growth rate forecast of 23.7% for 2016 (“Worldwide Retail Ecommerce Sales”, 2016).

As stated by Harsono (2016), the current state of the e-commerce market in Indonesia is similar to the online marketplace of China in the beginnings, huge number of entrepreneurs selling and providing goods online and purchases that are mainly based on the recommendations on social media. Similarly, the e-commerce in Indonesia is also very similar to the U.S. e-market in its early stages, because consumers in the U.S. were also wary about trusting online payment methods and online shops. Indonesia is truly unique because it has the potential to create a hybrid of the widest opportunities from America and China’s e-commerce economies, which would in turn propel its e-commerce scene into the global stage.

Indonesia presents much opportunity for e-commerce among other emerging Asian economies (Harsono, 2016). According to “The World Bank” (2015), Indonesia’s population reached 257,563,820 in the year 2015. As stated by

APJII (2016), the Indonesian Internet Service Provider Association, Indonesia has 132.7 million internet users with a 51.8% population penetration ("Number of Internet Users Rising", 2016). Vincencia (2015) stated that Indonesia is currently a hotbed for the e-commerce industry. This is because of its large population and its exponential e-commerce sales growth.

According to Noviandari (2015), online shopping in Indonesia reached Rp 50 trillion in 2015. According to Adhi (2016), online shopping will exceed Rp 68 trillion in the year 2016. This is a 36% increase from 2015 which means that online shopping in Indonesia is still growing fast and is a huge market. Though the current e-commerce revenue is around US\$5 billion in 2016, Indonesia's revenue is estimated to reach US\$20 billion by the year 2020 (Balea, 2016). Some publications even believe that Indonesia's e-commerce sales could swell up to US\$130 billion by 2020 (Arshad, 2016). This shows how important it is for more research to be done on online shopping and consumer behaviours to be prepared for the increase in the prevalence of e-commerce in Indonesia.

As the potential of e-commerce grows in Indonesia, the competition between online shops is increasing as more shops enter the industry. The competition has begun to become so intense that it has been addressed by the Head of the Creative Economy (Kepala Badan Ekonomi Kreatif) (Jamaludin, 2015).



Figure 1.1 Annual e-commerce sales Indonesia.

source: <https://buattokoonline.id/data-statistik-mengenai-pertumbuhan-pangsa-pasar-e-commerce-di-indonesia-saat-ini/>

As online sales still only account for about 1% of Indonesia's entire retail sector, the ecommerce space in Indonesia is set to have higher growth and impact over the next decade or so ("E-Commerce Market Indonesia", 2016). There are a myriad of online shops and marketplaces in Indonesia, but the top 5 largest online stores in Indonesia include; Tokopedia, Bukalapak, Kaskus, Lazada, and BliBli. They are all in the top 50 websites visited by Indonesians according to Alexa, which is an analytics firm that tracks website data and how many users visit a particular website. (Alexa, 2017)

Tokopedia is arguably Indonesia's biggest online store and marketplace. It provides a free Customer to Customer retail platform that can be used by ordinary individuals, entrepreneurs, and even small/medium sized businesses to open their own online store. (Crunchbase.com, 2017). With the vision of building a better Indonesia through the internet, Tokopedia has a program to support small and medium business actors in order to develop their business by marketing their products online. Tokopedia has a vast range of products for sale, ranging from fashion products to car accessories. Tokopedia was founded by William Tanuwijaya and Leontinus Alpha Edison in February of 2009. As stated by Mac (2014), Tokopedia is Southeast Asia's first homegrown company to receive \$100 million in a round of investment in October 2014. It received investments from SoftBank Ventures Korea and Sequoia Capital. In April 2016, Tokopedia raised another \$147 million.

Bukalapak.com is one of the online market or online marketplace, which are very popular in Indonesia. Bukalapak's business model provides a means of selling from consumers to consumers wherever they are located, anyone can open an online store then serve prospective buyers from all over Indonesia either unit or in a very large amount.

Kaskus is an online store where Kaskus users can sell and also buy a desired product or service sold by other users. At first Kaskus was a community forum, but

a lot of Kaskus users used the forums to transact trade and purchase, so it transformed into an online marketplace.

Lazada is a German owned e-commerce company with a business model of selling its inventory to customers from its warehouses. Third-party sellers can also sell through lazada.

Blibli.com is one of the first online stores with the concept of creating an online mall.

Indonesian people are used to visiting malls to buy products. So the goal of Blibli is to create a streamlined process where users can easily find what they are looking for similar to a mall. (“7 Toko Online Terbaik dan Terpopuler”, 2016)

With all these online stores competing in Indonesia (shown below), and all of them having something unique of their own that makes them competitive against one another it is a very intense and competitive market in the industry. The e-commerce industry is still relatively quite small in Indonesia and it has the potential to become huge and reach out to over 250 million people.

Front Pages of Indonesia’s Most Popular Online Shops	
<p>Tokopedia #9 Alexa rank</p>	

<p>Bukalapak #12 Alexa rank</p>	
<p>Kaskus #13 Alexa rank</p>	
<p>Lazada #20 Alexa rank</p>	
<p>blibli #48 Alexa rank</p>	

Table 1.2 Front Pages of Indonesia's Most Popular Online Stores.

source: <https://pintarkomputer.org/2016/01/7-toko-online-terbaik-dan-terpopuler-di-indonesia/>

A few years ago, Tokopedia was not much of a significant competitor to the other online stores, now it has become the biggest online marketplace in Indonesia with record breaking funding from investors. This shows that the environment is very volatile and it is very important for these organizations to have a good and sound strategy. To be able to come up with an effective strategy they need to understand what makes the customer want to buy from a particular store. Hence,

the purpose of this study will be to find the factors which affect the purchase intention of users online and the study will be conducted on Tokopedia as it is the largest online store in Indonesia and has the most users. Furthermore, the research will be limited to Surabaya as it is a major city in Indonesia with a large enough population to be able to reflect the rest of the nation.

The main factors which affect online purchase intention that this study will be exploring include, brand orientation, impulse purchase orientation, online trust, prior purchased experience, and perceived ease of use.

Online purchase intention can be defined as a situation where a consumer is willing and intends to make online transactions (Meskaran, Ismail, and Shanmugam, 2017). There are many different factors that affect a customer's purchase intention online, but this study will be limited to focusing on 5 of the biggest factors that affect online purchase intention. The customer's online purchase intention is very important because it is the point online shops want their customers to reach. They want their customers to want to buy their products so they can increase their sales. That is why it is important to study the factors affecting it.

According to Aaker (1991), brand orientation is an important variable that affects the online purchase intention of customers when they visit online stores. Brand orientation is defined as a name or symbol, trademark and package design that uniquely identifies the products or services of a retailer, and differentiates them from those of its competitors. In the setting of an online marketplace, having a strong coherent brand identity acts as a cognitive anchor and a point of recognition where customers perceive a great deal of uncertainty. Brand orientation, for the purpose of this research, refers to the branding of the website itself. If the website is a well-known and popular brand then it will have a positive effect on the purchase intention whereas if the brand is lesser known and somewhat untrusted and untested website brand would have an adverse effect on the customer's purchase intention. Tokopedia has quite a strong brand due to their strong marketing presence. They have advertisements everywhere from radio ads, to ads on YouTube videos, to ads on Television. Hence, their name is well known and their branding as a 'easy and safe' online shop is solidified. (Mamuaya, 2015)

Piron (1991) defines impulse purchase as an unplanned action that result from a specific stimulus. Impulse purchase orientation is a particularly important variable for online shops. As online shops give consumers access to a plethora of products right at their fingertips on the internet, consumers can often be a little impulsive when they see something they like. Even though impulsive purchases are unplanned, several researchers have concluded that customers do not see their impulsive purchases as wrong; rather, customers retrospectively convey a favourable evaluation of their behaviour (Dittmar, Beattie, and Friese, 1996; Hausman, 2000; Rook, 1987). Often times when online shopping, people may purchase more than they plan to. This is because of the suggested items that are usually shown on the front page of the online stores as well as the ease at which people can search for other items.

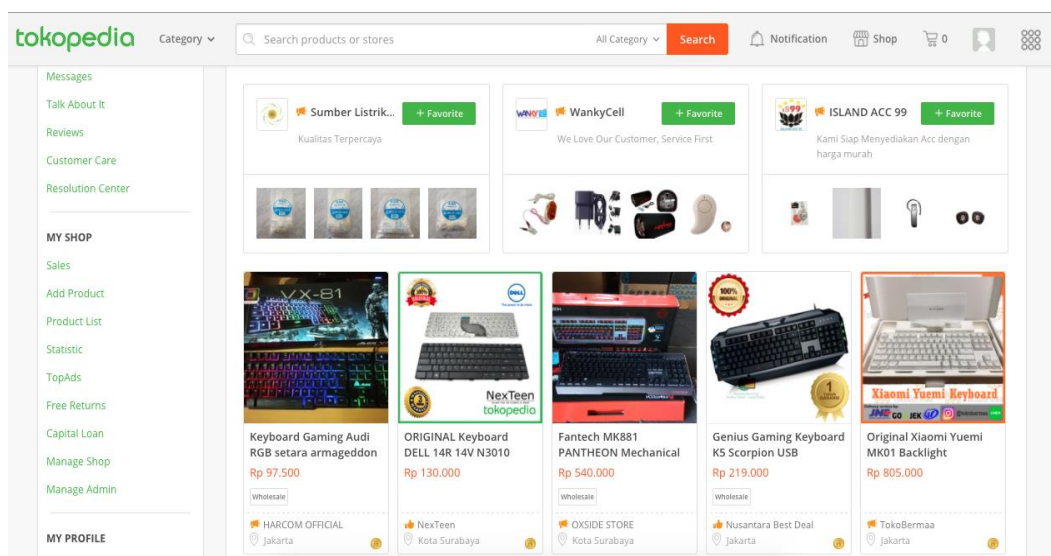


Figure 1.2 Tokopedia front page related products suggestions.

Source: [www.tokopedia.com](http://www.tokopedia.com)

Tokopedia has already implemented certain features in its website where it will show suggested items based on the items users view and/or purchase. The following is an image showing Tokopedia's front page with product suggestions.

Kimery and McCard (2002) define trust as customers' willingness to accept weakness in an online transaction based on their positive expectations regarding future online store behaviour. Trust is a difficult concept to measure, as it is a



perception and subjective sentiment that the customer feels towards the business (Ermisch, Gambetta, Laurie, Siedler, and Uhrig, 2009). Creating trust online is particularly difficult because it is mostly only 1 way communication, as what is on the website is what the customer gets. As stated by Kramer (1999), trust is a complex statement because individuals do not know what the motives and intentions of others are. In the online shop setting, the customer needs to be able to trust the organization before they can have the intention to purchase, because if they do not trust the online shop then they will not want to put their personal information and payment information onto the website.

Prior online purchase experience is another variable that leads to a customer's online purchase intention. Helson (1964) argued that an individual's response to a judgmental task is based on three aspects, which are sum of the individual's past experiences, context or background, and stimulus. Furthermore, as online shopping is still relatively new, especially for consumers in Indonesia, making purchases online is still seen as being more risky than making purchases from brick-and-mortar shops (Laroche, Yang, McDougall and Bergeron, 2005).

Perceived ease of use is defined as the individual's perception that using the new technology will be free of effort (Davis, 1989, 1993). In the context of online shopping, perceived ease of use means the customer perception that they can transact on an online shop with minimum effort involved (Davis, 1989, 1993). Theoretically, if a particular individual perceives a online shop to be easy to use and without hassle, then they may be more likely to purchase from the website. One of the main reasons for the increased popularity in online shopping is because of the perceived ease of use and convenience (Cho, 2015). Tokopedia website is generally relatively easy to use as there is a search bar to quickly search for the item you want to purchase, and also many different methods of payment for purchases. However, one area in which tokopedia lags is when contacting sellers regarding a purchase, often times whether or not an item is in stock or not is not displayed by the seller, therefore customers often have to send private messages to the seller before making a purchase.

Knowing the variables that affect customer purchase intention is very

essential especially for online websites as they are not able to track and measure each customer interaction like a brick-and-mortar store would be able to.

## **1.2 Research Problems**

The following research problems are tested in this study:

1. Does Brand Orientation have a significant effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya?
2. Does Impulse Purchase Orientation have a significant effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya?
3. Does Online Trust have a significant effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya?
4. Does Prior Purchase Experience have a significant effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya?
5. Does Perceived Ease of Use have a significant effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya?

## **1.3 Research Objectives**

As a result of compiling and completing the research, the researcher is able:

1. To examine whether Brand Orientation has an effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya
2. To examine whether Impulse Purchase Orientation has an effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya
3. To examine whether Online Trust has an effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya
4. To examine whether Prior Purchase Experience has an effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya
5. To examine whether Perceived Ease of Use has an effect on Customer Online Purchase Intention for online shop Tokopedia in Surabaya

## **1.4 Research Contributions**

This study was aimed to identify the purchase intention and purchase behaviour of online shoppers of Tokopedia and to know if it is affected by the five variables above. The research is expected to make contributions for:

1. One of the aims of this research is to share knowledge gathered from this study to assist future researchers who want to do further research on the purchase behaviours of online shoppers for tokopedia and other online shops.

Since this is a descriptive causal research, it may help future researchers to gain an insight on online shoppers and the relationship between them and the variables being studied in this research. Furthermore, the study has the ability to act as a source of inspiration and as a base for researchers to come up with ideas and solutions.

2. Tokopedia and other companies in the e-commerce industry. These companies can gain a better understanding of the factors (Online Purchase Intention, Brand Orientation, Impulse Purchase Orientation, Online Trust, Previous Online Purchase Experience, and Perceived Ease of Use) which influence online shoppers and their online purchase intentions, specifically Tokopedia. Furthermore, companies can also modify their business practices, strategies, and offerings to meet the needs of consumers and tailor it to turn the customer's purchase intentions into a sale. By tailoring their strategies to the customer's behaviors, not only will it likely increase the sales of the company but it will also increase customer satisfaction as their purchasing behaviors are attended to.

### **1.5 Research Limitations**

To anticipate further discussion on the topic of this research, an examination of the problems that are not in accordance with the topic must be made and the limitations must be listed. Some of these limitations include:

1. The research only explores 6 different variables consisting of 1 independent variable, Online Purchase Intention, and 5 dependent variables, brand orientation, impulse purchase orientation, online trust, prior online purchase experience, and perceived ease of use.

2. The research was conducted on Tokopedia users only
3. The subject of the research is limited to Tokopedia users in Surabaya only
4. Research conducted in 2017
5. As Tokopedia is relatively new, there has not been much secondary research on its users.
6. Questionnaire limited to those people who visit public places in Surabaya
7. Questionnaire limited to only those who have made a purchase in the last 6 months
8. Questionnaire fillers limited to 18-60 year olds

## **1.6 Research Outline**

### Chapter I: Introduction

This chapter presents an entire outline of the entire research as a whole. Additionally, it also explains the research problems and the variables that will be explored in this research. It also describes the general external environment as well as the product, Tokopedia, that is being researched for this research. This chapter also identifies the objectives and aims of this study.

### Chapter II: Review of Related Literature

This chapter illustrates and summarizes past researches, literature reviews, and other major findings regarding the topic of this research. In addition, this chapter also outlines how this study will add onto the findings of other researchers. Furthermore, it also provides a coherent description of the theories applied to the research problem, as well as an explanation as to why it is relevant. It also explains the theoretical framework from which this study is adopted and how it has been used and helped in the construction of the operational framework of the study.

### Chapter III: Research Methodology

This chapter elaborates and goes in-depth into the scientific and technical activities, which include the research design, methods of data collection, sample planning, instrumentation, treatment of data, and statistical tools.

### Chapter IV: Results and Discussion

This chapter describes the details of the results after the calculation is conducted. It describes the object of the study, a descriptive analysis of the data collected in relation to the hypothesis proposed, and a discussion of the findings.

### Chapter V: Summary, Conclusion, and Recommendation

This chapter summarizes the findings of this study, provides a conclusion to the study, and proposes a recommendation.