CHAPTER I

INTRODUCTION

1.1 Research Background

There has been continuous development in internet-based technologies and online business models, including the increase in electronic commerce (e-commerce) stores (Lin & Wang, 2015). E-commerce is known as a telecommunication network to share business information, maintaining business relationships and conduct business transactions (Agarwal & Wu, 2015). As of 2019, there are around 3,852.7 million users in the e-commerce industry worldwide and by 2023, it is expected to rise to 4,675.6 million users (Statista, 2019). This can be seen in Figure 1.1, where it shows the growth of users worldwide in the e-commerce industry.
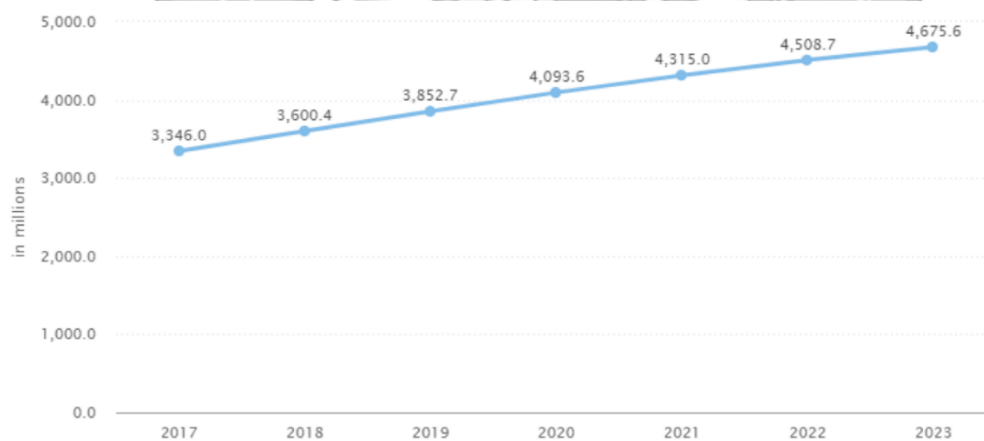

Figure 1.1 – Number of E-Commerce Users Worldwide from 2017 to 2023
(Source: https://www.statista.com/outlook/243/100/ecommerce/worldwide)

Additionally, the worldwide growth of the e-commerce industry in terms of revenue is seen in Figure 1.2. In 2019, the revenue is US$ 1,800,517 million and by 2023, it is expected to increase to US$ 2,674,077 million (Statista, 2019). Back in 2017, the revenue was US$ 1,436,483 million meaning that there has been US$ 364,034 million increase in revenue within the past two years. The number of users has also increased by 506.7 million from 2017 to 2019. Hence, it indicates that there is a significant growth in the e-commerce industry worldwide.
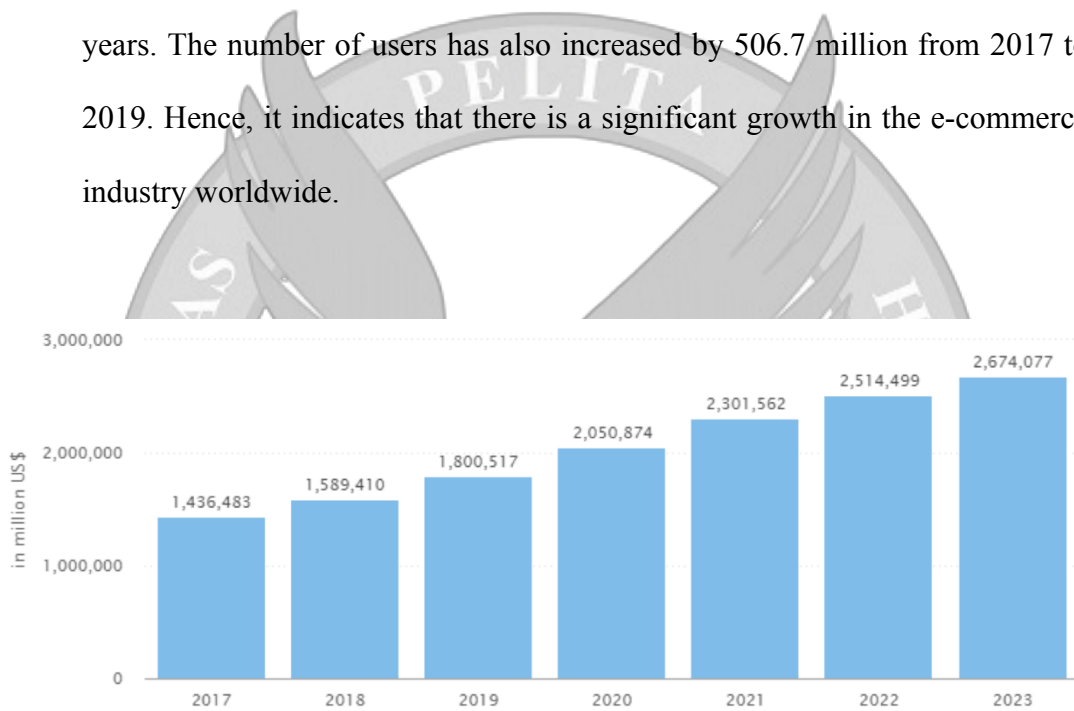

Figure 1.2 – Revenue of E-Commerce Industry Worldwide from 2017 to 2023
(Source: https://www.statista.com/outlook/243/100/ecommerce/worldwide)

In Indonesia, there are 168.3 million users in the e-commerce market in 2019, and it is expected to rise to 212.2 million users by 2023 (Statista, 2019). From 2017 to 2019, the number of users has increased by 29.3 million. This is

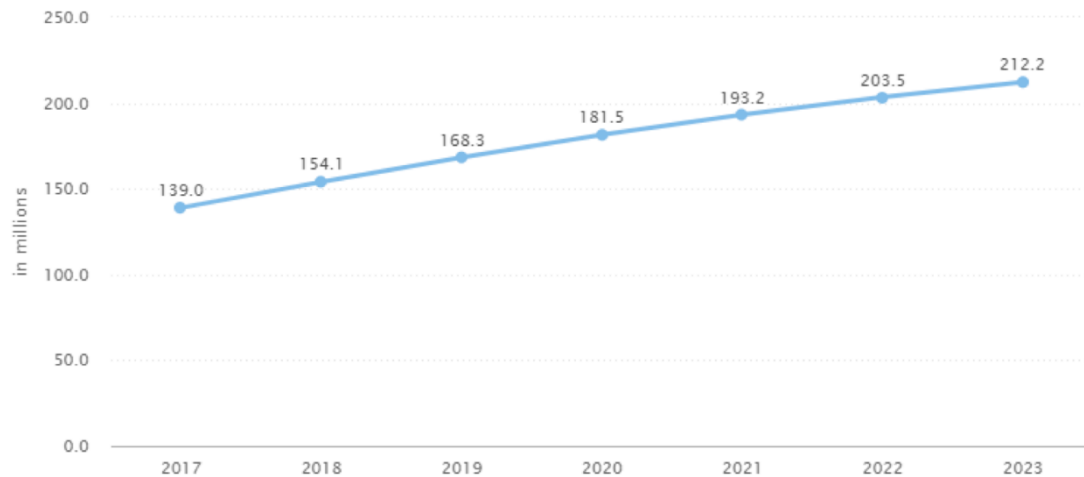seen in Figure 1.3 which shows the number of users in the e-commerce market in Indonesia from 2017 to 2023.

Figure 1.3 – Number of E-Commerce Users in Indonesia from 2017 to 2023
(Source: https://www.statista.com/outlook/243/120/ecommerce/indonesia)

Moreover, the total revenue of the Indonesian e-commerce industry is also growing as seen in Figure 1.4 where in 2019, the revenue is US$ 18,764 million and then, by 2023 it is expected to rise to US$ 47,067 million. The revenue increase from 2017 to 2019 is US$ 11,502 million (Statista, 2019). Thus, making it evident that Indonesia's online shopping market has rapidly grown over the past two years and will continue to grow dramatically in the next four years.
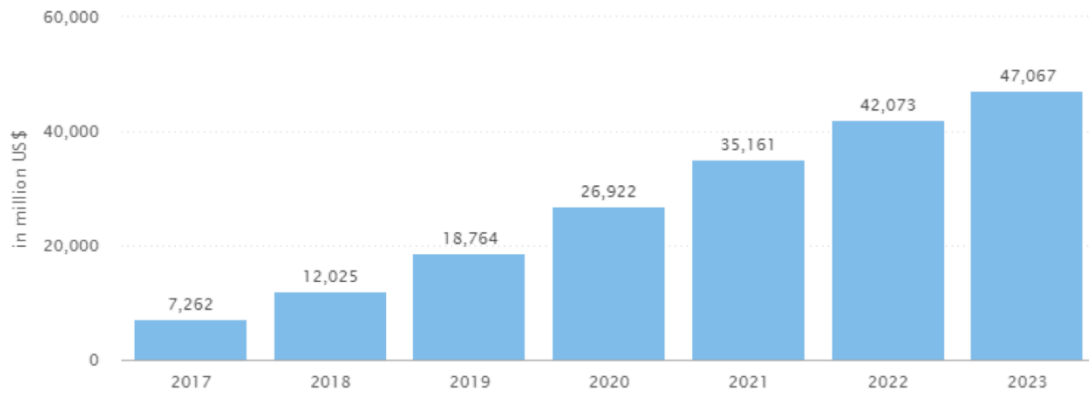
Figure 1.4 – Revenue of E-Commerce Industry in Indonesia from 2017 to 2023
(Source: https://www.statista.com/outlook/243/120/ecommerce/indonesia)

From this, a new type of e-commerce has developed, called social shopping. Essentially, social shopping integrates two online activities which are social networking and online shopping. It provides a virtual platform for users and/or consumers to search about the product or any type of information needed before shopping (Hajli, 2015). Other than that, consumers can share their interests, shopping experiences and exchange opinions which can then be recommended to others (Nugraha, Sumarwan & Yulianti, 2018). To be simply put, social shopping attempts to take advantage of the web technologies and use it to imitate the social interactions found in physical stores and malls (Hsu, Chen & Kumar, 2016).

However, this is still a newly developed model for online businesses and lacks an established definition. For that reason, the definition of social shopping used in this research is based on the framework established by Han

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and Trimi (2017) wherein they define social shopping as three main streams. First, social shopping is considered as a subset of e-commerce at which point social media is used for commercial transactions. Second, social shopping is a computer-based platform that acts as an online mediator which combines both social media and Web 2.0. Lastly, social shopping can also be an integration of both definitions where it is a subset of e-commerce that uses Web 2.0 and social media to involve the users in the product or service life cycle from the pre-development stage until the final stage.

With the evolution of the internet, more and more businesses are taking advantage of the opportunity and are operating online rather than having a brick-and-mortar approach. This includes the use of social media and Web 2.0, such as online mediating platforms. However, this requires high website quality and proper customer relationship management since there is minimum human interaction. Consequently, it is a challenge for the business to retain customers.

Other than that, as the growth of e-commerce and social shopping intensifies, it becomes challenging for customers to trust the business and determine which businesses are legitimate. According to Lee and Choeh (2014), product reviews which are posted online by consumers who have purchased the product are becoming one of the major sources of information for customers to determine a product's quality. Due to this, consumers are progressively trusting website quality in order to reduce the perceived risk of purchasing from online stores (Hsieh & Tsao, 2014). Other than that, social

factors and technological advancements contribute to the relationship quality and customers' social shopping purchase intention (Hajli, 2015).

Research shows that website quality is influenced by three different factors which are usability or system, information quality and service interaction quality. These indicators help contribute to trust in the business and better relationship management between seller and buyer. As a result, website quality greatly affects the consumer's trust in an embedded recommendation agent, especially because consumers are more likely to trust the information from other shoppers rather than the information provided by the business itself (Nilashi, Jannach, Ibrahim, Esfahani & Ahmadi, 2016; Hsu, Chen & Kumar, 2016).

Relationship quality is focused on three major influences which are trust, commitment and satisfaction (Rafiq, Fulford and Lu, 2013). As previously mentioned, within the e-commerce industry, trust is a crucial factor in customer purchases. While commitment helps ensure the efforts to create a proper customer relationship. In addition to that, satisfaction helps create a positive impact on the customers' intention to purchase and investing in a relationship in the long-term (Hsu, Chen & Kumar, 2016). Thus, relationship quality is essential for online businesses.

In Indonesia, there are several shopping companies such as Lazada ID, Blibli, Elevenia, JD.id and Shopee ID. All of these companies follow the second definition of social shopping wherein they serve as a computer-based, online

platform that mediates the buying process between business and customers. Figure 1.5 shows the top B2C social shopping websites in Indonesia which are Lazada, Blibli and Shopee. Compared to Lazada and Blibli, Shopee ID has the lowest number of visitors back in 2018.
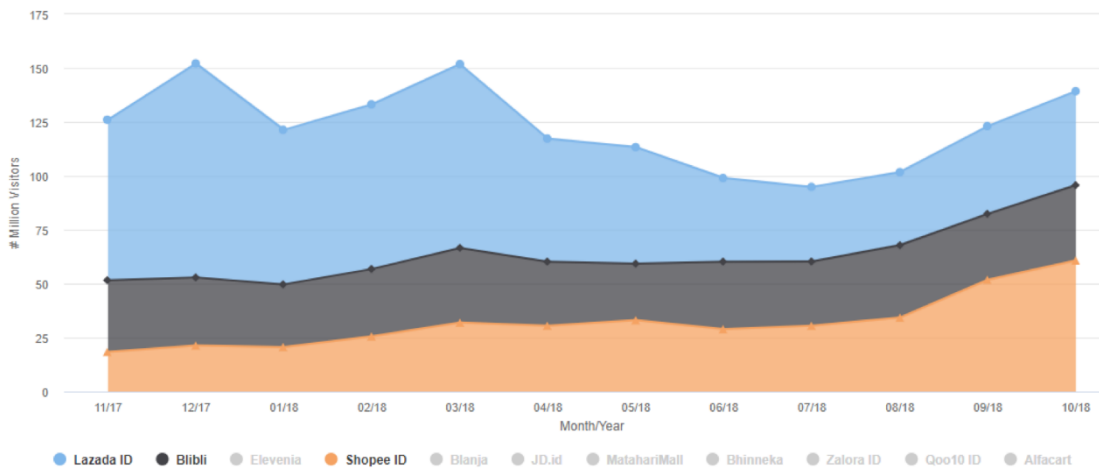

Figure 1.5 - Number of Visitors of Lazada, Blibli and Shopee ID in 2018
(Source: https://ecommerceiq.asia/top-ecommerce-sites-indonesia/)

Regardless, from June until September 2019, Shopee has maintained their number of visitors in the range of 52 to 57 million as seen in Figure 1.6. Furthermore, they have a bounce rate of 36.44% which signifies that they are able to retain their customers. In the span of a month, Shopee increased their customers by 19.5% due to popular marketing campaigns (Similarweb, 2019). However, this does not guarantee sales growth for the company which leads to the purpose of this research to identify how social shopping websites can retain customers and Shopee will be the focus of the study.
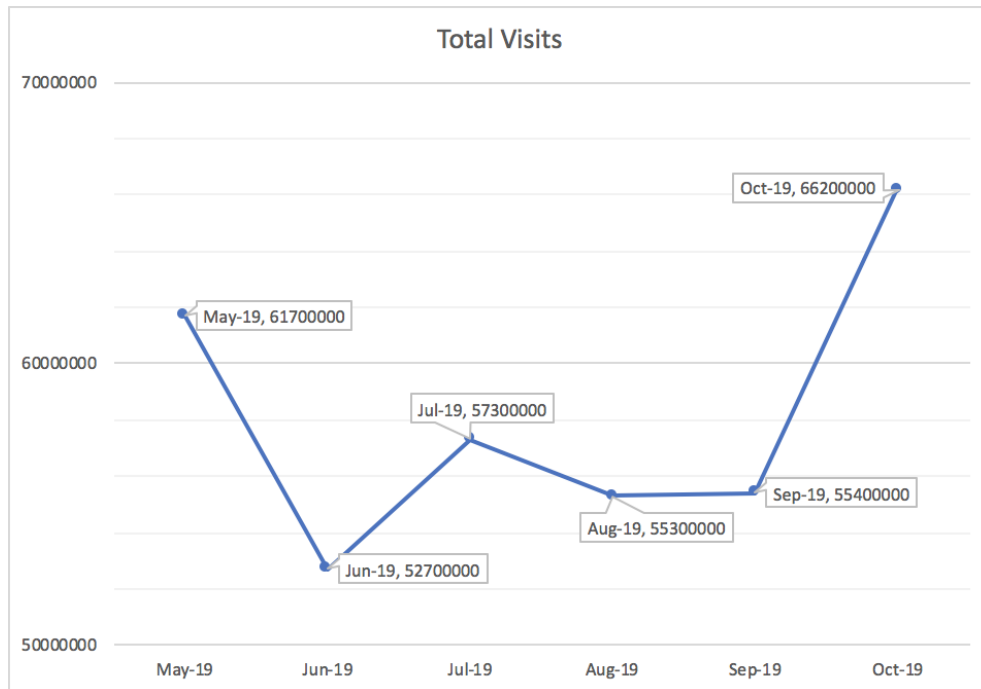
Figure 1.6 - Number of Shopee Visitors from May to October 2019
(Source: https://www.similarweb.com/website/shopee.co.id*)*

Shopee is a trusted e-commerce company that first originated from Singapore. It first launched its business in 2015 throughout 7 regions, mainly in Southeast Asia (Singapore, Indonesia, Malaysia, Thailand, Vietnam, and the Philippines) and Taiwan. The Indonesian branch, Shopee ID, has the largest number of employees wherein the company employs 700 workers out of 2000 Shopee employees worldwide. By providing a platform to connect buyers and sellers within one community through the use of technology, Shopee has managed to offer a one-stop online shopping experience that provides a wide selection of products, a social community for exploration, and seamless

fulfilment services (Shopee, 2019). On March 2017, Shopee received an award in the "Indonesian Netizen Brand Choice Award 2017" in the online shopping category. The event is held due to the uprising trend of social media in Indonesia where companies throughout Indonesia are awarded for their influence towards the online market (Makmun, 2017). The award attained by Shopee shows that they are committed in competing in the Indonesian e-commerce industry.

This study will replicate the research conducted by Hsu, Chen and Kumar (2016) but instead will investigate an Indonesian company and its customer retention. Therefore, the study aims to investigate the factors that affect customers' purchase intentions through website and relationship quality along with determining commitment and trust as variables and conclude what factors contribute to customer retention in social shopping.

Currently, there are insufficient studies that tackles social shopping and customer retention which results in a lack of clarity on the topic. For that reason, this research is significant since it can contribute to the understanding of the new phenomena known as social shopping. This refers to social shopping and its success in developing customer perception towards its online platform. Thus, improving customer satisfaction and resulting in increased customer retention.

1.2 Research Questions

Based on the phenomena that has been previously discussed regarding social shopping. This study focuses on nine research questions:

1. What is the influence of Perceived Information Quality on Customer Satisfaction?

2. What is the influence of Perceived System Quality on Customer Satisfaction?

3. What is the influence of Perceived Service Quality on Customer Satisfaction?

4. What is the influence of Customer Satisfaction on Commitment?

5. What is the influence of Customer Satisfaction on Trust?

6. What is the influence of Customer Satisfaction on Purchase Intention of Social Shopping?

7. What is the influence of Trust on Commitment?

8. What is the influence of Commitment on Purchase Intention of Social Shopping?

9. What is the influence of Trust on Purchase Intention of Social Shopping?

1.3 Research Objectives

In order to answer the research questions, there are nine main objectives for this research:

1. To test and analyse the influence of Perceived Information Quality on Customer Satisfaction.

2. To test and analyse the influence of Perceived System Quality on Customer Satisfaction.

3. To test and analyse the influence of Perceived Service Quality on Customer Satisfaction.

4. To test and analyse the influence of Customer Satisfaction on Commitment.

5. To test and analyse the influence of Customer Satisfaction on Trust.

6. To test and analyse the influence of Customer Satisfaction on Purchase Intention of Social Shopping.

7. To test and analyse the influence of Trust on Commitment.

8. To test and analyse the influence of Commitment on Purchase Intention of Social Shopping.

9. To test and analyse the influence of Trust on Purchase Intention of Social Shopping.

1.4 Research Benefits

There are two types of research benefits. The first is academic benefits wherein the research is beneficial for the development of knowledge in the business field. The second is practical benefits in which the results of the study can be used for real life applications.

1.4.1 Academic Benefits

There are several academic benefits for this research as explained below:

1. This research is expected to give a deeper knowledge and understanding about retaining customers and purchase intention for social shopping websites in terms of website and relationship quality.

2. The study is expected to provide a better understanding of perceived information quality, perceived system quality and perceived service quality and how it contributes to increasing website quality.

3. The study is expected to provide a better understanding of customer satisfaction, commitment and trust and how it contributes to increasing relationship quality.

4. This research is expected to be a reference for future studies.

1.4.2 Practical Benefits

The practical benefits of the research are listed below:

1. To test and analyse the influence of website and relationship quality on purchase intention of social shopping.

2. The results of the study hope to provide companies in the social shopping industry gain a better understanding of how to retain customers through website and relationship quality.

1.5 Research Systematics

The research systematics refer to the structure of the paper and is aimed to provide a clear picture of the contents of the paper. This research paper will have five chapters that is further explained below:

1.5.1 Chapter 1: Introduction

Chapter 1 will be the introduction to the paper wherein it includes the research background, research questions, research objectives, academic and practical research benefits and research systematics.

1.5.2 Chapter 2: Literature Review

Chapter 2 will be a literature review which will act as the basis of the research. This is where the theories are discussed along with the relationships

amongst variables. Other than that, the research model will also be included in this chapter.

1.5.3 Chapter 3: Research Methodology

Chapter 3 is where the research procedure is explained. This includes the research design, research objective, population and sample, data collection method, the measurement scale, and the conceptual and operational definition. Other than that, the result of the pretest is also discussed along with the questionnaire for the actual test and the method of data analysis which focuses on the validity and reliability test.

1.5.4 Chapter 4: Data Collection and Analysis

Chapter 4 is the data collection and analysis. This chapter consists of the questionnaire results, descriptive statistics, data analysis which includes outer model evaluation and inner model evaluation. Also, a discussion section is made in the chapter and the results are related back to the past theories and/or research in chapter 2.

1.5.5 Chapter 5: Conclusion

Chapter 5 is the conclusion wherein the results of the research is summarised and managerial implications are discussed along with the study's limitations and possible recommendations for future studies.