

CHAPTER 1

INTRODUCTION

This chapter will outline the foundation framework for the research. It will include the research background, research problem, research question, research objective, research limitation, research contribution, and research outline.

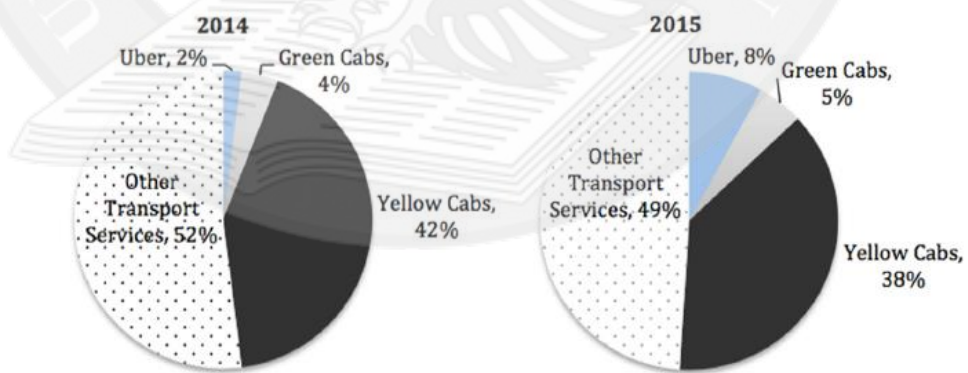
1.1 Research Background

The advancement and proliferation of technology seems to affect all businesses and industries in the world. The improvement of technology allows business to serve new types of products, penetrate more customers, and be more efficient than ever. One of the newest products/services — at least for the last 10 years— that came up from the advancement of technology is the creation of application. As mobile phones users are increasing in the global market, thus, the users of application are also exponentially rising. According to (Statista, 2021b), the number of global smartphone users is 6.3 billion worldwide and forecasted to reach 6.9 billion users in 2023. On the other hand, according to (Statista, 2021a) the number of mobile apps downloaded globally had reached a total of 218 billion app. Nowadays, the mobile application industry is one of the largest industries in the world. One of the most popular apps are ride-hailing application, mid-core games, sports games, and video apps (Statista, 2021a).

Ride-hailing application's popularity had extended for years since Uber, the first ride-hailing app was created in 2009 and launched in San Francisco (Uber, 2020). Since then, there were growing trends of ride-hailing apps, and many new ride-hailing apps tried to capitalize the new industry as well. Currently there are some of the big ride-hailing apps that dominate the ride-hailing market capitalization, such as: Uber, Lyft, Ola, Grab, Gojek, and Didi-Kuaidi. According to the 2018 report by (Statista, 2019), Uber had the biggest market value in the world with 37.2% of the world market share, and Didi Chuxing (formerly known as Didi-Kuaidi) had the second largest market value with 32.4% of the market.

The ride-hailing application had changed and disrupted the transportation industry. The declining of taxi users was one of the repercussions of the disruptive technology (ride-hailing apps).

Figure 1. 1 Different Types of Transportation Modes



Source: (Cetin & Deakin, 2019)

Based on the figure 1.1, since Uber had come out as the substitute products in the transportation services, a huge decline happened in the taxi industry from 42% to 38%

in just a year (Cetin & Deakin, 2019). The rental car industry was also experiencing a little downturn, however, not as much as the traditional cab services. While, Uber had risen very quickly in just a year from 2% in 2014 to 8% in 2015 with 20,600 ride hailing service cars (Cetin & Deakin, 2019). It was deemed because uber offered many competitive advantages compared to the traditional yellow cab services, such as: Ease of accessibility (mobile phone), cheaper fees, ease of booking (friendly user interface), and timeliness; the Uber had successfully substituted the traditional taxi services.

Figure 1. 2 Taxi Meter Revenue

	Uber	Taxi	Taxi/Uber
New York	17.75	15.50	0.9
Philadelphia	15.25	14.20	0.9
Portland	15.05	15.00	1.0
Cleveland	13.00	13.95	1.1
Dallas	10.30	11.25	1.1
Miami	13.25	14.50	1.1
Indianapolis	11.65	13.00	1.1
Phoenix	11.00	12.50	1.1
Minneapolis	12.15	14.25	1.2
Baltimore	10.75	13.05	1.2
Columbus	10.20	12.85	1.3
Denver	10.35	13.75	1.3
Detroit	12.30	16.50	1.3
Seattle	11.70	16.00	1.4
San Francisco	12.30	17.25	1.4
Chicago	9.50	14.00	1.5
Boston	11.10	16.60	1.5
Atlanta	10.00	15.00	1.5
Houston	9.00	13.75	1.5
San Diego	11.35	17.80	1.6
Los Angeles	9.40	16.35	1.7

Source: (Silverstein, 2014)

Figure 1.2 showed a comparison between Uber's fares to the Taxi's fares in 21 cities in the United States. The data was collected in 2014, and as it is evident from the table that Taxi's fares were only cheaper compared to Uber in only two cities which are: New York, and Philadelphia. The rest of them, Uber offered the lower fares compared to Taxi. This happens because Uber has a more efficient business model, with a lower cost, as assets like cars are owned by the independent drivers themselves (Silverstein, 2014). Moreover, Uber drivers had no contracts at all with Uber, as they are counted as a flexible independent driver that used Uber as a platform/service. Cetin & Deakin, 2019 contend that the need for taximeters is unnecessary, as taximeters charge customers based on the distance and elapsed time, and there is no certainty in the price of a ride. Compare it to Uber, online ride-hailing services offer a customer a pre-arranged price for a ride, giving the customers the certainty for a payment and usually with a cheaper price as well.

Figure 1. 3 Service Fees of Uber compared to Taxi fares with the 20% tip

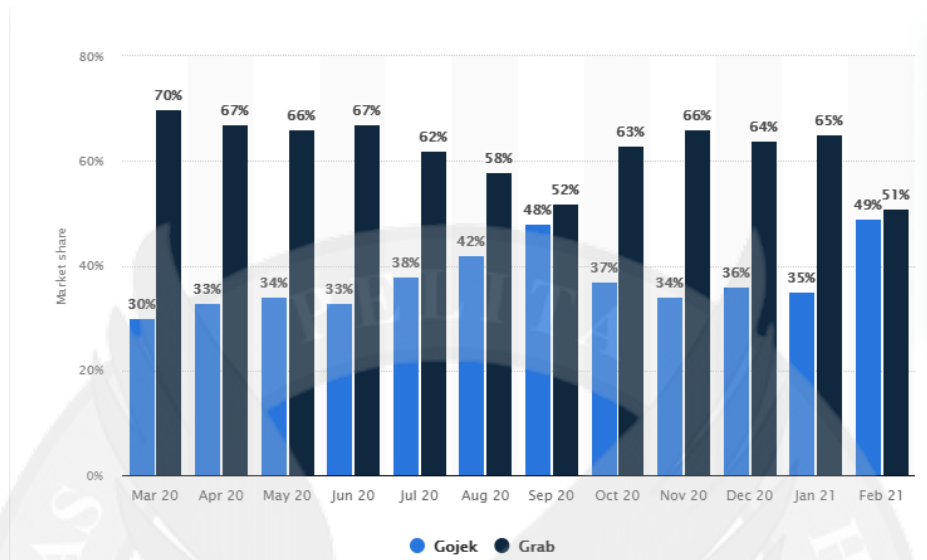
	Uber	Taxi +20% Tip	Taxi/Uber
New York	17.75	18.60	1.0
Philadelphia	15.25	17.04	1.1
Portland	15.05	18.00	1.2
Cleveland	13.00	16.74	1.3
Dallas	10.30	13.50	1.3
Miami	13.25	17.40	1.3
Indianapolis	11.65	15.60	1.3
Phoenix	11.00	15.00	1.4
Minneapolis	12.15	17.10	1.4
Baltimore	10.75	15.66	1.5
Columbus	10.20	15.42	1.5
Denver	10.35	16.50	1.6
Detroit	12.30	19.80	1.6
Seattle	11.70	19.20	1.6
San Francisco	12.30	20.70	1.7
Chicago	9.50	16.80	1.8
Boston	11.10	19.92	1.8
Atlanta	10.00	18.00	1.8
Houston	9.00	16.50	1.8
San Diego	11.35	21.36	1.9
Los Angeles	9.40	19.62	2.1

Source: (Silverstein, 2014)

Previously stated, the comparison between Uber's fares and Taxi's fares in 21 cities in the United States showed that Uber's fares are significantly cheaper (Silverstein, 2014). However, the norms on paying taxis in the United States is paying with a 20% tip, thus, figure 1.3 analyzes the price comparison between Uber and the Taxi rate (with +20% tip) in the 21 cities in the U.S. The data displayed even a further gap between Uber's fares and taxi's fares. Taxi's fares are remarkably more expensive compared to the Uber's services. With all the biggest benefits, Uber had successfully expanded its market in the ride-hailing industry due to the more efficient business model compared to the traditional taxi services (particularly with its cheaper price).

On the other hand, Indonesia has a unique history on ride-hailing application. Nadiem Makarim, founder of Gojek, was the very first person that create an online ride-hailing service in Indonesia called Gojek on 2010 (Gojek, 2021). Gojek started as a company that delivers a courier service with motorcycle (which is the most popular mode of transportation in Indonesia). Afterwards, Gojek had expanded significantly since then, and in 2015, Gojek created the ride-hailing app in Indonesia that enable people to order cars or “ojek” (a colloquial language in Indonesia to call a motorcycle). The orders were growing exponentially from 5,000 orders per day to 300,000 order per day (Gojek, 2021). A year before Gojek released the ride-hailing app, Grab (a ride-hailing company from Singapore) had stepped its footing into the Indonesian market. Grab started its service by offering Indonesian people to order car rides, but then, since Gojek had offered the motorcycle ride Grab had expanded its service to also offer a motorcycle ride, called GrabBike. Uber, on the other side, being the first ride-hailing app in the world, first entered Indonesia in 2014. However, as competitions in Indonesia rising, Uber was unable to continue competing in Indonesia’s ride hailing industry. Then, Uber’s Southeast Asia operation was being acquired by one of its competitors (Grab) in 2018 (Hamdani, 2019). After Uber had left Indonesia’s market, Gojek and Grab remained the two biggest ride-hailing companies in Indonesia; both also had become a super app, which means that they also offer other services other than ride-hailing services.

Figure 1. 4 Grab vs Gojek Market Share in Indonesia



Source: Statista (2021)

Although since 2018, Maxim (ride-hailing app from Russia) had entered the Indonesian market and remained existing in Indonesia, Figure 1.4 shows that Gojek and Grab still owns most of the market. In 2020, it shows that Grab dominated the Indonesian market with 63.5%, however in February 2021, Grab's share in Indonesia plunged to 51% and Gojek's market share soared to 49% in that month (Statista, 2021c).

Indonesia had experienced in rising popularity of ride-hailing apps and increasing passengers. In 2019, Indonesia's internet economy had increased tremendously since 2015 to \$41 billion, and e-commerce (with \$21 billion) and ride-hailing services (with \$6 billion) are the top three biggest sectors that dominate the internet industry (Google, 2019). From previous Google report with Temasek (Google, 2019), it showed that the ride-hailing services economy of Indonesia will reach \$18

billion in 2025. Moreover, the smartphone users in Indonesia kept increasing since 2017 from 117.61 million to 183.68 million with 67.15% smartphone penetration as of 2020 (Statista, 2021b). Although, in 2020, due to the pandemic, the WFH (Work from Home) policy made the online transportation industry demand plunged by up to 80% at the peak of the pandemic, and in 2020 the Indonesia's revenue of ride-hailing services plunged from \$6 billion to \$5 billion (Sulaeman, 2020). However, the transportation industry started to recover to the normal level in 2021 due to the Covid-19 cases going down (Google, 2020). However, (Google, 2020) through its report with Bain still projected that Indonesia's internet economy will still grow in double digit until 2025 despite of the Covid-19 setback. Currently, the Indonesia's COVID-19 case had started to go down to around 400-600 cases per day as of 1 November 2021 (Covid19go.id, 2021), and Indonesia's economy started to recover and community's mobility to go out had been eased up. Due to the Covid-19 cases going down, passengers on ride-hailing transportation started to come back, hence, the competition inside the ride-hailing industries were starting to intensify. As a result, each company is trying to increase its market share through its quality of services, perceived benefits of booking app, and various sales promotion in a mission to increase its customer satisfaction and loyalty. Moreover, the company is hoping that the loyal and satisfied customer will have repurchase online intention to its services (ride-hailing application), as loyalty and repurchase intention gives the company a sustainable competitive advantage compared to its peers.

Figure 1. 5 Jakarta customers's perception to Ride-Hailing industry



Source: (Center for Digital Society, 2019)

However, to make customers satisfied and loyal, companies need to unravel the complex puzzle that the customers have. Ride-hailing companies need to decode on what are the things that will affect the customers the most. In 2019, a report from Centre for Digital Society contend that for Jakarta's customers the most important aspect for ride-hailing industry was the promotions and discounts that they offer (Center for Digital Society, 2019). Promotions and discounts were also the most important aspect

for other big cities in Indonesia (like Surabaya, Semarang, Yogyakarta, and Bandung), however, in some cities like Medan, and Makassar, safety was the most important aspects for the customers (Center for Digital Society, 2019). Therefore, as a ride hailing company in Indonesia, it is critical to understand the customers on aspects that the customers pay attention to, and by delivering those aspects customer can be satisfied, loyal and repurchase the services.

Customer loyalty considered to be one of the most important things in the business world, as high customer loyalty can bring a long-term revenue for the business. (Dick & Basu, 1994) asserted that customer loyalty as one of the strongest competitive advantages that a business can have. (Garnefeld et al., 2013) contend that loyal consumers are also consumer that are satisfied with the company, and that loyal and satisfied consumers will usually engage in activities that are beneficial to the company like referrals and repurchasing hence increasing the business's profitability in the long run. There are many layers behind customer loyalty, and there are at least two perspectives of customer loyalty: purchase behavior and consumer's attitudinal considerations. On purchase behavior, customers are measured on the quantity of purchases, and the probability of repeated purchases (Bowen & Chen, 2001). On the contrary, consumers' attitudinal consideration is measured by the internal desired from consumers that drive repetitive consumers behavior to the brand (Bowen & Chen, 2001). Therefore, the problem is to decide whether the feelings of loyalty will translate into customer repurchase intention, as from behavioral perspective customer loyalty is seen as repeat purchasing behavior (Lenka et al., 2009).

(Suhaily & Darmoyo, 2017) contend that repurchase intention is a positive attitude from the consumers towards the business to do repeated orders to the company in the future. (Zhou et al., 2009) contend that customers will not repurchase the products/services, without having any repurchase intention from the customer to the company. Therefore, in other words, repurchase intention is an antecedent of repurchase (the real action itself). Other than customer loyalty, repurchase intention is deemed to also be one of the key competitive advantages for businesses to compete in a competitive market. Customer repurchase intention can be seen from two aspects which are: The intention to repurchase and the intention to spread positive recommendation through word-of-mouth (Fitzgibbon & White, 2004). In this study, the researcher will look on how customers develop feelings to repurchase the products/services and customers' intention to recommend the product to other people.

Previous research by (Nguyen-Phuoc et al., 2020) had shown the effects of perceived service quality, perceived benefits of booking apps, perceived sales promotion, and customer's satisfaction towards consumer's loyalty in ride-hailing apps in Vietnam. The research showed that perceived service quality, perceived benefits of booking apps, and perceived sales promotion had positively affected customer's loyalty in Vietnam. Furthermore, the research contends that perceived service quality as one of the most important factors that affect the customer's satisfaction and loyalty. There are certain factors of service quality that viewed as important by the customers which are: timeliness, drivers' appearances and attitude, and cleanliness of the vehicles. On the other hand, similar research also had been done in Vietnam regarding the online

repurchase intention for ride-hailing apps. The results showed that overall perceived service quality would positively affect customer satisfaction, and afterwards positively influence the customers repurchase intention (Ngoc Duy Phuong & Thi Dai Trang, 2018).

On the other hand, research had been done in Indonesia by (Bismo et al., 2018) on the effect of service quality on customer satisfaction and customer loyalty of Grabcar Services in Jakarta. The research suggested that good service quality will make consumer satisfied and will be more loyal to the service. Moreover, research had been conducted in Indonesia by (Kuswanto et al., 2019) on ride-hailing consumers of Gojek and Grab stated that Online service of the ride-hailing (like system quality, information quality, and service quality) and Offline Service of the ride-hailing (like responsiveness, tangibility, assurance, reliability, and empathy of the driver) will positively affect trust and satisfaction of the consumers, and afterwards the satisfied consumers will become loyal consumers.

Had been conducted in Vietnam and in Jakarta, those four had contributed to the findings for ride-hailing industry. Two research that were conducted in Vietnam did not observe the effects of customer satisfaction and customer loyalty towards customers repurchase intention which customers repurchase intention holds the ultimate proponent for company to be sustainable in the industry, therefore further research needs to be conducted in revealing those relationships. Moreover, the research that was conducted in Jakarta was only observing the effect of service quality as a single independent variable. Therefore, further research that will be conducted in

Jakarta need to be conducted with more independent variables like perceived benefits of booking app and perceived sales promotion as those two independent factors are one of the most prominent factors that ride-hailing companies used to influence the customers.

1.2 Research Problem

The rising market size of ride-hailing industry in Indonesia is evident since the last 6 years. According to the latest report in 2019 by Google (2019), it is stated that Indonesia's ride-hailing market is 6 billion USD in 2019. Indonesia is the 'king' of ride-hailing services in Southeast Asia, as Indonesia is one of the largest economies in Southeast Asia (with 271 million population) (Google, 2019). Although, there is a little setback due to Covid-19, the ride-hailing industry in Southeast Asia contracted by 13% in 2020, and in Indonesia the revenue decreased from \$6 billion to \$ 5 billion (Sulaeman, 2020). However, as Covid going down, it is believed that the transportation industry will recover to the normal level in 2021 (Google, 2020). Moreover, the ride-hailing industry is still a huge industry with appreciable opportunities, and will remain thriving in the future, especially when the pandemic is starting to go away, and it is believed that the industry will propel to \$18 billion in 2025 (Google, 2019).

In Indonesia, the ride-hailing market is dominated by three biggest players (Statista, 2019): Gojek which accounted for 79.2% of the market, Grab which accounted for 14.69%, and Uber which accounted for 6.11%. However, since 2018, Uber officially stopped its operation in Southeast Asia, and was acquired by Grab (Hamdani, 2019)

Since 2018, Grab had dominated the ride-hailing market, and as of 2020, Grab accounted for merely 70% of the Indonesia's ride hailing market (Statista, 2021c). However, when the pandemic hits, Gojek (being the first decacorn in Indonesia) started to slowly keep up with Grab's revenue market share in Indonesia. As of February 21, Gojek and Grab accounted for 49% and 51% respectively (Statista, 2021c).

The growing popularity of ride-hailing apps, putting an importance for the businesses to satisfy the customers. However, based on the research by Center for Digital Society (2019), Customers view ride-hailing services in many different lenses and also put concerns in different things. In Greater Jakarta area, consumers view that Sales promotions are the biggest factor (from the survey it holds 27% of the most influential factors) to influence the customers, and that the customers feel that brands that are not giving enough sales promotions are brands that will not satisfy the consumers. Moreover, the consumers also view that the safety and the timeliness of the driver are crucial in determining the consumers choice of ride-hailing services. While easy navigation in using the booking app remains the lower concerns for consumers compare to service quality and sales promotion. Therefore, the research will conduct a survey that will show the concerns of customers towards ride-hailing services; therefore, the ride-hailing services will be able to improve the overall business process and can make customers more satisfied.

More than ever, booking trips from the ride-hailing apps had become a norm in Indonesia, as its ease of accessibility and cheap price make them popular especially for the younger generation—but not just for the tech savvy, as they are also easy to use

for the older generations— in Indonesia. It is more important than ever that those ride-hailing companies understand the consumer to increase consumer's loyalty to the company. However, feelings of loyalty solely are not enough, as feelings of loyalty does not always translate into feelings of repurchasing the products/services. The feelings of loyalty must be converted to repurchase intention so that the customers had an intention to repeat purchase order to the same company in some time in the future and also repurchase the services in the future. As discussed before, repurchase intention is one of the most important aspects and gives companies sustainable advantage (Fitzgibbon & White, 2004) From the previous research by (Nguyen-Phuoc et al., 2020), the researcher was analyzing the factors that influence customer loyalty in the ride-hailing industry, however, this research will extend the previous research to add Customer Repurchase Intention as the dependent variable. Therefore, the research will also analyze the variable customer repurchase intention as the dependent variable for the research, as customer repurchase intention holds prominent role in the sustainability of companies' financial performance.

The ride-hailing users in Jakarta who are the respondents for this research will show their perspectives on the factors that affect their repurchase intention to use the ride-hailing apps. As there are two biggest ride-hailing application in Indonesia, Grab and Gojek, it is important for them to try capturing a bigger market share in Indonesia by identifying factors that affect the the repurchase intention – one of the strongest competitive advantages.

Previous research by (Nguyen-Phuoc et al., 2020) also stated that the research needs to be conducted in different country, as different countries have different transportation system that might affect the ride-hailing customers' perception on using the ride-hailing services. In the previous research, the researcher conducted the questionnaire in Hanoi and Danong City (Cities in Vietnam), therefore, this research will be conducted in different country, which is Indonesia, particularly the researcher will research the ride-hailing consumers that live in Jakarta (the capital city in Indonesia).

Perceived benefit of booking app will be one of the factors that will be identified in this research. Factors including user-friendly, user-interface, and ease of use are one of the factors of perceived benefit of booking app. Moreover, perceived sales promotion will also be one of the determinant factors. Sales promotion is one of the strategies that exorbitantly used by the ride-hailing providers to attract new customers or retain the existing ones. Perceived service quality is also going to be one of the variables that will be examined in this research, as factors like timeliness, vehicles' cleanliness, and drivers' attitude are always important when users are using the ride-hailing application. Those three factors (perceived benefit of booking app, perceived sales promotion, and perceived service quality) are crucial on determining the level of consumer's satisfaction and consumer's loyalty. Moreover, how satisfied the customer is to the application will also affect the loyalty of consumer to the application. Lastly, customer loyalty will also affect the consumers' behavior towards their repurchase intention. Henceforth, the study wants to examine the effects of perceived benefit of booking app, perceived sales promotion, perceived service quality, customer

satisfaction and customer loyalty as mediating roles towards repurchase online intention of Jakarta ride-hailing users.

1.3 Research Question

Based on the research background and research problem, there are 8 research questions that needed to be deeply investigated in the study, such as:

- a. Does perceived benefits of booking app have a positive impact towards customer satisfaction of ride-hailing users?
- b. Does perceived benefits of booking app have a positive impact towards customer loyalty of ride-hailing users?
- c. Does perceived service quality have a positive impact towards customer satisfaction of ride-hailing users?
- d. Does perceived service quality have a positive impact towards customer loyalty of ride-hailing users?
- e. Does perceived sales promotion have a positive impact towards customer satisfaction of ride-hailing users?
- f. Does perceived sales promotion have a positive impact towards customer loyalty of ride-hailing users?
- g. Does customer satisfaction mediate the relationship between perceived service quality, perceived sales promotion, perceived benefits of booking app towards customer loyalty?

- h. Does customer satisfaction mediate the relationship between perceived service quality, perceived sales promotion, perceived benefits of booking app towards customer repurchase intention?
- i. Does customer loyalty mediate the relationship between customer satisfaction customer repurchase intention?

1.4 Research Objective

Based on the research background, research problem, and research questions described above, the research objective of this study is listed as follows:

- a. Determining the result of the research to solve the research problem and the research questions.
- b. To examine whether perceived benefits of booking app have a positive impact towards customer satisfaction of ride-hailing users
- c. To examine whether perceived benefits of booking app have a positive impact towards customer loyalty of ride-hailing users
- d. To examine whether perceived service quality have a positive impact towards customer satisfaction of ride-hailing users
- e. To examine whether perceived service quality have a positive impact towards customer loyalty of ride-hailing users
- f. To examine whether perceived sales promotion have a positive impact towards customer satisfaction of ride-hailing users

- g. To examine whether perceived sales promotion have a positive impact towards customer loyalty of ride-hailing users
- h. To examine whether customer satisfaction mediate the relationship between perceived service quality, perceived sales promotion, perceived benefits of booking app towards customer loyalty
- i. To examine whether customer satisfaction mediate the relationship between perceived service quality, perceived sales promotion, perceived benefits of booking app towards customer repurchase intention
- j. To examine whether customer loyalty mediate the relationship between customer satisfaction customer repurchase intention
- k. Contributing to the new development of framework for ride-hailing services provider in Jakarta to improve their ride-hailing services.

1.5 Research Scope

This research has scope limitations as there are several conditions in the research, such as:

- a. This study will discuss the perceived benefit of booking app, perceived service quality, perceived sales promotion, consumer satisfaction, consumer loyalty, and repurchase online intention for ride-hailing users.
- b. This study will be conducted only in Jakarta.
- c. The respondents of the study will be all ride-hailing users (the frequent and infrequent users) in Jakarta.

- d. The respondents of the study will only be Gojek and Grab users.

1.6 Research Contribution

This study is going to contribute to the new development of theory and practical implications that will be described below:

- **Theoretical Contribution**

The research will contribute into the new development of theory around the factors that affect repurchase online intention for ride-hailing industry, especially in Jakarta. It will be an extended version of previous research in Jakarta by adding more variables such as: perceived benefit of booking app, perceived sales promotion, consumer satisfaction, and repurchase online intention. The study will combine the framework from the two previous research that were conducted in Vietnam towards the ride-hailing industry. The new framework will look at the relationship between customer loyalty and customer repurchase intention that were observed separately from previous research. Therefore, this study could be reference for future research in customer repurchase intention for ride-hailing industry.

- **Practical Contribution**

The result of the research could give recommendation for all providers in the ride-hailing industry especially in Jakarta on how to increase its customer loyalty and hence increase the probability of customer repurchase

intention. This research will portray which factors have the biggest effect on customer loyalty and how customer loyalty affects customer repurchase intention, thus, the ride-hailing application providers could improve their way of doing business to increase the customer satisfaction, customer loyalty, and the customer repurchase intention.

1.7 Research Outline

The outline of the research paper will consist of five sections as follows:

- **CHAPTER I – INTRODUCTION**

The first chapter will include research background, research problem, research question, research objective, research scope, and research contribution.

- **CHAPTER II - THEORETICAL BACKGROUND**

The second chapter will provide the theoretical background, literature review, and the conceptual framework.

- **CHAPTER III – RESEARCH METHODOLOGY**

The third chapter will explain the methods used to examine and measure the relationship between variables.

- **CHAPTER IV – DATA ANALYSIS AND DISCUSSION**

The fourth chapter will then show the result of the research and show the linkages between variables using statistical method.

- **CHAPTER V – CONCLUSION AND RECOMMENDATION**

The last chapter will include the conclusion of the research, and recommendation for future research.

