

CHAPTER I

INTRODUCTION

1.1 Background

The tourism industry plays an important role in the Indonesian economy. The increase in the number of international tourists who came to a certain country will increase the GDP (*Gross Domestic Product*) of the country. Currently, Indonesian tourism sector contributes to approximately 4% of Indonesia's total economy (Indonesia-Investments, 2018). The tourism sector itself is expected to be ranked as the top contributor to the country's foreign exchange this year, excluding oil and gas, after being placed as the second top contributor in 2017 (Finansial, 2018). At present, the tourism industry still ranks below the palm oil exports.

Indonesia's total GDP in the tourism sector turned out to have defeated its two neighboring countries, Singapore and Malaysia. During the year 2017, the total GDP of the Indonesian tourism sector has reached 28.2 billion dollars or equivalent to 409 trillion rupiah, whereas Malaysia has earned 13 billion dollars or around 189 trillion rupiah, and Singapore amounted to 13.9 billion dollars or equivalent to 202 trillion rupiah (Phinemo, 2018). This number resulted from the high number of international tourists coming to Indonesia. Cumulatively, from January to July 2018, the number of international tourists visiting Indonesia reached 9.06 million visits, that is a 12.92 percent increase compared to the number of international tourists on the same period of the previous year, which amounted to 8.03 million visits (Badan Pusat Statistik, 2018). Furthermore, the number of international

tourists visiting Indonesia in July 2018 reached 1.54 million visits, an increase of 12.10 percent compared to the number of international tourists visiting in July 2017 totaling 1.37 million visits. Similarly, when compared with June 2018, the number of international tourists visiting in July 2018 has increased by 16.57 percent. Figure 1.1 shows the comparison of the number of international tourists coming to Indonesia in the year 2017 and 2018.

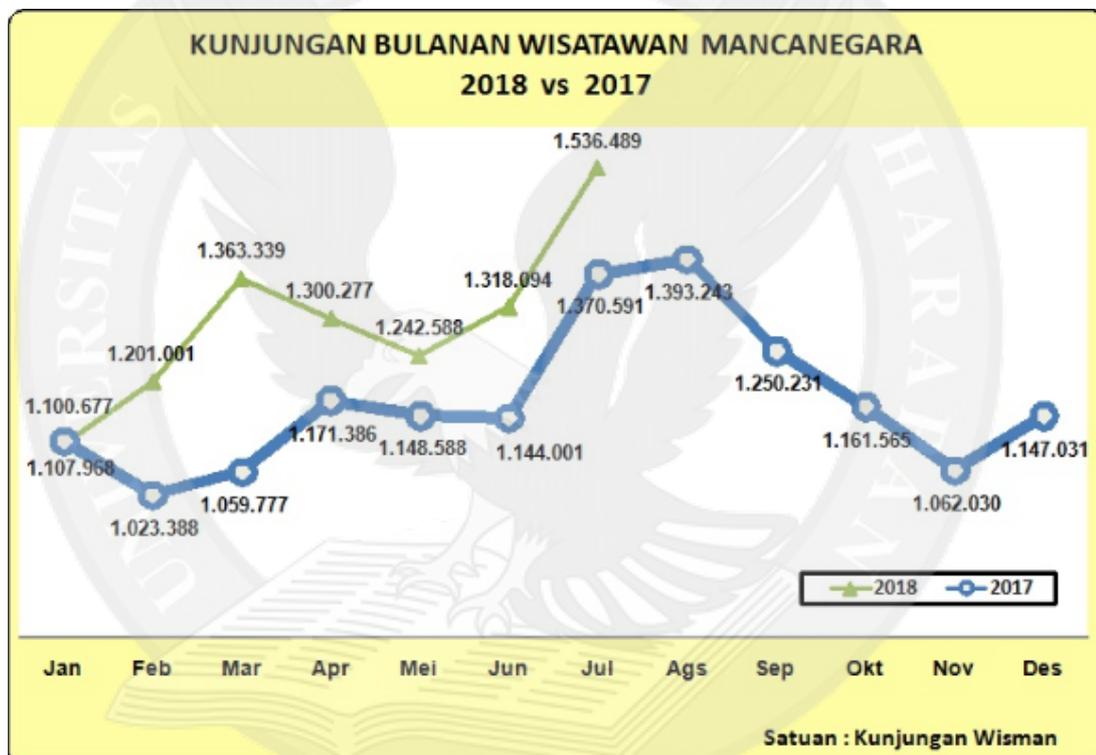


Figure 1.1 Monthly Visits of International Tourists to Indonesia in 2017-2018
Source: Kementerian Pariwisata Republik Indonesia (2018)

On the other side, the development of Indonesian tourism sector can also be measured from the number of visits of Indonesian citizens themselves in making tourist trips in Indonesia territory or commonly referred to as domestic tourist visits. The development of Indonesian tourism sector is influenced by high economic

growth accompanied by an increase in the purchasing power of the people and supported by sufficiently conducive security conditions. Figure 1.2 shows the number of domestic tourists and their total expenditure in the year 2010 to 2017.



Figure 1.2 Numbers of Domestic Tourist Trips and Total Expenditures 2010-2017
Source: Kementerian Pariwisata Republik Indonesia (2018)

Based on figure 1.2, it can be seen that in 2017 the number of domestic tourist trips reached 270.82 million times with a total expenditure of 253.45 trillion rupiah. In 2017, there was an increase of 2.45 percent in the number of domestic tourist trips, with an increase in total expenditure of 4.874 percent when compared to 2016. Meanwhile, it can be calculated that the average growth in total expenditure per year is quite high, reaching around 10.24 percent.

The dynamic tendency of tourists to go travelling, both international and domestic tourists, encourages the emergence of various travel agencies in Indonesia. Travel agencies are an important part of the tourism industry that plays

a huge role in the development of Indonesian tourism sector. Rudiana Jones, Founder Indonesian Tour Leaders Association (ITLA) in a seminar entitled The Power of Guerilla Tourism & Hospitality Networking held by TTC Travel Mart revealed that in 2016, there were around 4,000 travel agencies throughout Indonesia (KompasTravel, 2016).

The era of globalization today has made all aspects of human life penetrate into the digital world. The report released by Hootsuite and We Are Social in early 2018 shows that the number of active internet users in the world reaches 4.021 billion people, or reaches 53% of the total world population (We Are Social, 2018). Furthermore, Hootsuite and We Are Social also released Internet user data specifically per country, including Indonesia.

Figure 1.3 shows the report of Internet users in Indonesia in early 2018. It can be seen that at the beginning of 2018, the number of active Internet users in Indonesia reached 132.7 million people, equivalent to 50% of the total population in Indonesia. Furthermore, the report also states that 124.8 millions of them are active mobile Internet users, equivalent to 47% of the total population in Indonesia.

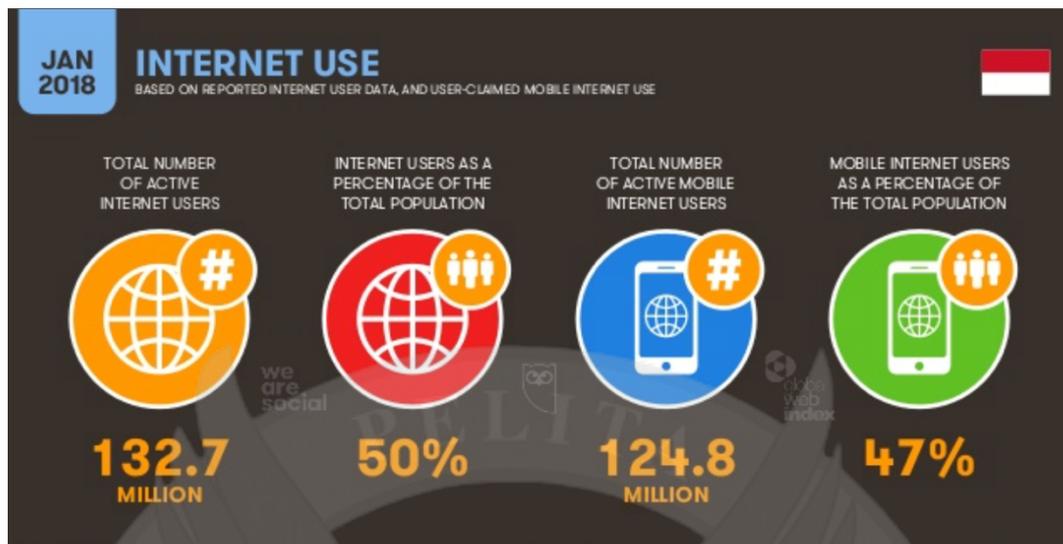


Figure 1.3 Reports on Internet Usage in Indonesia by 2018
Source: We Are Social (2018)

With the increasing number of internet users around the world, it cannot be denied that the internet has become an important part of the daily life of modern society, including in Indonesia. The report released by Hootsuite and We Are Social notes that 71% of Indonesians believe that emerging technologies offer more opportunities than risks, and 68% of Indonesians prefer to do their activities or tasks digitally whenever possible (We Are Social, 2018). That is why various aspects of human's life can be done digitally, including in terms of tourism.

Nowadays, many online travel agencies (OTA) have started emerging all over the world, including Indonesia. People become less likely to use the conventional travel agencies. The ease to book tickets and hotels online encourages consumers to use the online travel agencies. A survey conducted by Travelport on the behavior of global tourists in using digital tools when planning, ordering and making a trip shows that Indonesia is the third largest country in the digital tourist category (Kompas, 2017). The first position is occupied by China and then India.

Reported from Liputan 6, the revenue from the online travel agency segment in Indonesia until September 2017 reached US 2,417 million or around Rp 33 billion and is predicted to keep on increasing (Liputan6, 2017).

Currently, the tourist travel needs have been well fulfilled by a number of sites such as Traveloka, Trivago, Mister Aladin, Pegi-peggi, Nusatrip, Tiket.com, etc (Tirto.id, 2016). According to Kamus Traveller (2018), there are around 78 active online travel agencies in Indonesia. Potential tourists can only access these sites through their hand-held devices whenever and wherever, which is much easier, practical, effective and efficient compared to using the services of traditional travel agencies. A survey conducted by Dailysocial showed that 71.44% of respondents had booked travel tickets through online travel agencies (Daily Social, 2018). Still from the same source, the survey shows that Traveloka is the most popular online travel agency in Indonesia to purchase airline tickets and hotel reservations. Figure 1.4 and 1.5 will show these results.

Based on Figure 1.4 it can be seen that Traveloka was ranked first in terms of the popularity of online travel agents in Indonesia to purchase airline tickets. As many as 76.22% of respondents stated that they had used Traveloka services to buy airline tickets in the last 6 months. The second position is occupied by Tiket.com with the use of services to purchase airline tickets by 51.11% of respondents, followed by PegiPegi in third place with 27.47% of respondents.

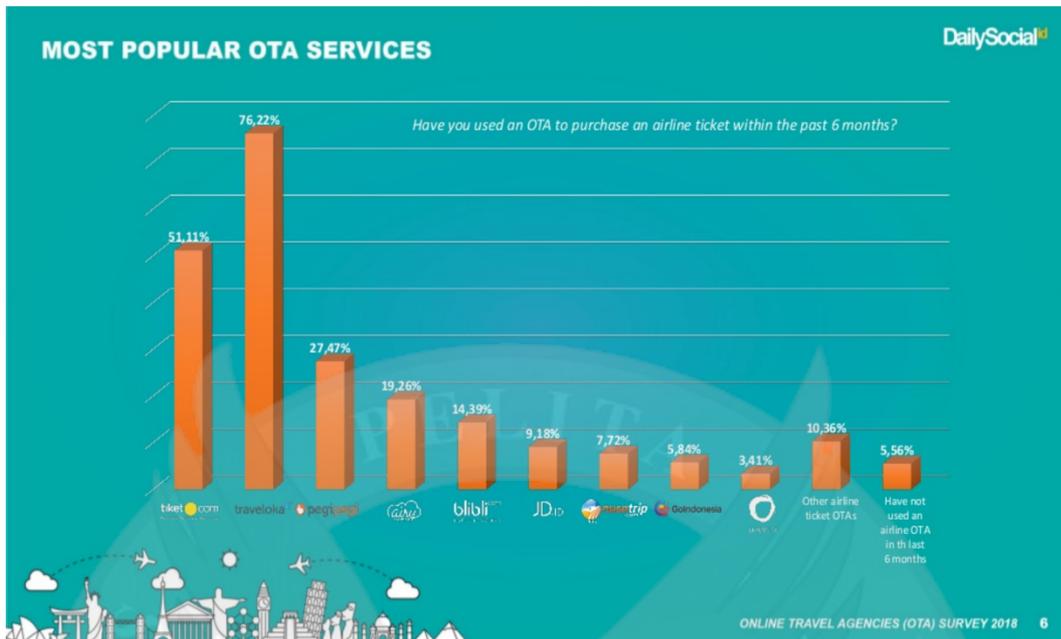


Figure 1.4 Most Popular OTA Services in Indonesia to Purchase Flight Tickets
Source: Daily Social (2018)

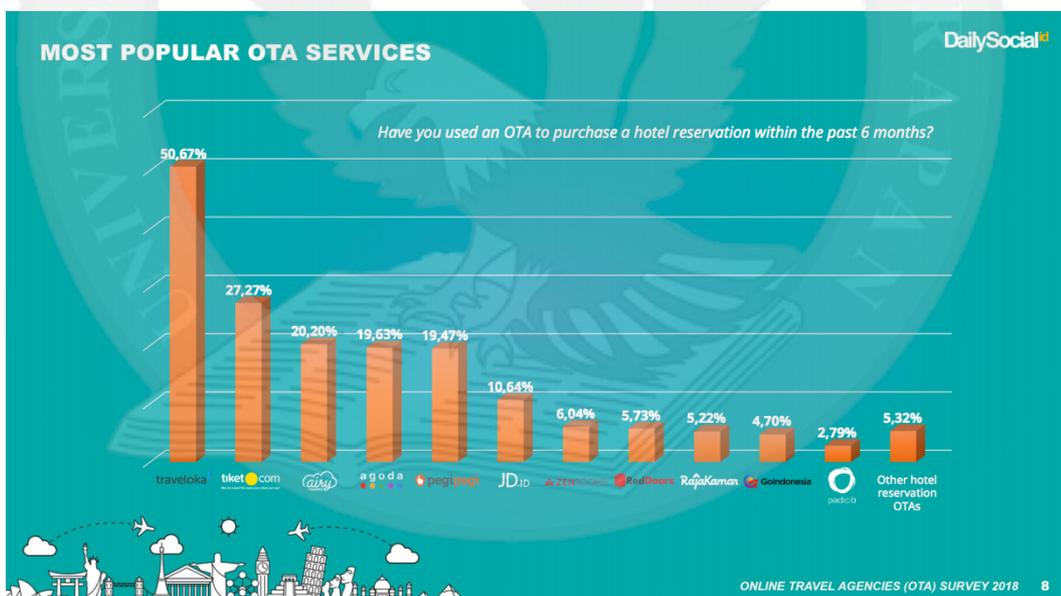


Figure 1.5 Most Popular OTA Services in Indonesia for Hotel Reservations
Source: Daily Social (2018)

Based on Figure 1.5 it can be seen that Traveloka was ranked first in terms of the popularity of online travel agents in Indonesia to make hotel reservations. As many as 50.67% of respondents stated that they had used Traveloka services to

make hotel reservations in the last 6 months. Tiket.com was ranked second with 27.27% of respondents, followed by Airy with 20.20% of respondents. There is a thin difference between the total respondents of Airy, Agoda and PegiPegi. Agoda ranked fourth with 19.63% of respondents and PegiPegi with 19.47% of respondents.

The above description shows that the online travel agent industry in Indonesia is increasingly promising and interesting to discuss. Therefore, the phenomenon in the form of a shift in trends from the use of traditional travel agencies to online travel agencies is the main focus discussed in this study. In this increasingly competitive market, it cannot be denied that all businesses in any field, including online travel agencies, are competing to reach the market as much as possible. This is done by obtaining and retaining as many consumers. Maintaining consumers is very crucial because the cost of finding new consumers is greater than the effort to retain them. For this reason, brand loyalty becomes one of the most important aspects to be considered by all businesses.

Brand loyalty is defined as a commitment held firmly by someone, to make a repeat purchase of a product or service consistently in the future (Gommans, et al., 2011). Consumers are said to be loyal if they continue to purchase products or services from the same brand repeatedly even though they have been persuaded by competitor companies to move and buy from them. In addition, brand loyalty is characterized by recommendations given by consumers to those around them to buy and use the products and/ or services that they use.

Based on previous research, there are three factors that have a relationship with brand loyalty (Pratiwi, 2015). The first factor is brand image. Brand image can be defined as the impression that appears and is felt by consumers towards a brand that is stored in consumer memory and can influence consumer behavior (Saputri, et al., 2014). Brand image is important because it involves the reputation and credibility of a brand which can then be used as a reference for consumers in trying or using the product or service. If a company has a good brand image, consumers and prospective consumers will be more interested in using the products and / or services of the company concerned. Conversely, if the company has a bad brand image in the eyes of consumers or the public, consumers and prospective consumers tend not to be interested in using products and / or services from the company.

The second factor that can affect brand loyalty is brand trust (Pratiwi, 2015). Brand trust is defined as consumers' willingness to depend on the brand's ability to carry out its functions (Chaudhuri, et al., 2011). Trust is a key variable in the development of a person's desire to maintain a long-term relationship (Pratiwi, 2015). In other words, brand trust shows consumer commitment and satisfaction to a brand. If consumers have high trust in a brand, consumers will tend to choose to continue to use the products and / or services of the company concerned. Conversely, if consumers do not believe in a brand, they tend to choose other options by buying from competitors.

The third factor that can influence brand loyalty is customer satisfaction (Pratiwi, 2015). Customer satisfaction is defined as a determinant of how well a product and / or service capabilities meet its expectations (Van-Der-Wiele, et al.,

2012). Consumer satisfaction refers to fulfillment where the consumer feels the utilization he wants. If consumers feel that a product and / or service offered by a brand is able to meet their wants or needs properly, according to their expectations or even exceed it, then it is likely for the consumer to later make repeat purchases and be loyal to the brand. Conversely, if the consumer feels disappointed because the product and / or service offered by a brand does not reach its expectation, then he will switch to another choice. Customer satisfaction can be influenced by the quality of service.

The high number of customer requests for quality service delivery has made service quality one of the determining factors for success in all fields of business. This also applies in the online travel agent segment. In the midst of increasingly intense competition for online travel agencies, efforts to seek competitive opportunities through providing better quality services for tourists are of particular concern. It is a general understanding that high service quality will result in high customer satisfaction as well. Therefore, service quality is a key factor of success in the service industry, especially tourism (Fick, et al., 1991).

Referring to the description mentioned above, this research is conducted to further investigate the influence between brand image, brand trust, and service quality toward brand loyalty of online travel agencies, by taking the title of research “THE INFLUENCE OF BRAND IMAGE, BRAND TRUST, AND SERVICE QUALITY TOWARD BRAND LOYALTY: CASE OF TRAVELOKA ONLINE TRAVEL AGENT”.

1.2 Research Question

Based on the background described above, the research question can be formulated as follows:

1. Is there a positive influence between brand image towards brand loyalty of online travel agencies (OTA)?
2. Is there a positive influence between brand trust towards brand loyalty of online travel agencies (OTA)?
3. Is there a positive influence between service quality towards customer satisfaction of online travel agencies (OTA)?
4. Is there a positive influence between customer satisfaction towards brand loyalty of online travel agencies (OTA)?

1.3 Research Objective

Based on the research question above, the objective to be achieved in this research is:

1. To find out the influence between brand image towards brand loyalty of online travel agencies (OTA).
2. To find out the influence between brand trust towards brand loyalty of online travel agencies (OTA).
3. To find out the influence between service quality towards brand satisfaction of online travel agencies (OTA).
4. To find out the influence between customer satisfaction towards brand loyalty of online travel agencies (OTA).

1.4 Research Limitations

The research limitation was carried out as the scope of the existing problem was very broad. Hence, with the existence of restrictions, it was expected that the research would be more focused and comprehensive. In addition, during the implementation, this research faces limited time, costs, and other resources. The limitation of the problem in this research is that this research only uses respondents who have used online travel agent services. Furthermore, respondents are limited to people who live in Jabodetabek area to facilitate data collection. Lastly, this research is limited to the discussion of brand image, brand trust, service quality, customer satisfaction, and brand loyalty.

1.5 Systematics of the Writing

The systematics of the writing for this research consist of five chapters with the details of writing as follows:

CHAPTER I: INTRODUCTION

This chapter consists of sub-sections of research background, research question, research objective, research limitation and systematics of the writing.

CHAPTER II: LITERATURE REVIEW

This chapter explains theoretical basics of the variables tested for their relationship in this research. Other than that, this chapter also explains the hypotheses and the models used in this research.

CHAPTER III: RESEARCH METHOD

This chapter describes the methodology used in this research, the sources and techniques of data collection, sampling techniques, data analysis methods and hypothesis testing.

CHAPTER IV: RESULT AND DISCUSSION

This chapter contains the results of data analysis based on the method discussed in the previous chapter and the discussion of the results of the analysis.

CHAPTER V: CONCLUSION AND RECOMMENDATION

In this chapter, the conclusion of the research is based on the discussion that has been done in the previous chapter. This chapter also outlines the limitations of the research and suggestions for future research.

