CHAPTER I
INTRODUCTION

1.1 Research Background

According to estimates from 2015, Indonesia has an urban population of over 53%. The annual rate of urbanization is 2.69% since 2010, showing that more migrants and residents are moving to the more populous and developed urban areas. Steady declines in the rural population have been recorded over the last few decades, with numbers from 1960 showing that Indonesia had a rural population of 85%, which has almost been cut in half over the last 50 years. This can be attributed to expansion of developed areas and relocation for employment and educational opportunities, like other countries around the world http://worldpopulationreview.com/countries/indonesia-population/cities/).

Indonesia has seen monumental growth in the ride-hailing sector over the past few years, with the emergence of dozens of start-up companies. However, natural selection resulted in only two surviving and dominating the market. Indonesia is still a magnet for tech companies, including ride-hailing services, thanks to the high consumption rate and mobility of its citizens. The two survivors have seen intense competition, with both drastically increasing their product offerings. Their services such as food delivery and ride-hailing are similar in nature, but the two companies' more unique offerings are distinguishing factors (https://gomedici.com/challenges-opportunities-ride-sharing-industry/).

Indonesia has 12 cities with more than a million people, 121 cities with between 100,000 and 1 million people, and 242 cities with between 10,000 and 100,000 people. The largest city in Indonesia is Jakarta, with a population of 8,540,121 people (http://worldpopulationreview.com/countries/indonesia-population/cities/). Surabaya is a city in Indonesia that is in the northern shore of the island (East-) Java; it's also the capital city of East-Java, with a population of 3.1 million in the city. In the area around Surabaya (the metropolitan area) the population is around 5.1 million. The expectation is that the population will increase in the upcoming years (Dishub Surabaya, 2014).

The increase of the population in Surabaya is creating pressure on the transport and traffic system in Surabaya. The total number of cars/motorcycles is increasing since 2008. The number of cars and motorcycles has increased a lot in the last years. These increases lead to different traffic problems, like a lot of traffic jams. At some spots or routes, the traffic jams are so heavy that the delay time is more than 30-60 minutes. One of the problems that are causing the traffic jams is that there is barely any alternative way to travel inside the city of Surabaya (Dishub Surabaya, 2014).

There is no alternative way to travel like good public transport, the government is searching for ways to improve the mobility in Surabaya. One of the current projects is to improve the public transport (Dishub Surabaya, 2013); this project includes a tramline and a monorail through the city (centre). It's the first time that such a big project about public transport has been launched in Surabaya.

Grab Holdings Inc, formerly known as MyTeksi and GrabTaxi, is a Singapore based transportation network company. In addition to transportation, the company offers food delivery and digital payments services by using mobile app. The company thus far operates in seventeen cities across six countries, including Malaysia, the Philippines, Thailand, Singapore, Vietnam, and Indonesia, with secured financial funds of over 90 million USD (GrabTaxi, 2014; Holliday, 2014). To date, there have been 2.5 million downloads, 500,000 monthly active users, and 60,000 taxi drivers counted on the GrabTaxi system, with an average of three bookings per second made from somewhere in those operating countries (Ferguson, 2014). According to Tan, as smartphone usage is projected to grow further in Asia, the demand for taxi booking mobile application service, therefore, will continue to rise. Thus, GrabTaxi aims to accelerate its gains and spread its fleets, offering safer and more efficient transport service to all and becoming a leader in Asia (GrabTaxi, 2014).

Grab and Go-Jek, two of Southeast Asia's biggest technology startups, have successfully grown their food delivery and ride-hailing services, but both must pay special attention to better detection of fraudulent orders, a recent study by Spire Research and Consulting Indonesia showed. Based on Spire's consumer awareness survey, 75 percent of respondents said they used Grab's services over

the past six months, while 61 percent indicated that they had done so in the past three months. For Go-Jek, it was 62 percent and 58 percent, respectively. Regarding product usage frequency, customers more often used Grab's services than those of Go-Jek in the last quarter of 2018. The survey also found that 34 percent of GrabCar customers were more likely to use the service three to four times a week on average, while for Go-Car, 25 percent of customers were more likely to use the service once or twice a week on an average. On the other spectrum of the survey, it found that Go-Jek's Go-Ride was still the customer favorite, with 64 percent saying that they use the service once or twice a day, while for Grab it was 58 percent (https://asia.nikkei.com/Spotlight/Sharing-Economy/Go-Jek-and-Grab-put-squeeze-on-major-Indonesian-taxi-operator).

Another competitor of Grab is the Blue Bird. Sales at Blue bird taxi operator struggles to contend with the emergence of ride-hailing services. Technological disruption in the industry has now cast a shadow over the company's future. Increasing numbers of customers are switching to online ride-hailing services. The business of blue bird has also suffered from loss of profit. The Indonesia Stock Exchange suspended trading of Blue Bird brand shares on June 25, citing a failure to pay interest on bonds issued in 2014. The taxi operator has made no official comment, but this is the second such suspension in under three months for the local taxis. The performance of the largest national taxi issuer, PT Blue Bird Tbk. decreased last year. In 2017, the company's current year's profit attributable to the owners of the parent entity amounted to Rp 424.86 billion. The profit recorded by the Blue Bird in 2017 was corrected by 16.24 percent compared to the company's achievements in the previous year which amounted to Rp 507.28 billion. Blue Bird's profits continue to erode after in 2015 had touched Rp 824.02 billion (https://katadata.co.id/berita/2019/10/29/bisnis-taksi-kian-lesu-laba-bersih-blue-bird-turun-314).

Customer loyalty is often related to as the willingness of customers to repeatedly purchase a good or service that is accompanied by psychological bond and hold favourable attitudes toward a good or toward the organization supplying the goods or services (Deng et al. 2010, Wong & Sohal 2003, Yuda Bakti & Sumaedi, 2013, Prakash, 2011; Yeo et al. 2015). Loyalty programs work as an

incentive by providing benefits based on cumulative purchasing over time. Loyalty programs encourage consumers to shift from myopic or single-period decision making to dynamic or multiple-period decision making. These programs encourage repeat buying and improve retention rates by providing incentives for customers to purchase more frequently and in larger volumes (Peiguss, 2012). Grab has expanded to 100 cities across Indonesia with the launching of Ambon as its 100th city, cementing its position as the platform with the widest service coverage area from Aceh to Papua. Furthermore, in Indonesia itself Grab has been downloaded by more than 100 million user which shown that Grab as a good customer loyalty (https://www.grab.com/id/en/press/business/hadir-di-100-kota-dari-aceh-sampai-papua-grab-jadi-layanan-transportasi-dan-pembayaran-terluas-di-indonesia/). Furthermore, until 2019 Grab application has been downloaded with more than 10 Million user.

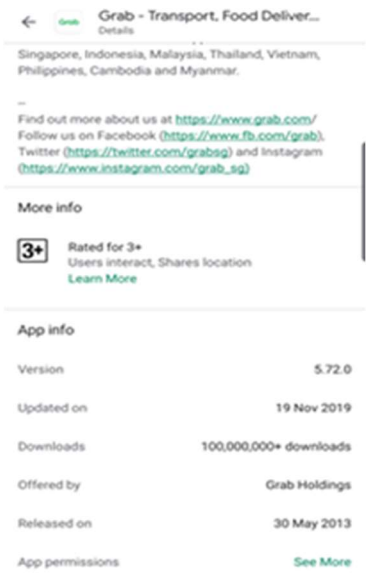

Figure 1.1 Grab Customer Loyalty

Source. Google (retrieved on November 2019)

Nowadays, competition in the transportation industry is very strong and continues enhancing rapidly, which makes service quality and customer satisfaction the key elements of the success (Kandampully et al. 2013). With a great choice of organizations, from a very cheap transport to fashionable and luxurious 5-star transportation, customers do not have a necessity anymore to get back to the place where they have been dissatisfied. Transportation are forced to search for methods of exceeding customers' expectations and providing unique

services (Riscinto-Kozub 2008). To succeed, or simply to survive, companies must learn the new understanding transportation industry. Winning is possible in today's market, if the company is focused on the customer - the highest value should be considered as the fulfilment of the target groups' wishes (Kotler et al. 2013). Companies must generate customers and not only to provide services.

Customer satisfaction is often viewed as a function of transaction-specific satisfaction and multiple transaction-specific satisfactions (Fornel 1992, Rust & Oliver 1994). From the Figure 1.2 can be seen that the rate for the grab in application is 4.4 out of 5 so that user is satisfy in using the application.

Figure 1.2 Grab Customer Satisfaction

Source. Google play store (2019)

Website Quality is evaluation of a website's features meeting their needs and reflecting overall superiority of the website (Aladwani & Palvia, 2002). The application quality of Grab is very well for the consumer to understand the placing for each feature. Figure 1.3 shows the application gives a well information regarding on the driver. The application quality also shows the placing of each driver around or nearest to us in ordering the Grab.

Figure 1.3 Grab Application Quality

Source. Google (retrieved on November 2019)

Davis (1989) Perceived Usefulness refers to the enhancement of job performance through a system. In order to create such enhancements, the users need to have a driver that initiate the sense of liking to use the new system which is behaviour Intention. Figure 1.4 shows Grab has great history transaction that people could track on the spends and the saving. This also help them to use in the showing the distance and the time that has spent in the road in the single transaction process.

Figure 1.4 Grab Perceived Usefulness

Source. Google (retrieved on November 2019)

Perceived ease of use - refers to the extent to which a person believes that using the new technology will be free of effort (Davis, 1989; Davis, Bagozzi, and Warshaw, 1989). Figure 1.5 shows the application of Grab is easier to be use by having lot of feature that is given in the application for the consumer is easier to choose and the figure that is given like car or motorbike is ease for the consumer to understand the application.

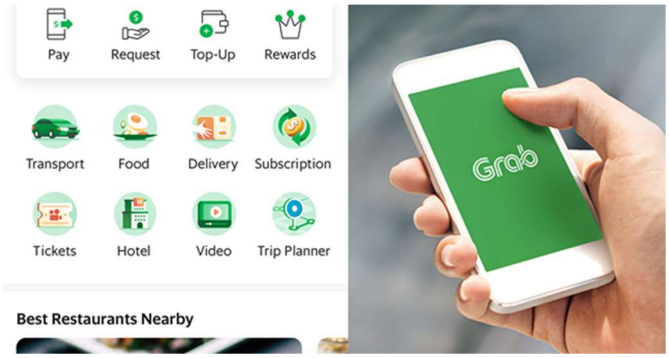

Figure 1.5 Grab Perceived ease of use

Source. Google (retrieved on November 2019)

Santoso (2013) pointed out that service quality provided a perfect service to fulfil customers' hopes and needs. Figure 6 shows the service quality of Grab that is given by the driver to the rider is very good quality that effect towards the driving skills, navigation skills, the car is clean and tidy or communication skills to entertain the consumer.

Figure 1.6 Grab Service Quality

Source. Google (retrieved on November 2019)

1.2 Research Problem

1. Is there a significant effect of application quality on GRAB customers' loyalty at Surabaya?
2. Is there a significant effect of perceived usefulness on GRAB customers' loyalty at Surabaya?
3. Is there a significant effect of perceived ease of use on GRAB customers' loyalty at Surabaya?
4. Is there a significant effect of service quality on GRAB customers' loyalty at Surabaya?
5. Is there a significant effect of customer satisfaction on GRAB customers' loyalty at Surabaya?

1.3 Research objectives

1. To determine the effect of application quality on Grab customers loyalty in Surabaya.
2. To determine the effect of perceived usefulness on Grab customers loyalty in Surabaya.

3. To determine the perceived effect of ease of use on Grab customers loyalty in Surabaya.
4. To determine the effect of service quality on Grab customers loyalty in Surabaya.
5. To determine the effect of customer satisfaction on Grab customers loyalty in Surabaya.

1.4 Research contributions

1.4.1 Theoretical Advantage

This study made its contribution as a reference in customers' loyalty, by identifying the significant of factors that affect customers' decision. This study is also reference for further studies related or similar to the field of study.

1.4.2 Empirical Advantages

1. For Grab in Surabaya, Indonesia

This result of this study can be used for Grab Surabaya regarding customers' loyalty and how to improve their strategies in marketing by learning their customer and how to create customers loyalty.

2. For the researcher

This study deepens the researcher's knowledge about the customers' loyalty. It gives the researcher a much broader awareness of the intricacy of customer's loyalty and its element to its marketing strategy.

1.5 Research Limitations

This study was conducted in order to find out the reason behind customers loyalty in GRAB. This research used application quality, perceived usefulness, ease of use and service quality as the dependent variable. This research is also limited in the terms of location because the research will be done in Surabaya, Indonesia.

1.6 Research Outline

Research outline explain the systematic writing of this study. The outline is divided into three chapters as follow:

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 specific the research objectives explored in greater detail to contribute to understand the research problems.

Chapter II

This chapter summarizes the major studies and finding 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 research problem, an explanation of why it is relevant, and how the modelling effort address the hypothesis to be tested.

Chapter III

This chapter explain the detailed technical and specific activities which include the research design, sampling plan instrumentation, social 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.