

CHAPTER I

INTRODUCTION

1.1. Background of the Study

E-commerce has ended up a hot subject among the public since the world was hit by the COVID-19 infection, including in Indonesia. We will see how companies are competing to improve the utilization of Information Technology (IT) frameworks to improve the quality of their businesses. E-commerce or electronic commerce could be a computerized stage where buying and offering exercises between vendors and buyers can be conducted online, of course utilizing innovation that bolsters these exercises, such as EDI (Electronic Data Interchange). E-commerce relates to web merchant websites, exchanging merchandise or administrations specifically to clients through a platform. Gateways utilize remote shopping carts or online shopping carts to encourage installments by means of credit cards, debit cards, or Electronic Fund Transfers (EFT) (Jain et al., 2021).

In Indonesia, the community is accustomed to using e-commerce applications to purchase their necessities. This is because purchasing transactions can be done anytime and anywhere, simply by using internet access. Because of its practicality and convenience, this is what makes e-commerce platforms widely favored not only in Indonesia but also in other countries.

There are several examples of e-commerce platforms that can be used by the public in Indonesia, namely Shopee, Tokopedia, Lazada, Blibli, and many other more.

Founded in 2012, Lazada Group is Southeast Asia's leading e-commerce platform. With a presence in six countries – Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam – Lazada connect this vast and diverse region through its technology, logistics and payments capabilities. Today, Lazada has the largest selection of brands and sellers, and by 2030, Lazada aims to serve 300 million customers. In 2016, Lazada became the regional flagship of the Alibaba Group, and is backed by Alibaba's best-in-class technology infrastructure.



Figure 1. 1 Logo of Lazada

Sources: Lazada (2024)

There are many e-commerce platforms in Indonesia, but many customers prefer to shop on other e-commerce platforms instead of Lazada. According to Putri and Haryantini (2024), a purchase decision refers to the buying behavior of an individual consumer who purchases goods or services for personal

consumption. A consumer purchase decision is the action that a consumer takes to purchase a product. It is certain that every manufacturer uses different strategies to convince the consumer to buy their product.

Purchasing decisions at Lazada experience problems that can be reflected in the Gross Merchandise Value (GMV) obtained.

Table 1. 1 Gross Merchandise Value (GMV) of Lazada (2021-2023)

Year	Gross Merchandise Value
2021	US\$ 20.1 billion
2022	US\$ 5.1 billion
2023	US\$ 5,19 billion

Sources: Kata Data (2024)

The table above shows that Lazada's revenue decreased in the 2021-2022 period from US\$ 20.1 billion to US\$ 5.1 billion. However, in 2023 it had a Gross Merchandise Value (GMV) that was almost the same as in 2022. It can be concluded that the level of purchase decisions on Lazada is still experiencing problems due to intense competition with other e-commerce.

In addition to looking at gross merchandise value of Lazada's, the decline in purchasing decisions is also evident from the number of customer visits to the Lazada application.

Table 1. 2 The Most Visited E-Commerce at Indonesia (February 2024)

E-Commerce	December 2022	December 2023	February 2024
1. Shopee	173,6 million people	157,97 million people	235,9 million people
2. Tokopedia	129,7 million people	117,03 million people	100.3 million people
3. Lazada	73,7 million people	83,23 million people	45,3 million people
4. Blibli	33,9 million people	25,43 million people	24,15 million people
5. Bukalapak	20,3 million people	18,07 million people	22,86 million people

Sources: TeknologiBisnis (2024)

Table 1.2 shows that in December 2022 Lazada obtained visits of 73.7 million users, but in February 2024 it only obtained 45.3 million users so it can be

concluded that there was a decrease in customer visits. This is due to the large number of product photos that do not correspond to reality, many sellers who commit fraud such as not sending appropriate products, such as ordering clothes but sending other items. Another phenomenon is also found that the number of products ordered often does not match the number. The company's negative reputation is due to the service of many dishonest sellers, which leads to the impossibility of transacting on Lazada and an increased level of negative reviews. Many of these problems result in low purchasing decisions.

A very important factor that can influence online purchases is customer trust. Customer confidence is a key factor in every online buying and selling transaction. With trust, customers tend to make product purchases, because online purchases have characteristics very different from conventional purchases. In online purchases, potential buyers cannot see and touch the product physically and can only see it through the image attached to the online store website. Customer confidence is a strong foundation to determine the success or failure of e-commerce in the future. To attract the intention of customers to visit and transact through the site, e-commerce must be able to build high confidence in prospective buyers of its products.

According to Nurmanah and Nugroho (2021), trust is the state in which customers have certainty in a person or a commerce, leaving no doubt when conducting purchases on a platform. Trust features a positive impact on customers' states of mind towards a company, and consumers who believe a company are more likely to form purchasing decisions for items and

administrations from the company's site itself. With the increasing level of customer trust in a platform, the likelihood of purchases occurring will also rise.

Trust in Lazada has lowered. This low in trust can be seen from the ability to experience problems such as customer service is not competent in serving consumers because it uses communication that is quite bad and unclear information conveyed. Then Lazada's integrity suffered a noticeable decline from Lazada not being transparent in the handling of consumer products, such as in the application has arrived but the consumer does not obtain the product. Lazada is also consistent in the delivery of products that are always late, both located in one city and with other cities. These various phenomena resulted in customer purchasing decisions decreased so that they switched to other e-commerce.

With the occurrence of this unpleasant incident, consumers will certainly write reviews on the available page in the Lazada app. Online customer review is a form of word-of-mouth communication on online sales, where prospective buyers get information about products from customers who have benefited from the product. Online customer reviews are evaluations or feedback that customers share about products, services, or experiences they've had. Reviews can be positive or negative, and can be found on a variety of platforms, including e-commerce platforms, social media, and review websites. Positive online consumer reviews can increase the likelihood of a purchase decision, but other factors such as pricing, brand reputation, and product quality also play a role in influencing buying behavior (Zheng, 2021).

In the Lazada app there are many negative reviews online about Lazada's performance which is quite disappointing for customers. One example of review from a customer is that they stated that Lazada is an e-commerce application that is not worth using to purchase a product, where it takes a long time for packaging (August 2024).

Many negative reviews suggest not to use Lazada, such as long packaging from sellers and difficulty in redeeming consumer rewards. Another negative review is about receiving an item that was suddenly delivered to their address, even though they didn't buy anything from the Lazada app before and the item sent is a cash on delivery item, which means that the recipient of the product must pay for it (August 2024). Then it was found that Lazada's argument quality was low. This can be seen from the absence of a reply in the Lazada application review related to the existence of other delivery alternatives. From many of these problems, it can be concluded that customer confidence in transactions on Lazada has lowered, resulting in the use of Lazada applications and switching to other e-commerce. As a result of the many negative reviews this resulted in lower customer trust in using this Lazada application and low purchase decisions.

The large number of negative reviews given by consumers will affect the rating level given. Customer rating is the same thing with review, but opinions given by consumers in the form of a specified scale, usually the rating applied by online stores is in the form of stars where more stars then show better value. The number of stars can be associated as the top quality of an item sold online. This is because ratings become one of the ways prospective buyers to get information

about sellers, then the rating in online buying and selling becomes a logical thing if consumers consider that rating becomes a benchmark of quality. Consumer rating is a very crucial recommendation in the system in e-commerce that shows how the quality of products is recommended personally (Mulyono, 2021).



Figure 1. 2 Rating of Lazada
Sources: Google Play, 2024

Lazada's online customer rating is very low, in the range of 1-3 stars. According to likeable consumers of the Lazada application, which is low so that customers give low ratings, it is also caused by frequent pop-up ads that interfere with consumers when they want to make transactions or shopping. Frequent advertisements can cause annoyance to consumers and decrease the usage frequency of the Lazada app. Another problem is related to the poor service of the Lazada application. This bad service can be seen from where customers' Lazpaylater being frozen by Lazada while consumers are never late to make Lazpaylater payments that are used. After that, a low online customer rating is also given to the product on Lazada. Many consumers obtain products that are

often damaged so that they cannot be used by consumers, and there are differences in product sizes that do not match the product information informed by the seller. Another phenomenon is also related to Lazada operations, which is quite disappointing because customers cannot cancel orders. From this it can be concluded that low ratings given by Lazada app users indicate a low level of trust and ultimately result in low purchase decisions.

The number of incidents experienced by customers affects the reputation of the Lazada application itself. A company's reputation is a public perception of the company and how it operates. This includes public opinions on the company's products or services or how the company treats its employees. A reputation can be positive or negative, and it can change over time. Reputation is a complex concept that encompasses the overall image and perception of a company's products in the market. It is shaped by a multitude of factors, including the quality and reliability of the product, the company's customer service, its ethical practices, and its overall brand image. According to Johanes (2023), a positive reputation can attract new customers, make purchase decisions, drive customer loyalty, and ultimately increase sales and revenue. On the other hand, a negative reputation can lead to decreased sales, lost customers, and potentially, irreparable damage.

Lazada's reputation in recent years has been quite disappointing for customers. This bad reputation is caused by many sellers who commit fraud but there is no follow-up from Lazada in handling this case. Of course, many customers do not feel safe in making transactions on Lazada. Lazada also suffered a defeat in competition with other e-commerce although Lazada is still in the top

5 in Indonesia. This can be seen from the number of customer visits that have decreased. The credibility of Lazada is low because many consumers say Lazada only gives free shipping when the initial account creation to customers. This is still not in accordance with the free shipping ads submitted by customers. Then Lazada's poor level of reliability, this can be seen from the lack of response in handling complaints about consumer refunds due to cancellations from sellers and there are double consumer accounts that suddenly appear so that consumer coins cannot be used. However, even though Lazada is widely known, there are still many customers who turn to other e-commerce because it is considered more profitable to transact. From this it can be concluded that Lazada's negative reputation has an influence on low levels of trust and decreased purchase decisions on Lazada.

Based on the focus of the problem, the writers wish to examine more deeply this research paper is entitled **"The Influence of Online Customers' Reviews, Online Customer Rating, and Reputation towards Customers' Purchasing Decision with Trust as an Intervening Variable on the Lazada Application in Medan."**

1.2. Problem Limitation

To keep this paper organized and focused on its core research, the researcher has set several research limitations, namely:

1. The object of research is all customers who have ever used the Lazada application, whether they are active, less active, or inactive users in Medan.

2. Based on this research, this research was conducted by focusing on five variables. Those variables are online customers' reviews, online customer rating and reputation as independent variable, customers' purchasing decision as dependent variable and trust as an intervening variable.

1.3 Problem Formulation

Based on the background of the study, the writer formulates several questions, follows:

1. Does online customers' reviews have partial influence towards trust on the Lazada application in Medan?
2. Does online customer rating have partial influence towards trust on the Lazada application in Medan?
3. Does reputation have partial influence towards trust on the Lazada application in Medan?
4. Does online customers' reviews have partial influence towards customers' purchasing decision on the Lazada application in Medan?
5. Does online customer rating have partial influence towards customers' purchasing decision on the Lazada application in Medan?
6. Does reputation have partial influence towards customers' purchasing decision on the Lazada application in Medan?
7. Does trust have partial influence towards customers' purchasing decisions on the Lazada application in Medan?

8. Does trust mediate the influence of online customers' reviews towards customers' purchasing decisions on the Lazada application in Medan?
9. Does trust mediate the influence of online customer rating towards customers' purchasing decision on the Lazada application in Medan?
10. Does trust mediate the influence of reputation towards customers' purchasing decision on the Lazada application in Medan?

1.4 Objective of the Research

Based on the problem formulation the objectives of this research are:

1. To analyze whether online customers' reviews have partial influence towards trust on the Lazada application in Medan.
2. To analyze whether online customer rating has partial influence towards trust on the Lazada application in Medan.
3. To analyze whether reputation has partial influence towards trust on the Lazada application in Medan.
4. To analyze whether online customers' reviews has partial influence towards customers' purchasing decision on the Lazada application in Medan.
5. To analyze whether online customer rating has partial influence towards customers' purchasing decision on the Lazada application in Medan.
6. To analyze whether reputation has partial influence towards customers' purchasing decision on the Lazada application in Medan.
7. To analyze whether trust has partial influence towards customers' purchasing decision on the Lazada application in Medan.

8. To analyze whether trust mediates the influence of online customers' reviews towards customers' purchasing decisions on the Lazada application in Medan.
9. To analyze whether trust mediates the influence of online customer rating towards customers' purchasing decision on the Lazada application in Medan.
10. To analyze whether trust mediates the influence of reputation towards customers' purchasing decision on the Lazada application in Medan.

1.5 Benefits of the Research

1.5.1 Theoretical Benefit

The benefit of the theory behind conducting this research is to demonstrate whether the three independent variables, namely online customers' reviews, online customer rating and reputation influence customers' purchase decisions with trust as an intervening variable on the Lazada application. Additionally, the author also possesses knowledge on how customers' purchase decisions can influence one brand.

1.5.2 Practical Benefit

Based on the purpose of this research can provide research benefits:

1. For the Writer

In this study, the writer has the ability and capability about online customers' reviews, online customer rating, reputation, customer purchase decisions, and trust to be able to understand the knowledge in this study.

2. For the Lazada

In this study, Lazada can evaluate and understand about the problems regarding the influence of online customers' reviews, online customer rating and reputation towards customers' purchasing decision with trust as an intervening variable on the Lazada application in Medan.

3. For other researchers

The writer hopes that it can be used as a reference in writing topics about online customers' reviews, online customer rating and reputation. Additionally, the writer also hopes that it can provide the necessary data for the next researchers.

