

CHAPTER I

INTRODUCTION

1.1 Research Background

Indonesia's e-commerce industry is undergoing remarkable expansion, fueled by a rapid digital shift and a predominantly young, tech-savvy population. With more than 270 million people, Indonesia offers a vast and dynamic market for online businesses. As one of the most populous nations in Southeast Asia, its digital economy is positioned for continued growth. According to projections by Statista, the number of e-commerce users in the country is expected to surpass 87.27 million by 2027 (Statista, 2024b), with further increases anticipated in the years ahead. This significant growth is driven by increasing internet accessibility, smartphone usage, and evolving consumer habits as Indonesians increasingly embrace online shopping.

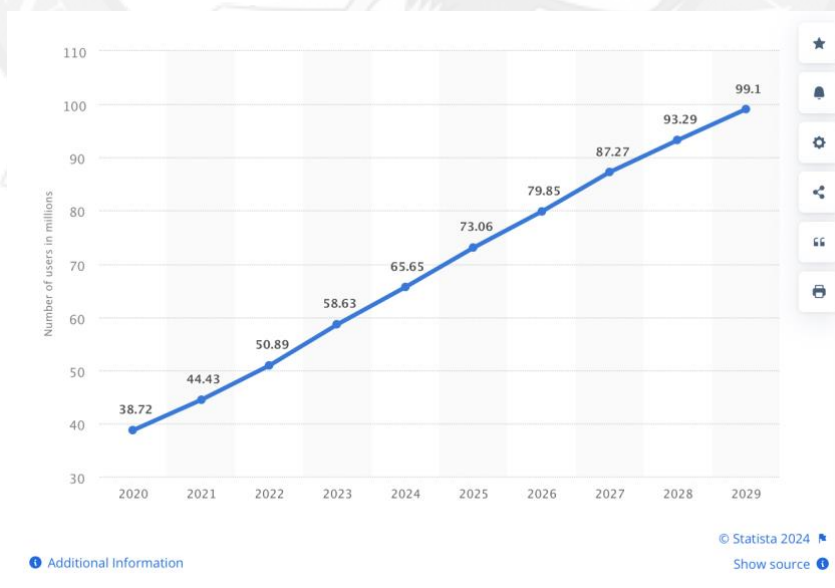


Figure 1. 1 Number of users of e-commerce in Indonesia from 2020 to 2029
Source: (Statista, 2024c)

Figure 1.1 illustrates the projected growth of e-commerce users in Indonesia from 2020 to 2029. The number of users has steadily increased over the years, starting at 38.72 million in 2020 and reaching 99.1 million by 2029 (Statista, 2024c). This significant rise indicates a growing adoption of online shopping among Indonesians, driven by factors such as increased internet penetration, improved digital infrastructure, and a wider range of products and services available online.

The rapid growth of internet users and digital literacy in Indonesia has significantly transformed the e-commerce landscape, particularly for platforms like Shopee. Social media marketing activities have emerged as a pivotal strategy for enhancing customer relationship quality and loyalty. According to the Indonesian Internet Service Providers Association (APJII), the number of internet users in Indonesia has surpassed 221 million people (APJII, 2024), and has created a fertile ground for businesses to engage with consumers through social media platforms. This digital engagement is crucial as it allows brands to build relationships with customers, fostering a sense of community and trust that is essential for customer loyalty.

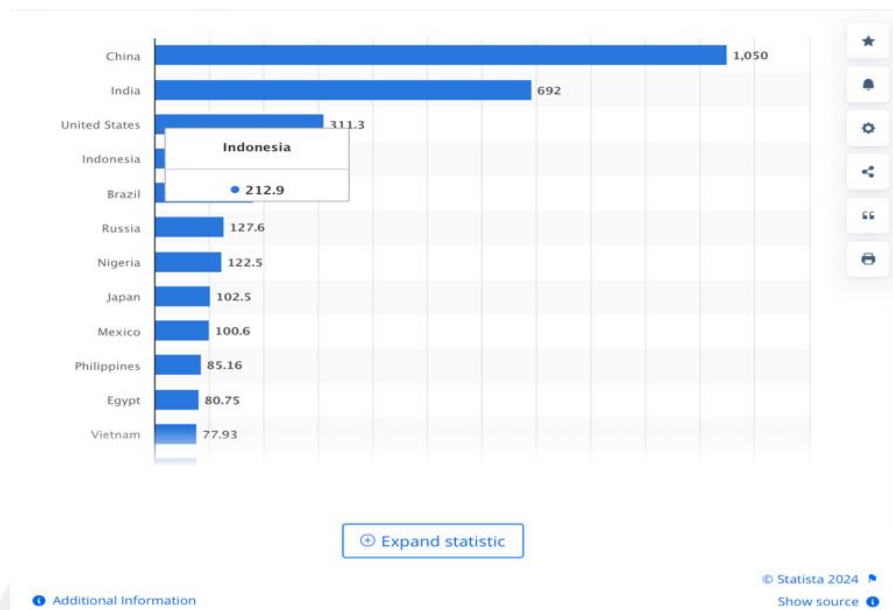


Figure 1.2 Countries with the largest digital populations in the world as of January 2023
Source: (Statista, 2024a)

Figure 1.2 shows that Indonesia has 212.9 million internet users as of 2024. This places Indonesia among the top countries in terms of internet penetration, ranking fourth behind China, India, and the United States (Statista, 2024a). The data indicates a significant increase in internet usage in Indonesia, likely driven by factors such as improved infrastructure, affordable internet plans, and growing digital literacy.

The Indonesian government has also recognized the importance of digital literacy in fostering economic growth. Initiatives aimed at digital transformation, especially in rural areas, have been launched to bridge the digital divide and promote inclusive economic development. The growth of the digital economy, particularly in e-commerce, has been substantial, contributing positively to the national economy (Saputra et al., 2023). As a result, there is a growing emphasis on equipping the workforce with essential digital skills to meet the demands of the evolving job market (Prianto et al., 2021).

The increasing digital literacy, especially among Indonesia's youth, along with significant improvements in the country's logistical infrastructure, has created an environment ripe for the growth of e-commerce. Platforms such as Tokopedia, Bukalapak, and Shopee have seamlessly become part of the everyday routine of Indonesian consumers. This reflects the profound influence that advancements in digital technology have had on shopping patterns and consumer behaviour in the country, making online shopping more accessible and integrated into daily life (Wulandari et al., 2024).

Several factors contribute to the widespread adoption of e-commerce by small and medium enterprises (SMEs) in Indonesia. These include a strong technological infrastructure, the ease with which digital platforms can be used, the perceived benefits and utility of online systems, and the growing importance of social media marketing. Together, these elements create an environment where businesses are more likely to embrace e-commerce, helping them reach a broader audience and enhance their competitiveness in a digitally connected world (Rahayu & Day, 2015; Az-zahra et al., 2024).

The impressive growth observed in the Business-to-Consumer (B2C) segment can largely be attributed to the surge of new e-commerce platforms that continue to enter the marketplace. This influx has led to an increase in competition, further driving innovation and expansion within the sector. The heightened competition compels businesses to continually enhance their offerings and customer experiences, resulting in more choices for consumers and a

dynamic, ever-evolving e-commerce landscape (Sazaly et al., 2019; Zhu et al., 2021).

E-commerce is playing an increasingly pivotal role not just for businesses, but also in driving Indonesia's economic growth. According to Coordinating Minister Airlangga, e-commerce has emerged as the largest contributor to Indonesia's digital economy. In 2021 alone, the total value of e-commerce transactions was estimated at an impressive US\$53 billion. This figure is expected to nearly double, reaching US\$104 billion by 2025, with an annual growth rate of 18 percent. The rapid expansion highlights the integral role of e-commerce in shaping the country's digital and economic future (Limanseto, 2022).

Investments in areas such as research and development, the growing volume of e-commerce transactions, and the increasing workforce within e-commerce companies are all critical elements that have been thoroughly examined for their contribution to driving economic growth in Indonesia. These factors not only reflect the advancements in the digital economy but also highlight the broader influence of the e-commerce sector in strengthening the nation's overall economic performance. By focusing on innovation, expanding transactional capabilities, and building a skilled workforce, Indonesia continues to harness the potential of e-commerce as a key driver of its economic development, driven by various factors such as technological advancements, consumer behavior, and government regulations (Sumahir et al., 2022).

Shopee has emerged as a dominant player in the Indonesian e-commerce landscape since its inception in 2015. As a subsidiary of Sea Group, it has

effectively utilized a mobile-first strategy to cater to the rapidly expanding digital user base in Indonesia, which is characterized by a significant number of mobile internet users. This strategic focus on mobile accessibility has allowed Shopee to tap into both Business-to-Consumer (B2C) and Consumer-to-Consumer (C2C) markets, enhancing its versatility and competitiveness within the sector (Abizar & Dwiantari, 2023; Alamin et al., 2023).

Shopee distinguishes itself through its gamified shopping experience. Features like "Shopee Live" and "Shopee Games" not only enhance user engagement but also create a more interactive shopping environment (Alamin et al., 2023). This gamification strategy has proven effective in retaining users and encouraging repeat purchases, as evidenced by studies indicating that e-service quality positively influences customer satisfaction and repurchase intentions (Hikmah & Rptiono, 2020; Putri et al., 2023).

In 2022, Shopee Indonesia faced considerable challenges in retaining customers, as reflected in a decline in both user visits and order volume. This downturn was driven by a combination of evolving consumer expectations, intensified competition, and concerns over service quality (Hermawan, 2022; Yulina et al., 2022). As consumers began to prioritize service efficiency, product availability, and reliable delivery, their expectations rose, particularly within the e-commerce sector. For platforms like Shopee, these factors are critical in shaping customer satisfaction and loyalty (Jaherman et al., 2022; Yulina et al., 2022). Adding to these difficulties, competitors were increasingly successful in attracting market share and customer interest, which further highlighted Shopee's struggles

to maintain customer allegiance. Research has shown that fluctuating perceptions of service quality and product reliability have played a central role in Shopee's customer retention issues, underscoring the platform's need to address these factors to stay competitive in Indonesia's challenging e-commerce landscape (Tanurahardja & Cokki, 2023).

To improve customer loyalty, Shopee must concentrate on enhancing service quality through several critical areas, including responsive customer service, smooth transaction processes, and dependable delivery. These elements are essential for building trust and satisfaction among users, which, in turn, support loyalty (Tanurahardja & Cokki, 2023). By focusing on meeting or exceeding customer expectations in these key areas, Shopee can work to reverse declining loyalty and reinforce its position in a market where high service standards are increasingly expected.

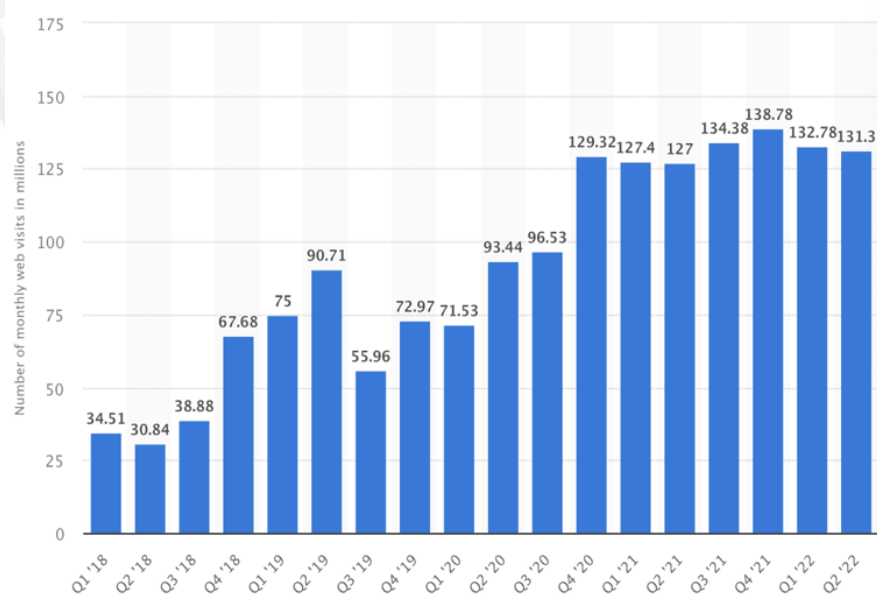


Figure 1. 3 Number of monthly web visits on Shopee in Indonesia (2018-2022)
Source: (Statista, 2023)

In Figure 1.3 the graph illustrates the number of monthly web visits to Shopee in Indonesia from the first quarter of 2018 to the second quarter of 2022. Overall, the number of monthly web visits has shown a steady upward trend throughout the period, with a significant increase from the first quarter of 2021 onwards. However, a slight decline is observed in the second quarter of 2022, which are attributed to various factors (Statista, 2023).

Furthermore, consistent communication and effective use of social media marketing can help build and maintain brand trust; actively engaging with customers through these platforms fosters a relatable and trustworthy brand image, which is vital in today's competitive e-commerce landscape (Susanti & Rodhiah, 2023). In summary, focusing on improving service quality, enhancing customer engagement, addressing logistical issues, and leveraging social media to build trust are all crucial factors in increasing customer loyalty for Shopee.

The quality of service is a crucial factor in shaping customer satisfaction, which in turn greatly influences customer loyalty and retention, particularly on e-commerce platforms like Shopee. When customers experience high service quality such as timely responses, smooth transactions, and reliable delivery they are more likely to return and continue using the platform. Thus, improving service quality remains a key focus for Shopee to maintain a competitive edge in Indonesia's dynamic e-commerce landscape (Rinaldi et al., 2021).

These recurring problems can undermine the overall customer experience and lead to decreased trust in the platform. Addressing these challenges is

essential for maintaining customer satisfaction and loyalty in an increasingly competitive e-commerce landscape (Nuriyana & Hermawansyah, 2022).

Building and maintaining customer trust is critical to keeping people engaged with a platform, but various factors can cause that trust to waver. Indonesia's e-commerce landscape is packed with competitors like Tokopedia and Bukalapak, which makes it harder for one brand to stand out. Customers have plenty of alternatives, so if a company slips up or fails to meet their expectations, they might switch to another platform. This intense competition pushes e-commerce players like Shopee to constantly innovate and find ways to build stronger connections with their users to keep them coming back (Haris, 2023).

1.2 Problem Statement

In today's fast-evolving e-commerce environment, social media marketing has become a crucial strategy, particularly for platforms like Shopee operating in regions such as Indonesia, where social media usage is exceptionally widespread. The seamless incorporation of social media into e-commerce operations goes beyond just marketing; it fosters deeper customer engagement, builds trust, and ultimately boosts sales. For businesses striving to succeed in this fiercely competitive landscape, social media marketing has become an essential tool, helping to solidify customer relationships and staying relevant in the market.

The use of social media platforms like Instagram, Facebook, and TikTok have become critical for brands looking to boost customer engagement. These platforms offer companies the chance to engage directly with consumers, creating a two-way communication process that helps strengthen customer relationships.

By interacting with consumers in real-time, brands can gain valuable insights into their needs and preferences, allowing them to develop more personalized and relevant marketing strategies. Social media also provides brands with the ability to target segmented audiences more effectively, ensuring that their campaigns resonate with the right consumer groups. This approach not only fosters a deeper connection between brands and customers but also enables businesses to build loyalty by consistently meeting consumer expectations (Nurpauji et al., 2024). This direct interaction is essential for building a community around a brand, which is particularly important for e-commerce platforms like Shopee that rely on consumer trust and loyalty to drive sales.

The role of social media in fostering consumer trust is incredibly important and continues to grow. Studies show that content generated by users, such as online reviews, ratings, and personal testimonials shared across social platforms, has a profound impact on potential buyers. Consumers often rely on the opinions and experiences of others to guide their purchasing choices, as these insights are viewed as more authentic and trustworthy compared to traditional advertising. This type of social proof, whether it's a glowing product review or a detailed customer testimonial, can significantly sway purchasing behavior and enhance the overall credibility of a brand (Yu et al., 2018).

In the context of Shopee, utilizing social media platforms to tell compelling brand stories and highlight real customer experiences can significantly boost the brand's perceived authenticity and credibility. By sharing relatable and engaging content, Shopee can create a stronger emotional connection with

potential buyers. Moreover, social media marketing strategies can serve as a valuable tool to assess and improve customer trust and satisfaction. These elements are essential for cultivating loyalty, especially in the highly competitive e-commerce landscape, where customer retention hinges on both trust and positive interactions with the brand (Wu, 2023).

Platforms like Instagram and TikTok now offer features that allow users to purchase items directly within their app feeds, eliminating extra steps in the shopping process. This integration of commerce into social media makes it easier for consumers to shop while engaging with content, further blurring the lines between browsing, and buying. This shift is changing how businesses engage with customers, transforming social media from a marketing tool into a fully functioning sales platform (Rachmad, 2022).

This integration not only makes the customer experience more seamless but also taps into consumer behaviors like impulse buying (Rao & Ko, 2021). The convenience of access, coupled with the dynamic and captivating content found on social media, can greatly enhance the likelihood of consumers making purchases on e-commerce platforms such as Shopee. This heightened engagement often results in higher conversion rates as users are drawn in by spontaneous offers and visually appealing posts.

In Indonesia, the statistics regarding social media usage are quite striking, with millions of users actively engaging on platforms like Facebook and Instagram. This expansive user base presents a tremendous opportunity for e-commerce businesses to extend their reach. The integration of social media and e-

commerce has shown to significantly impact consumer behavior, as more Indonesians turn to online platforms for their shopping needs. The interplay between social media and e-commerce provides a powerful tool for influencing purchase decisions, highlighting the growing importance of leveraging these channels together (Setyawan et al., 2023). Moreover, the rising trend of social commerce, where consumers make purchases directly through social platforms, signals that businesses must continuously evolve their marketing strategies to tap into this increasingly engaged audience (Rachmad, 2022).

1.3 Research Questions

The following research questions have been formulated to address these objectives:

1. Does social media marketing activities (SMMA) have a positive effect on commitment?
2. Does social media marketing activities (SMMA) have a positive effect on trust?
3. Does social media marketing activities (SMMA) have a positive effect on satisfaction ?
4. Does commitment have a positive effect on customer loyalty?
5. Does trust have a positive effect on customer loyalty?
6. Does satisfaction have a positive effect on customer loyalty?
7. Does social media marketing activities (SMMA) have a positive effect on customer loyalty?

1.4 Research Objectives

The objectives are to analyze the following:

- To analyze how social media marketing activities (SMMA) positively impact commitment.
- To analyze how social media marketing activities (SMMA) positively impact trust.
- To analyze how social media marketing activities (SMMA) positively impact satisfaction.
- To analyze how commitment positively impacts customer loyalty.
- To analyze how trust positively impacts customer loyalty.
- To analyze how satisfaction positively impacts customer loyalty.
- To analyze how social media marketing activities (SMMA) positively impact customer loyalty.

1.5 Research Contributions

1.5.1 Theoretical Contributions

This research will enhance the understanding of how various social media marketing activities (SMMA), including interaction, entertainment, customization, trendiness, and word of mouth, influence customer commitment, satisfaction, trust and loyalty within the e-commerce sector. With theories that involve social media marketing strategies, this study aims to build a comprehensive framework that demonstrates the interconnectedness of these elements, particularly in the context of the Indonesian market. Additionally, this

research addresses existing gaps in the literature regarding the role of social media in shaping customer commitment, satisfaction, trust and loyalty, contributing valuable insights that can be applied to further academic inquiry.

1.5.2 Practical Contributions

The findings of this research will provide actionable insights for e-commerce platforms like Shopee, enabling them to refine their social media marketing strategies effectively. By identifying which aspects of SMMA most significantly enhance customer commitment, satisfaction, trust, and loyalty businesses can allocate resources more efficiently and develop targeted campaigns that resonate with their audience. This research will assist marketing professionals in making data-driven decisions, fostering a consumer-centric approach that ultimately strengthens customer relationships and enhances competitive advantage in a rapidly evolving market.

1.6 Research Scope

This research focuses on two main areas due to the vastness of the e-commerce industry and the limited time available for conducting the study. This deliberate limitation aims to provide a thorough yet focused examination of the topic.

The first limitation is the sample size, which is constrained to individuals actively engaged in online shopping through Shopee and familiar with social media marketing activities in Indonesia. This ensures that the respondents are

well-versed in the subject matter and that the research remains relevant to the topic under investigation.

Secondly, the study narrows its focus to five key variables: social media marketing activities, customer commitment, satisfaction, trust, and loyalty. The theoretical foundation supporting these variables is built upon previous research on customer relationship quality and digital marketing, specifically exploring how social media marketing influences customer loyalty through commitment, satisfaction and trust. The scope reflects a partial replication of earlier studies in this domain while focusing specifically on the Indonesian market, providing unique insights into the relationship between social media marketing and customer loyalty on Shopee.

By limiting the study to these defined variables and sample size, the research aims to offer a clear and concise analysis of how social media marketing activities impact Shopee's customer commitment, satisfaction, trust, and loyalty in Indonesia's e-commerce landscape.

1.7 Research Outline

To make the material of this research easier to understand, a systematic outline is separated into five main chapters and various sub-chapters in this study.

The following is an overview of this study:

Chapter I: Introduction

This section introduces the research problem, discusses relevant phenomena, and outlines the problem formulation, research questions,

objectives, contributions (both theoretical and practical), limitations, and the overall structure of the study.

Chapter II: Literature Review

This chapter reviews the relevant theories and literature underlying the Indicators used in the research. It includes information from journal articles and books, as well as the relationships between variables, research hypotheses, and the research model.

Chapter III: Research Methodology

This chapter explains the research methods used to address the research questions. It covers the research subjects, measurements, unit of analysis, sample design, data collection techniques, and methods of data analysis.

Chapter IV: Data Analysis and Discussion

This chapter presents and discusses the findings, focusing on the relationships between variables. It includes statistical test results, discussions, and insights that help formulate the research conclusions.

Chapter V: Conclusion and Recommendations

The final chapter summarizes the research findings, offering conclusions drawn from the data analysis. It also provides recommendations based on the results, relevant to the field of study.