CHAPTER I

INTRODUCTION

1.1 Background

The economic growth and urbanization in Indonesia along with the rising of the middle class has helped to transform Indonesia retail industry. Due to stronger purchasing power as a result of solid economic growth, Indonesia has seen billions (of Rupiah) worth of increase in its nationwide retail purchases. Indonesian retail is on the rise, supported by continued development of organised retail infrastructure and rapid changes in lifestyle and modern shopping trends which made shopping is not only for buying product needed but also for leisure activity.

Today, Indonesian retail industry consists of traditional retail market and modern retail market. According to Pefindo Credit Rating Indonesia (2010) the total number of traditional market in Indonesia are 1,907,062 market and 12,598 for modern market which includes several store formats such as hypermarket, minimarket, supermarket and convinience store. Traditional retail remains dominant in Indonesia retail market especially for low income segments and those in rural areas (Asosiasi Pasar Indonesia, 2010), however modern retail is on the rise, this is based on the popularity of living a modern lifestyle among Indonesian.

Such modern lifestyle includes the utilization of modern market retailers as opposed to the traditional ones. This is most apparent among middle to high class society and youngster.

The rapid growth of the modern retail market is currently causing a shift in the retail market share, slowly but sure modern retail is dominating retail market share in Indonesia this is based on the growth of store numbers, modern retail outlets are growing by 8%-9% annually compared to the traditional outlets of 1% (Pefindo Credit Rating Indonesia, 2010). Among the variety form of modern retailers, the highest growing form of modern retail is minimarket. This is attributed to the factor of accessibility since minimarkets, compared to other forms of modern retailers, are most accessible due to the widely spread locations. This shows the massive importance of ensuring that the products are accessible to the consumers as well as the competitive advantage which accessibility brings about.

As globalization arise along with significant increase of internet usage in Indonesia, internet is seen by retailers as a channel to sell their product/service in Indonesia. And with high internet penetration rate among Indonesian cities, the prospect of internet retail is brightest than ever in Indonesia.

1.1.1 Internet Usage in Indonesia

Indonesia, with population of 237,556,363 according to (Badan Pusat Statistik, 2010) is the fourth most populated country in the world. The internet users in Indonesia is growing at a lighting speed with 55 million users by the ends of 2011, In asia Indonesia is the fourth largest internet user after China with 513 millions user, India with 121 millions user and Japan with 101.2 millions user (Internet World Statisitcs, 2011). (See Figure 1.1)

Similiar to other emerging online market, internet in Indonesia has younger audiences. Accroding to Internet World Statistics (2011) about 17.4 million user or 41% of Indonesia internet population is from the age group of 18-24 years old and 21% from the age group of 25-34 years old which cater 8.9 millions user while 16% is from the age group of 16-17 years old with 6.8 millions user and 12% user is from the age of 13-15 years old with 5.1 millions user. With only 6% is from the age of 35-44 years old and 2% from 45-65 years old. Based on the data, approximately 90% of the internet user in Indonesia is from the age 13-24 years old. (See Figure 1.2)
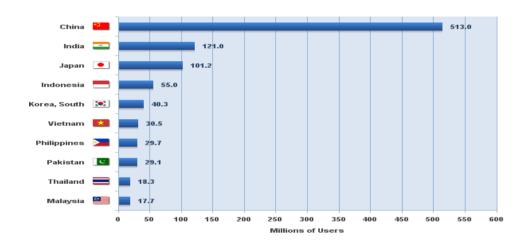

Figure 1.1 Asia Internet User, 2011

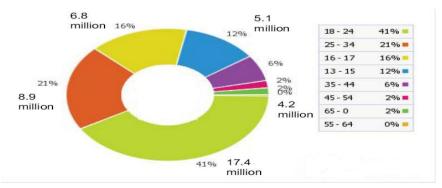Source: Internet World Statistics (2011)

Figure 1.2 Indonesia internet user age distribution, 2011

Source: Internet World Statistics (2011)

Comparing to another emerging market in ASEAN, Indonesia as the fourth largest internet user in asia may have surpassed other ASEAN developing market such as Malaysia, Philippines, Vietnam, Thailand and Singapore in terms of usage but in terms of infrastucture, Indonesia is still lack of proper and reliable internet infrastructure which limit Indonesian especially in the remote and less populated areas to have an reliable internet connection. The slow development of internet infrastructure in Indonesia can be seen from the internet penetration rate data in ASEAN countries.
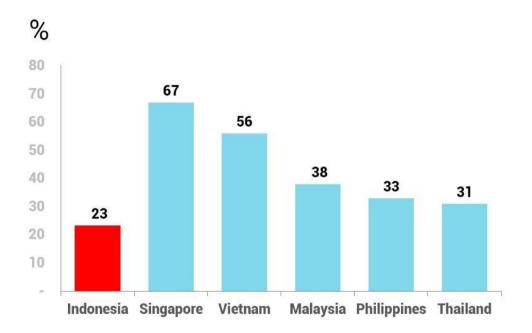

Figure 1.3 ASEAN Internet Penetration Rate, 2012

Source: Veritrans and Daily Social (2012)

As can be seen above in Figure 1.3 published by Veritrans and Daily Social (2012), in the ASEAN countries the highest internet penetration rate is Singapore with 67% followed by Vietnam 56%, Malaysia 38%, Philippines 33%, Thailand 31% and lastly Indonesia 23%. From this point of view, internet infrastructure in Indonesia is the lowest in ASEAN when compared to ASEAN countries mentions above.

And according to the research by Veritrans and Daily Social in 2012 based on device used and access location, around 71% of the internet user in Indonesia access the internet from personal computer (PC Desktop) and notebook, with 24% of internet user access the internet from personal smartphone like Blackberry, iPhone etc and 5% combining from other devices. Most of the user access the internet from home which accounted for 63%, with office accounted for 25%, school and internet cafe with 4% and 8% access the internet from other location.
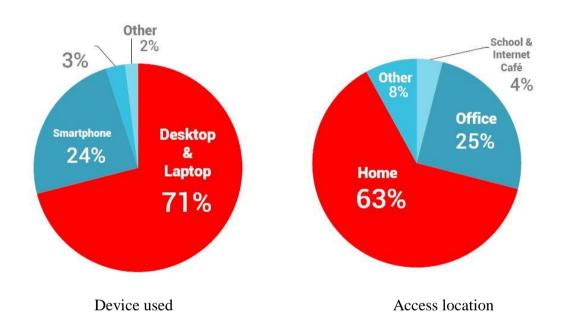

Device used   Access location

Figure 1.4 Indonesia Internet Device Used and Access Location, 2012

Source: Veritrans and Daily Social (2012)

1.1.2 Economic Data in Indonesia

For the last couple of years, Indonesia has been experiencing a strong economic performance and high Gross Domestic Product (GDP) growth. Looking on the 2009 global financial crisis, when most countries in the region and Indonesia economic partners had a negative or zero GDP growth (Malaysia -1.6%, Singapore -1.0%, Thailand -2.3%, Korea 0.3% and Japan -5.5%).

Indonesia is able to protect the economy from the global downturn with postive GDP growth of 4.5% during the year (World Bank, 2012). Indonesia current GDP is 6.5% and is projected to grow by 6.1% in 2012 and 6.6% in 2013 respecively (International Monetary Fund, 2012). Indonesia economy is growing rapidly, during the first quartal of 2011 the conomic growth was 6.3% and the growth for second quartal is 6.4%. Private consumption which account for around 53.5% of economic growth, grew 5% in the first quartal of 2011 and goverment consumption which account for 32.9% of economic growth also grew by 7% in 2011 which is a good indicator for economic growth (Badan Pusat Statistik, 2011). Economic growth has also been supported by rising confidence from the investor, supported by stable political conditions since the financial crisis in 1998. Consumer confidence index in August 2012 as measured by Bank Indonesia rose to the level of 115.7 point from 113.5 from the previous month (Bank Indonesia, 2012).

1.1.3 E-commerce in Indonesia

At global scale, there has been a massive growth to use internet as a media to purchase goods and items. At global average 86% of world online population claim they have shopped online with only 14% claim have never shopped online (Nielsen, 2008). The percentage of purchased items through online retail store is expected to increase over the next few years.

In recent years Indonesian are more eager to purchase items on the internet, Business Research Group Frost and Sullivan estimated 2011 e-commerce transactions in Indonesia amounted to $1 billion, in 2010 itself at least 68% of the Indonesia online population making online purchases at least once in a month, an increase from 63% in the fourth quarter of last year. The increase is mainly caused by improvement in the level of convinience and items variety when shopping online (Baskoro, 2010).

And according to research study by Nielsen (2010), about 36% of Indonesian online population are willing to allocate 6 to 10% of the total monthly spending for shopping online which is the highest percentage in ASEAN. That compares to 24% in Malaysia, 27% in Philippines, 26% in Singapore, 31% in Thailand and 34% in Vietnam. With only 1% of Indonesia online population will spend between 51% to 75% of their total monthly spending online, 5% between 26% to 50% of the monthly spending and 18% between 11% to 25% of the monthly spending.
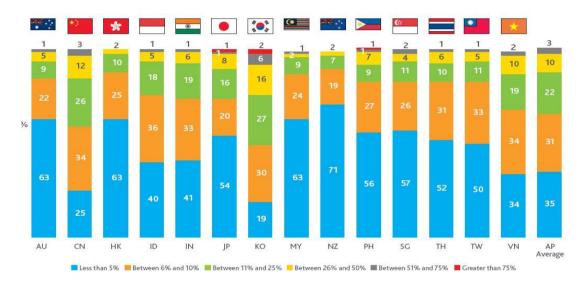

Figure 1.5 Asia Pacific Online Monthly Spending Percentage, 2010

Source: AC Nielsen (2010)

Currently in the global average, the most frequently purchased items in online shopping are books, clothing, and airplane tickets/reservations (Nielsen, 2010). For Indonesia, 37% of items purchased via online are fashion/clothing accessories with travel booking and video/games/music accounted for 20% each respectively (Veritrans and Daily Social, 2012).
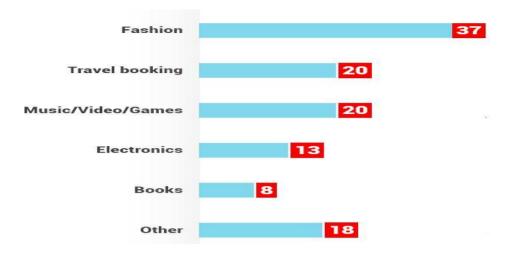
Figure 1.6 Percentage of Product/Service Purchase Online in Indonesia, 2012

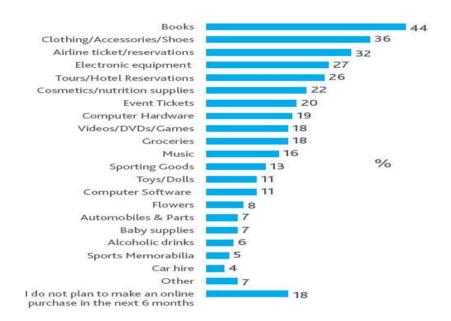Source: Veritrans and Daily Social (2012)

Figure 1.7 Percentage of Product/Service Purchase global average, 2010

Source: AC Nielsen (2010)

Despite the massive growth, e-commerce has yet become the main channel of consumer purchase. This is especially true in Indonesia where reluctance to use e commerce remains to be apparent. Mainly the reluctance to use e commerce is because the lack of reliable and affordable internet connection that enables users to conviniently shopping online. Losing internet connection while doing the payment,

for example is the last one customers wants to happens since it will create payment perplexity (Harjono, 2011).

Lack of sophisticated payment system is one of the main factor that holdbacks e commerce in Indonesia. Whilst users can browse products and compare prices over the internet, online payment using paypal ares still unavailable on most Indonesian sites and customers are reluctant to use the credit cards on unpopular online retail store due to fear of fraud and abuse. Bank account transfer and cash on delivery are still the main payment methods being used (Abdul, 2011).

Unreliable delviery time and cost is also the main challenges of e commerce in Indonesia where delivery cost and time may be vary due to vast archipelago in which customer feels reluctant to shop online because somehow the cost of the product will be inflated and uncertainty with delivery time. This problems occurs because lack of proper and reliable infrastructutre accross Indonesia archipelago (Harper, 2012).

Indonesia with its rapid economic development and sustainable development of internet usage, have a great potential for e-commerce business. Furthermore, e-commerce in Indonesia is still at the introduction stage with limited number of local retailers and slight variation of product and services.

Unsophisticated infrastructure and lack of trust due to fraud from the online customer is still the biggest threat for investor and retailers who want to invest and explore the potential of internet business in Indonesia. The message is the prospect of e-commerce in Indonesia is a bright prospect as there is a big chance of success with potential risk that come along with the success.

1.1.4 Difference between E-retailing and E-commerce

E-retailing is a form of business to consumer (B2C) online store that allows customers to directly purchase a product or services over the internet without an intermediary services while E-commerce is a type of an online store in form of mass merchant, where customers can buy any products or services from many range of brand through the internet (Wilson, 2010).

E-retailing is B2C online store that sells product/services from the store own brand and have a limited product ranges while E-commerce is basically a mass merchant online store where they don't have any specific brands or product ranges and they mainly sell product/services from other brands.

Example of E-retailers and E-commerce worldwide;

E-retailers	E-commerce
a. Apple.com	a. Amazon.com
b. Nike.com	b. Walmart.com
c. Gap.com	c. JC Penny.com

While the example of E-retailers and E-commerce in Indonesia are;

E-retailers	E-commerce
a. Garuda Indonesia.com	a. Plasa.com
b. Damn I love Indonesia.com	b. Blibli.com
c. Lion air.com	c. Bhinneka.com

According to Landsberger (2011) the most used e-retailers worldwide is Apple.com with online sales of $6,660,000,000 with online growth in 2011 by 27.40% and for e-commerce is Amazon.com with online sales of $48,080,000,000 with online growth in 2011 by 40.60%.

While in Indonesia the most used e-commerce is blibli.com with 5 million visitors and online sales $10,000,000 followed by Plasa.com with 1.5 million viewers and online sales $8,565,000 (Anestia, 2012).

1.1.5 Relationship Between Customer Satisfaction and Loyalty

Hallowell (1996) indicates that customer satisfaction is connected with customer loyalty and satisfaction and loyalty can affect company's business performance. Although both satisfaction and loyalty is interconnected, company has to remembered that a satisfied customer in not necessarily became a loyal customer. Enocuraging customer emotional bond is important because the customer will leave despite they feel satisfied with the firm's performance when there is no presence of emotional bond (Seiders, Voss, Grewal and Godfrey, 2005). But in the end, customer satisfaction is the foundation of customer loyalty, and loyalty is the final results of satisfaction.

Consequently it is very important to meet or surpass the need and wants of the consumers but in the other hand company also have to try to focus in the area that is not expected by most of the consumers to create elements of surprised. According to Barnes (2006) elements of surprised will impressed customers and thus emotional bond is created. Satisfied customer doesn't necessarily became loyal customers, but satisfaction surely promotes loyaty.

1.2 Problems Identification

The prospect of e-commerce in Indonesia seems to get bigger in the future. The movement of market towards accessing information and purchasing product/services online is growing rapidly. According to a recent global survey by (Nielsen, 2008), over 86 percent of the online population claimed that they have shopped online with only 14 percent that claimed they have not do so.

With the rapid growth of online purchase, many investor have seen this as a good opportunity for them to establish an e purchase portals to allows customer to access their product/services online. However, the key problem is to creating and increasing customer loyalty through customer satisfaction. In this research study, the author needs to investigate "**What factors in online retail web characteristics are influential in creating customer loyalty through customer satisfaction in Indonesia online retail store**" With a clear understanding of that, it will help online retailers to uncover which attributes that affect customer satisfaction and should be given closer attention to improve customer satisfaction in which ultimately will lead to customer loyalty and aid them in developing right marketing strategies to retain their customer.

1.3 Scope

This thesis aims to focus on the analysis of what factors should retailers consider in terms of online retail industry which happens to be very developing nowdays. To reach the target respondent directly which are the consumers of online shopping, the author will conduct a survey using questionnaire in the form of paper based survey and the questionnaire will be adminstered in person to the targeted respondent. Paper based questionnaire being used to give access to respondent who do not have easy access to PC/notebook since smartphone or tablet may reduce the clarity of the questionnaire and it will decrease the likelihood of the repsondent to fill in the questionnaire and to monitor the respodent whether they fill in the questionnaire properly or not (Malhotra and Peterson, 2006). The target respondents for this research are males and females in the age group of 18 − 30 years old and college student, as college students tend to be difference from conventional consumers in terms of their belief and attitudes (Durvasula et al., 1997).

Secondly, college students is the largest proportion of active internet users in Indonesia (Asosiasi Penyelenggara Jasa Internet Indonesia, 2010).

1.4 Aims and Benefit

The main purpose of this study is to investigate which variables in online retail web characterisitcs that are the most influential in creating and increasing customer loyalty thorugh satisfaction in online retail industry in Indonesia.

The aims of this research are:

a) To investigate and explain the relationship between online retail web characteristics, which are not directly associated with product and price with online satisfaction.

b) To examine and explain the relationship between online satisfaction and online loyalty.

While the benefits of this research are:

a) This research will provide thorough understanding to e-retailers showing which characterisitcs that should be prioritazied to improve customer online satisfaction and customer online loyalty.

b) This research will provide retailers with an important data and insight on how to establish effective and efficient online retail store.

c) This research may explain some research results to help other researchers, education practitioners and academician in their research and studies.

1.5 Research Questions

This research will be conducted to find out how online retail store web characteristics will affect customer loyalty.

RQ1: Does convenience have a positive influence on online satisfaction?

RQ2: Does customization have a positive influence on online satisfaction?

RQ3: Does information have a positive influence on online satisfaction?

RQ4: Does communication have a positive influence on online satisfaction?

RQ5: Does web appearance have a positive influence on online satisfaction?

RQ6: Does entertainment have a positive influence on online loyalty?

RQ7: Does online satisfaction have a positive influence on online loyalty?

1.6 Structure

This thesis will includes five chapters that will consist of the following:

CHAPTER 1 – INTRODUCTION

This chapter is the introduction of the whole thesis, consisting of background of the study including brief description of internet usage, economic data and ecommerce in Indonesia, problems identifications, scope, aims and benefit and research questions.

CHAPTER 2 – THEORETICAL FOUNDATION

This chapter cover the theoritical background of the proposed problems along with the explanation of the model used, review the literature which will justify the background and the relationship between variables

CHAPTER 3 – RESEARCH METHODOLOGY

This chapter discussed the methodologies of the research for the study, instrument that were used in the original journal and seek out the adjustment that made by researcher when conducting the research, data collection method and data analysis that were used in this research.

CHAPTER 4 – RESULTS AND ANALYSIS

This chapter will explain about research findings of the data analysis which was collected from the survey. It will be consist of research data and result analysis.

CHAPTER 5 – CONCLUSION AND RECOMMENDATION

This chapter analyzes the overall research, especially the research findings and a conclusion with regards to the findings and recommendation for future research.