CHAPTER 1

INTRODUCTION

1.1 Background

The progress of internet in Indonesia brings many advantages, especially for the society. It is undeniable that the Internet has become an essential part of human life in modern time. The users of internet can access information in the form of text, image, videos, and interconnected with other users from around the world. Rapid flow of information is one of the strong reasons more people need the internet. Every electronic device already set to connect the Internet for a better performance. The examples are personal computers, smartphones, smart watches, televisions and so on. Various activities and events carried out by using internet technology. Starting from studying, looking for work, communicate, shopping, gaming, and looking for information.

The data from "Association of Indonesian Internet" Service Provider (APJII, 2016) showed a significant growth of the Internet. Internet users in Indonesia in 2016 was 132.7 million from 206.3 million people in Indonesia, or about 64% of the total population of Indonesia. Compared with the data growth of the Internet in 2014, development of the Internet in Indonesia increased to 34.9%. The development of Internet in Indonesia expected to continue to increasing year after year. The Internet users spend an average of about 4 hours 42 minutes to access the internet on a PC or tablet in a day. According to APJII (2016), there are about 114 million active users of social media in Indonesia. When compared to the total population, there are about 54 percent of Indonesia's population is an active user of social media. The number of users accessing social media via

mobile devices, there are about 66 million people. For chatting application, BBM is still a favorite application that used by residents of Indonesia. Then, followed by facebook, whatsapp and facebook Messenger. Facebook is still the number one that has the most active users in Indonesia. Facebook managed to surpass Google Plus social media and Twitter. As for the mobile phone users, the average time spent less than on a PC or tablet. Therefore, mobile users only spend an average of 3 hours 33 minutes to access the internet in a day.

The rapid technological development makes internet user in Indonesia grow faster. Lot of companies are vying to create a website to market their products and services on the internet. Various products offered at competitive prices, household products, electronics, food, clothing, automotive, and property. The rise of the internet business competition in Indonesia marked by the presence of hundreds of start-ups and large sites of various types such as classified ads, marketplace, trading forum, android applications and others. The rapid growth of e-commerce market share in Indonesia is already beyond a reasonable doubt.

The e-commerce market into a gold mine that is very tempting for some people who can see the potential in the future. This growth was supported by data from the APJII (2016) which states that the value of e-commerce transactions in 2013 reached Rp130 trillion. This is a figure which is fantastic considering that only about 7% (Goldsmith and Horowitz, 2006) of internet users in Indonesia ever shopping online. Compared with China, which has reached 30%, Indonesia is still lagging far behind, but this number will continue to rise in line with the growing use of smartphones, internet penetration in Indonesia, the use of debit and credit cards, and consumer confidence to shop online. If we look at Indonesia as a vast

archipelago country, e-commerce is a growing market potential is very large in Indonesia.

There are two factors for people to do a purchase intention. Purchasing decisions can be influenced by several factors that are grouped into two parts: they come from the environment (external) and are individual (internal) (Engel et al. 1995). Most consumer behavior is influenced by the group (Hasbro, in Engel et al, 1995) in particular influenced by the reference group, the way thinking and values adopted by the group influence individual behavior. Consciously or not, individuals make the process of adjusting themselves into the group by following the expectations of the group and the ideas and opinions of members within the group. In my research is using external factor as marketing technique.

Social class refers to grouping the same person in their behavior based on their economic position in the market. There are several aspects that determine the social class work, education and income (Kahl, in Engel et al, 1995). It said that people who in the same social status tend to share their beliefs, values, and ways of acting among their peers and have feelings closer to them. These values, beliefs, and growing interactions have an effect on consumer behavior. Social class predicted how and where people will shop.

Onlineshop creates an opportunity for people give a review in the website, onlineshop, and e-commerce. This review called *eWOM*. Based on theory of Hennig-Thurau et al (2004) defined *eWOM* as "any positive or negative statement made by potential, actual, or former customers about a product or company, which it makes available to a multitude of people and institutions via the Internet". The other theory explains that *eWOM* is

defined as "the act of exchanging marketing information among consumers online." *eWOM* can take place via many different online channels, such as e-mails, discussion forums, instant messaging (IM), homepages, blogs (e.g., Blogger), product review sites (e.g., Amazon.com and Epinions.com), online communities, newsgroups, chat rooms, and social networking sites (Goldsmith and Horowitz, 2006). Building a *consumer trust* through *eWOM,* It will give an experiences to those customers who never buy the products in online shop.

In the previous research of prior studies in IS and marketing show that *eWOM* has an impact on consumers' trust on a firm and its products. (Dellarocas, in Pan and Chiou, 2011) shows that trust on a firm and its products can be developed in e-Forums by those *eWOM* submitted by prior consumers. These prior consumers provide their views or even rate the performance and behavior of a firm in their consumer–supplier relationship. Potential consumers usually use these *eWOM* to decide whether they would trust the firm or not. Based on the findings from these analyses, it was suggested that when a potential consumer noted that there was a large quantity of positive *eWOM* about the product sold by a firm, they will develop a positive expectation about the quality of the product and the service to be provided by the firm. This positive expectation will lead consumers to feel confident to purchase this product from that firm.

The theory of *Consumers trust* on a product generated by *eWOM* leads to an increase of *purchase intention* (Gefen and Straub, 2004). On the other hand, if a potential consumer notes that there is a large quantity of negative *eWOM* about a product sold by a firm, consumers will develop a negative expectation about the quality of the product and the service from the firm, which reduces their trust on the product and the firm, as well as their

purchase intention (Bailey, in Ling et al. 2010). Consumer trust will lead people to do purchase intention in onlineshop, this trust can help the customer to trust to do purchase the product without seeing the product directly.

The next variable is *purchase intention*. According to Lee and Turban (2001), *purchase intention* is one of the most prominent and popular variable resulting from *eWOM* communication (Sher and Lee, in Baitaneh, 2015). Customer's attitudes become favorable or unfavorable depending on the negative and positive amount of online customer reviews (Lee et al. 2001). Customers recommendations are positively associated with intentions to purchase, and in a straight line can affect customers' choices (Chang and Chin, in Ling et al. 2010). Customer reviews/comments and feedback are tremendously vital for online marketers. For both (online quality and online quantity) were found to have positive influence on customer's *purchase intentions* (Do-Hyung, in Ling et al. 2010).

The rise of internet business in social media, help the celebrity to open endorsement in their account (Instagram). SME can easily pay the celebrity to endorse their product. *Celebrity endorsements* are the ones who know by the public for any act or achievement done in any specific area for the benefits of the people to entertain people (Friedman, in Khan et al. 2016). In current marketing place celebrities have greater affect that where the ads has been shoot, made or captured and how the celebrity is acting on that particular advertisement according to the requirements of product or services. It makes the positive result of the company sales increase. It increases the attention of audience easily. Those who do not want to buy that product might be willing to buy that because of the presence of that personality in ads and its attractiveness. Most of the time consumer or

customer buys that product not because of the product itself mainly but because of presence of the presence of their favorite celebrities in ads.

KOMPAS.com - The popularity of Instagram among teenagers was able to beat up. It is known from a survey conducted by Piper Jaffray research institute to the respondents teenagers United States (US). Surveys show that 33 percent of teens aged 13 to 19 tend to prefer Instagram. While 20 percent admitted liked Twitter, so put it in second place. In the third rank looks Snapchat favored by 19 percent of teenagers. The rest, ranked fourth is Facebook that gets 15 percent of the total teenagers surveyed. Although listed in the fourth rank, does not mean this is bad news for Facebook. Moreover Instagram itself has been purchased up since 2012 ago. Facebook is facing a dilemma. Precisely since 2013, they reported that the level of use of social networks among teenagers tend to decline. Reported by KompasTekno from Wall Street Journal, the above survey conducted based on 9,400 respondents teenagers aged 13 to 19 years.

The previous research about *celebrity endorsement* as marketing communications strategy had been resulted in great results, both in terms of sales and brand image. Volvo have released some numbers for the campaigns and examined in this thesis. Their most known campaign, 'Made By Sweden', featuring the Swedish football star Zlatan Ibrahimovic, contributed to great results. It was a campaign for Volvo's model XC70, and the sales during the first four 8 weeks after the campaign was released measured 269% over Volvo's expected goal. Further, people that 'built' their car at Volvo's car configurator increased with 146% compared to normal, whereas the goal was an increase with 35% (Andersson, in Khan et al. 2016).

Raveloux is an online business that sells custom dress, which the customer can custom a model of dress they wanted to. Customers also can make the dress according to the size and height of customer. Size available from XS-6XL. Raveloux also has a wide range of colors (29 colors) and a variety of choices of fabric (6 fabrics). I choose custom dress because it is a new innovation in Indonesia where people can customize their dress and their size as they want. This innovation will help people to reduce cost of tailor and fabric they buy in small quantity.

The reason for choosing an online business as the object is 30% of Indonesian people already using social media, where it is an advantage for sellers who want to open a business to add to the cost of living. Online business in Indonesia already popular, for example: e-commerce. Sellers also can start many online businesses because it does not need cost to rent a place, and promotion can be done through celebrity endorsement and blogger. Just by looking at the reviews and testimonials (*e-wom*) from the other customers, new customer became interested in purchasing items without seeing the goods directly in the store (*consumer trust*). Customers can directly buy the goods simply by choosing the model and color they want. Customers who are satisfied with the items that they purchased will give a positive review to their friends to buy the item.

The other reason why choosing Instagram as an e-Commerce because celebrities in Indonesia already open endorsement in social media, especially Instagram. Company can easily pay the celebrities to capture their product with the celebrity and post in his account. The rapid of technology help SME to develop their market using celebrity endorsement, not just a big company can endorse the celebrities. Using celebrity endorsement will increase sales through social media in Instagram because

the celebrities have many followers to recommend the SME's product. The users of Instagram in Indonesia increasing year by year and there are many researches about onlineshop in Instagram. This will help me to sell my product in all regions in Indonesia. Raveloux already has twenty five thousand followers and 500 dresses can be sold in one month all over Indonesia. This new technique of marketing is quite interesting to be analyzed because of many celebrities already have an account in Instagram.

1.2 Research question

Several questions that may help to understand the impact of ewom through consumer trust and celebrity endorsement toward purchase intention

1. Does *Ewom* have an effect on *Consumer trust*?

2. Does *Consumer trust* have an effect on *Purchase ntention*?

3. Does *Celebrity endorsement* have an effect on *Purchase intention*?

1.3 Objectives of the Study

These answers of research question serves to fulfill the objectives of the study which to understand the impact of *Ewom* through *Consumer Trust* and *Celebrity Endorsement* toward purchase intention:

1. To know and analyze the relationship between *Ewom* and *Consumer trust*.

2. To know and analyze how *Consumer trust* have an effect on consumer to do *Purchase intention*.

3. To know and analyze how *Celebrity endorsement* have an effect on consumer to do *Purchase intention*.

1.4 Significance of the Study

1. Academic

The result of this research study can be used as one of the reference for those who do similar research study or continual study especially about the the impact of *ewom* through *consumer trust* and *celebrity endorsement* toward *purchase intention*.

2. Practice

The result of this research study can be used as the source of information of making decision to increase sales, especially for people who want to open their own online shop in social media, by using *celebrity endorsement* method, Companies will increase their sales. Gathering review from customer also attract customer to do *purchase intention*.

1.5 Systematic Writing

The preparation of this study consists of five interrelated chapters:

CHAPTER 1: INTRODUCTION

Background of the problem, Research question, Objectives of the Study, Significance of the Study, and systematic writing.

CHAPTER 2: LITERATURE REVIEW

This explains the literature review of previous studies; the theoretical basis of: *e-womm, consumer trust, celebrity endorsement*, and *purchase intention*.

the relationship between variables; research model; and the research hypothesis.

CHAPTER 3: RESEARCH METHOD

Contains the design of the study, the identification of the variables, the operational definition of variables, population and sample, types and sources of data, tools and methods of data collection, and data analysis techniques.

CHAPTER 4: DISCUSSION AND ANALYSIS

In this discussion will be describing the description of the research data, research data analysis, and discussion.

CHAPTER 5: CONCLUSION

In this section will explain the conclusions based on analysis of previous chapters, and suggestions for improvement.