

CHAPTER 1

INTRODUCTION

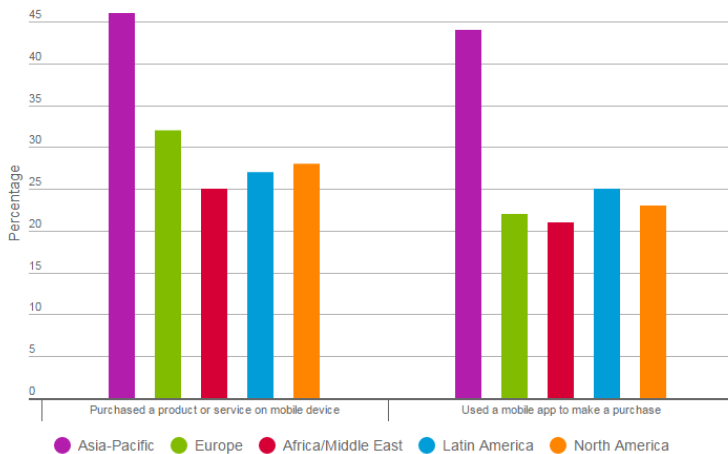
1.1 Background of the Study

The advancement of internet has led us to a new paradigms for retailing business. Internet is a communication channel that is not limited by time or geographic. The fast growth of the internet with it's improved communication capabilities has given birth to online retailing. Online retailing is an internet based business which delivers products and services through internet, where customers can buy a product or services without the needs of physical meetings with the seller. Due to its potential and implications for both buyers and sellers, online retailing has attract a great deal of attention in recent years. In retailer's perspective, online business as a way of doing business offers a great numbers of advantage because nowadays many consumers emphasize on the efficient use of time and their declining interest in traditional shopping formats, combined with the technology improvements that provide greater convenience and information than traditional retailing, more retailers are considering online as a way of doing business. In the consumer's point of view online shopping offers more convenience for them because consumer are no longer need to go to the nearest store, they can easily do shopping by using digital device.

Online shopping has become a trend in the world. Based on a global survey conducted by Nielsen, a global marketing research firm that focuses on providing statistical data on television ratings and commerce stated that in 2016, more than half of global repondents say they use their mobile device when shopping. Worldwide, 38% of respondents in Nielsen's survey say they purchased a product or service on their mobile device in the past six months,

and 34% say they used a mobile application to make a purchase in the same period. Asia-Pacific leads the way when it comes to mobile shopping. Asia-Pacific has the highest rate with 46% of respondents has purchased a product or services on mobile device in the past six months. It's relatively stronger compared to the global average rate in the survey (Nielsen 2016).

Figure 1.1 The Percentage of Online Shopper in the Past Six Months



Source: Nielsen Global Consumer Let Their Fingers Do The Shoppings
(2016)

According to the Asosiasi Penyelenggara Jasa Internet Indonesia (APJII 2016) Indonesia is one of the Asia-Pacific countries which has the fourth largest population in the world about 256.2 millions in 2016. The number of people using internet in Indonesia is also increasing each year with a development of 16.9% of internet user in Indonesia from 2014 to 2016. Total internet users in Indonesia in 2016 is about 132.7 millions which means that more than half the population in Indonesia are using internet with the majority in Java (APJII, 2016).

Due to the increasing internet user in Indonesia, the competition in online retailing business in Indonesia is also getting more intense with each and every companies in the same industry strive to be a winner. There are many online shopping sites that can be found in Indonesia such as Tokopedia, bukalapak, and Lazada offering a large variety of product with many different brands. Companies are not only exposed to the high intensity of competition but also the changes in the consumer behaviour.

Consumer behavior is the study of the processes involved when individual or groups select, purchase, use, or dispose of the product, service, ideas or experiences to satisfy needs and desires (Solomon, et al. 2006). This led purchase intention becomes something that is really important in online retailing as purchase intention reflects consumer behavior before consumers buy a product (Peter and Olson 2010). Furthermore, Brown (2003) in the journal entitled “Consumers Perception, Purchase Intention and Actual Purchase Behavior of Organic Food Products (Wee, et al. 2014)” concluded that consumer with intentions to buy certain product will exhibit higher actual buying rates than those customers who demonstrate that they have no intention of buying.

Purchase intention can be defined as a consumer’s conscious plan or intention to make an effort to purchase a product (Spears and Singh, 2004). According to Kotler (2005), purchase intention are affected by internal consumer behavior (perception, attitude, and motivation) and external factors (family roles, and group influence). In the shopping sites context where neither the buyer nor seller can be face-to-face with the other party directly, trust becomes an important part in stimulating consumer purchase intention as trust impacts behavior and behavioral intent (Singh and Sirdeshmukh, 2000) .

Trust can be define as the *“the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party”* (Mayer et al. 1995). Understanding consumer trust on online retailing is vital. Research indicates that online shopping is associated with risks such as product performance risk, financial risk, and time or convenience risk (Forsythe, et al. 2006). Similarly (Kamel and Hussein 2001) suggest that consumers are still being cautious towards online transaction or e-commerce. The main concern are security and privacy issues especially when it comes to the product itself. Some consumers are worried of being cheated by the sellers as they do not meet the seller or feel the product directly prior to purchase (Kamel and Hussein 2001). This led trust becomes an important part in consumer purchase intention as trust affects attitude and risk perception, which in turn influence the willingness to buy through an electronic store (Jarvenpaa and Todd, 1997).

In the other hand brand image is also a crucial factor in affecting purchase intention as most of the consumer usually only have a limited product knowledge, and time to make an informed purchase decision when facing similar products to choose from. As a result, brand image is often used as a based to make a purchase decision. Akaah and Korgaonkar (1988) in the journal entitled *“The Relationship Between Brand Image And Purchase Intention: Evidence From Award Winning Mutual Funds (Wang and Tsai 2014)”* conclude that consumers are more likely to purchase well-known brand products with positive brand image as a way to lower purchase risks. This argument is also supported by Rao and Monroe (1988) in the same journal, that a brand with a more positive image does have the effect of lowering consumers’ product perception risks and increasing positive feedback from consumers.

Roy and Banerjee (2008) define brand image as consumer's thoughts and feelings about the brand. Meanwhile, Keller (1993) define brand image as the consumer preception of a brand based on the reflection of brand associations that exist in the minds of consumers. It serves to identify the goods or services, and sets it apart from similar products from other renderers. A strong brand can make a projection, visualization and good expectations of performances and quality of products or services in the consumer's minds. Through brand image, consumers are able to recognize a product, evaluate the quality, lower purchase risks, and obtain certain experience and satisfaction out of product differentiation. Moreover, a positive brand image will raise the possibility of the product being selected (Thakor and Katsanis 1997).

Nowdays consumer buying decision process has been changed. Research indicates due to the emergence of internet consumers can gain more information than the provided information from the related company. Goh, Heng and Lin (2013) stated that there are two ways for consumer to gain information namely marketer generated content, and user generated content. Marketer generated content is information provided by the firm with the purpose of promoting its products such as pictures, product features, specifications, and prices. Meanwhile, user generated content is information provided by prior consumer which has purchased the product such as ratings and reviews. These contents generated by consumer via internet such as rating and review is known as electronic word of mouth (EWOM).

EWOM is any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions via the Internet'' (Hennig-Thurau et al. 2004, p. 39). As an internet based version of word of mouth the information presented by prior consumers who have purchased and used the product have

become a major informational source in potential consumers buying decisions accross the world.

EWOM can enhance the consumer trust, and brand image of a product in online shopping. Research indicates that consumers will often check consumer's comments before buying a product to reduce the risk involved. More importantly, consumers will consider those contents generated in social network sites as opinion leaders even if they do not personally know them (Mir, and Zaheer, 2012), because internet users view information from prior consumer to be more accurate than advertisement marketing. These accumulated comments from prior consumer will affect the consumers' favorability towards a product or services. In addition, user-generated contents become more credible when there are multiple users that work on and articulate the same content, such as re-posting, sharing, liking, reviewing and commenting.

Prior research studies conducted by Jalilvand and Samiei (2012) about "The Effect of Electronic Word of Mouth on Brand Image and Purchase Intention An Empirical Study in The Automobile Industry in Iran" shows that EWOM among customers has significant positive relationship with brand image, and purchase intention. In another study conducted by Sia et al. (2009) about "Web strategies to promote internet shopping: is cultural-customization needed?" found that trust plays a more significant role in intention to shop online, and that peer customer endorsement plays a significant role in online trust.

The motivation to create this paper is to fill the research gap, and expand the knowledge on the relationship of EWOM, and purchase intention as most of the previous research are conducted outside of Indonesia. Moreover, the previous studies has yet to uncover the mediating effect of trust, and brand image that applied in this study. Therefore, this study contribute to the

development of the e-marketing literature by exploring the relationship between EWOM, trust, brand image, and purchase intention..

Lazada becomes the object of this study because Lazada Indonesia is one of the biggest online shopping center in Indonesia, offering a wide variety of products. Lazada Indonesia is also ranking nineteen of the most visited site in Indonesia (Alexa Lazada.co.id Traffic Statistics 2017). Moreover, based on the survey conducted by Nusaresearch an Indonesian marketing research firm that focuses on providing statistical data on Indonesian market stated that in 2016 Lazada is the most popular site for online shopping.

Table 1.1 Popular Brand Index

August, 2016

Rank	Brand	Top of Mind	Expansive	Ever Used	Last Purchased	Intention	Popular Brand Index
1st	Lazada	33.7	25.1	74.8	24.5	20.4	26.4
2nd	Tokopedia	16.7	24.5	69.6	21.3	18.8	19.9
3rd	Bukalapak	10.6	16.4	62.7	13.3	13.6	13.2
4th	OLX	10.5	10.8	55.6	12.0	9.4	10.7
5th	Elevenia	5.3	6.5	47.8	7.1	8.1	6.7

Source: (Nusaresearch 2016)

Based on the survey conducted by Nusaresearch in 2016. Lazada is the first one comes to the consumer's mind when talking about e-commerce site in Indonesia. Lazada is also the most popular, and most used site for online shopping in Indonesia followed by Tokopedia in the second place, and Bukalapak in the third place. Moreover, Lazada has a great features in their e-commerce platform, beside having a question feature where consumer can asks anything relating the product such as the availability of size, and colour, Lazada also has a review, and rating features where people can gives their opinion, and rating about the product. This led Lazada becomes a very interesting site to be researched.

1.2 Problem Statement

The internet user in Indonesia is increasing each year. This led EWOM becomes something that is very important in creating, and sustaining the business. In the past decade, majority of the studies tended to test whether stipulated elements of EWOM were correlated positively with the brand image, trust and purchase intention such as Jalilvand and Samiei (2012), and Sia et al. (2009). Although there are many studies that proves EWOM has effect on brand image, trust, and purchase intention, these study has yet to uncover the mediating effect of trust, and brand image that applied in this study. Moreover, almost all of these studies are conducted outside Indonesia.

From this research gap and the existing EWOM phenomenon. The questions that will be answered in this research are:

1. Does EWOM affect Brand Image in Lazada Surabaya?
2. Does EWOM affect Consumer Trust in Lazada Surabaya?
3. Does Brand Image affect Consumer Purchase Intention in Lazada Surabaya?
4. Does Consumer Trust affect Consumer Purchase Intention in Lazada Surabaya?
5. Does EWOM affects Consumer Purchase Intention in Lazada Surabaya?

1.3 Objectives of the study

The objectives of the study are as follow:

1. Analyze the effect of EWOM on Brand Image in Lazada Surabaya
2. Analyze the effect of EWOM on Consumer Trust in Lazada Surabaya
3. Analyze the effect of Brand Image on Purchase Intention in Lazada Surabaya
4. Analyze the effect of Consumer Trust on Purchase Intention in Lazada Surabaya
5. Analyze the effect of EWOM on Purchase Intention in Lazada Surabaya

1.4 Scope of the Study

This research will explain to the readers what are the effects of EWOM on brand image, and consumer trust, and it's impact toward consumer purchase intention to Lazada in Surabaya. The effect of EWOM towards brand image, and consumer trust and it's impact towards consumer purchase intention to Lazada in Surabaya will be discussed in detail. This study also will involve people who knows about Lazada in Surabaya.

1.5 Advantages of the study

The advantages of this study are as follow:

1. For academic, this research can gives the information about the connection between EWOM, trust, and brand image to the purchase intention in online shopping.
2. To the researcher, this study can contribute to the development of research literature about the effect of EWOM on purchase intention.
3. To the practioner, this research has implications for consideration in the online retailing business, and understanding about the effect of EWOM on online platform.