CHAPTER I
INTRODUCTION

1.1   RESEARCH OBJECT OVERVIEW

- Company Name   : PT. Bhinneka Mentari Dimensi.
- Year Established : 1993
- E-commerce Site : www.Bhinneka.com
- E-commerce Est   : 1998

1.2   BACKGROUND

In the era of globalization, the products or services that compete in the market more numerous and diverse due to the openness of the market. Therefore, the competition among manufacturers to meet consumer needs as well as provide customer satisfaction to the fullest is important, because basically the purpose of a business is to create customer satisfaction. One of the actions to satisfy the consumer is to provide service to consumers as well as possible. This fact can be seen as there are some things that can give the value of customer satisfaction. Total customer that rested on the product value, service value, personnel value, the value image or images, and the total cost, consisting of monetary costs expenses time, labor costs, and the cost of mind (Kotler, 2000).

With the good service quality in a company ,would create satisfaction for its customers. Once consumers feel satisfied with the products or services it receives , consumers will compare services provided. If consumers feel completely satisfied, they will buy again and make a recommendation to others to purchased at the same place. Therefore, companies should start to think about the importance of customer service in a more mature through quality services , as is now increasingly recognized that the service (customer satisfaction) is a vital aspect in order to stay in business and win competition.

The The information technology has developed some new ideas and platforms for communications. As a powerful media, Internet has revolved the business on a world scale. It has raised some challenges in understanding this new environment and consumers action within it. Today, the technologies of advent Internet and Mobile Phone have been adopted by many people across the world.

TABLE 1.1

World Internet Users and Population

World Regions	Population (2012)	Internet User (31, Dec 2000)	Internet Users (30, June 2012)	Penetration (% Population)	Growth (2000-2012)
Africa	1,073,380,925	4,514,400	167,335,676	15.6%	3,606.7%
Asia	3,922,066,987	114,304,000	1,076,681,059	27.5%	841.9%
Europe	820,918,446	105,096,093	518,512,109	63.2%	393.4%
Middle East	223,608,203	3,284,800	90,000,455	40.2%	2,693.9%
North America	348,280,154	108,096,800	273,785,413	78.6%	153.3%
Latin America	593,688,638	18,068,919	254,915,745	42.9%	1,310.8%
Oceania	35,903,569	7,620,480	24,287,919	67.6%	218.7%
WORLD TOTAL	7,017,846,922	360,985,492	2,405,518,376	34.3%	566.4%

Source : Internetworldstats, 2013

Table 1.1 shows data about the growth and penetration of internet user in the world. Asia continent has the largest number of internet user which is 1,076,681,059 with the penetration of 841.9%. It shows majority of Asian people are already connected to the Internet.

Table 1.2

Asia Internet Use, Population Data and Facebook Statistics

Country	Population (2012 est)	Internet User (2000)	Internet User (30, June 2012)	Penetration	Facebook (31, Dec 2012)
China	1,343,239.923	22,500,000	538,000,000	40.1%	633,300
India	1,205,073,612	5,000,000	137,000,000	11.4%	62,713,680
Japan	127,368,088	47,080,000	101,228,736	79.5%	17,196,080
Indonesia	248,645,008	2,000,000	55,000,000	22.1%	51,096,860
S.Korea	48,860,500	19,040,000	40,329,660	82.5%	10,012,400
Philippines	103,775,002	2,000,000	33,600,000	32.4%	29,890,900
Vietnam	91,519,289	200,000	31,034,900	33.9%	10,669,880
Pakistan	190,291,129	133,900	29,128,970	15.3%	7,984,880

Thailand	67,091,089	2,300,000	20,100,000	30%	17,721,480
Malaysia	29,179,952	3,700,000	17,723,000	60.7%	13,589,520

Source : Internetworldstats, 2011

In the Asia, Republic of China has the largest population of Internet user with market penetration 40.1%. According to table 1.2 Indonesia is in no. 4 for total internet users, but for the market penetration Indonesia is in the bottom 3 compare to others country in Asia.

Figure 1.1

Indonesia Internet Users
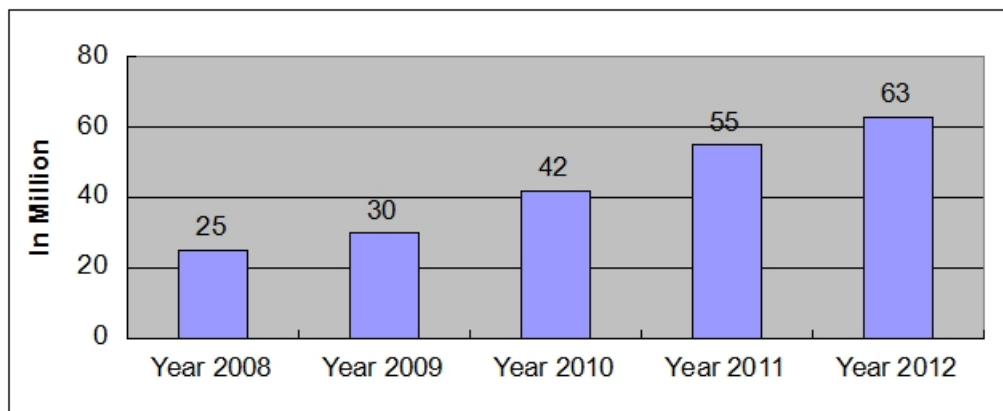
Source : Indonesia Internet Service Provider (APJII), 2013

According the data from APJII that shows in figure 1.1, Indonesia internet users are increase rapidly from year 2008 until 2012. It means that there is a huge number of population that have not yet use Internet. Since the emerging new technology and development of internet and also the requirement to use this technology, let many people start to learn how to use internet in their work and daily life.

As the rapid growth of internet users in Indonesia create new potential market for the company to take advantage of huge numbers of Internet users and the function of it. Indonesia people spent 30 hours online per week (Karimmudin, 2012). As the result of the behaviour of people who spend more time online, many new online market born in the internet that we called e-commerce. E-commerce or electronic commerce is the buying and selling of goods or services on the Internet, especially the World Wide Web (Rouse, 2005). The development of internet is directly proportional to the growth of e-commerce is self. It is because the people prefer to shop in internet because they feel its very easy and fast.

Table 1.3

B2C e-commerce Sales Worldwide, by Region

(in billion)

NO	Region	2011	2012	2013
1	North America	$327.77	$373.03	$419.53
2	Asia - Pacific	$237.86	$315.91	$388.75
3	Western Europe	$218.27	$255.59	$291.47
4	Central & Eastern Europe	$30.89	$40.17	$48.56
5	Latin America	$28.33	$37.66	$45.98
6	Middle East & Africa	$14.41	$20.61	$27
7	Worldwide	$856.97	$1,042.98	$1,221.29

Source : e marketers, 2013

On the table 1.3 shows the data about B2C e-commerce sales in the world wide according to the regions. North-America regions have the largest amount for B2C e-commerce sales with $419.53 billion in 2013, while Middle East & Africa take the 6th place with the sales of $27 billion. Asia pacific region take second place for B2C e-commerce sales with $388.75 billion. This shows data Asia-Pacific region has a potential to doo e-commerce.

Table 1. 4

B2C e-commerce Sales in Asia Pacific Region

(in Billions)

NO	Country	2011	2012	2013
1	China	$56.69	$110.04	$181.62
2	Japan	$112.90	$127.80	$118.59
3	Australia	$22.86	$25.26	$26.77
4	South Korea	$16.34	$17.32	$18.52
5	India	$8.68	$12.12	$16.32
6	Indonesia	$0.56	$1.04	$1.79
7	Other	$19.84	$22.30	$25.14

Source : eMarketers, 2013

In Asia Pacific region, Republic of China also take the 1st place for the highest B2C e-commerce sales with $181.62 billion in 2013. In the table 1.4 shows that Indonesia is in 6th place with the sales in $1.79

billion in billion. But, in 2012-2013 the B2C e-commerce sales in Asia is increasing and the trend will be continue to increase.

Table 1.5

Digital Buyer Penetration in Asia - Pacific

(% internet user)

NO	Country	2011	2012	2013
1	Japan	74.3%	76.8%	78.3%
2	Australia	74.0%	74.7%	76.2%
3	South Korea	67.0%	69.1%	71.1%
4	China	39.5%	43.7%	49.3%
5	India	22.5%	22.9%	23.5%
6	Indonesia	6.0%	7.8%	9.5%
7	Other	31.1%	30.9%	31.0%

Source : e marketers, 2013

In the table 1.5 give information that Indonesia digital buyer penetration is increasing more than 1% every year compare to another developing country (ex: India) Indonesia is below them. This can be happen because India has bigger number of Internet user than Indonesia. In the next year, Indonesia digital buyer are expected to be increased (e marketers, 2013) its along with the development of Internet provider in Indonesia and government program to create internet-literate society.

Table 1.6

E-commerce Top Site

Websites	Description	Alexa Rank	E-commerce Type
Amazon.com	Amazon.com seeks to be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer its customers the lowest possible prices. Site has numerous personalization features and services including one-click buying, extensive customer and editorial product reviews, gift registries, gift certificates, wish lists, restaurant and movie listings, travel, and photo processing.	13	B2C

Tmall.com	Tmall.com (www.tmall.com) is an online shopping landmark in China dedicated to providing an excellent shopping experience. It was launched by Taobao in April 2008 to complement its consumer-to-consumer (C2C) marketplace and became an independent platform in June 2011. An open business-to-consumer (B2C) platform, Tmall.com has established itself as the destination for quality, brand-name goods catering to increasingly sophisticated Chinese consumers. Tmall.com is a business within Alibaba Group.	23	B2C
Alibaba.com	Launched in 1999, Alibaba.com (www.alibaba.com) is the leading global e-commerce platform for small businesses around the world. It aims to be the go-to English-language platform for cross-border trade and help small businesses worldwide expand to overseas markets. The platform, which now serves millions of buyers and suppliers from more than 240 countries and regions, showcases products ranging from raw materials to finished goods in more than 40 industry categories.	83	B2B
Flipkart.com	Flipkart is a leading destination for online shopping in India.	139	B2C
Walmart.com	Provides customers with on-line shopping of wide range of inventory items. Retail, clothing, recreational and home products available.	202	B2C
Kaskus.co.id	We are The Largest Indonesian Community people come here to share information or interest, to buy and to sell.	255	C2C, B2C
Snapdeal.com	Snapdeal.com is the largest Online marketplace in India, headquartered in New Delhi, India. Snapdeal.com features products across categories like Mobiles, Electronics, Fashion accessories, Apparel and Footwear, Kids, Home and Kitchen, Sports, Books, Restaurants, Entertainment and Spas.	311	C2C

Source: alexa.com/topsites,2014

Table 1.6 shows the top site according alexa.com. Alexa.com is the leading of global web metrics. Alexa rank system can tracks over 30 million websites worldwide. The rank estimate based on the searching key word by internet users using different types of toolbar and add-ons for Google Chrome, Firefox and Internet Explorer. Those sites that mention above are conducting e-commerce business. The websites come from different countries, and amazon.com become the leader of e-commerce business market. Indonesian websites also include in this top sites, kaskus.co.id in the rank 255 out of top 500 sites (all category) in alexa.com. Therefore the Indonesia market for e-commerce is very potential to gain large profit in the online market. There are 2 sites comes from India, it shows that Indian e-commerce market is growing now. This table also shows that developing country such as India and Indonesia are starting to catch up the developed country in e-commerce field. And in the future we can predict that the developing country can be the leader in this area and excel today leaders.

Indonesia is one of the fastest growing country in this sectors, Indonesia has 50 million users to be the potential target market for e-commerce, as the result many companies are interested to involve in this sectors. And there are also the existing company from other country to expand their market to Indonesia such as Zalora and Lazada. Here are some e-retailer sites in Indonesia :

Table 1.7

Indonesia E-commerce Sites

NO	Websites	E-commerce Type	Products Sold	Alexa Rank	
				Worlwide	Indonesia
1	Kaskus.co.id	Online Forum and Classified	Anything you need	255	7
2	Tokobagus.com	Classified	Anything you need	526	12
3	Berniaga.com	Classifieds	Anything you need	1,470	23
4	Lazada.co.id	E-Retailer (B2C)	Fashion, gadget, home appliances	2,158	33
5	Bhinneka.com	E-Retailer (B2C)	Fashion, gadget, home appliances	3,819	54
6	Zalora.co.id	E-Retailer (B2C)	Fashion	9,835	136

7	Blibli.com	E-Retailer (B2C)	Fashion, electronics, automotive, entertainment	11,752	163

Table 1.8 shows Indonesia e-commerce sites and their rank according to Alexa.com. Kaskus.co.id is take rank 7 in Indonesia rank and 255 in worldwide. Kaskus.co.id well known for their forums and FJB(market place) where the member can sell products in their sites. Tokobagus.com (or now known olx.co.id) is take rank 12 in Indonesia and rank 526 in worldwide, while its competitor berniaga.com take ran 23 in Indonesia and 1470 in worldwide. This two e-commerce sites well known for the place for classifieds. It mean that in this sites, they provide places to advertises. They provide sites to allow their member to sell/list their products in the sites free of charge. The last 4 e-commerce sites known as e-retailer type. It means that their business is selling products to the customers. Lazada.co.id is rank 33 in Indonesia and 2,158 in worldwide rank. Lazada.co.id selling fashion items, gadget, and many other things. Bhinneka.com is rank 54 in Indonesia and 3,819 in worldwide. This e-commerce sites well known for selling computer supplies and gadget, even they have added many other items (ex: fashions, hobby and toy). Zalora.co.id is rank 136 in Indonesia and rank 9,835 in world wide. Zalora well known as fashions e-retailer in Indonesia and world wide. Blibli.com is rank 163 in Indonesia and 11,752 in worldwide. Blibli.com is one of the youngest e-retailer in Indonesia.

In a turbulent e-commerce environment, to sustain the growth sales and market share, the companies should understand how to satisfy internet customer. Customer satisfaction is important issue for any business system, traditional and online. Customer satisfaction is important issue for any business system, traditional and online (Ho &Wu, 1999). Customer satisfaction is critical element to establishing long term relationship. Customer satisfaction is critical element to establishing long term relationship (Petterson, 1997). Then, The fundamental understanding of factors that impact web customer satisfaction is great importance for e-commerce. As the result the need for research in web customer satisfaction has been accentuated by the increasing demand for the long-term profitability of dotcom companies and traditional companies that are enhanced (Pather, Erwin & Remenyi, 2002)

To get better understanding about satisfaction in the e-commerce context, we need to have clear perception about customer satisfaction. Customer satisfaction is defined as a result of affective and cognitive evaluation, where some comparison standard is compared to the actual perceived performance. If the perceived performance is less than expected then customer will be dissatisfaction, and on the other hand if the perceived performance is more or equal than expected then customer will feel satisfaction (Lin,

2003) If the customer feel satisfied about the perceived performance they will continue to do business with and probably will recommend to other potential customer.

Service quality is the key to measure user satisfaction (Pitt, 1995). Few research has undertaken to identify quality dimensions and other aspects of online service and their relationship with customer satisfaction. Parasuman Valerie A. Zeithamal and Leonard L. Berry (1985) has developed Service Quality (more known as SERVQUAL) the research are more in traditional service quality. Parasuman *et al.* (1985) elicited ten dimensions. They are tangibles, reliability, responsiveness, communication, security, credibility, courtesy, access, competence and understanding the customers. Further Parasuman *et al* (1988) reduce this ten dimensions into 5 dimensions, they are tangible, reliability, assurance, responsiveness and empathy. This attributes developed global measurement for service quality. Since that time this SEVQUAL theory has been applied to many industries including retailing industry.

According to Zeithaml, Parasuraman and Malhotra (2005) do the research about service quality dimensions of Internet Retailing found 7 dimensions that most frequently mentioned in service attributes. They are responsiveness, reliability, fulfillment, privacy, responsiveness, contact, and compensation.

E-commerce in Indonesia is growing rapidly, many new e-commerce sites is coming and create competitive atmosphere in the business. The development of technology and the more knowledge people knows about internet create big opportunity in the business. Many e-retailers are starting their business, this happen because today many sites provided services to create their own sites. Many free hosting systems coming up in the Internet. As the results the e-retailer industry is easy to enter and easy to switch. It means many people can enter the industry with small amount of cost and in the other hand customers has various optional to do online shopping with. In other word, there is no switching cost for customers to change the e-retailer shops.

To maintain customer satisfaction is the key for e-commerce player to keep the customer come back to shop with them. In order to fulfill customer need or create customer satisfaction many companies have to set up websites that provide quality information and services to customers. It is needed for online services providers to reveal what attributes costumer needs in their assessment of overall satisfaction and service quality and which attributes that more important for them (Yang & Fang, 2004). According to Zeithaml, Parasuraman and Malhotra (2002) online service quality is one of driven factors of customer satisfaction.

Internet based retailing are believed to be superior to those that delivered through conventional channels due to their convenience, interactivity, and relatively low cost among other advantages. There is only few research in Indonesia that conducting how online service quality affect the customer satisfaction in e commerce business.

Bhinneka.com is one of the oldest e-commerce site in Indonesia. The business starts in 1993 and reaching e-commerce business in 1999. Bhinneka focusing on gadget as their main products, and today

they including another category such as music instrument, baby toys and hobbies as their products. Their vision is to become world class company with the passion of information technology usage and become the pride of nation. The mission of Bhinneka.com is to become number one web store in Indonesia that provide completeness and convenience to shop, and also to acknowledge and provide pleasant shopping experiments to their customers. With capital budget of 100,000,000 rupiah Hendrik Tio started the business, today Bhinneka has growing and becoming one of top e-commerce sites in Indonesia with turn over more than 600 billion rupiah (SWA, 2014). Although, the turnover is increasing more than 600 billion rupiah, the transaction in online is decreasing. In 2012 Bhinneka can manage to get average 800 online transactions in a month and 2% of customer who visits the web do transactions while in 2013 the transaction rate is less than 1% with average transaction is 400 (liputan6, 2013). And in early 2014 the alexa rank for Bhinneka.com is decreasing constantly. Alexa ranked the web by their visitors. If the rank is decreasing means the visitors of the web also decreasing. The figure below shows the decreasing trend for Bhinneka.com

Figure 1.2

Bhinneka.com Alexa Rank
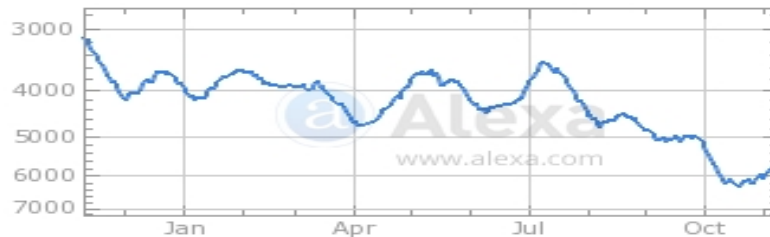
Source: alexa.com/sites/Bhinneka.com,2014

In figure 1.2shows that the Alexa rank for Bhinneka.com is fluctuative and started showing the decreasing trend for the rank. Alexa rank is calculated by the number of website visitor**.**

Figure 1.3

Bhinneka.com daily page views (in million)

In figure 1.3 shows Bhinneka.com daily page views has decreasing in June-November 2014 periods. The daily page views decreased along with the decreased in Alexa rank that shows in figure 1.3. This means that Bhinneka.com customers also decreasing.

Table 1.8

Number of complains of Bhinneka.com in Kaskus.co.id Forum

Year	Number of Complaints
2012	23
2013	30
2014(Nov)	35

Source: kaskus.co.id/forum/suratpembaca

In the table 1.8 shows the number of complaints to Bhinneka.com services in forum kaskus.co.id. In 2012 the number of complaints that author can found is 23 complaints and in 2013 the complaints is increasing to 30. In Jan-Nov 2014 periods there is 35 complaints regarding shopping online in Bhinneka.com sites. In conclusions the increasing number of complains show the dissatisfaction of Bhinneka.com online customers is increasing.

In Indonesia there is 3 major player in e-retailing business. They are Lazada.co.id, Bhinneka.com and Zalora.co.id. Compare to Lazada.co.id that has same products and promotions to sell, Bhinneka is below them. Lazada has 500,000 visitors average every day (Izzatul Mazidah, 2014), bhinneaka.com is below them, even Lazada only established for 2 years. In the sales Lazada can deliver almost 3,000 items every day to their customers, in other hand Bhinneka can make sales 1,650 items per day (Karimudin, 2014). It shows that bhinneka positions is below Lazada that younger in term of experience in Indonesia E commerce market. Although Bhinneka.com is below Lazada.co.id, compare to Zalora.co.id Bhinneka.com rank is above them.

Figure 1.4

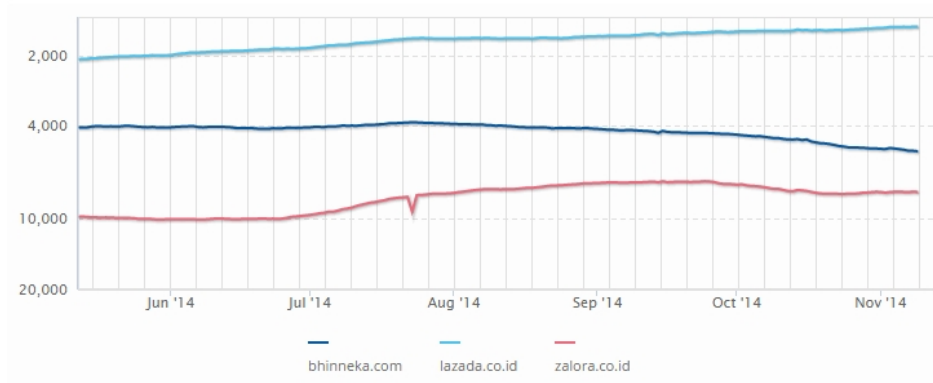Lazada.co.id VS Bhinneka.com VS Zalora.co.id Alexa Rank

Figure 1.5

Visitors Engaged to Bhinneka.com, Lazada.co.id and Zalora.co.id

Bhinneka.com

Bounce Rate	Daily Pageviews per Visitor	Daily Time on Site
31.10% ▲ 7.00%	4.91 ▼ 7.71%	5:20 ▼ 12.00%

Lazada.co.id

Bounce Rate	Daily Pageviews per Visitor	Daily Time on Site
26.10% ▼ 12.00%	8.33 ▲ 19.90%	8:46 ▲ 16.00%

Zalora.co.id

Bounce Rate	Daily Pageviews per Visitor	Daily Time on Site
26.80% ▲ 11.00%	8.81 ▼ 16.33%	8:35 ▼ 17.00%

Source : alexa.com/comparison/Bhinneka.com#?sites=lazada.co.id#?=zalora.co.id

Based on the Figure 1.4 and 1.5 shows the visitors analyze by Alexa.com. The Figure shows unstable daily visitors of Bhinneka.com, it shows that its starts to be decreasing. In figure 1.5 Bhinneka.com is way below lazada.com in Alexa rank from June 2014 to November 2014. In figure 1.5 Bhinneka.com bounce rate is increasing. High bounce rate means that the page is less effective to create the visitors to view more

pages and go deeper to the websites. Another factors of how visitors engaged to Bhinneka.com also decreasing. Lazada and bhinneka have similarity on products that they sale, but zalora more focuses on fashion items. Compare three of them only Bhinneka.com is the true Indonesian e-commerce, while the others are from Singapore.

Lazada.co.id and Bhinneka.com have same products, price, place, promotions, and physical evidence (in this case websites looks). While the process and the people is different between this both Indonesian e-retailer. Process and people factors in this case talking about the service quality, in conclusion Bhinneka.com has delivered different service quality to customer compare to Lazada.co.id.

The decreasing trend for websites daily visitors and increasing number of customer complaints shows there is also decreasing trend in Bhinneka.com customer satisfaction. If this trend continues decreasing, the probability of Bhinneka.com win the competition in their own country (Indonesia) will be impossible and Indonesian market will be dominated by foreign company.

Based on the explanation above, the author would like to conduct research with title **"THE EFFECT OF ONLINE SERVICE QUALITY TO CUSTOMER SATISFACTION: A Case Study in Bhinneka.com Indonesia"**

1.3   PROBLEM STATEMENT

There are several factors that support competitive condition of e-commerce business in Indonesia. To win this situation Bhinneka.com has improved their service quality as their strategy to get the customer satisfaction. Customer satisfaction is an important issue for any business system, traditional and online (Ho &Wu, 1999). Customer satisfaction is critical element to establishing long term relationship (Petterson, 1997). Then, The fundamental understanding of factors that impact web customer satisfaction is great importance for e-commerce. However, there is limited published studies that have been conducted in the customer market, especially in Indonesia.

In today era, customer satisfaction is needed to maintain and create retention customer and give high profit (Thonis, 2009). Based on Alexa Rank (2014) Bhinneka.com visitors, world Rank and Indonesia Rank is decreasing, although Bhinneka.com is one of the best and oldest B2C e-commerce in Indonesia (SWA, 2014). Number of complains posted on Kaskus.co.id forums regarding Bhinneka.com are showing increasing trend in 2012-2013 period. The increasing trend of customers complaints indicate that Bhinneka.com online customer satisfaction is decreasing.

According to Zeithaml et.al (2002) online service quality is one of the key to driven customer satisfaction in e-commerce. Whether or not the online service quality dimensions that the company offers are giving positive influence to customer satisfaction is has not been explored yet especially in Indonesia.

1.4   RESEARCH QUESTIONS

There are several questions that have been pull from the introduction. They are:

1. Does Efficiency give impact to satisfaction of customer Bhinneka.com?
2. Does Reliability give impact to satisfaction of customer Bhinneka.com?
3. Does Responsiveness give impact to satisfaction of customer Bhinneka.com ?
4. Does Fulfillment give impact to satisfaction of customer Bhinneka.com?
5. Does Privacy give impact to satisfaction of customer Bhinneka.com?

1.5   OBJECTIVES

1. Testing the effect of Efficiency to customer satisfaction.
2. Testing the effect of Reliability to customer satisfaction.
3. Testing the effect of Responsiveness to customer satisfaction.
4. Testing the effect of Fulfillment to customer satisfaction.
5. Testing the effect of Privacy to customer satisfaction.

1.6   SIGNIFICANT OF STUDY

1.6.1   Academic Aspect:

This results of this research are hopefully can give useful information regarding developing more knowledge in the field of e-commerce business and academic that related to the effect of online service quality to customer satisfaction. This study is the way to investigated the relation between Zeithamal models with the e-commerce business specially in customer satisfaction terms.

1.6.2   Business Aspect:

The results of this research are going to be used by e-retail business especially in Indonesia as well as the media to explore additional knowledge in the field that relating to marketing management, especially in service quality and customer satisfaction terms. In other hands, this research hopefully also can be used as a reference for the company that has to do this research, especially in e-retailer business. This research can be used to improve company knowledge.

1.7   WRITTING SYSTEMATIC

This study is presented into 5 chapter, a part from chapter 1 that already described above, the other chapters are described as follow :

CHAPTER 2 : LITERATURE REVIEW

It contains about theory, framework and hypothesis.

CHAPTER 3 : RESEARCH METHODOLOGHY

This chapter contains about the description about research variables, sample determination, data size and sources, and also data analyze methods.

CHAPTER 4 : RESULTS AND DISCUSSION

In this chapter tell about the result of research in systematic than analyze with research methodology that has been established and held for further discussion.

CHAPTER 5 : CLOSING

This chapter contains conclusion, research limitations and suggest from research results.