

CHAPTER I

INTRODUCTION

1.1 Research Overview

1.1.1 Company Profile



Figure 1.1 Shopee Logo

Source: Shopee Careers (2021)

Shopee is a Singapore-based commercial electronic site owned by Sea Limited, founded by Forrest Li in 2009 (Sea Limited, 2020). Shopee started operating in 2015 in Singapore and has now expanded to other Southeast Asian countries and Taiwan (Sea Limited, 2020). Shopee known as mobile-centric social marketplace that offers integrated shipping and payment infrastructure as well as extensive seller services (Sea Limited, 2020). Shopee can offer a convenient, secure, and reliable shopping experience supported (Sea Limited, 2020). This is supported by integrated payments, integrated delivery, integrated fulfillment of needs, and other integrated added values (Sea Limited, 2020).

According to Shopee Careers (2021), Shopee agrees that online shopping should be affordable, simple, and enjoyable, which is the vision that Shopee hopes to achieve through the Shopee platform. Currently, Shopee provides merchants with paid advertising services, transaction-based fees, and fees for some value-added services (Sea Limited, 2020). Shopee has employed gamification and other social components to enhance user acquisition, retention, and time spent on the Shopee platform (Sea Limited, 2020).

According to the SEA annual report (2020), Shopee is primarily a marketplace, but it also acquires some items directly from manufacturers or third parties and sells them on the Shopee platform under their shop to suit consumer demand (Sea Limited, 2020). Shopee may also provide a greater product variety to their customers by purchasing in bulk and selling straight for product categories (Sea Limited, 2020). According to the SEA annual report (2020), Shopee buyers are people and families who mostly buy from vendors in the same market. Shopee allows its buyers to make cross-border purchases from selected sellers, such as China, Taiwan, South Korea, Japan, Indonesia, and other Asian markets (Sea Limited, 2020).

1.1.2 Company Goals

Shopee believes in the transformational potential of technology and wants to make the world a better place by connecting consumers and sellers in a single community (Shopee Careers, 2021).

1.1.3 Company Values

1. We serve
 - a. The customer is always right (Shopee Careers, 2021).
 - b. Exceed customer expectations, deliver above and beyond (Shopee Careers, 2021).
2. We adapt
 - a. Anticipating changes and making plans ahead of time (Shopee Careers, 2021).
 - b. Accept unexpected changes and stick with it (Shopee Careers, 2021).
3. We run
 - a. Have a strong motivation to get things done, no need to be pushed by others (Shopee Careers, 2021).
 - b. Always have a high sense of urgency to get work done (Shopee Careers, 2021).
4. We commit

- a. Be a reliable person, do what we promise we will do (Shopee Careers, 2021).
 - b. Holding high standards, taking no shortcuts even when no one is watching (Shopee Careers, 2021).
 - c. Act as an owner, be proactive in finding ways to make the company better (Shopee Careers, 2021).
5. We stay humble
- a. Have the mentality that we are *underdogs* who still must learn and continue to learn from market conditions and competitors (Shopee Careers, 2021).
 - b. Accept that we are not perfect and will never be (Shopee Careers, 2021).
 - c. Work hard first and celebrate later (Shopee Careers, 2021).

1.1.4 Shopee Position

Shopee provides an online shopping experience to its users with various types of goods, social networks, and practical fulfillment services to internet users in all areas (Shopee Careers, 2021).

1.2 Research Background

MSMEs stands for Micro, Small, and Medium Enterprises and it is more focused on small businesses (Soegoto, 2014). A small business is a self-managed company that does not dominate the market but fulfills specific size parameters in terms of profit and the number of employee (Soegoto, 2014, p. 104).

In the economy of Indonesian society, MSMEs, play an important role (Karyati, 2019). It means that the rising economic growth in Indonesia cannot be separated from the role of MSMEs, where MSMEs contribute to gross domestic product (GDP) (Karyati, 2019). In 2018, the contribution of MSMEs to national GDP reached around 60.34% (Karyati, 2019). In terms of numbers, small businesses in Indonesia contributed more to GDP around 93.4%, then medium enterprises 5.1%, and large businesses only 1% (Karyati, 2019). E-commerce can

be a great opportunity for MSME players to expand their market and develop their business (Karyati, 2019).

According to Teten Masduki the minister of cooperatives and SMEs in Putri (2021), e-commerce is one of the most popular digital technologies used by MSME players online but should be balanced with digital literacy and product quality. According to Teten Masduki in Putri (2021), at the beginning of 2021, more than 12 million MSME players have been present in the digital ecosystem, therefore, there is an increase of 4 million players from the beginning of 2020. Rachmat Kaimuddin the CEO of Bukalapak in Putri (2021), state that the increase in the number of MSME players in e-commerce was caused by the surge in online purchases.

Based on research, Rachmat Kaimuddin in Putri (2021), state that in Indonesia there are top five categories in e-commerce that sell the most, namely fashion, personal care, office supply, handphone & accessories, and F&B. Rachmat Kaimuddin in Putri (2021), state that from the five categories, there were three categories related to the creative economy and MSMEs, namely fashion, personal care, and F&B. And the total transactions in one month is around 55% or about 70 million transactions or Rp. 13 trillion. According to Rachmat Kaimuddin in Putri (2021), in Indonesia itself, people who shop through e-commerce in the fashion, personal care, and F&B categories have reached Rp 13 trillion. This data is supported by Data Reportal from e-commerce spend by category and e-commerce growth by category per January 2021.



Figure 1.2 E-commerce Spend by Category in Indonesia at Data Reportal

Source: Datareportal.com (2021)

Based on Figure 1.2, in Indonesia the total amount spent by consumers on e-commerce until January 2021 on fashion and beauty was \$9.81 billion, electronics and physical media was \$6.91 billion, food and personal care were \$4.66 billion, furniture and appliances were \$4.48 billion, toys, DIY, and hobbies were \$4.44 billion, travel including accommodation was \$6.02 billion, digital music was \$119.5 million, and video games was \$1.68 billion (Data Reportal, 2021).



Figure 1.3 E-commerce Growth by Category in Indonesia at Data Reportal

Source: Datareportal.com (2021)

Based on Figure 1.3, as of January 2021, in Indonesia there was an increase of 50.7% in the fashion and beauty, 38.9% in the electronic and physical media, 61.3% in the food and personal care, 61.3% in the furniture and appliances, 51.5% in the toys, DIY, and hobbies, 35.1% in the digital music, 31.1% in the video games, and there was a decrease of 45.8% in the travel including accommodations (Data Reportal, 2021).

According to Handhika Jahja the director of Shopee Indonesia, Shopee has the role of being one of the marketplaces used by many MSMEs to sell their products (DetikFinance, 2021). Handhika Jahja also added that local products on Shopee so far dominate, where as much as 97% of sales of goods on the platform are local products (Andarningtyas, 2021). According to Insight Center (KIC) data, 82% of MSMEs use Shopee as a marketplace to market their products (DetikFinance, 2021).












Toko Online	Pengunjung Web Bulanan	Ranking AppStore	Ranking PlayStore	Twitter	Instagram	Facebook	Jumlah Karyawan
1  Shopee	134,383,300	#1	#1	672,390	8,110,190	23,498,770	12,322
2  Tokopedia	158,136,700	#2	#3	966,050	4,619,750	6,525,510	4,963
3  Lazada	27,953,300	#3	#2	447,600	3,039,430	31,852,130	4,429
4  Zalora	2,550,000	#4	#8	n/a	722,870	7,998,580	599
5  Sociolla	1,836,700	#5	#4	6,010	1,012,230	16,840	610
6  Bukalapak	30,126,700	#6	#5	224,560	1,727,530	2,519,260	2,395
7  JD ID	3,823,300	#7	#7	47,100	604,750	966,880	1,237
8  Blibli	16,326,700	#8	#6	548,460	1,921,130	8,634,590	2,146
9  Matahari	1,114,000	#9	n/a	92,200	1,744,880	1,568,340	509
10  Sephora	244,600	#10	#9	3,360	467,860	19,486,660	115
11  My Hartono	233,200	#11	#10	380	192,110	70,120	n/a

Figure 1.4 Monthly Web Visitors, AppStore Rankings, PlayStore Ranking, and E-commerce Social Media Rankings in Indonesia

Source: iPrice.co.id (2021)

Here in Indonesia based on Figure 1.4, according to IPrice (2021) in the third quarter of 2021, Shopee's monthly website visitors are ranked second where the total Shopee visitors are 134.3 million. However, the ranking of the Shopee application on the AppStore and PlayStore is in the first place. According to

Handhika in CNN Indonesia (2019), Shopee is the application with the highest number of downloads in Southeast Asia. According to Handhika in CNN Indonesia (2019), in Indonesia itself in 2019, Shopee application has been downloaded 80 million times with 2.2 million active sellers.

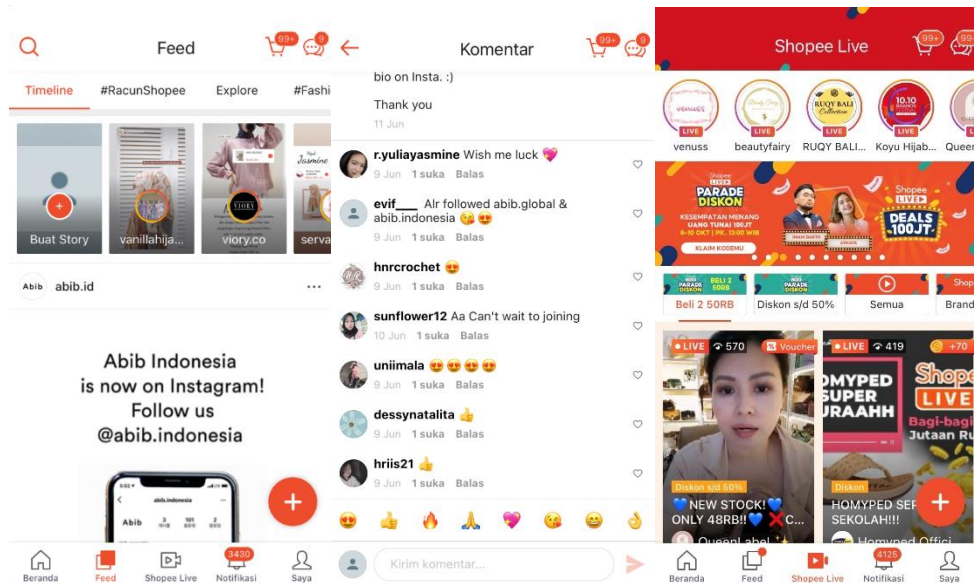


Figure 1.5 Shopee Feed and Shopee Live of Shopee in 2021

Source: Shopee

The Shopee application offers elements of social media, so that buyers or sellers can directly interact without the need to connect outside the Shopee application as shown in Figure 1.5. According to Nasrullah in Utami & Saputri (2020:186), social media is one of the platforms of the existence of the internet that can allow users to present, communicate, and share between the users where it forms a virtual relationship. According to Wimsatt in Utami & Saputri (2020:186), Social media marketing is a sort of marketing that makes use of social media platforms to develop, communicate, deliver information, and carry out promotions to influence customers, establish loyalty, and boost consumer involvement.

However, Handhika Jahja said that local MSME players had problems in marketing their products (Andarningtyas, 2021). According to detikNews (2018),

the characteristics of MSMEs in Indonesia in developing digital marketing that is networked and uses sophisticated technology are still very few. This data is supported by Deloitte Access Economics research in detikNews (2018), 36% of MSMEs in Indonesia are still struggling with traditional marketing, 37% of MSMEs have online marketing capacity using the computer and broadband access, 18% of MSMEs have medium online capacity because they can use websites and social media, and only 9% of MSMEs have sophisticated digital marketing capacity.

Currently, as shown in Figure 1.5 Shopee application has a Shopee Feed feature where this feature allows users to display products and interact with the followers directly through photos and videos (Seller Education Hub, 2021). With the Shopee Feed, sellers can post promotions, vouchers, and even hold giveaways to increase store visibility and generate sales (Seller Education Hub, 2021). Besides being able to post, the Shopee Feed also has features in the form of scheduling posts, editing videos, reposting reviews, reposting answers from question box, and promoting YouTube videos through the Shopee Feed (Seller Education Hub, 2021). According to Rust et al. in Razzaq (2017), relationship equity refers to the emotional tie that binds a customer to a product or a firm.

In addition, as shown in Figure 1.5 Shopee application also has a Shopee Live feature which allows users to create live streaming sessions to promote stores and products directly to buyers. Buyers can communicate in real-time to find out more about the product (Seller Education Hub, 2021).

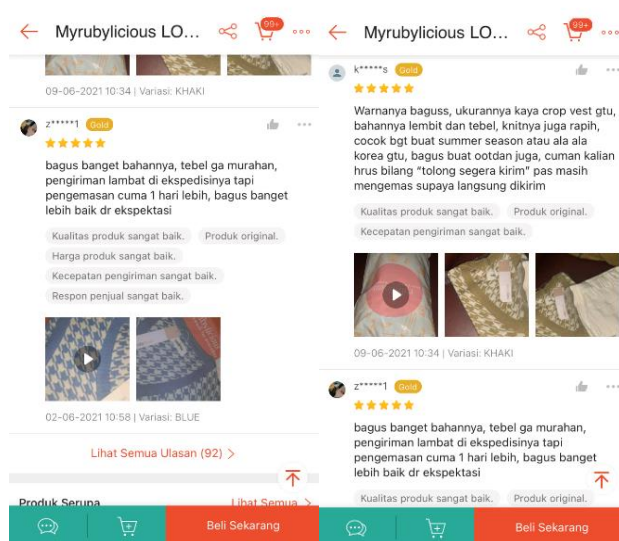


Figure 1.6 Rating Product from Myrubylicious on Shopee in 2021

Source: Shopee

As shown in Figure 1.6, the rating on the product given by the customer is very important where the customer is satisfied with the product they receive and allows the customer to make repeat orders. According to Vogel et al. in Yadav & Rahman (2018), value equity has three important factors, namely: quality, price, and convenience. According to Lemon et al., Ou et al., and Vogel et al. in Yadav & Rahman (2018), every brand performs three strategic functions, namely: helping the company to acquire new customers, reminding old customers of the company's goods, and also serving as an emotional link between the client and the firm.

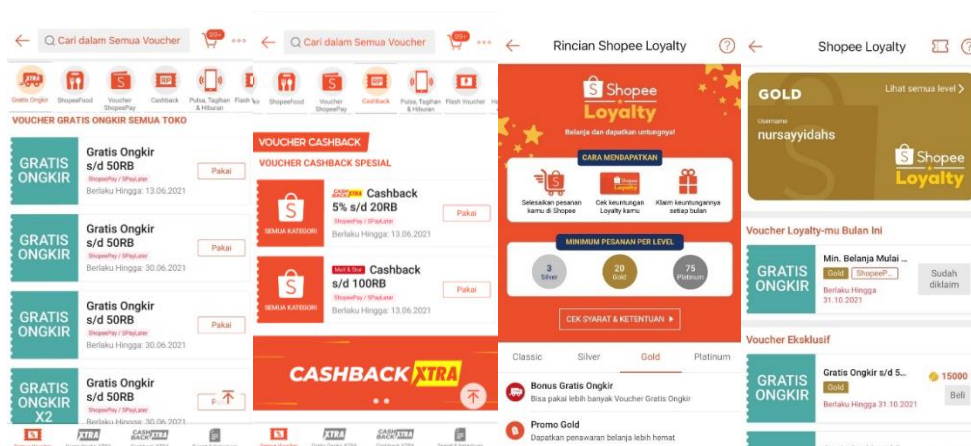


Figure 1.7 Home Page and Shopee Loyalty in 2021

Source: Shopee

Based on Figure 1.7, Shopee application has its own program namely, Shopee Loyalty. Shopee Loyalty is a form of appreciation from Shopee to loyal users by providing additional benefits based on the user's loyalty level. The benefits are in the form of special vouchers every month, special promos, and vouchers every birthday. User loyalty levels are divided into four namely classic, silver, gold, and premium. Based on Figure 1.7, shopee application offers free shipping and cashback vouchers with a predetermined deadline by making payments via Shopeepay or Shopeepay later. According to He et al. (2019:807), a loyalty program may provide clients with free items, prizes, discounts, or even early access to new products.

According to Algesheimer et al. in Zhang & Li (2019:1422) customer loyalty refers to a customer's propensity to acquire items from a certain provider on a regular basis and to keep that supplier on board for the long term. Loyal customers, according to He et al. (2019:807), can assist businesses promote favorable word-of-mouth to others. And this may result in the acquisition of new consumers (He et al., 2019, p. 807).

Based on Figure 1.7, Shopee application also has its own program namely, Shopee Loyalty. Shopee Loyalty is a form of appreciation from Shopee to loyal users by providing additional benefits based on the user's loyalty level. The benefits are in the form of special vouchers every month, special promos, and vouchers every birthday. User loyalty levels are divided into four namely classic, silver, gold, and premium. According to He et al. (2019:807), a loyalty program may provide clients with free items, prizes, discounts, or even early access to new products.

Therefore, based on the research background presented by the author, the author raises a title that focuses on "**The Influence of Social Media Marketing**

Activities on Customer Loyalty in Local MSMEs Products at Shopee Application”.

1.3 Problem Formulation

Handhika Jahja state that local products on Shopee so far dominate, where as much as 97% of sales of goods on the platform are local products (Andarningtyas, 2021). However, Handhika Jahja said that local MSME players had problems in marketing their products (Andarningtyas, 2021). Moreover, according to IndoTelko (2021), many companies are implementing marketing strategies in the form of loyalty programs in the form of points, cashback, vouchers, stamps, discounted prices, and sweepstakes. However, the program costs a lot of money and consumers are ultimately only loyal to the promo (IndoTelko, 2021). Currently, Shopee has succeeded in developing social media elements in the Shopee application such as Shopee Feed and Shopee Live.

Since local MSME players had problems in marketing their products on e-commerce and many companies are implementing marketing strategies in the form of loyalty programs where the program costs a lot of money and consumers are ultimately only loyal to the promo. Therefore, local MSME players should develop and improve their social media marketing activities in Shopee application which hoped to increase the customer loyalty through three primary equity drivers namely value equity, brand equity, and relationship equity in local MSME products at Shopee application.

Therefore, this study is used to analyze the influence of the social media marketing activities on customer loyalty through three primary dimensions of customer equity drivers, namely: value equity, brand equity, relationship equity. Several factors must be investigated such as the influence of social media marketing activities on value equity, brand equity, and relationship equity. Next the effect of value equity, brand equity, and relationship equity on customer loyalty. Lastly, the influence of social media marketing activities on customer loyalty through three primary dimensions of customer equity drivers: value equity, brand equity, relationship equity.

Related to this phenomenon, there has been research exploring the influence of social media marketing activities on customer loyalty through three primary dimensions of customer equity drivers, namely: value equity, brand equity, relationship equity. However, there has not been research that explores the influence of social media marketing activities on customer loyalty in local MSMEs market at Shopee application through three primary dimensions of customer equity drivers, namely: value equity, brand equity, and relationship equity.

1.4 Research Questions

In this research, social media marketing activities are the independent variable, customer loyalty is the dependent variable, and consumer equity drivers are the intervening variable. Therefore, the research questions are as follow:

1. How much is the rate of social media marketing activities in local MSMEs products at Shopee application based on respondents' point of view?
2. How much is the rate of value equity, brand equity, and relationship equity in local MSMEs products at Shopee application based on respondents' point of view?
3. How much is the rate of customer loyalty in local MSMEs products at Shopee application based on respondents' point of view?
4. Do social media marketing activities influence the value equity, brand equity, and relationship equity in local MSMEs products at Shopee application?
5. Do social media marketing activities, value equity, brand equity, and relationship equity influence the customer loyalty in local MSMEs products at Shopee application?
6. Do social media marketing activities influence customer loyalty through value equity, brand equity, and relationship equity in local MSMEs products at Shopee application?

1.5 Research Objectives

The research objectives in this study are as follow:

1. To find out the rate of social media marketing activities in local MSMEs products at Shopee application based on respondent point of view.
2. To find out the rate of value equity, brand equity, and relationship equity in local MSMEs products at Shopee application based on respondent point of view.
3. To find out the rate of customer loyalty in local MSMEs products at Shopee application based on respondent point of view.
4. To analyze the social media marketing activities on value equity, brand equity, and relationship equity in local MSMEs products at Shopee application.
5. To analyze the influence of social media marketing activities, value equity, brand equity, and relationship equity on customer loyalty in local MSMEs products at Shopee application.
6. To analyze the influence of social media marketing activities on customer loyalty through value equity, brand equity, and relationship equity in local MSMEs products at Shopee application.

1.6 Research Benefits

1.6.1 Theoretical Aspect

This research is expected to provide deeper insight and knowledge for readers related to social media marketing activities and customer loyalty especially, about the influence of social media marketing activities on customer loyalty through three primary dimensions of customer equity drivers, namely: value equity, brand equity, and relationship equity in local MSMEs products at Shopee application.

1.6.2 Practical Aspect

This research is expected to be implemented in further research where this research can be used to measure the influence of social media marketing activities on customer loyalty. Moreover, this research is expected to help local MSMEs regarding the influence of social media marketing activities on customer loyalty at Shopee.

1.7 Research Scope

1.7.1 Location and Object of Study

This research will be conducted in Indonesia, and the object of this study is Shopee application users who have been purchasing local products at least three times with the range ages are of 16 - 64 years old.

1.7.2 Time and Period

The time and period of conducting this research start from October 2021 until February 2022.

1.7 Systematically Writing

CHAPTER 1: Introduction

This chapter gives a general, quick, and brief explanation of the research material. This chapter contains an overview of the research object, research background, problem formulation, research objectives, research benefits, research scope, and the systematics of the final project writing.

CHAPTER 2: Theoretical Review and Research

This chapter contains general theories to specific theories, accompanied by previous research and is followed by a research framework that ends with a hypothesis if necessary.

CHAPTER 3: Research Method

This chapter explains the approaches, methods, and techniques used to acquire and analyze data relevant to the study topic. This chapter includes descriptions of types of research, operationalization of variables, population, and samples (for quantitative methods) / social situations (for qualitative methods), data collection, validity and reliability tests, and data analysis techniques.

CHAPTER 4: Research Results and Discussions

Research and discussion are described systematically according to the formulation problems and research objectives and are presented in separate subtitles. This chapter contains two parts; the first part presents the research results, and the second part presents discussion or analysis of research results.

Every aspect of the discussion should start from the results of data analysis, then interpreted and then followed by drawing conclusions. In the discussion it should be compared with studies previous or relevant theoretical foundations.

CHAPTER 5: Conclusion and Suggestion

The conclusion is the answer to the research question, then followed by suggestions related to the benefits of the research.