

# CHAPTER I

## INTRODUCTION

### 1.1. Background Study

The advancement of information and internet technology is revolutionizing the way of business process and created a competitive advantage for organizations (Yannopoulos, 2011). With the unlimited and borderless communication all around the world, the practice of e-commerce turned out information arise benefits for both companies and consumers. Bairagi (2011) stated that electronic commerce is defined as the process of exchanging products, services, and through internet. The fact that the number of internet users are growing exponentially can turned into a potential market for the business organization at the same time through e-commerce because of its easiness. Meanwhile, for the consumer, they will be able to quickly find product and information about it, alongside with a lot of alternative choices.

Stated from Cheung, Lee, & Rabjohn (2008), e-commerce is proven as a huge potential marketing channel for companies and retailers to promote their products and services. One of the most developing and eminent business in the world of e-commerce is tourism and travel services. Tourism itself is reputed as the world's greatest industry. It is so huge that it is able to create a revenues support in a significant amount and proportions of a country (Farkhondehzadeh et al., 2013). On the other hand, the business environment today has already changed, while technology challenges the traditional travel retailer as they perform in the

distribution and sale of the travel product (Elhaj & Barakeh, 2015). As for more, technology has driven business processes re-engineering in the tourism industry and progressively generates a new paradigm shift (Buhalis & Law, 2008). This changes the structure of the entire industry and develops a whole range of opportunities and threats for all stakeholders. E-commerce has definitely affected the position of traditional travel agencies, and creating a new platform called Online Travel Agent.

Online Travel Agent, abbreviated as OTA, is a tourism service business provider in the form of accommodation booking services and travel transportation that is done via internet. With the emergence of the internet, customers can plan for trips with a process that is easy and cost-effective with a wider scope. Furthermore, Indonesian society is more and more facilitated in making plans for their trip. Many tourism service providers are using the internet as a medium to not only communicate, but also to market their products and services to the consumers.

Through online tourism agency sites, consumers can search information about various accommodation and transportation options (airplane or train tickets and hotel rooms), compare prices, and create reservations directly through online tourism agency site or apps. This is certainly different from the traditional tourism agency. In traditional tourism agencies, the access to information and transactions can only be done with the agency or related company stores.

According to Sudyasjayanti & Setiobudi (2018), the activity of Online Travel Agent, as a branch of e-commerce has started to become popular these days. Based on survey conducted by Nielsen (2014), it revealed that tourism has become

the most searched service and planned by consumers to be purchased online, followed by event ticket sales services such as cinemas, shows, exhibitions and sports competitions. Furthermore, cited from articles written by Zebua (2018) from a survey conducted in Indonesia by DailySocial.id, the findings showed that 71.44% of respondents have used OTA services for ticket or hotel reservation needs in the last six months. Also, between 50% and 70% of respondents use Traveloka and or Tiket.com to reserve airplane tickets, train tickets, and or hotel rooms. Moreover, 69.26% make payments for OTA services through bank or ATM account transfers.

The results of the survey above indicates that there is a shift in customer's lifestyle preferences in Indonesia at this time. Meanwhile, this situation is supported by the growth of internet user in Indonesia. Stated from survey conducted by Asosiasi Penyelenggara Jasa Internet Indonesia (APJII) in 2017, almost half of the population of Indonesia has been connected to the internet with the number of 143.26 million people from the total of 262 million lives of total population of Indonesia. With such a massive number, there are huge opportunities for the Online Travel Agent players to penetrate into a broader market.

Furthermore, below here is the list of several top OTA for Accomodation and Transportation in Indonesia based on Apps Store according survey data of Similarweb in 2019.

**Table 1.1 Top 10 OTA from Apple Apps Store in Indonesia**

No.	Company	Country of Origins
1	Traveloka	Indonesia
2	Tiket.com	Indonesia
3	Pegipegi	Indonesia
4	Agoda	Thailand
5	RedDoorz	Singapore
6	Airy	Indonesia
7	Airbnb	USA
8	Booking.com	USA
9	OYO	India
10	Trivago	Germany

*Source: Similarweb Survey, 2019*

With the fast development of e-commerce, the communication and information exchange via cyberspace are also growing rapidly over the time, creating a fast pace in business practices for companies in order to survive the competition. Meanwhile, the potential consumers are also partaking inside this race by giving feedbacks toward the companies and exchanging information about the products or services to others, leaving a mark to be seen publicly. Taking TripAdvisor and Traveloka as an example, this platform allows its customer to write

reviews and feedbacks to the hotel and other accommodation products once they create purchases.

According to Jalilvand *et al.* (2011), a process of sharing information and opinions about specific products among consumers is called as word-of mouth or abbreviated as WOM. Alongside with the growth of the Internet, the WOM has been taken into the different level, creating a broad scale and scope more than ever, known as e-WOM (Hennig-Thurau *et al.*, 2004). Meanwhile, the existence of Web 2.0 allows the opportunities for e-WOM communication playing its role through electronic media like social networking sites, online discussion forums, blogs, review sites, as well as e-commerce sites. People start to exchange the information and read the reviews of particular product on those sites (Bataineh, 2015). E-WOM is also creating chances for consumers to not only gain an information of certain products from their closest relatives, but also from people around the world who have experience with relevant products or services.

With a massive amount of information flows on the internet, the credibility of those e-WOM are also taken into account. According to Fogg *et al.*, (2002), the credibility refers to the level to which one perceives the recommendation from certain sources as believable. If the customer perceived other products or services reviews as a credible source, they might take it to create purchasing decision. Furthermore, cited from Hussain *et al.* (2017), there are several dimensions of credibility such as expertness, trustworthiness, objectivity, and homophily.

Along with the increasing potential of the tourism agency of e-commerce business, there are still some things that delay the consumer growth in the context online shopping. Trust is one of the major issues in e-commerce practices. E-commerce businesses have more risks and uncertainties, and that is why online agencies need to gain more consumer's trust. On the other hand, with wide variety of alternative choices on the market, e-WOM lets consumers to have opportunities to search for more trusted product or service information broadly in order to reduce the risk and create a better purchasing decision in the future (Hussain *et al.*, 2017).

Moreover, according to the studies conducted by Zhang *et al.* (2012), they also found out that perceived risk is actually a vital factor that affects online consumer's purchasing behavior. In any other way, both argument quality and information usefulness are strongly associated with perceived risk itself. Argument quality refers to the communication terms where people will see particular information as persuasive, while information usefulness is seen as the factor that people perceived the information in order to reduce the risk (Bhattacharjee & Sanford, 2006; Cheung *et al.*, 2008). Eventually, these factors will lead to the customer's information adoption where they actually use the information as a tool to create better purchase decision.

As the trends of business digitalization has arose significantly in the last several years, this research is considered as important. Moreover, the consumer's trust issues are also taken into account. The risks and uncertainties are arguably haunting the consumers in conducting an online purchase because of its intangibility. Thus, the credentials and credibility of an information regarding the

touristic products is seen as highly critical and important, as most of consumers relied on the information on the internet prior to their purchasing intentions.

Based on the explanation above, the researcher attempts to create a study which is able to assess e-WOM source credibility, along with the perceived risk, argument quality, and information usefulness, all the way to the customer's information adoption in the Online Travel Agents in Indonesia. Further information, this research is based on the research conducted in the Republic of China by Hussain *et al.* (2017). As for this research, it was conducted in Yogyakarta, Indonesia in the year of 2019.

## **1.2. Problem Formulation**

According to the research background written on previous pages above, the researcher has decided several research problems. Below here are the formulations of research problem:

1. Does the e-WOM source credibility influence the risk perceive by the customer?
2. Does the risk perceived by the customer influence the argument quality of the information?
3. Does the risk perceived by the customer influence the information usefulness?
4. Does the argument quality of information influence the information adoption of customer?
5. Does the information usefulness influence the information adoption of customer?

### **1.3. Research Objectives**

Based on the previous problem formulation, the researcher concludes several objectives of this study as stated below:

1. To prove that e-WOM source credibility influence perceived risk of the customer.
2. To prove that perceived risk influence argument quality of information received by customer.
3. To prove that perceived risk influence information usefulness received by customer.
4. To prove that e-WOM's argument quality influence customer's information adoption.
5. To prove that e-WOM's information usefulness can influence customer's information adoption.

### **1.4. Research Contribution**

#### **1.5.1. Theoretical Benefit**

As this research is being created, it focuses in e-WOM credibility sources towards the perceived risk and information adoption in the use of Online Travel Agent platforms in Indonesia. Therefore, this research is able to help the future researchers in terms of providing additional literature in e-WOM's online travel purchase.

### **1.5.2. Practical Benefit**

The findings and result of this research is able to help the company to race in the competition of e-commerce to create better strategies regarding to the e-WOM's effectiveness toward the information adoption of the potential customers. Moreover, managers could also take information from it to create problem solutions of e-WOM marketing in such scope.

### **1.5. Systematics of Writing**

This research contains five chapters in a whole. The detail of systematics of writing will be described below here as follow:

#### **CHAPTER I: INTRODUCTION**

This chapter contains the background of this research, the problems formulation of this research, the limitations of this research, the objectives of this research, the benefits of research both theoretical and practical, and the systematics of the research.

#### **CHAPTER II: LITERATURE REVIEW**

This chapter explains a relevant theoretical basis of each variable used in this research. Moreover, this chapter also provide the research framework.

#### **CHAPTER III: RESEARCH METHODOLOGY**

This chapter explains the methods used in this research which also contains information in terms of population, sample, sampling technique, variables of the research and the testing methods used in this research.

#### **CHAPTER IV: DATA ANALYSIS AND DISCUSSION**

This chapter contains the data analysis result and discussion of the results based on statistical computations by using theoretical concepts. Also, this chapter presents the interpretation of the research model which is based on theories that have already been existed.

#### **CHAPTER V: CONCLUSION AND RECOMMENDATION**

This chapter contains conclusions about the results of the analysis of the research that has been done. In addition, this chapter also shows the limitations of the research conducted and recommendations for future research as well as the managerial implications.