CHAPTER I

INTRODUCTION

1.1 Background of the Research

As in present circumstances, technological advancement is accelerating. According to a study undertaken by APJII (Association of Indonesian Internet Service Providers), there will be 204.7 million users in Indonesia in 2022. There is approximately 77 percent of active internet users in Indonesia, based on a total population of 277.7 million people.

Meanwhile, transactions of digital customers in Indonesia also rise exponentially. According to Statista in 2021, the number of customers purchasing from the internet was rising 14.9% to 158.6 million and the total purchase yearly from the internet was rising 59.4% to USD 770.6 billion.

So that the use of technology in Indonesia, as well as the business world, will also continue to increase every year. Hence, the competition in technology between retailers in the business world is tighter than ever. Retailers strive to be market leaders. The competition within the business world requires companies to innovate with better tools and updated knowledge.

This situation is also applies to retailing industry who currently has experienced a massive alter as a result of the advancement of innovation during the last 3 decades. With the advent of new retail channels together with online and mobile phone existence, customers engage with organizations across more than one retail channels and are seeking seamlessness as they flow among touch points. Particularly, omni-

channel has emphasized the significance of seamlessness over channels to encourage more prominent profitable consumer-brand interaction encounters (Picot-Coupey et al., 2016).

This isn't always simply changing the channel of exchange but is reclassifying the nature and shapes of trades, actors, offerings, and retail settings. The integration of technology to the customer purchasing experience is allowing new methods of value creation and value capture. For instance, retailers can be presented with diverse digital touch-points on their direction to buy with the purpose of assisting their purchase method, so that it will at the same time permit the collection of data concerning their wants and inclinations (Blom et al., 2017).

The seamlessness of the customer experience, such that they are able to interact with the brand via navigating between channels with continuity and simplicity, is fundamental in omni-channel management. Consequently, customers utilize complementary channels as a basic portion of their buying involvement with the objective of optimizing diverse channels' benefits and costs (Lemon and Verhoef, 2016). This has applied weight on retailers to re-model their channels concurring to customers' forms.

Reynolds and Sundström (2014) have contended that retail digitalization speaks to a key thought toward grasping the total integration of advanced innovation into the customer's encounter. Online commerce is progressing, portable contraptions are playing a major part, but physical retail stores still endure as the key spaces.

However, the reciprocity among offline, online, and portable contact focuses is complicated and difficult to control. With respect to the extending run of touch-points, retailers are concerned around the free-riding and show-rooming behaviors (Herhausen et al., 2015).

Indeed in spite of the fact that this might too result in openings. Retail digitalization coordinates towards modern superior shopping encounters within the case in which retailers be fruitful at conveying a steady shopping travel built on completely included channels thru a so-known as Omni-channel. This was created by the company in order to make customers satisfied and keep buying the product from the company for a long time.

This is confirmed that omni-channel positively affects the company through increased consumer satisfaction (Lazaris & Vrechopoulos, 2014). Furthermore, when omni-channel retailers offer seamless channel transitions, relative to non-seamless transitions, customers are much more likely to interact with the brand throughout multiple touch points. Such companies are incredibly valued by customers. A lack of seamlessness may additionally decrease the positive effect that omni-channel shopping has on sales and customer satisfaction (Huré et al., 2017).

Omni-channel helps both create and manage value of the company. The results of the study done by Payne et al. (2020) indicate that customers seek of value co-creation, suggesting that they view all of the aspect holistically in an omni-channel environment.

Retail digitalization is turning ever greater widespread because it impacts to the customers' through online experience. To maximize this opportunity, to improve their overall performance, retailers must evaluate different antecedents of omni-channel and plan the usage of numerous touch points at the same time to enhance their overall online customer experience (Ellie et al., 2020).

In Indonesia itself, there are several large retailers that have already adopted omni-channel in their business, and one of them is ACE Hardware Indonesia who already changed their business model from traditional physical stores to omni-channel.

According to the Annual Report of PT ACE Hardware Indonesia Tbk, ACE Hardware is a corporation in the United States that sells household furnishings and appliances. In its own journey, ACE Hardware is expanding in the retail sector such that it does not only establish distribution facilities in the United States, but also began to develop to distant corners of the world and is present in other countries such as Indonesia.

The Kawan Lama Sejahtera Group owns ACE Hardware (PT ACE Hardware Indonesia Tbk), which was founded in 1995 as a subsidiary of PT Kawan Lama Sejahtera. In 1996, ACE Hardware, popularly known as AHI, successfully opened their first store in Karawaci, Tangerang, Banten. AHI, or ACE Hardware Corporation, has been supplying excellent items through a sophisticated shop network for over two decades. ACE Hardware, or AHI, is renowned as a one-stop shop for premium home improvement and lifestyle items due to the company's

increasing efficiency in marketing and distribution in retail. This aided ACE Hardware's development in terms of branch expansion in various locations, such that by 2021, ACE Hardware will have 216 ACE Hardware stores with a total size of more than 517,980 square meters scattered throughout 51 cities in Indonesia.

ACE Hardware has a vision and mission for the future sustainability of their company, namely to become the leading retailer in Indonesia for home improvement and lifestyle products (vision), as well as to provide a variety of choices for needs and lifestyles, closer to the community through convenience shopping innovation in accordance with the principles of sustainability (mission).

ACE Hardware knows that behavior has altered since the internet's inception. Many of them are webrooming, which is completing product searches on the internet, but this is also true of real establishments. There is also showrooming, which involves looking at things first in real stores and then in internet retailers.

According to Nielsen's research, Indonesians exhibit both showrooming and webrooming behaviors. Omni channel is preferred by 56% of customers. Customers may purchase things both offline and online. However, in Indonesia, Omnichannel is not yet widely used.

Furthermore, e-commerce that sells only home items, furniture, and children's toys is uncommon when compared to online markets that sell all sorts of commodities. Although the internet retail sector accounts for only 1%-2% of the whole physical retail market, its worth is increasing year after year.

Based on this information, ACE Hardware believes that they has a chance to compete in the online market. When ACE Hardware celebrated its 25th anniversary, the company launched MISS ACE, a digital feature that will make shopping at ACE even easier for customers. MISS ACE stands for Mobile Interactive Shopping Solution. It is the official ACE Indonesia Mobile App, which was published in 2016.

Customers who shop directly at the store (offline) will begin their MISS ACE shopping experience from home, where the store finder tool will assist them identify the nearest ACE Hardware store. Customers can use the scan feature to get information on all products available at the destination store by scanning the QR Code at the entrance, as well as detailed product information ranging from functions, sizes, and prices by scanning the barcode on the desired product packaging, when they arrive at the store. Scanned goods can also be placed to a digital shopping cart, followed by purchases via mobile applications utilizing digital payment systems, virtual accounts, or credit cards, eliminating the need for customers to walk to the cashier and avoiding long lines.

Meanwhile, the MISS ACE service will allow users to effortlessly shop for ACE items online at any time and from any location, not only through the mobile application but also through ACE Online at www.acehardware.co.id/shop. To add to the convenience of shopping both offline and online, MISS ACE offers two types of delivery that customers can choose from, namely regular or instant delivery to the address specified by the customer, or the customer can pick up the groceries at the pickup zone inside the store for delivery.

So that based on the current phenomenon of technology and the business world, connecting the impact of the omni-channel capability to online experience and value co-creation with customer satisfaction, this research intends to identify and contribute to the concept of the capability of omni-channel integration in retail and its impact on online experience and value co-creation, which leads to satisfaction. The question that will be answered in this research is how the effect of omni-channel capability on customer satisfaction, online experience and value co-creation. So the researcher is interested in conducting research with the title*: The Effect of Omni-Channel Capability towards Customer Satisfaction through Online Experience & Value Co-Creation as Mediating Variables.*

1.2 Problem Statement

According to the description of the background above, the following problems can be formulated:

1. How is the effect of omni-channel capability towards online experience of ACE Hardware Indonesia?

2. How is the effect of omni-channel capability towards value co-creation of ACE Hardware Indonesia?

3. How is the effect of online experience towards customer satisfaction of ACE Hardware Indonesia?

4. How is the effect of value co-creation towards customer satisfaction of ACE Hardware Indonesia?

5. How is the effect of omni-channel capability towards customer satisfaction of ACE Hardware Indonesia?

6. How the online experience is mediates omni-channel capability towards customer satisfaction of ACE Hardware Indonesia?

7. How the value co-creation is mediates omni-channel capability towards customer satisfaction of ACE Hardware Indonesia?

1.3 Objective of the Research

According to the formulation of the problem above, the research objectives to be achieved are:

1. To analyze the effect of omni-channel capability towards online experience of ACE Hardware Indonesia.

2. To analyze the effect of omni-channel capability towards value co-creation of ACE Hardware Indonesia.

3. To analyze the effect of online experience towards customer satisfaction of ACE Hardware Indonesia.

4. To analyze the effect of value co-creation towards customer satisfaction of ACE Hardware Indonesia.

5. To analyze the effect of omni-channel capability towards customer satisfaction of ACE Hardware Indonesia.

6. To analyze the effect of omni-channel capability towards customer satisfaction mediated by the online experience of ACE Hardware Indonesia.

7. To analyze the effect of omni-channel capability towards customer satisfaction mediated by the value co-creation of ACE Hardware Indonesia.
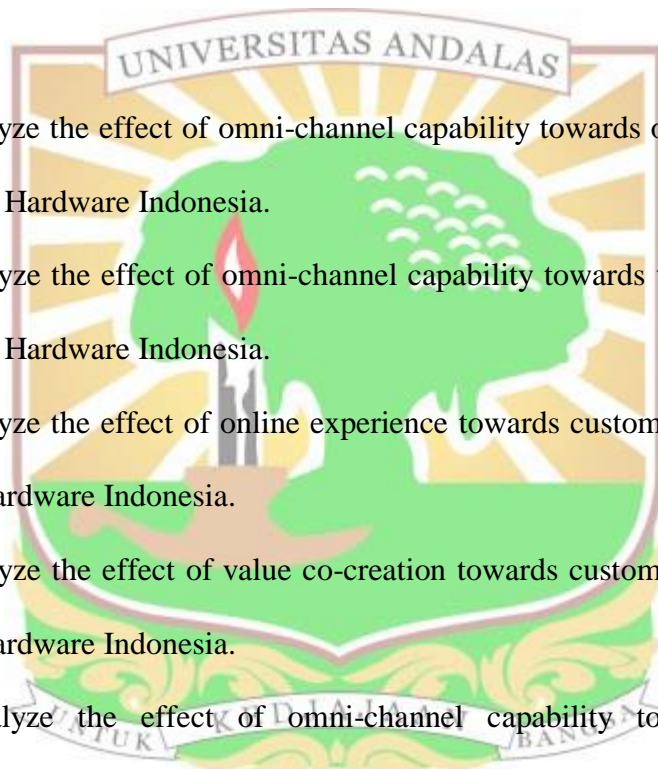
1.4 Contribution of the Research

1.4.1 Theoretical Benefits

1. The outcome of this study are expected to add and broaden insight and knowledge about omni-channel capability, customer satisfaction, online experience, and value co-creation.

2. Become the foundation of study material for further in-depth research on problems in retail business studies through omni-channel.

1.4.2 Practical Benefits

In order for the retail industry to thrive, this research is anticipated to contribute for businesses to thrive in technological era. Decision-makers can have a better knowledge of the present company dynamics as a result.

1.5 Scope of the Research

This research is focused on ACE Hardware customers who have purchased a product through omni-channel in Indonesia. The theoretical aspects of this study consist of four variables, namely omni-channel capability, customer satisfaction, online experience, and value co-creation.

1.6 Structure of the Research

The research conducted consists of five chapters, using the following systematics:

CHAPTER I INTRODUCTION

This chapter contains the background for selecting the title, problem formulation, research objectives, research benefits, research scope and writing systematics.

CHAPTER II LITERATURE REVIEW

This chapter contains details of concepts and theories regarding to omni-channel capability, customer satisfaction, online experience, and value co-creation. This chapter will also discuss some reviews of previous research, developing hypotheses and models that will be used in the study.

CHAPTER III RESEARCH METHODOLOGY

This chapter will discuss research design, population and samples, sampling techniques, data and data sources, data collection methods, operational variable, research instruments and data analysis techniques.

CHAPTER IV RESULTS AND DISCUSSION

This is a discussion that contains an overview of the research, descriptive analysis, data analysis, and hypothesis testing and hypothesis conclusions.

CHAPTER V CONCLUSION

The last chapter contains conclusions, research implications, research limitations, and suggestions for further study.