

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The world is evolving – and customer behavior continuously alters rapidly in ways that are challenging for business practitioners to profoundly comprehend. Today, both customers and producers have come together digitally erasing the physical barriers that used to exist in their interactions, driving a faster pace of transactions flows to take place in nearly every industry that one can think of. This phenomenon has truly shaped and transformed business landscapes, as well as customer behaviour. Customers are becoming more demanding than ever, especially in service industry, which is indisputably one of the most growing industries globally from time to time.

From accounting to airline, entertainment to engineering, hotel to healthcare, landscaping to legal, Food and Beverage sector is steadily and dominantly one of the most vital contributors to Indonesia's GDP breakdown. It is thriving and is recorded to have a stable increase towards the nation's GDP from year to year. According to Indonesia's Ministry of Industry, by 2018, there has been notably an increase of 7.9% in this sector and hence, has been a huge reliance for the nation's economy drive.

Medan as the third Indonesia's largest metropolitan city also experiences an emerging market progressively. Where countless of F&B businesses are established each year offering distinctive features to attract prospective customers, the competition in the F&B industry is becoming more furious than ever. Many have emerged but also exited the market within a short period due to its inability to attract new customers and retain existing ones.

Undeniably, this is the challenge that the industry is continuously facing and analyzing the specific drive that encourages sustainable purchase intention has never been of more importance especially in this millenials era. For this technology-intensive business environment has allowed customers to be exposed to endless mass media and marketing tactics, rapidly and profoundly shaping customers behavior emotionally.

Digitalization has eradicated barriers to switch from one product to another due to its transparency as it offers unlimited options at the tip of customers fingers, especially in online F&B enterprises. Customers are able to access full information and make a comparison out of its prices, facilities, visuals, reviews, perceived expectations prior to coming into a decision at anytime, anywhere, hence increasing their bargaining power. Besides, the escalating number of service providers also contributes to the cause. Customers, who portray negative impressions towards a certain brand, may just effortlessly churn to other brand in the same product category, as there are many alternatives to select from.

Researchs conducted by Microsoft (2017 and 2018 State of Global Customer Service Report) have also reported that more people churned away due to poor service compared to that of last year from 56% to 61%, these stats have clearly depicted just how much has customer power increased throughout the times.

Those are exactly the issues why it is even more arduous to obtain a secure market share in this competitive business climate. Many entrepreneurs have since attempted to religiously come up with novel ideas as people are usually drawn to novelty. Even so, in some cases, business does flourish during the first several months due to curiosity of prospective customers towards the appealing features that may include exquisite decorations, exclusive concepts, innovative products and competitive prices, but, may then face obstacles in its sustainability after the “booming” period.

Given the reasonings above, it is indisputable that every entrepreneur have to strive to set the business apart from the others, in order to obtain acknowledgement of its presence. Potentially, this can be derived through good customer relationship management, which will entice satisfaction, and consequently loyalty (Armstrong & Kotler, 2015).

Principally, customer satisfaction is a core issue in this service-oriented industry. It is socially accepted as a fundamental foundation in every growing businesses of any kind. It often serves as a key predecessor and a leading indicator for the establishment of healthy business growth, which may include but not limited only to competitive advantage

(Solomon, 2015), extension of market share, escalation of both sales volume along with its profitability and lastly expansion. It is the very first milestone that allows the later to come along.

Furthermore, maintaining good customer satisfaction is also highly critical in terms of WOM (Worth of Mouth) as several studies have found that unsatisfied customers tend to create bigger influence negatively compared to that of satisfied customers positively (Tjiptono, 2018). Statistics run by American Express in 2017 regarding Global Customer Service Barometer also claims that an average American tends to share their negative experience to up to 15 people, compared to only 11 for positive ones on average. Therefore, WOM shall not be underestimated as though seems to be a conventional method of marketing yet has proven to be one of the most powerful yet cost-effective one.

Consequently, not only it is important to allure new customers, ensuring customer satisfaction and nurturing existing customers are even far more crucial as it increases the possibility of customer referrals and diminishes negative WOM, which in turn increases profits.

Obviously, gaining customer satisfaction is a tedious task, but worth every penny and effort considering how effectively and efficiently it cultivates loyalty. For consumers find it more risk-adverse to pursue future engagement with the brands that they are already assured with (Ngo and Nguyen, 2016). In simpler terms, when customers are satisfied, they would be more reluctant to defect due to assurance of satisfaction from prior experience. Therefore, offering an experience that provides everlasting

positive impression plays a vital role in fostering customer loyalty, which is the ultimate goal of all.

Moreover, many marketing researchers have also concluded that retaining customers is even more cost-effective than attracting new ones. For studies has shown that it is five times cheaper to retain a customer rather than acquiring a new one (Armstrong & Kotler, 2015) with the probability of successful sales with existing customers accounted up to 60-70% while those with new prospects is only 5-20%. According to Dawskin & Reichheld (1990), as cited in Tjiptono & Chandra (2016), it is also calculated that escalating retention rate by only 5% is able to lead an increase towards Net Present Value by 25%-85%.

Financial wise, a single loyal customer is also apparently much more profitable than even an accumulated different set of individuals since a single loyal customer offers a lifetime revenue stream worthy of an extreme multifold at the end of the day, which is known as Customer Lifetime Value (CLV). For it eliminates unnecessary marketing expenses in aiming for wider exposure and coverage with unpredictably low successful rate. Hence, having loyals are ultimately a best-case scenario for every living business as it requires so little maintenance, for such tremendous yields in return. Therefore, the author would like to examine the influence of customer satisfaction in determining customer loyalty, as it is a challenging yet essential issue in ensuring the sustainability of a business.

Amidst the volatile market trends in Medan, Nasi Keriting has emerged to be one of the most progressive businesses, which engages in F&B service, mainly priorities on take-away orders. Initially started off as an online-based business, at present, the growing firm already has its own brick and mortar store at Jalan Sutomo No. 31 E-F and accountably growing number of employees involved in running the operation. It has also been awarded as Gofood 2017 Outstanding Merchant due to its outstanding sales volume.

Although Nasi Keriting has positively thrived year by year, the restaurant has unfortunately experienced a downward sales trend beginning from June 2020 along with satisfaction-related complaints despite its continuous growth in the last few years, according to an interview conducted with the owner of Nasi Keriting. Below illustrated Nasi Keriting sales trend between June 2020-September 2020.

Table 1.1 Sales Decline Percentage compared to May 2020

Month	Sales Decline (compared to May)
June	10%
July	8%
August	11%
September	12%

Source: Prepared by the Author (2020)

In order to seek the possible negative comments that customers are having with Nasi Keriting, the author then conducted a number of preliminary interviews with those who had made a purchase at Nasi Keriting and come up with result as follows.

Table 1.2 Preliminary Interviews with Customers

No	Name	Notes	
		Previous Purchase due to	Comments
1	Kd	Tempting presentation on social media	He always had a good experience with Nasi Keriting. However, the last two purchases were disappointing as the food quality from each purchase was not consistent.
2	Tf	Grab promotion	The process from ordering until delivery during lunch hour was fairly slow that other brands on average might have performed half the time it took.
3	Tv	Attractive price due to promotion	The rice was a little dry, and the time it took for preparing the order was quite long.
4	Fl	Grab promotion	The Grab driver said that it required an hour for the order to be ready, therefore, it was quite time-consuming.
5	Ad	Tempting presentation on social media	It was quite an unsatisfactory experience, as there was little parking space available.
6	Jm	Close to home	The queue was long, that it took quite a while for my orders to be ready. It was also quite pricey when bought without online promotion.

Source: Prepared by the Author (2020)

From the table 1.2, the author has collected the negative circumstances customers are having with Nasi Keriting and has found out that customer satisfaction is a frequent issue yet a leading factor encouraging defecting behavior to other competitors. Hence, it can be concluded that satisfaction is a major influence in influencing customer's likelihood to repurchase and turnover at Nasi Keriting despite the fact that level or the degree of satisfaction contributes to it.

However, the author also believes that the concept of customer loyalty may not solely be defined by numerical sales figures as it also involves with it customer's psychological tendency of referrals and advocacy, both that cannot be solely translated through sales data from Nasi Keriting.

Thus, the author would like to examine “The Influence Of Customer Satisfaction In Determining Customer Loyalty At Nasi Keriting Medan” thoroughly in this skripsi.

1.2 Problem Limitation

The research object is limited solely in analyzing the influence of customer satisfaction (as independent variable) towards customer loyalty (as dependent variable) at Nasi Keriting with the research subject pertaining to the customers.

Based on the context of the research and due to time and budget constraints, limitations are set for only variables of “Customer Satisfaction” and “Customer Loyalty”. The entire research will be conducted with Nasi Keriting as the research object within the duration of December 2019 to May 2020. Indicators of X involve food quality, service quality and price fairness, whilst indicators of Y involve attitude, preference and allegiance. Eventually, the target of this research will be those of Nasi Keriting customers.

1.3 Problem Formulation

As the objective of this research is to understand the influence of customer satisfaction towards customer loyalty at Nasi Keriting, therefore this research aims to answer questions as follow:

1. “Does customer satisfaction has an influence in determining customer loyalty at Nasi Keriting Medan?”

1.4 Objective of the Research

The author initiates to conduct the research with the purpose of identifying the influence of customer satisfaction in determining customer loyalty at Nasi Keriting.

1.5 Benefit Of The Research

The research conducted may offer two types of benefits, namely

1.5.1. Theoretical Benefit

This research may act as reference in the education industry in the field of hospitality and service management, with the hope that it offers comprehensive insights about the real business climate and current issues that the involved stakeholders are facing.

1.5.2. Practical Benefit

The following are the practical benefits offered :

1. For the author, it provides a more comprehensive understanding in regards to marketing studies by analyzing the stance of satisfaction, loyalty and its relationship in real-life settings.
2. For the company itself, it offers profound analysis to comprehend the driver of customer loyalty, which may then be sourceful when it comes to formulating business improvement strategies and decision-makings.
3. For other researchers, it may serve as a baseground and parameter for further studies employing satisfaction and loyalty in the educational field.