

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Customer is the key factor that determines the success or failure of company's product in market. Companies must be able to recognize customers' needs and expectations in current and future period. Companies continuously strive to increase their customer bases. They provide products and services to fulfill different needs of the customers. With the change of time and situation, the scenario of business world is increasingly being competitive. Companies must be able to create product quality that is accordance with customers' expectations in order to be able to satisfy the customers and thus lead to benefits for the company. Companies should always try to meet the needs of customers, because the company's product that is not better than other company's products will not be successful in attracting customers to make purchases. Therefore, the company must consider the attributes of the product as the factors that support the sales. Quality is one of the elements that are considered as important factor by customers and used as the basis of any purchase decision. Quality is one of the factors that are considered by customers before buying a product. With good and reliable quality, customers are willing to pay high price to buy the product.

Customers who have the money to buy products and service that the company offers are entitled to get the best good and service. If they are not happy with the product or service provided, it would be easier for them to move to another company. Most companies are focused on attracting new customers rather than retaining existing customers. The emphasis is usually on sales rather than on relationships and the attention to the customer after the sales. Customer satisfaction is necessary for the success

of business. But satisfaction is not enough to build or establish a loyal customer base. In general sense, product is a solid substance which is used for sales. Marketing defines product as a thing that is offered to a market in order to satisfy needs and wants of customers. In market activities, a product is the key element that brings value to the customer. A product's quality has a significant impact towards the product or service performance, thus it is linked to customers' value and satisfaction. Customers today are demanding high quality goods. Customers are seeking reliable products that suit the purpose and able to perform the intended functions. Changes in the competitive environment and increasing customers' expectations regarding product quality and customers' satisfaction are driving companies to place a greater amount of emphasis on understanding customers' attitudes and behavior in order to maintain and grow market share and profitability.

Customers today are more critical and careful. Product quality is derived from the difference between actual products and the alternative products that could be made available or provided by the particular industry. It can also be determined by the way customers perceive product quality in the market. Product quality is the most important factor for the selection of each product, especially in a market environment where the level of competition is intense and price competitive. Product quality is as the dominant factors of customer satisfaction. Customer satisfaction or dissatisfaction, outcomes are based on subjective perceptions of quality. Customers' perceptions of the product quality will form the foundation of customer satisfaction. Products are often described as packages of problem solving and companies must determine the benefits that customers seek through the purchase of a particular product.

This research is done at Pelita Baru Medan. The company is engaged in wire production, such as wire netting, barbed wire, welded wire mesh, PCV coating wire, galvanized iron wire, black iron wire and so forth. The company expects that there is increasing in sales every year. It

can be seen that there is decreasing of number of customers as shown in the following table and figure:

Table 1.1 The Number of Customer

Year	The Number of Customer
2013	219
2014	202
2015	196
2016	187
2017	182

Source: Prepared by the writer (Pelita Baru Medan,2018)

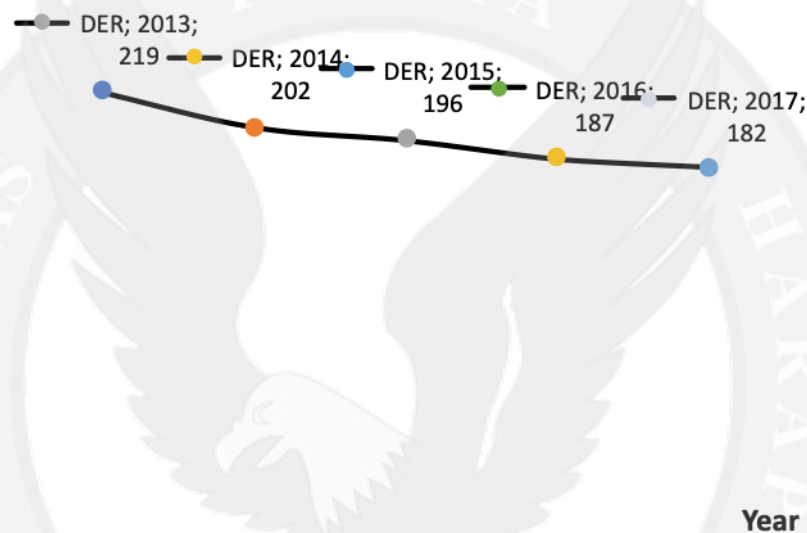


Figure 1.1 The

Number of Customer

Source: Prepared by the writer (Pelita Baru Medan, 2018)

From table and figure above, it can be seen that there is decreasing number of customers in year 2013-2017. The amount of sales is influenced by the number of customers in the company. It shows that there is deteriorating purchase decision by customers. This can be caused by the product quality. There is increasing number of customer's complaints that it shows that there is dissatisfaction on the company's product. The effects of decreasing customer satisfaction are that the customers do not want to make recommendation to other customers; the customers prefer to choose to purchase products from other companies, there is decreasing number of customer loyalty and repurchase orders. This condition will deteriorate the

company's profit that, in turn, affects the company's prospect in future. There is increasing sales return of products from customers. It can occur because there is damage in the products. Some products are not suitable with customers' specification, such as size. The durability of the product also decreases because the company offers products that cannot be used with long durability. Companies need to improve the quality of products in accordance with customers' expectations. The decreasing product quality from various aspects will decrease the customers' intention to buy the company's products. The product quality is expected to fulfill the customer's expectation.

Based on the description above, the writer wants to conduct a research entitled "**The Impact of Product Quality on Customer Purchase Decision in Family Business at Pelita Baru Medan**".

1.2 PROBLEM LIMITATION

Due to limitation of time and budget, the writer will limit this study on product quality as independent variable and customer purchase decision as dependent variable at Pelita Baru Medan.

1.3 PROBLEM FORMULATION

Based on the background study above, the writer can formulate research questions as follows:

1. How is the product quality at Pelita Baru Medan?
2. How is the customers' purchase decision at Pelita Baru Medan?
3. Does the product quality have impact on customer purchase decision at Pelita Baru Medan?

1.4 OBJECTIVE OF THE RESEARCH

The purposes in doing this research are as follows:

1. To assess the product quality at Pelita Baru Medan
2. To evaluate customers' purchase decision at Pelita Baru Medan
3. To know whether there is impact of product quality on customers' purchase decision at Pelita Baru Medan.

1.5 BENEFIT OF THE RESEARCH

The benefits from conducting this research are as follows:

1.5.1 Theoretical Benefit

This research is expected to give contribution to improve entrepreneurship theory, especially on product quality and customers' purchase decision in family businesses.

1.5.2 Practical Benefit

1. For the company, this research can offer some recommendations for the company to improve customers' purchase decision.
2. For the writer, this research can expand knowledge in entrepreneurship, especially on product quality and purchase decision.
3. For other researchers, this research can be used as reference to other researches with similar topics.

1.6 SYSTEMS OF WRITING

The systems of writing in this *skripsi* will be as follows:

Chapter I: Introduction

This chapter consists of the background of the study, problem limitation, problem formulation, objective of the research, benefit of research and system of writing.

Chapter II: Literative Review and Hypothesis Development

This chapter consists of theories that are related with this research, such as definition of entrepreneurship, product quality and customer purchase decision. This chapter also describes previous research, develops hypothesis, makes research model and framework of thinking.

Chapter III: Research Methodology

This chapter consists of the research design, population and sample, data collection method, operational variable definition and variable measurement and data analysis method.

Chapter IV: Data Analysis and Discussion

This chapter consists of general view of research object, data analysis and discussion.

Chapter V: Conclusion

This chapter consists of the conclusion, the implication and recommendation of this research.

