CHAPTER I
INTRODUCTION

1.1 BACKGROUND OF STUDY

In these increasingly competitive markets, every company must be able to adapt with change in order to survive and grow. One of the most important things that every company needs to do and pay most attention to, is to retain existing customers, continue to work on new potential customers to avoid customers leaving the company to be another company's customers. In the 21st century consumers have become more caring and socially aware, moving towards a more responsible and responsive attitude to issues, which may or may not directly concern them.

The role of a brand is no longer just as a name or a differentiator with competitors, but it also serves a company in achieving its full potential of competitive advantage. In this current increasingly competitive and globalized marketplace, marketers have come up with various kinds of new brands. Customer as the end-user has the role to make the decision on what products or services to purchase. In general, customers always refer to the particular brand for which brand is to distinguish themselves with other competitors.

Rai and Srivastava (2014) argued that staying with a particular business can come from a variety of reasons such as convenience, habit, or mere hesitation to try out a new brand. Every business wants to acquire loyal customers who come to them repeatedly despite the availability of better alternatives. Gaining customer loyalty has become one of the strategic objectives of businesses and to achieve it, businesses offer enticements such as lower prices or discounts, special offers, promotional deals, and loyalty programs. These tactics surely result in repeat buying but they are not powerful enough to generate loyalty.

These days, drinking coffee in coffee shops has become a habit (lifestyle) of Indonesian society. Not just drinking coffee, but coffee shops are also the spot people choose to perform certain activities, such as meeting clients, or studying groups for students.

Initially, Starbucks set out to be a different kind of company. One that not only celebrated coffee and the rich tradition, but that also brought a feeling of connection. Starbucks offers a range of exceptional products that customers enjoy in stores, at home, and on the go. Starbucks serve hot and cold drinks, whole-bean coffee, micro-ground instant coffee known as VIA, espresso, caffe latte, including Teavana tea products, Evolution Fresh juices, Frappuccino beverages, pastries, and some offerings that are seasonal or specific to the locality of the store. Many stores sell pre-packaged food items, hot and cold sandwiches, and drink-ware including mugs and tumblers ("Starbucks", 2018).

As a global brand, Starbucks thrives from the brand itself. Consumers' perception and trust of the brand may help to explain the significance of the company's brand loyalty.

Despite the fact that Starbucks has recently been named the world's most popular culinary company by Fortune magazine that was issued on January 19 (Agustina, 2018), Starbucks business is slowing down as reflected in the declining retail sales growth across the globe. Based on the performance reports published on Thursday (25/1/2018), Starbucks sales growth of only two percent per last quarter of 2017. The condition is seen as the impact of declining visitors in the shopping center. Starbucks' Chief Executive Officer, Kevin Johnson stated that the pressure experienced by Starbucks currently is considered to be inseparable from the increasingly tight competition of food and beverage retailers (Ernawati, 2018). Moreover, Starbucks is currently facing a boycott in Indonesia (as the country with the highest number of Muslims) right after claiming that it supports the

LGBT (Lesbian, Gay, Bisexual, and Transgender) community. Anwar Abbas, a Muslim leader of Muhammadiyah, an organization that has approximately 30 million members plead the government to revoke Starbucks' operating license as it is considered to oppose the nation's ideology. Abbas said that "If Starbucks only does business, then fine. But don't bring ideology here." However, a Starbucks customer Annisa Meidiana, who is a Muslim, said that she would not stop buying coffee there just because of the call for the boycott (Rizki and Damiana, 2017).

Based on this phenomenon, we can conclude that brand loyalty is one of the primary drivers in influencing a company's success. Fleming (2015) believed that brand loyalty is the type of loyalty that leads to customers ranting and raving about your business, that generates massive referrals and strong word-of-mouth, and that isn't swayed by cheaper prices, more features, or (often ineffective) rewards cards. You will hold on to customers even if your products and services cost more. You will also reduce your marketing and advertising spending and increase spending on the customers who already do business with you, and they will return that spending twenty times over. You will develop a richer, more complex customer experience that resonates with your customer. Finally, you will no longer wander the social media landscape, wondering if anyone is listening, you will know exactly where to be, where to go, and what to say.

One of the factors that influence brand loyalty is trust. This statement can be proven from the previous research conducted by Hendra and Renova Lie Janny in year 2016, which indicates that trust, does affect brand loyalty. Moorman *et al*. (in Peelan & Beltman, 2013) explained that trust is a willingness to rely on an exchange partner in whom one has confidence. Geyskens and Steenkamp (in Peelan & Beltman, 2013) further explained that the honesty of a

partner could be defined as the conviction that the partner is trustworthy, keeps his promises, has the courage to admit to limitations and convey bad news.

Based on the phenomenon that occurred in customer relationship regarding brand loyalty, the writer is interested to conduct the research with title as follows: "**The Effect of Trust on Brand Loyalty at Starbucks in Sun Plaza Medan**"

1.2   PROBLEM LIMITATION

The object of this research covers a considerable amount of customers at Starbucks in Sun Plaza Medan. Thus, the results cannot be generalized to all products, location, and consumers. Moreover, this research refers only to projects that started and finished within the span of 2012-2017 in order to overcome the time limitation. Furthermore, due to the limitation of time and resources, the scope of this research will focus solely on the variables within a few indicators and characteristics that the writer considers relevant. The indicators and characteristics are as follows.

1. Trust (Buttle and Maklan, 2015):
   a. Benevolence: a belief that one party acts in the interest of the other,
   b. Honesty: a belief that the other party's word is reliable or credible, and
   c. Competence: is the degree to which a brand is skillful and knowledgeable to perform as required.

2. Brand loyalty (Smith, 2016):
   a. Favourable brand behaviours, whether buyers consistently repeat purchase
   b. Favourable brand attitudes, which are a function of consumer beliefs about the brand's performance, and affective feelings about the brand.

1.3   PROBLEM FORMULATION

Based on the previously identified background of study, the writer seeks to identify various tendencies that trust may influence brand loyalty. The results will then be analyzed whether trust has strong influence towards brand loyalty or not. Thus, the writer aims to answer these following questions.

1. What are the effects of trust on brand loyalty at Starbucks in Sun Plaza Medan?
2. How big is the contribution of trust on brand loyalty at Starbucks in Sun Plaza Medan?

1.4   OBJECTIVE OF THE RESEARCH

The objectives of this research are:

1. To identify the effects of trust on brand loyalty at Starbucks in Sun Plaza Medan
2. To identify how big is the contribution of trust on brand loyalty at Starbucks in Sun Plaza Medan

1.5   BENEFIT OF THE RESEARCH

1.5.1   THEORETICAL BENEFIT

Theoretically, this research aims to identify the impact of trust towards brand loyalty in Starbucks Sun Plaza Medan. Moreover, for both writer and readers, the research would be a good opportunity and reference to improve one's knowledge.

1.5.2   PRACTICAL BENEFIT

This research aims to provide proof that trust does have great effect towards increasing brand loyalty in Starbucks Sun Plaza Medan. Furthermore, for the company, the research provides recommendation that can help improving the company in the future.

1.6   SYSTEMS OF WRITING

The system of the research is as follow:

Chapter I: Introduction

This chapter will explain the background, problem identification, scope of study, research objectives, benefits, theoretical framework of the research as long as the hypothesis used in this research.

Chapter II: Literature Review and Hypothesis Development

This chapter will discuss the theory applied in the research including the literature review and hypothesis development in order to identify and analyze the problem to find out the solution.

Chapter III: Research Methodology

This chapter will elaborate on methods or steps used in the research to find out the conclusion and recommendation.

Chapter IV: Data Analysis and Discussion

This chapter will clarify the data obtained from doing research and will discuss the data collection considering theory.

Chapter V: Conclusion

This chapter contains conclusions from the result of the data analysis and some suggestions provided to the business for the purpose of giving ideas to improve sales further.