CHAPTER I

INTRODUCTION

1.1 Background of The Study

Globalization has took part in bringing companies from all over the world into Indonesia, including companies that specialize in the foodservice market.

Table 1. 1 Foodservice Market Structure in Indonesia 2016/2017

Foodservice Outlets	2016		2017		Outlet Growth 2016/17	Value Growth 2016/17
	Number of outlets	Sales Value (in USD million)	Number of outlets	Sales Value (in USD million)		
Full service Restaurants	100,540	30,212	100,798	32,070	0.3%	6.2%
Street Stalls / Kiosks	92,400	1,224	92,539	1,275	0.2%	4.1%
Fast Food	6,178	1,608	6,150	1,669	-0.5%	5.6%
Cafés / Bars	5,113	2,271	5,261	2,446	2.9%	7.7%
Self Service Cafeterias	590	185	604	197	2.4%	6.2%
100% Home Delivery	224	75	280	85	25.0%	13.1%
Total	205,045	35,576	205,632	37,771	0.3%	6.2%

Source: Euromonitor quoted by Yuningsih (2019, March 8)

From the table above provided by Euromonitor, we can see that in the past few years, there has been an increase of outlets in the foodservice market in Indonesia. Outlets such as full service restaurants, street stalls and coffee shops have seen an increase in the year between 2016 and 2017. Even though fast food chains has seen a decrease in numbers in the year 2017.

Table 1. 2 Foodservice Market Structure in Indonesia 2018/2019

Foodservice Outlets	2018		2019		Top 5 Brand Shares
	Number of outlets	Sales Value (in USD million)	Number of outlets	Sales Value (in USD million)	
Full service Restaurants	102,863	32,198.2	104,860	34,122.5	Pizza Hut, Restoran Sederhana, Solaria, D'Cost Seafood, Fish & Co
Street Stalls / Kiosks	94,025	1,256.2	95,696	1,374.9	Chatime, Edam Burger, Kokumi, Kebab Turki Baba Rafi, Kamu Tea
Fast Food	6,639	2,012.6	6,970	2,256.1	KFC, McDonald's, HokBen, J Co Donuts & Coffee, Richeese Factory
Cafés / Bars	5,477	2,502.5	5,622	2,641.8	Starbucks, Excelso Café, The Coffee Bean & tea Leaf, Coffee Toffee, Black Canyon
Self Service Cafeterias	606	194.7	617	206.0	Hypermart, Transmart Carrefour, Carrefour, Ikea Restaurant
Total	209,610	38,164.3	213,765	40,601.3	

Source: Euromonitor International (2020) quoted by Yuningsih (2020, June 1)

Table 1.2 provided us the information that the number of outlets in the foodservice market kept increasing in 2018, we can even see the restaurants that have the top five brand shares in their respective category from the table above. By combining the data in Table 1.1 and Table 1.2 we can see that since the year 2016,

the number of outlets in the foodservice market has been increasing since 2016 and overall, all of the sectors in the industry has seen an increase in the number of outlets and sales value. Although the 100% home delivery that was part of the foodservice outlet that made up the foodservice market structure in Indonesia for the period of 2016 to 2017 as mentioned in Table 1.1 is now excluded.

With the many outlets that are offered to the people of Indonesia, there are of course a wide range of options that people can choose to satisfy their needs, the phenomenon forces the people of Indonesia to think more carefully about the product or service that they will choose (Ransulangi, Mandey and Tumbuan, 2015). The people of Indonesia nowadays live in a modern society where they prefer to go to places such as restaurants to fulfill their needs to eat as oppose to the idea of cooking their own meal, this trend is due to the fact that people are busy with their job and they prefer to find the practical solution (Rudianto, 2018). The consumptive behavior that is accompanied by the increase in people's purchasing power has led to the increase in people going to restaurants in Indonesia, because of this there has been a development in the restaurant industry (Rudianto, 2018). A study that was conducted by Hidayat, Adanti, Darmawan and Setyaning (2019) claimed that the industry of fast food restaurants in Indonesia, one of the segments that is part of the foodservice market is facing a very tight competition and because of that companies have to think of a way to get customers and also a plan that will make customers want to repurchase their product or service.

Restaurant owners must now come up with a strategy in order to stay competitive in the industry for a long period of time while also giving the service

that customers expect to receive (Hendriyani, Massenga and Budiani, 2018), so that they can eventually outwit their competitors and be the restaurant that everyone prefers over the others. Although strategies such as improving the physical environment of the restaurant itself can help boost the restaurant's sales, as proven in a café and restaurant setting, the result of the research claimed that the servicescape of said place affect customer's repurchase intention significantly and positively (Yunisya and Yuliati, 2017), and the importance of Indonesian consumers has been emphasized in a previous study because of the fact that Indonesia's economy is mostly driven by domestic consumption (Kasmo, Wahid and Ismail, 2015), there are only a few studies conducted regarding the impact of servicescape, service quality, customer satisfaction and the behavioral intentions of that same consumer in the foodservice industry at Indonesia, particularly with regard to the pizza industry. This is proven to be true with most of the articles in journals tend to study about the effects of servicescape towards places that have no relation whatsoever to the foodservice industry (Wilujeng, 2017; Muarifah, 2018; Kartika, Adam and Trisna, 2019), although there are some article that already discuss about the effects of servicescape in the foodservice industry (Purnama and Andajani, 2020; Statifiansyah and Siswhara, 2017).

A study conducted by Wahab, Nurdiyanah, Ahmad and Shukri (2018) is one of the few studies that is actually conducted in the foodservice industry, the study shows that the environment of a restaurant affects the customer's experience in that restaurant, which automatically correlates with the customer's satisfaction. For example, if the physical environment of a restaurant could create an atmosphere

that feels fun and comfortable, the customers would certainly feel satisfied throughout the whole experience. If a full service restaurant can't create the same atmosphere as the restaurant mentioned before, the customers wouldn't want to go to that restaurant and instead they'll choose the other restaurants which have an atmosphere that they enjoy.

Whether it's in Indonesia or even in the United States of America, service quality plays a big role in the food and beverages industry. A good service quality will make the customers feel satisfied, this statement is supported by a study conducted in a restaurant, that proves service quality does indeed affect customer satisfaction (Kurniawati, Irawan and Prasodjo 2019).

All of that said, in every industry around the world, customer is the main key that decides if a business will grow and make tons of profit or in the worst case, will it go bankrupt. From there we could say that, customer satisfaction is one of the things that a business owner should consider when growing their business. Customer satisfaction is one of the goals that every company wants to achieve and to do so companies must come up with a way to give more value to the product or service that they offer, in hopes that customer satisfaction will be achieved and the product or service can compete in the industry while making customers want to repurchase what the company has to offer (Ransulangi et al., 2015). A study that was conducted by Ismail, Rose, Tudin and Dawi (2017) has proven that there is a valid relationship that can be accepted between customer satisfaction and behavioral intentions, due to the fact that customer satisfaction is claimed to be an important mediating variable between service quality and behavioral intentions in

the research. Customers tend to go to a restaurant that can make them feel satisfied the most, this could lead into customers becoming a regular in the restaurant, other things that could happen is that the customers will tell their friends and colleagues about the restaurant that has a very good quality in terms of the service that was given to them (Hendriyani et al., 2018). The same could be said if a customer doesn't get the service he or she was expecting to, that could lead them into spreading negative word of mouth to their colleagues, which would then impact the brand's name negatively, or they could also just simply go to the other restaurants where they feel like they're getting the best out of their money.

Table 1. 3 Restaurants Market Share In Indonesia
Major Full-Service Restaurants

No	Brand	Market Share in 2017
1	Pizza Hut	17.70%
2	Restaurant Sederhana	8.30%
3	Solaria	7.10%
4	D'Cost Seafood	6.70%
5	Fish & Co	2.20%

Source: Euromonitor for data 2017 quoted by Yuningsih (2019, March 8)

Major Chained Fast Food

No	Brand	Market Share in 2017
1	KFC	27.10%
2	McDonald's	16.90%
3	J Co Donuts & Coffee	7.10%
4	HokBen	5.40%
5	Es Teller 77	5.30%

Source: Euromonitor for data 2017 quoted by Yuningsih (2019, March 8)

One of restaurant that is currently facing competitors throughout Indonesia is Pizza Hut. As a franchise that came from America, Pizza Hut has entered Indonesia's market since 1984 by opening its first store in Jakarta, then in 1987 PT Sarimelati Kencana Tbk became its master franchisee for the region of Indonesia.

In 2004 PT Sarimelati Kencana is acquired by PT Sriboga Raturaya, and since then PT Sarimelati Kencana acts as a subsidiary of PT Sriboga Raturaya. Pizza Hut itself was established by Dan and Frank Carney in 1958, the company is a subsidiary of Yum! Brands, Inc., which is one of the largest restaurant companies in the world due to the fact that the company operates some of the largest restaurant brands in the world such as Kentucky Fried Chicken, Taco Bell and Pizza Hut to name a few. Ever since its entry into Indonesia's market, Pizza Hut has become one if not the most popular choice for pizza among the customers of the industry in Indonesia. As shown in Table 1.3 above, among the other restaurants, Pizza Hut has achieved a total market share of 17.70% in 2017, being the second highest just below Kentucky Fried Chicken.
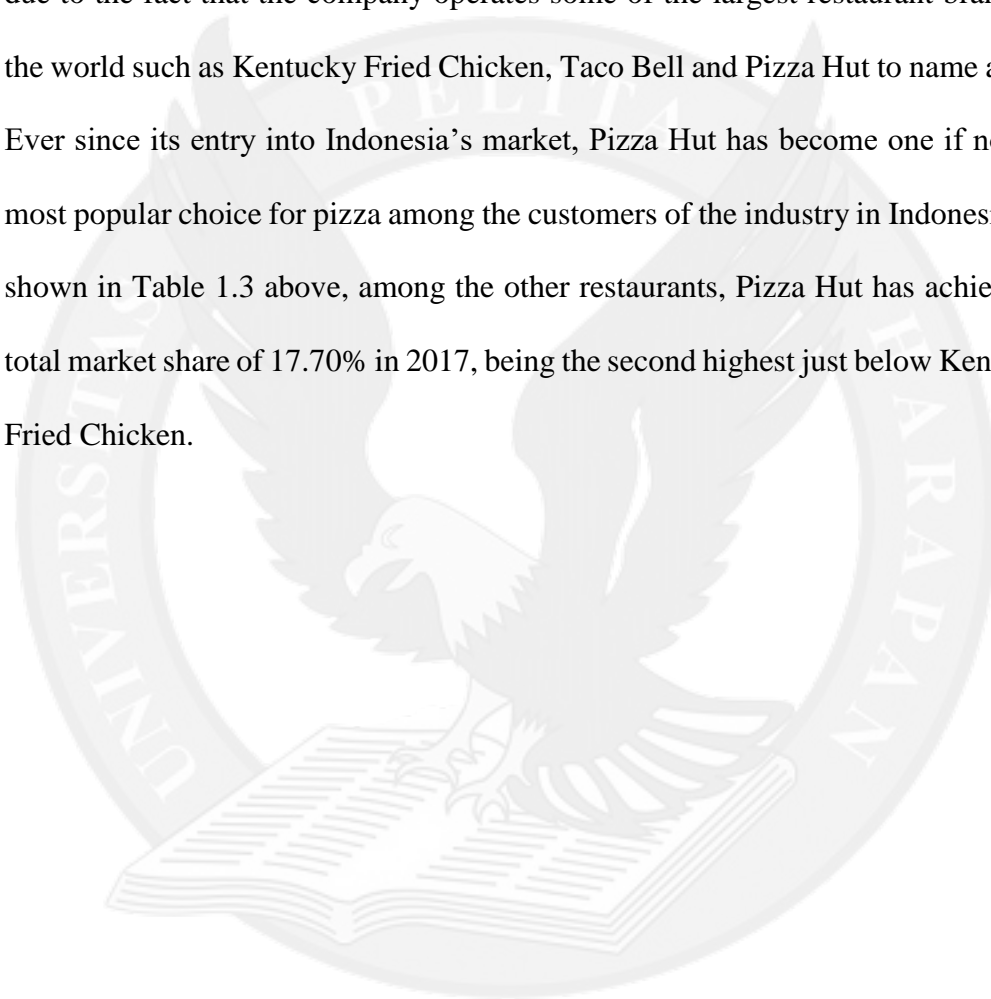
Table 1. 4 Top Brand Index Trend from Phase Two of 2016 to 2020
Pizza Restaurants

No	Brand	Top Brand 2016	Top Brand 2017	Top Brand 2018	Top Brand 2019	Top Brand 2020
1	Pizza Hut	86.9%	83.7%	76.2%	48.7%	53.8%
2	Dominos Pizza	9.0%	9.3%	8.9%	14.2%	17.7%
3	Papa Ron's	1.8%	1.6%	3.8%	8.8%	11.0%
4	Izzi Pizza	-	1.8%	-	-	-
5	Pizza Bar	-	-	2.3%	5.5%	4.2%
6	Gian Pizza	-	-	2.2%	7.5%	7.5%

Source: topbrand-award.com

But things could eventually change one day, if Pizza Hut doesn't pay attention to its competitors then sooner or later it will fail to compete with the other brands of pizza that are rising in the country right now. As proven in the Top Brand Index above in Table 1.4, since 2016 there has been a reduction in the percentage of Index regarding Pizza Hut Indonesia. Although there's an increase in the phase two of the year 2020 and Pizza Hut Indonesia still holds the top position in the index, the fact is the percentage that Pizza Hut Indonesia has right now is just not as high as it used to be.

Because of that, the researcher is interested in studying how Pizza Hut could still compete after all the years it has gone through in this ever-changing industry. As it is important to know what the customers of Pizza Hut Indonesia really think about the servicescape and the service quality that affect their satisfaction and

behavioral intentions. Although this research was conducted during the COVID-19 pandemic, this research was made with the intention to study the effects of the variables mentioned before, such as the servicescape of the restaurant, prior to the COVID-19 pandemic and because of that the result of this research may not be relevant during a pandemic situation such as the case with the COVID-19 situation, due to the fact that Pizza Hut Indonesia themselves have to limit their restaurants operational hours and they have to place restrictions on the amount of people that can eat dine in at their restaurants during the pandemic, as was reported by Saleh (2020, November 09) in the CNBC Indonesia website with the title of the news article being "Kisah Sedih Pizza Hut, Q3 Tekor Rp 8,6 M karena Pandemi Covid". Based on the background of the study mentioned before, the researcher is going to take "The Impact of Servicescape towards Behavioral Intentions through Service Quality and Customer Satisfaction in Pizza Hut Indonesia".

1.2   Formulation of The Problem

As one of the biggest player in terms of pizza restaurants, Pizza Hut Indonesia has yet to create a sustainable service environment where customers would more likely feel satisfied with the quality of services provided which affects their behavioral intentions, such as the likelihood of repurchasing the product or service that was offered to them, as was shown in Table 1.4 where Pizza Hut Indonesia's Top Brand Index kept decreasing in terms of percentage. The statement is supported by the fact that The Top Brand Index itself uses a survey methodology

that measures brands based on three aspects, which is top of mind, last usage and future intention. Top of mind refers to the first brand that is mentioned by respondents when talking about a certain product category. Last usage refers to the last brand used by respondents in one repurchase cycle. Future intention refers to the respondents intend to repurchase a product or service offered by a brand. Therefore future intention as one of the aspects that is used to measure The Top Brand Index can be treated as the respondents behavioral intentions, as was shown in previous research, repurchase intention is part of the behavioral intention variable (Wahyuningsih, 2011). Based on the studies that was conducted by other researchers, it is found out that there are variables that affect the behavioral intentions of the customers, said variables are servicescape, service quality and customer satisfaction (Ibrahim, Sobaih and El-Sayiad, 2018; Statifiansyah and Siswhara, 2017; Hooper, Coughlan and Mullen, 2013; Ryu, Lee and Kim, 2012). In this research variables taken from previous studies will be used to see if those variables will produce the same effect in the full service restaurant industry.

Therefore, from the explanation above, it is important to find out whether customer's assessment about the physical environment of the restaurant, the service quality of the restaurant and the customer's satisfaction level have an actual impact on the customer's behavioral intentions. Thus the formulation of the problem that will be answered in this research is do variables such as servicescape, service quality and customer satisfaction affect customer's behavioral intentions in Pizza Hut Indonesia. The questions that will be asked in this research are:

1) Does servicescape positively affects towards behavioral intentions in Pizza Hut Indonesia?

2) Does servicescape positively affects towards customer satisfaction in Pizza Hut Indonesia?

3) Does servicescape positively affects towards service quality in Pizza Hut Indonesia?

4) Does service quality positively affects towards customer satisfaction in Pizza Hut Indonesia?

5) Does service quality positively affects towards behavioral intentions in Pizza Hut Indonesia?

6) Does customer satisfaction positively affects towards behavioral intentions in Pizza Hut Indonesia?

1.3   Research Purpose

Based on the formulation of the problem that is mentioned above, the purpose of this research is to:

1) Know about the positive effects of servicescape towards the behavioral intentions of customers in Pizza Hut Indonesia.

2) Know about the positive effects of servicescape towards customer's satisfaction in Pizza Hut Indonesia.

3) Know about the positive effects of servicescape towards service quality in Pizza Hut Indonesia.

4) Know about the positive effects of service quality towards customer's satisfaction in Pizza Hut Indonesia.

5) Know about the positive effects of service quality towards the behavioral intentions of customers in Pizza Hut Indonesia.

6) Know about the positive effects of customer satisfaction towards the behavioral intentions of customers in Pizza Hut Indonesia.

1.4   Research Benefits

This research is expected to bring about the following benefits:

1.4.1   Theoretical Benefits

This research is made with the hope that the results from this research can further improve the theoretical knowledge of full service restaurants especially in the subject of servicescape, service quality, customer satisfaction and behavioral intentions.

1.4.2   Practical Benefits

1) The results of this research can be used to contribute into the decision making process of full service restaurants regarding things such as the servicescape and service quality that the restaurant should give so that customer satisfaction can be achieved and eventually all the factors mentioned can affect customer's behavioral intentions in a way that benefits the restaurant.

2) The results of this research can be used as a reference to further develop restaurant's knowledge with the hope that eventually customer's behavioral intentions can be positively influenced.

3) The results of this research can be treated as a tool of feedback for the Pizza Hut franchise in Indonesia to improve the restaurant's ability to develop its servicescape and service quality so that customer satisfaction and customer's behavioral intentions can be achieved in accordance to the restaurant's expectation.

1.5 Writing Systematics

In order to provide a clear overview of the content in this thesis, a writing systematics that is divided into five chapters was made:

CHAPTER I: INTRODUCTION

Chapter one will be an introduction that consists of the background of the study, the formulation of the problem, the research purpose, the research benefits which will be divided into theoretical benefits and practical benefits, and lastly the writing system.

CHAPTER II: LITERATURE REVIEW

Chapter two will be the literature review from previous studies that consists of the definition of variables used in this research, the hypotheses that is created based on the relationship between the variables and the research framework.

CHAPTER III: RESEARCH METHODS

Chapter three will consist of the research object, unit of analysis, type of research, the operationalization of reseach variables, the sampling design, the data-collection method and the pretest results.

CHAPTER IV: RESEARCH RESULTS AND DISCUSSION

Chapter four will be the results of the research and the discussion of the research.

CHAPTER V: CONCLUSION

Chapter five will be the final chapter that consists of the conclusion of the research, the managerial implications and the suggestion as well as the limitations of the research.