

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The tourism industry is an industry that never dies and is one thing that is very important for a country. The type of tour consists of natural, social, cultural, historical and artificial tourism. Community needs for tourism in the current era are not only used as an entertainment medium but also used as a place of education. For this reason, the development of the tourism sector needs to be carried out in a planned, systematic and structured manner to achieve the desired goals of the development. Development in the tourism sector that is carried out well will be able to attract foreign tourists and domestic tourists to come to visit tourist attractions.

The more intense competition, the tourism industry must understand the right way to manage the resources they have. One way to win the competition lies in the ability of the tourism industry to create competitive advantage. competitive advantage can be achieved if the company is able to provide more value to customers. competitive advantage can come from a variety of company activities that are carried out such as designing, producing, marketing, and supporting its products.

The innovation strategy encourages the tourism industry to actively develop its tourism so as to maintain consumer loyalty. Through innovation indirectly opens opportunities for companies to market new products in different segments. If the company is not aggressive in making the highest risk innovation with competing companies, in the value chain. This has an impact on consumer behavior that is selective and rational in making purchases of a product or service. This action is caused by the knowledge that consumers have increasingly on the types and characteristics of products or services.

The diversity of tourism offered by the tourism industry makes consumers more selective in choosing. Only tourism is in accordance with the tastes of consumers who can survive in the market. If the tourism industry does not strive to carry out tourism development continuously, then in a short period of time tourism will emerge that is similar to diverse quality and prices. So the role of innovation becomes more important to win market competition.

Innovation is a change that includes creativity to create new products, services, ideas, or new processes developed inside and outside the company. Without innovation the tourism industry will die otherwise the tourism industry that innovates can dominate the market with tourism creations, models and performances. Implementation of innovation strategies is determined by consumer needs and trends in the present. Through innovation, the tourism industry has a strategy that is used to prevent boredom and retain customers. So that the tourism industry is required to develop ideas in offering innovative tourism. Innovation can make tourism have an advantage over other city tourism and maintain the position of the tourism industry in the market.

According to John Kay in *Managing Research Library*, Competitive advantage is defined as a condition in obtaining higher average profits than competitors. So the company is considered a step ahead of its competitors. Every tourism industry has a different source of competitive advantage and must be careful in looking at market conditions in order to formulate the right strategy. Competitive advantage is not temporary, but the tourism industry must strive to maintain for a long time by satisfying its customers. Satisfaction is a reflection of one's judgment about the performance of a product's assumptions (results) in relation to expectations. If product performance does not meet expectations, the customer is not satisfied and disappointed. If the product performance is in line with expectations, the customer feels satisfied and happy. Disappointed consumers or customers have the right to complain about

services provided by the manufacturer or even legally sue the manufacturer for losses suffered from a product or service. This is based on Law No. 8 of 1999 concerning Consumer Protection (Undang-Undang Republik Indonesia Nomor 8 Tahun 1999 Tentang Perlindungan Konsumen).

Therefore, companies must pay attention to and understand the desires of consumers or customers by creating quality products or services in order to meet consumer expectations and be responsible if the service products harm consumers.

Tour and Travel business opportunities are increasing along with the increasing public demand for tourism services. The tour and travel business is a company in the service sector that provides tourist travel services, transportation services and tourism information. With tour and travel agencies, customers will get service as well as information for tourist trips that they want to choose so that it makes it easier for customers to arrange tour trips. The number of travel agents in Indonesia is growing rapidly. According to the Association of Indonesian Tours and Travel Agencies (ASITA), there are 7,000 travel companies registered in Indonesia in 2016 (Jawapos.com, 2018).

However, the development of the internet has pushed business competition tightly. Most business actors switch from the offline business concept to switching to online business or combining the two. These conditions demand the creativity of business people to be more creative and innovative in order to be competitive. In other words, technological developments increasingly spoil people's needs. The travel agent business that applies conventional models is slowly beginning to recede due to technological advances. One of the economic platforms affected by this condition is the online travel business. The ease of service ranging from booking tickets to lodging, makes consumers busy hunting for travel online.

According to a survey of the Indonesian Travel Agent Association (Astindo) no fewer than 100 travel agents were closed in 2018 due to losing competition with online travel agents. There are 80% of business actors in the travel agent sector which are difficult to compete with existing online travel agents (Soenarso, 2019).

Marketing Research Indonesia (MRI) conducted a survey to understand the interests, needs, and behavior of Indonesian people in traveling, both at home and abroad. The survey was conducted in 6 major cities with more than 1,000 respondents. Based on MRI data, 71% of travel agent service users get information about a travel agent based on recommendations from their friends. The next largest source of information is from family and relatives.

Both sources beat the awareness of advertising or brochures. Attracting packages are the first important thing that ultimately makes people choose a travel agent, this is said by 66% of respondents who have used a travel agent. One interesting thing is that the selection of travel agents is not only related to the price being promoted. This is confirmed by the results of this Tourism survey, where the price factor was only ranked fifth. In other words, there are many other factors beyond the price that make someone choose their service provider (Marketing Research Indonesia, 2015).

This description can be taken into consideration by conventional tour and travel businesses that what models can be sold to consumers to generate the highest profit and ticket prices. This is because the number of tour and travel companies in Indonesia has reached around 4,000 companies, but this number tends to go up and down. The fluctuation in the number of companies is because there are companies that are able to survive and vice versa precisely out of business.

One of the Tour & Travel Agents that experienced a tight competitive level both as a conventional business actor and the Online Travel Agent (OTA) was PT. Mega Wisata Tour and Travel, having its

address at Center Point Blok M No. 02, Jalan Jawa, Medan Timur, Gg. Buntu, Medan Tim, Medan City, North Sumatra. PT. Mega Wisata Tour and Travel was established since 2001 committed to ticketing services, hotel reservations, tour packages, and making quality travel documents (passports and visas).

PT. Mega Wisata Tour and Travel has made an effort to survive, which was previously only word of mouth promotion, now by increasing advertising and moving locations from shop to mall, so that visitors are well known. However, these efforts have not increased sales results, in fact it has decreased in the last 5 years. While doing advertising is greater then it will increase costs even though income actually decreases each year.

The following are the revenue of PT. Mega Wisata Tour and Travel for the past 5 years:

Table 1.1 PT. Mega Wisata Tour and Travel Revenue for 5 years

Year	Revenue	%
2014	Rp830.000.000	
2015	Rp786.000.000	-5%
2016	Rp754.000.000	-4%
2017	Rp680.000.000	-10%
2018	Rp573.000.000	-16%

Source: PT. Mega Wisata Tour and Travel

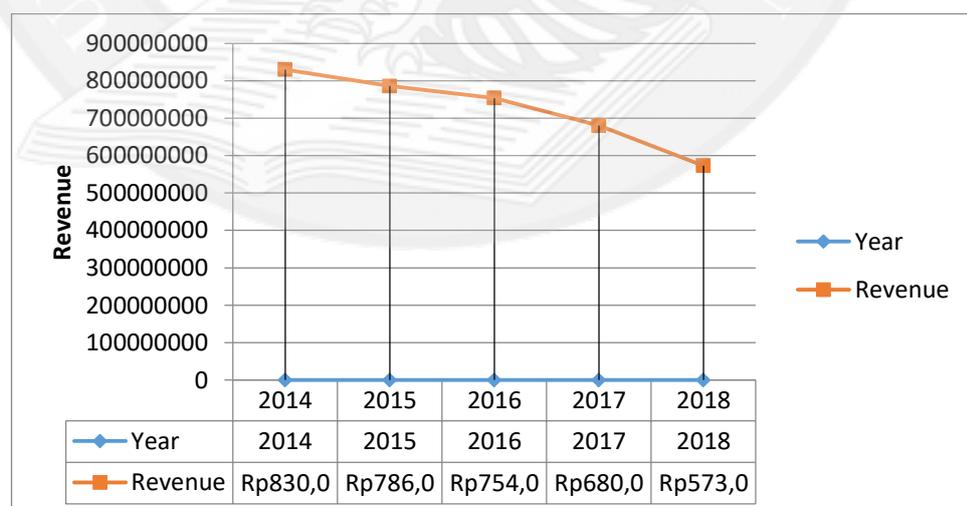


Figure 1.1 Revenue Growth Chart of PT. Mega Travel Tour and Travel

Source: PT. Mega Wisata Tour and Travel (2019)

Based on Table 1.1. it is known that PT. Mega Wisata Tour and Travel experienced a significant deficit, especially in 2018, which was - 16%. This provides an illustration of the need for a competitive advantage strategy to remain competitive, especially with the growing OTA.

Companies that are able to compete are companies that can make a difference with competitors. Excellence created depends on the uniqueness and quality that is shown whether in accordance with the expectations and desires of the customer. According to Jannah (2014, p.2), Improving product quality can not be separated from the development of product innovations that are produced so that it will have an advantage in the market which will then win in competition.

Consumers generally want innovative products according to their wishes. A company will have a competitive advantage if consumers demand or pressure producers to innovate faster so they can achieve competitive advantages that are more sophisticated than other companies.

PT. Mega Wisata Tour and Travel has not been innovating for the last 5 years, they maintain the same services and promotional package. Therefore, it can be seen that PT. Mega Wisata Tour and Travel growth has been decreasing. PT. Mega Wisata Tour and Travel should innovate the product and services.

Based on the background above, the researcher is interested in choosing the title **“THE ROLE OF INNOVATION IN MAINTAINING COMPETITIVE ADVANTAGE AT PT. MEGA WISATA TOUR AND TRAVEL, MEDAN.”**

1.2 Problem Limitation

Due to limitation of time and ability, this research focuses on the process of innovation carried out by PT. Mega Wisata Tour and Travel as an effort to achieve the competitive advantage of travel agents in Indonesia. The information that will be obtained as well as the data needed will be limited to the longest in 2014-2018. According to Dharmawan and

Berlianto (2018, p.14) indicators for innovation are relative advantage, compatibility, complexity, divisibility and communicability. According to Kurniawan et,al (2018, p.154) competitive advantage indicators are price, quality, dependability, product flexibility and volume flexibility.

1.3 Problem Formulation

The problem formulation which will be discussed as follows;

- a. How is the innovation at PT. Mega Wisata Tour and Travel?
- b. How is the competitive advantage of PT. Mega Wisata Tour and Travel?
- c. Does innovation have role in maintaining competitive advantage at PT. Mega Wisata Tour and Travel?

1.4 Objectives of the Research

The study will achieve the following objectives:

- a. To explore and analyze innovation at PT. Mega Travel Tour and Travel.
- b. To explore and analyze competitive advantage at PT. Mega Travel Tour and Travel.
- c. To explore and analyze the role of innovation in maintaining competitive advantage at PT. Mega Travel Tour and Travel.

1.5 Benefit of the Research

The benefits of this study are divided into two, namely theoretical and benefits practically.

1.5.1 Theoretical Benefit

Theoretically, to writer and reader, the result of this research is expected to be a reference or input for the development of communication science and improve the study of management, especially to determine the effect of inovation on competitive advantage.

1.5.2 Practical Benefit

Practically, to the company, the results of this study are expected:

- a. For the writer, the result of this research is especially to determine the effect of innovation to competitive advantage
- b. For PT. Mega Wisata Tour and Travel , To be input for PT. Mega Wisata Tour and Travel especially in decision making to determine company policy, Helping PT. Mega Wisata Tour and Travel solve its problems, increase sales and influence consumers to recommend PT. Mega Wisata Tour and Travel to others.
- c. And for other researchers, this research is also expected to assist other parties in presenting information to conduct similar research.

1.6 Systems of Writing

In the systematics of writing, the author will briefly describe the chapter by chapter in sequence. The order of writing the chapter to be presented is as follows

Chapter I: Introduction

It is the outline, the direction of purpose, and the encouraging research grounds the authors do research and include: Background of the study, Problem limitation, Problem formulation, Objective of the research, Benefit of the research (Theoretical and Practical benefit) and Systems of writing

Chapter II: Literature Review and Hypothesis Development

This chapter explains further about the theory on which the author is based, which cover: Theoretical background, Previous research, Hypothesis Development, Research model and Framework of thinking

Chapter III: Research Methodology

Describe about: Research design, Population and sample, Data collection method, Operational variable definition and variable measurement, Data analysis method.

Chapter IV: Data Analysis and Discussion

Describe about: General view of “Research Object”, Data analysis (Descriptive statistic, Result of data quality testing and Result of the hypothesis testing), Discussion

Chapter V: Conclusion

Describe about: Conclusion, Implication and Recommendation

