

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Indonesia is one of the most populated country that is having their development phase that means Indonesian market is very large and the economic is growing. No wonder if many people from around the world especially people from Southeast Asia is interested to have their investment in Indonesia and it is called globalization.

When the globalization era has come, all business will get the impact whether it is good or bad. In the globalization era, the competition in business is also increasingly tight. Globalization has forced various industries to develop rapidly, Whether it's a product or service industry.

When it comes business, the most important is about the profit but without their customer no business will not survive or grow. So, as a business owner we need to focus on our customer because by focusing on the customer the business will grow and it will increase the profit of the business itself. Especially in today's era, our potential customer has many reasons why they need to buy and where they should buy. That is why every business leader need to have their own strategies to win or gain the customer from our competitor.

According to Grönroos (2014), Customers do not purchase products or services, they purchase the advantages they receive from products and services. They purchase products, services, private attention in-formation and other elements. Customers are the lifeblood of any organization, and a company has no income, no profits, and therefore no market value without them.

In today business competition, customer preferences and behavior has changed along with development of technology, so that organization or company must focus more on the customer satisfaction. Giving the best

service to their customer will create a positive image for the company. Good service will also encourage our customer interest to purchase more of the product which lead to customer loyalty. By offering the customer with the best service, it can attract the customer from the competitor which will directly increasing the profit. Companies that can survive are companies that have capabilities to increase customer loyalty continuously which make it a company's competitive advantage.

Providing the best service for customer has become a benchmark towards the success of the company. Therefore, to maintain the benefit and be ahead of their competitors in the above-mentioned vying setting, organizations must attach significance to worldwide trends, technology and financial conditions while concentrating on the requirements and requests of clients by satisfying the expectations of clients with enhanced quality of service.

According to in Tjiptono and Chandra (2016, p.119), Quality is closely related to customer satisfaction. Quality offers customers with an accountability to build excellent long-term relationships for the business.

Arokiasamy (2013) stated that dimensions of service quality (empathy, responsiveness, assurance, tangibles and reliability) has a positive effect on customer satisfaction. Good quality service can be achieved when the company is able to provide an appropriate service in accordance to their customer demand, listen to all of their customer complaints and give a positive reaction to customer complaints so that the customer won't have a bad or not good perceptions about the service quality that are given. To achieve competitive advantage, the quality of service can be used as an instrument to seize the service market.

In doing business, no one can force anyone to be their customer that is the reason why keeping a good relationship between customer is very important. It is essential to maintain customer satisfaction because it can decrease the customer turnover rate which better known as churn rate.

Churn rate happens when clients stop business with a company or service. There are few issues that cause Customer Churn which are poor customer service, lack of value, poor communication quality and lack of brand loyalty. Having a high Churn rate brings disadvantage for the company because high churn rate means low opportunities to grow your business. The best way to reduce Churn rate is improving the customer service and building customer loyalty.

Providing satisfaction to the customer in meeting their needs, wishes and expectations, it can help the company to win market share and the company will be considered successful in obtaining the customer satisfaction. Customer that feel satisfied will become a loyal customer and will recommend it to others. Customer loyalty can also be formed from the satisfaction that they received. Customers will satisfy if the results can meet the expectations and will feels dissatisfied when the results are not able to meet their expectations. Satisfaction that they received will have a big impact for the customer to use the product or service again and again so that loyalty is formed.

This research is conducted at CV Otto Golden which is located in Medan Petisah, North Sumatra. CV Otto Golden was established in 1984 by Mr. Rudi and have serve customer for 35 years. CV Otto Golden is a famous company that operate in Lightning and Furniture in Medan. CV Otto Golden is famous with its high-quality product. Right now, the business is handled by the second generation namely Wilona.

Table 1.1 Churn Rate of CV Otto Golden

	Customer start of a month	New customer added that month	Customer lost end of that month	Churn rate per month
September,2018	150	8	15	9.4
October,2018	143	14	19	12.1
November,2018	138	16	20	12.9
December,2018	134	21	25	16.1
January,2019	130	18	32	21.6
February,2019	116	17	29	21.8
March,2019	104 customers			

Source: Prepared by Writer (CV Otto Golden, 2019)

After doing some research at CV Otto Golden, the table above is CV Otto Golden Customer Visit Data per Month. As can be seen from the table above, the Churn rate keep increasing per month.

While the writer is doing interview with the owner both Mr. Rudi and Wilona. The writer asks about the service quality and customer satisfaction, both Mr. Rudi and Wilona says that CV Otto Golden will always try to give the best service for their customer but sometimes when the customer keeps on coming, both the owner and employee are doing their assigned job. Mostly the customer feel being unserved more worrying when some of the customer ask or complaint about some of the product to the new employed employee makes the situation in the companies are more complicated. After the interview ends, the writer conclude that Service Quality is the problem that caused the Churn rate to keep increasing. Based on the description above the writer are interested in making research title **“The Effect of Service Quality Towards Customer Satisfaction in CV Otto Golden Medan”**

1.2 PROBLEM LIMITATION

This research will be limited on a company product and service quality as the independent variable toward customer satisfaction as the dependent variable which will be the outcome of the effect product and service quality towards customer satisfaction in CV Otto Golden.

Each of independent variable (variable X) and dependent variable (variable Y) have the own indicator. For the service quality indicators that will be used in this research are tangibles, reliability, responsiveness, assurance and empathy (Parasuraman, Zeithaml, and Berry, 1988; Tjiptono & Chandra, 2016). While those of customer satisfaction indicators are overall customer satisfaction, confirmation of expectation, repurchase intention and willingness to recommend (Tjiptono, 2014).

1.3 PROBLEM FORMULATION

The main topic of this research is to understand The Effect of Product and Service Quality towards Customer Satisfaction in CV Otto Golden. Focus to give the best quality product and service is very important for a company to get the customer satisfaction as the writer said other company may have in the same business line but what differentiate them is how they services the customer. There will be several research questions to be asked:

- a. How is the condition of the service quality in CV Otto Golden?
- b. How is the condition of the customer satisfaction in CV Otto Golden?
- c. Does service quality have effect towards customer satisfaction in CV Otto Golden?

1.4 OBJECTIVE OF THE RESEARCH

The problem objective of this research is:

- a. To understand the condition of service quality in CV Otto Golden.
- b. To understand the condition of customer satisfaction in CV Otto Golden.
- c. To analyze and understand the effect of service quality towards customer satisfaction in CV Otto Golden.

1.5 BENEFITS OF THE RESEARCH

1.5.1. Theoretical Benefit

Based on the objective of the research, the research is expected to generate theoretical benefits as follows:

1. As a result of work in adding insight into knowledge can further broaden the mindset of readers especially regarding quality of service to customer satisfaction in the business world services and can be material for learning and application of science knowledge, especially in the field of service business.

2. The research is expected to be used as reference in the scientific knowledge, especially in the field of customer service by comparing the existing theories with the results of the research.
3. The research is expected to be used as theoretical reviews for further research, especially on the same field of discussion.

1.5.2. Practical Benefit

Based on the objective of the research, the research is expected to generate theoretical benefits as follows:

- a. For public, this research will improve the knowledge about the relation between customer service towards customer satisfaction.
- b. For company, this research can be an input to help the company management to give the best service for their customer.

1.6 SYSTEM OF WRITING

The following will be the explanation of the system of writing for this research

Chapter 1 Introduction

The beginning of the chapter includes the background of study that mentions about the importance of good customer that effect the customer satisfaction. The problem formulation concerns about how can service quality can affect customer satisfaction in the company. The last section of Chapter 1 is completed with the information about benefit that derived into theoretical and practical benefit and also the systems of writing that provide overview on

introduction, literature review, research methodology, data analysis and discussion as well as conclusion.

Chapter 2 Literature Review and Hypothesis Development

This chapter consist of theoretical background regarding the definition of entrepreneurship, family business, service quality, type of service quality, benefit of service quality, maintaining service quality, the dimension of service quality, definition of customer satisfaction, the factor that influence customer satisfaction, the dimension of customer satisfaction and the relationship between service quality and customer satisfaction

Chapter 3 Research Methodology

This chapter discusses about research design, population and sample, data collection method, operational variable definition and variable measurement, data analysis method, validity test, reliability test, normality test, linearity, descriptive analysis, mean, median, mode, correlation analysis test, determination coefficient, linear regression equation and hypothesis analysis

Chapter 4 Data Analysis and Discussion

This chapter describes general view of research object, data analysis, descriptive statistic, result of data quality testing, result of hypothesis testing and discussion

Chapter 5 Conclusion

This chapter will be the brief conclusion for the result of the research, the implication and also the recommendation and suggestion in the future.