

# CHAPTER I

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

The longevity of a particular business is supported by loyal customers who committed to the company. In ensuring customers' loyalty, the issue of the company's effort in retaining the existing customers is a vital concern. Companies should be able to step up their service quality or product quality in order to survive, win the competition and achieve the objectives of the firm. Basically, the more competitors, the more alternatives customers have to choose a product they want. High intense competition makes it hard for companies to build up the customer quantity. High intense competition will indirectly influence a company's capacity to maintain market share and companies have to work hard to maintain their customers' loyalty.

Customers are source of income that will determine the company's ability to survive. The company must first receive the customer's attention by giving maximum satisfaction with the company's product and service. Customer is a precious asset and should be retained as the customer determined the company's success. With the fast changing market and the customer's modern mindset, the company must realize that the customer has the alternative to have the finest product and service at affordable prices that satisfy the requirements and demands of the customer. The company can expect a positive response in consumer behavior before making a purchase and after purchase by creating the product or service based on the needs of the customer.

According to Haqam and Hamali (2016, p.209), “there is an influence of service quality toward customer loyalty significantly”. Offering high quality service deepens the customer loyalty, leading to a high degree of customer loyalty. The degree of alignment between

customer expectations and perception of the service received is described as the quality of the service. Building a long term relationship with customers and surviving in today's competitive market required a good service quality. Thus, a good service quality leads into positive behavioral intentions which in turn contributes to customer loyalty. Customer loyalty means a long-term commitment from customers and the company in order to maintain relationships.

Over the last few decades, service quality has become a main point of every business enterprise, but also an important concept in service research. Success of a product or service provider depends on the high quality relationship with customers which determines customer satisfaction and loyalty.

Based on an interview with Mr. Chandra as the operational manager of PT. Maju Jaya Medan, PT. Maju Jaya Medan was established in 2012 and has been involved in the distribution of hand tools ranging from industrial to home-use, According to Mr. Chandra the number of customers in 2016-2018 can be seen in the table below:

**Table 1.1 Company's customer data**

Year	Number of customers
2016	102
2017	98
2018	84

Source : PT. Maju Jaya Medan (2019)

From the table above it can be seen that the number of customers in 2016-2018 in PT. Maju Jaya Medan is declining, it means that the level of customer loyalty in this company is low. The main reason why company has a low customer loyalty is because the customers don't get the satisfaction from the service that the company provided and because the customer tend to move to other company that provide better services. Based on the writer's observation in PT. Maju Jaya Medan there are some mistakes in providing services such as unfriendly employee, late delivery and there are some incompetent

employee. All of this indicates a low level of service quality which affects the customer loyalty.

Based on the description above, the writer would like to do a research entitled **“The Influence of Service Quality towards Customer Loyalty at PT. Maju Jaya Medan”**.

## **1.2 PROBLEM LIMITATION**

Based on writer's ability, the writer makes limitation of the research in service quality as independent variable and customer satisfaction as dependent variable. The indicators of service quality are tangibles, reliability, assurance, responsiveness and empathy (Iddrisu, et.al., 2015, p.18). indicators of customer loyalty are word of mouth, intention of repurchase, price sensitivity and complaint behavior. (Bostanji, 2013, p.232).

## **1.3 PROBLEM FORMULATION**

Based on the background of study above, the writer makes problem formulation as follows:

1. How is the service quality at PT. Maju Jaya Medan?
2. How is the customer satisfaction at PT. Maju Jaya Medan?
3. Does service quality have influence on customer loyalty at PT. Maju Jaya Medan?

## **1.4 OBJECTIVE OF RESEARCH**

The purposes in doing this research are:

1. To know the service quality at PT. Maju Jaya Medan.
2. To know about the customer loyalty at PT. Maju Jaya Medan.
3. To identify the influence between service quality and customer loyalty at PT. Maju Jaya Medan.

## **1.5 BENEFIT OF RESEARCH**

The benefits from conducting this research are as follows:

### **1.5.1 Theoretical Benefit**

This research gives benefit to developing theory of entrepreneurship especially service quality and customer loyalty.

### **1.5.2 Practical Benefit**

1. For the company, this research can provide input to company about how the quality of service can affect customer loyalty.
2. For other company, this research can be used as input by other company to increase customer loyalty.

## **1.6 SYSTEM OF WRITING**

### **Chapter I : Introduction**

This chapter contains of background of the study, problem limitation, problem formulation, objectives of the research, benefit of the research both theoretically and practically, and the systems of writing.

### **Chapter II : Literature Review and Hypothesis Development**

This chapter contains about theoretical background of the influence of service quality toward customers loyalty at PT. Maju Jaya Medan, and the hypothesis development, research model, and framework of thinking.

### **Chapter III : Research Methodology**

This chapter explain about 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 contains of general view of “Research Object”, data analysis, descriptive statistic, result of data quality testing, result of hypothesis testing, and discussion.

**Chapter V : Conclusion**

This chapter will clarify the conclusion of this research project, the implication and the recommendation of this research project.

