

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

The increasingly fierce competition in the service industry will drive the company's ability to continue improving customer satisfaction and loyalty. Satisfaction and customer loyalty are the main factors in the company that are stuck on the ability to survive, compete, and control the market, which is important for the continuity of the company to reflect the effectiveness of marketing efforts. The marketing process is not only focused on sales, but there are other things that must be considered by the company, namely After Sales Service / After Sales.

Companies that have loyal customers can be optimized in developing their businesses. The prospect of customers can be seen from their loyalty to the company. Some customers' complaints may include their many requests for maintenance and repairs while human resources technicians are still very limited; spare parts needed by customers are not always available; and customers sometimes do not understand how to use machine system.

The concept of customer loyalty has given much attention in marketing literature and the consumer behavior. Customer loyalty provides a significant impact to the profitability of the company. Loyal customers will likely show positive attitude and behavior, such as re-purchase the same brand and positive recommendations that may affect actual or potential customers. Customer loyalty can show how much support and level of trust a customer has for the product or service offered by the company.

Customer confidence in purchasing decisions and customer loyalty can not be separated from the quality of services provided. In every business, it is important to pay attention to the service quality because good and bad quality of services affect the trust and loyalty of customers. A company, on its operating activities, makes it a mandatory to manage service properly. So, it requires professional management in marketing, operations, technology and human resources. Giving a positive image to customers' mind is very important. Therefore, satisfying and professional service is a very important component. So that the customer's trust in the company is well maintained. These elements will be the main key to the success of service companies to improve their performance.

Quality is the starting point in seizing market share so that the level of satisfaction must be increased to face increasingly fierce competition. The key to achieving customer loyalty is the ability of companies to be able to provide more satisfaction to customers than those given by their competitors.

There are many leading food companies in Indonesia market; one of them is CV Seribu Satu Food Industry, which is one of the professional producers that focus on Consumer Goods. They have been producing top quality products that follow consumers' demand and market growth. It was incorporated in 2011 and founded by Leman Salim. It is now operating by the second generation, which is his elder son, Rudi Salim. Some of their brands include Duo, Top Time, Hokido, and other popular brands.

Table 1.1“ Customer Return Average at CV Seribu Satu Foods Industry in Stabat”

Months	Customer Return Average	changes %
August	62	
September	71	14,52%
October	64	-9,86%
November	60	-6,25%
December	57	-5,00%

Source : Prepared by the Writer (2019)

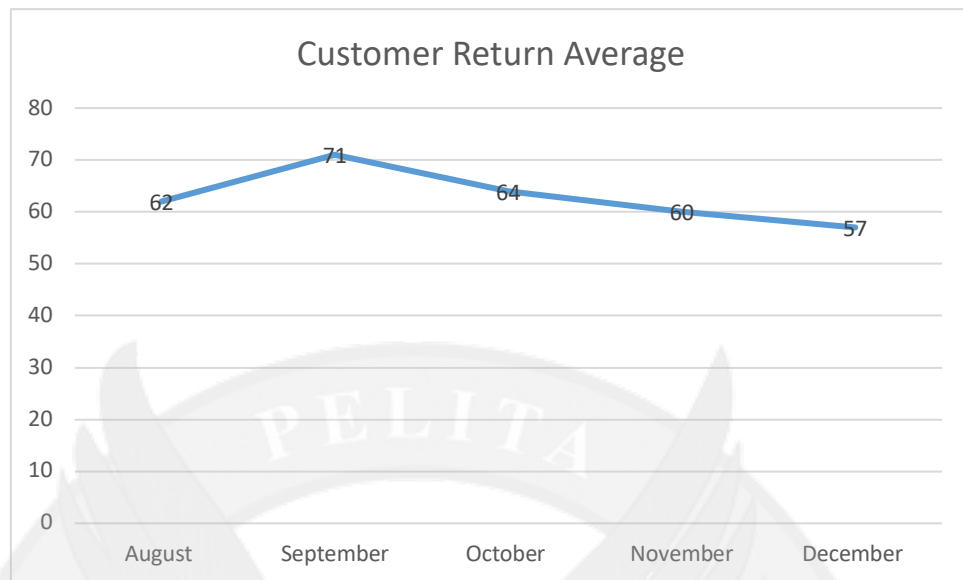


Figure 1.1 Customer Return Average at CV Seribu Satu Food Industry in Stabat

Source : Prepared by the Writer (2018)

Based on the data above, it can be seen that, from August to December, the number of customer return at CV Seribu Satu Food Industry was decreasing. It can be seen that, in August, the number of customer return was 62. In September, the number of customer return was 71, which is increase. In October, the number of customer return was 64. which make the decreasing percentage. Then, it can also be seen that from October to December, the number of customers return continuously decreased. Thus, these problems will lead to decreasing customer loyalty at CV Seribu Satu.

According to Bostanji (2013, p.232),

Many organizations have realized that maintaining excellence depends on acquiring customer loyalty, since service quality represents an necessary ingredient in order to convince customers to choose an organization than others, since achieving high levels of service quality provided is a vital artery that supplies service organization with loyal customers. Providing service of high quality is deemed the most effective

way to ensure service organization superiority of the over its competitors by retaining loyal customers.

Based on the descriptions above, the writer is interested to conduct a research entitled **“The Effect of Service Quality towards Customer Loyalty at CV Seribu Satu Foods Industry in Stabat North Sumatera”**.

1.2 PROBLEM LIMITATION

Due to limitation of time and ability, the writer would like to limit the research to service quality, as the independent variable, whose indicators are tangible, reability, responsiveness, assurance, empathy and customer loyalty, as dependent variable, whose indicators are purchase regularly, purchases across product and service lines, references to others, and demonstrates an immunity to the full competition, of CV Seribu Satu Food Industry in Stabat North Sumatera.

1.3 PROBLEM FORMULATION

Based on the above background, the writer formulates the research question as: Does service quality have effect on customer loyalty at CV Seribu Satu Food Industry in Stabat, North Sumatera?

1.4 OBJECTIVE OF THE RESEARCH

Based on the formulation of the above problems, the writer’s research objective is investigate the effect of service quality on customer loyalty at CV Seribu Satu Food Industry in Stabat North Sumatera.

1.5 BENEFITS OF RESEARCH

This research is expected to provide benefits, in terms of both practical and theoretical as follows:

1.5.1 THEORETICAL BENEFITS

Any Authors are expected to better understand & deepen their knowledge regarding commitment of relationships, service quality, quality of time, quality of engineering / HR, trust in customer loyalty, so that it can be used to contribute to academic area.

1.5.2 PRACTICAL BENEFITS

a. For the writer

The writer can develop her knowledge and present valuable information about service quality and customer loyalty.

b. For the CV SeribuSatu Food Industry

In order to be useful and become additional information and input for the progress of CV Seribu Satu Food Industry in Stabat.

c. For the research,

This research can be used as reference to the other reseachers in doing researches on relevant areas in the future.

1.6 SYSTEMS OF WRITING

The systematics of writing of this paper briefly describes the contents on each of the five chapters. The contents of each chapter in this study are as follows:

CHAPTER I: INTRODUCTION

In this chapter, the background of the research, problem limitation the formulation of the problem, objective of the study, the benefits of research, both theoretical and practical, and the system of writing are explained.

CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This second chapter elaborates the theories concerning with the problem of the study, which includes literature review, framework, and operational variables.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discusses the methods used to answer the main problem of research. This includes research design, research methods, data collection techniques, validity and reliability testing, and data analysis techniques.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter describes about 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 contains conclusions from the research, which are the answers to research problems, and some recommendations for improvement.