

CHAPTER I

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Nowadays, business competition is getting tougher because more companies operate on the same type of industry. Company needs the right marketing strategy so that the products they sell can be accepted well in the market. One of the marketing strategies that can be applied by company is to utilize marketing mix strategies which consists of prices, products, distribution and promotions. The marketing mix is the main elements in marketing.

One of the marketing mix elements is the product. The product in this case concerns on the quality of the product being marketed. Marketed products must meet the criteria desired by the buyer. Apart from quality, color factors, motives, the possibility of substitution of merchandise also influences product marketing. The availability of products in the store is also one of the important factors in increasing sales at the company. If the company cannot fulfill the buyer's request due to product limitations, the buyer will switch to another seller, causing a loss for the company. In contrast, too many products that are available and not matched by the company's ability to sell the product will also harm the company because of the accumulation of goods in the warehouse. For this reason, company also needs to establish strategies in terms of products.

According to Tjiptono and Diana (2016, p.176), "*Kualitas produk adalah segala sesuatu yang diterima konsumen dalam proses pertukaran dengan produsen, berupa manfaat pokok, produk fisik dan kemasannya, serta elemen-elemen tambahan yang menyertainya.*"

The above paragraph can be explained as product quality is everything that consumers receive in the process of exchange with producers, in the form of basic benefits, physical products and packaging, as well as additional elements that accompany it.

Product quality is the number one consideration in any purchasing decision. This does not mean that purchasing should always obtain the best possible quality, it may be very detrimental to company profits to obtain quality that exceeds product specifications. Purchasing department should obtain the best quality products, considering the function that must be performed, at the least possible total cost (Magad & Amos, 2013, p.240).

After the pricing strategy and product, then the company needs to do a promotion. Promotion is needed to introduce products to the public and also to maintain product viability. The purpose of maintaining product viability is so that, with promotions such as through advertising media, the public will remember the company's products and not forget it because of other similar products.

The buying decision is the decision of the buyer to purchase certain products at a certain price. To improve buying decisions, company needs to set the right sales strategy, one of which is to sell good quality products and affordable prices. Affordable prices in this case are prices that can compete with other companies that sell similar items. In addition, companies also need to promote so that the company's products are more widely known to the public.

PT. Kedaung Medan Industrial is a company engaged in glassware manufacturing industry. The company purchases raw materials through import from China and Egypt. Besides that, the company also buys some sample products from other countries as a guideline in making new types of products. The company also exports products to some countries such as Malaysia, Singapore and China.

Phenomenon that occurs in the company is the decline on buying decisions at the company. Many customers switch to purchase from other companies. Based on preliminary research, one of the problems causing the decline on buying decision is product quality. The company pays less attention to the product quality they sell. Although the product is produced

directly by the company, but when being sent to the buyer, the company should first check the quality of the item then send it to the buyer.

The following data shows the complaints from buyers because the items were damaged or defective when it reached the buyer:

Table 1.1
Number of Customer Complaints

No.	Description	Year: 2015	Year: 2016	Year: 2017
1	Defective goods	25 Case	29 Case	35 Case
2	Damaged goods	31 Case	30 Case	32 Case
3	Shipping goods do not match buyers' orders	40 Case	42 Case	44 Case

Source: Prepared by the writer (PT. Kedaung Medan Industrial, 2019)

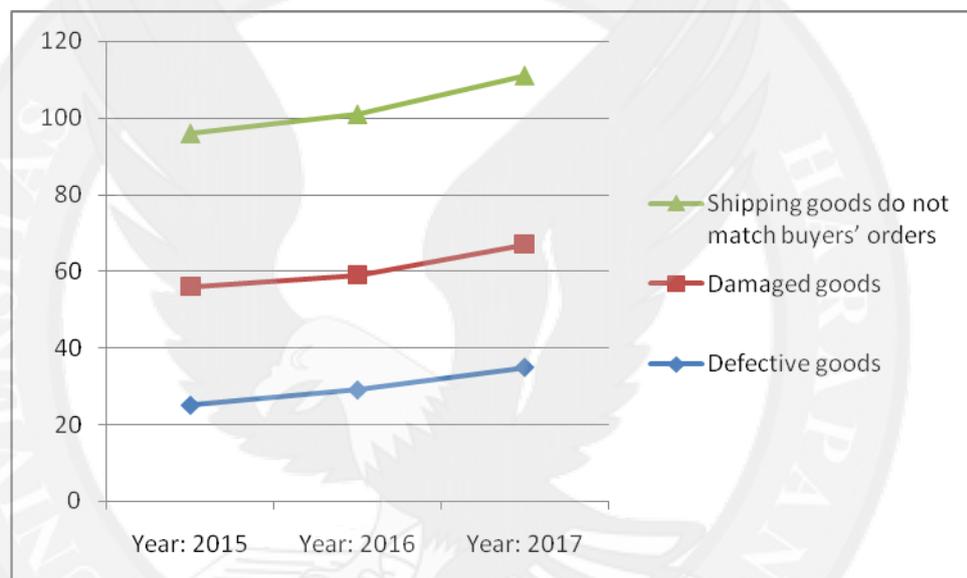


Figure 1.1. Number of Customer Complaints

Source: PT. Kedaung Medan Industrial, 2019

Based on the figure above, the data shows some of the reasons why buyers make complaints to the seller is because the goods sent to the buyer were in defect, damaged and not according to order. The company did not check the quality of the goods sent, causing disappointment on buyers. Even though the company is responsible for errors that occur, this problem has already caused a negative value from the company to the buyer.

The following data shows the decrease in buying decisions of customers:

Table 1.2
Decrease in Customer Purchases

No.	Year	Amount of Sales Transaction	Increase (Decrease)
1	2013	70.841	-
2	2014	69.258	(1.583)
3	2015	67.849	(1.409)
4	2016	66.541	(1.308)
5	2017	64.778	(1.763)

Source: Prepared by the writer (PT. Kedaung Medan Industrial, 2019)

Based on the table, the buying decision was decreasing from year to year. Based on description above, the writer wants to investigate whether it is indeed true that product quality is the factor causing the declining customers decision to purchase through this research entitled **“The Effect of Product Quality on Buying Decision at PT. Kedaung Medan Industrial”**.

1.2. PROBLEM LIMITATION

The object of this research is PT. Kedaung Medan Industrial. Furthermore, due to the limitation of time and resources, the scope of this research will focus solely on the variables within a few indicators and characteristics that the writer considers relevant.

The problem in the company is the decline in buying decision because the customers being disappointed with the product quality being offered. Although the product is produced directly by the company, and the company has quality control, they should also focus more on checking production results; however, when the products were being sent to the buyer, the quality control did not check the products again.

The indicators of independent variable, product quality, include: product performance, conformance, durability, reliability, and style (Tjiptono & Diana, 2016, p.177). The indicators of dependent variable purchase decision are introduction of problems, information search, alternatives evaluation, purchase decision and post-purchasing behavior (Foster, 2016, p.4-5).

1.3. PROBLEM FORMULATION

Based on the background of study, the writer can formulate research questions as follows:

- a. How is the product quality at PT. Kedaung Medan Industrial?
- b. How customers make buying decision at PT. Kedaung Medan Industrial?
- c. Does the product quality have effect on buying decision at PT. Kedaung Medan Industrial?

1.4. OBJECTIVE OF THE RESEARCH

The objectives in doing this research are as follows:

- a. To identify the product quality offered to customers at PT. Kedaung Medan Industrial.
- b. To describe how customers make buying decisions at PT. Kedaung Medan Industrial.
- c. To investigate whether product quality has effect on buying decision at PT. Kedaung Medan Industrial.

1.5. BENEFIT OF THE RESEARCH

The benefits from conducting this research are as follows:

1.5.1. Theoretical Benefit

As additional knowledge for researcher in studying product quality and its impact on buying decision at PT. Kedaung Medan Industrial and also to improve academic area on the relevant topic.

1.5.2. Practical Benefit

The practical benefits of this research are:

- a. For the writer, as input to compare the theory and practice in the company, especially regarding product quality and customer buying decision.

- b. For the company, as input for company to boost buying decision through product quality improvement.
- c. For other researchers, as reference in conducts same researches on the same area with this research.

1.6. SYSTEMS OF WRITING

The systems of writing in this *skripsi* will be as follows:

Chapter I: Introduction

This chapter consists of the background of the study, problem limitation, problem formulation, objective of the research, benefit of research and systems of writing.

Chapter II: Literature Review & Hypothesis Development

This chapter consists of some theories that are related to the research, such as definition of product quality, product classification, indicator of product quality, definition of buying decision, indicator of buying decision and its impact on buying decision. The writer presents previous research, framework of thinking and hypothesis.

Chapter III: Research Methodology

This chapters presents research design, research object, data collection method and data analysis method.

Chapter IV: Data Analysis and Discussion

This chapters shows general view of company data analysis and discussion.

Chapter V: Conclusion

This chapter presents the conclusion of this research, implication and the recommendation for the company.