

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nowadays, competition in business become much tighter than before. To face this competition, every business need to pay attention to their customer needs or want. Because it will affect customer satisfaction and loyalty to that business, both satisfaction and loyalty of customers can be gained from many factors, one of the examples is the service quality.

According to Daniel & Ni Gusti & I Putu (2016), customer satisfaction can make both employee and customer compatible. After getting customer satisfaction, it will automatically make the customer loyal, and it will of course benefit the company. In this business competition, customer behaviour becomes unpredictable since technological development, so the company should be able to focus on customer satisfaction.

In the business world, especially which is active in service, the customer's satisfaction is an essential element and also determined in maintaining and even growing to develop a company. So, the problem of service quality becoming a necessary factor in assessing the efficacy of a business.

The significance of service quality in many sectors has become a matter of great concern over the previous few years: hospitality, banking, sales and marketing sectors, the building and healthcare sectors. Excellent quality of service was acknowledged as a means of competitiveness and service supremacy.

Service quality is a significant idea for the business because it is essential to achieve superior value. Service quality is strongly linked to customer satisfaction, loyalty and even profitability in many kinds of literature. The aim of offering a quality of service is to meet the clients. Measuring service quality is a better way of finding out if a service is good or bad, or if the customer is satisfied. (Sreedhar, 2016)

Many advantages can be accomplished through service quality: client satisfaction, company images, customer loyalty and a competitive advantage to a company. Service quality efficiency can differ for distinct individuals. For instance, staff can demonstrate greater service quality perceptions than perceived clients, and therefore executives and staff can never find service quality deficiencies. (Al-Ababneh, 2017)

Customer satisfaction summarises the answers created based on the customer's experience when testing a product or service. A combination of customers' sense of service in different dimensions is called customer satisfaction, while customers will compare the actual benefit and customer costs with the customers' expected to use to determine their customer satisfaction. The importance of evaluating and tracking client satisfaction because of the outcomes of assessment and monitoring the level of client satisfaction is advantageous and essential for determining consumer purchasing intentions. Customer satisfaction is often also considered as one of the main factors that lead consumers to the idea of a restaurant again. The customer's level of satisfaction is likely to be closely associated with the consumer's repeated expectations and return of the purchase.

Furthermore, customer satisfaction management is a vital business process that uses input from the customers themselves. This input can be collected by either gathering customer feedback in the form of complaints, comments, and queries or using a qualitative approach by conducting surveys utilizing structured questionnaires.

Shoes are a top-rated product among Indonesian people. Therefore, every shoe company competes to create quality products and attract consumers. Besides, the large number of imported shoe products that continue to enter the domestic market causes increasingly competitive competition. Shoes are an essential part of fashion and have changed function from being limited to footwear to elements that can complement one's appearance. Also, shoes can increase the confidence and prestige of the wearer. This makes the shoe industry in Indonesia is growing so fast. One shoe industry that takes advantage of this opportunity is the Elgan Store.

Elgan Store, located on Jalan Sutomo No. 22B Medan City, is a family business company engaged in the wholesale of bags and shoes. This store was founded in 2009 by Mr Seramutar and Ms Rimaiwaty, where the company currently has 32 employees. The store specializes in shoes with the Elgan brand, while for the bag products, there are various kinds of brands being sold; for example, the Elgan, Serri, and Tracker brands. Multiple models of shoes and bags are sold at this shop, from children to adult shoes and men and women. In the past, Elgan Store followed trends and provided various models, so that the shoe shop was very popular with the community, especially teenagers. However, in recent years, sales

at Elgan Store have decreased significantly due to society's declining economic factors.

Based on the interview with the owner of Elgan Store, the business is facing complaints from the customers regarding service quality. The following are the customer complaints, number of Elgan Store's customers, and the Elgan store's income compiled from July 2020 to December 2020.

**Table 1. 1 Customer who complaints about service quality from July 2020 to December 2020**

No	Month	Number of service quality complaints
1	July	14
2	August	16
3	September	13
4	October	14
5	November	17
6	December	17

Source: Elgan Store (2021)

**Table 1. 2 The number of Elgan Store's customers from July 2020 to December 2020**

No	Month	Number of Elgan Store's customers
1	July	114
2	August	93
3	September	102
4	October	95
5	November	88
6	December	83

Source: Elgan Store (2021)

**Table 1. 3 The Elgan store's net sales from July 2020 to December 2020**

No	Month	Elgan store's income
1	July	Rp.231.906.000
2	August	Rp. 204.173.000
3	September	Rp. 239.500.000
4	October	Rp. 198.708.000
5	November	Rp. 177.258.000
6	December	Rp. 161.436.000

Source: Elgan Store (2021)

Based on table 1.1, the number of customer complaints about Elgan Store's service quality from July 2020 to December 2020 has increased over time. The information suggests that the customer did not feel satisfied with the Elgan's service. Their service quality failed to meet the customer's expectation which can lead to the loss of valuable customers.

Based on table 1.2, the number of Elgan Store's customer from July 2020 to December 2020 has decrease over time. The loss customer can be from the bad service quality that the store has, therefore, the loss customer will switch to the competitor which is really not good for Elgan Store.

Based on table 1.3, the Elgan store's net sales from July 2020 to December 2020 has decrease significantly. this is due to the decrease in Elgan shop customers in the last 6 months, it can be seen from table 1.2. The decreasing net sales of table 1.3 is data support to prove that due to poor service quality from Elgan store, it can cause the loss of loyal customers. If the situation did not improve, Elgan Store

would lose their income source. Overtime, it could make Elgan Store out of business.

Based on the phenomenon described above, the writer decided to analyse the influence of service quality towards customer satisfaction, thus write it in this research entitled **“The Influence of Service Quality Towards Customer Satisfaction at Elgan Store In Medan”**.

## **1.2 Problem Limitation**

Due to a lack of time, experience, and access to the company, the writer limits the research scope and only cover service quality as the independent variable (X) and customer satisfaction as the dependent variable (Y) at Elgan Store in Medan. This research will also limit variable X's indicators to focus only on reliability, responsiveness, assurance, empathy, and tangibles (Venkataraman & Pinto (2017)) and variable Y's indicators to concentrate only on suitability of expectation, the interest of repurchase, and the willingness to recommend (Afilia (2016)). Also, as the sample of this research focuses on observing the customer who has been purchased on January 2021 at Elgan Store.

## **1.3 Problem Formulation**

Based on the description of the background of the study above, the problem formulations in this study are:

1. How is the service quality at Elgan Store Medan?
2. How is the customer satisfaction at Elgan Store Medan?

3. Does service quality have a significant influence toward customer satisfaction at Elgan Store Medan?

#### **1.4 Objective of the Research**

The research objectives are as follow:

1. To discover the level of service quality at Elgan Store Medan.
2. To discover the level of customer satisfaction at Elgan Store Medan.
3. To discover whether service quality has influence toward customer satisfaction at Elgan Store Medan.

#### **1.5 Benefit of the Research.**

##### **1.5.1 Theoretical Benefit**

The writer expects this study's results to be useful to encountering similar problem that might be happen in the future, mainly about service quality towards customer satisfaction in a company.

##### **1.5.2 Practical Benefit**

This research has the practical benefit that are expected as follow:

1. For the writer

The outcome of this research will add the writer knowledge about the connection between service quality to customer satisfaction. With the knowledge that will be earned by the writer in this research, he can use it to



implement the theory to the business or company that he will work on in the future.

2. For the company

This research will provide recommendation and also some suggestion that the company can use or consider to be implemented at their place to improve their service. So, the company also don't need to waste much effort or money to find out about their problem that the writer will discuss in this research.

3. For the future researchers

This research will help future researchers in understanding on how service quality can impact on the customer satisfaction. This journal can be used to others researcher in the future to get the information that are needed for them to continue their research about the effect of service quality towards customer satisfaction.

