

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Food and beverage service industry has become one of the most fast-growing business industries worldwide. One of the dominant characteristics that makes this industry unique from other industry is that it's inseparable from not only about selling the products, but it has to be accompanied with the service delivery of the product as well, which would then result to customer's response towards the overall experience of the products and services.

A study conducted by Nielsen has showed that 11% of Indonesian citizens eat at least once a day and proven that Indonesian consumption behavior is higher than the global average of 9%. The growth of Indonesian's F&B businesses is also supported by the change of worker's lifestyle in big cities who inevitably work for long hours. Hence, the best option they have to satisfy their hunger is to order food from restaurants or cafes, may it be through offline or online platform. This result to less people eating home and eating out more.

Medan – a city located in North Sumatera, Indonesia; widely known with its endless culinary and delicacies. Especially in this era, Food & Beverage service industry has been growing even more rapidly in local street foods to coffee shops.

Restaurants, and cafes with varying price points in different types of food coming from different cultural backgrounds, such as: Indonesian, Western, Japanese, and even Korean. While seeing through the good side that many businesses are growing, there are still numerous restaurants and cafes that closed their doors due to the incapability to survive in this competitive industry.

Regarding the fact that customers are open to wider range of food & beverage outlet options and often with the similar type of product and service provided, food service providers has found it hard to avoid customer churn. In this context, customer churn occurs when customer stopped purchasing in one service provider and switch to another store within a specific time period. While on the other hand, if service provider is able to reduce the customer churn, this would help the business as keeping existing customers are much cost-saving rather than acquiring new ones.

Strong competition within the food and beverage service industry in Medan has undeniably encouraged all culinary entrepreneurs to always aim for customer satisfaction in order to retain their customer and become loyal customer to their company. Customer satisfaction can also be identified as the overall psychological state that reflects the evaluation of a relationship between the customer and the company, including the expectations of product and services. Hence, if customer complaints are handled properly, it would enable the enterprise to create customer satisfaction.

Khadka & Maharjan (2017) also stated that when a customer is satisfied with the product or service of the company, it can drive the repeated purchase and product or service recommendation to potential future customers. Word-of-mouth is extremely powerful tool when it comes to enhancing the business, revenue growth and attracting new customers. This can be supported by research done by Nielsen which has found that 92% of customers worldwide would trust word-of-mouth more than other advertising media. It is indeed a very crucial aspect in the hospitality industry.

Customer loyalty is when a customer purchases and consumes goods or services provided by the company and gives positive value to the company. Having loyal customers will not only cause short-term effect but in fact, long term benefits to the company, including reducing the marketing expenses yet still having exposure and expected returns, and generate Customer Lifetime Value (CLV).

In trying to keep up with the tough culinary competitions in Medan, Zac Urban has been putting efforts in keeping up to the latest trends by making their own house specialty menu (roasted chicken & pizza), while doing promotions in GrabFood and menu packages. The café is located at Jl. H. Adam Malik No. 56, identical with its urban interior design and high ceiling with K3 Mini-Market located just next door.

The writer has conducted preliminary interview with the owner of Zac Urban, with the result of the café unfortunately has failed to maintain

customer loyalty, in which they have challenge in keeping their customer loyal to the company; both offline and online existing customers seldom revisit and repurchase from the company. The signs of customer disloyal behavior can also be seen through the downward sales decline trend along with rising satisfaction-related complaints. The satisfaction-related complaints varying to:

Table 1.1 Criticism from the customers

No.	Criticism from the customers
1.	Some menus tend to be sold out
2.	Waiters are seldom responsive to customer requests
3.	Product quality does not satisfy the customers
4.	Long waiting time for food to come out
5.	Lack of empathy in giving service during peak hours

Source: Zac Urban, 2020.

The criticism from the customers has also shown that there are complaints regarding customer satisfaction. Such as:

- Some menus tend to be sold out during weekend and peak hours
- Waiters are seldom responsive to customer requests, in which the waiters need to be called multiple times by the customers to finally respond
- Product quality does not satisfy the customers, for instance: the roasted chicken was not well-cooked and still watery, the drink served was not the drink that the customer ordered
- Long waiting time for food to come out, in which one of the customers even had to wait for half an hour for food to be served

- Lack of empathy in giving service during peak hours, in which caused by the waiters being too busy during peak hours

Below are the illustrated sales decline percentage provided by Zac Urban Team:

Table 1.2 : Sales Decline Percentage (Compared to May 2020)

Month	Sales Decline Percentage (compared to May 2020)
June	-8.16%
July	-29.27%
August	-12.19%
September	-26.19%

Source: Zac Urban, 2020.

The author believes that customer loyalty cannot only be indicated through sales figures since it involves other factors as well. From the preliminary interview conducted with the Zac Urban Team regarding the company facing challenges in customer loyalty with satisfaction-related complaints too. As of that, it could be concluded that the problem existing in customer loyalty at Zac Urban Medan which can be reflected through the downward sales decline and complaints regarding customer satisfaction. Hence, customer satisfaction is most likely to influence the customer's tendency to revisit and repurchase from Zac Urban. Therefore, the writer would like to research about "The Influence of Customer Satisfaction Towards Customer Loyalty at Zac Urban Medan." through this thesis paper.

1.2 Problem Limitation

Research object is limited to analyzing the influence of customer satisfaction (as independent variable) towards customer loyalty (as

dependent variable) at Zac Urban Medan. The research is to be conducted with Zac Urban the research object, with the duration from December 2020 to May 2021. Indicators of X variable involve product quality, service quality, and price fairness. Indicators of Y involve attitude, preference, and allegiance. Target of this research is the customers of Zac Urban.

1.3 Problem Formulation

This research aims to answer the questions of:

1. How is the customer satisfaction at Zac Urban Medan?
2. How is the customer loyalty at Zac Urban Medan?
3. Does customer satisfaction have an influence towards customer loyalty at Zac Urban Medan?

1.4 Objective of the Research

The objectives of the research are:

1. To understand the customer satisfaction at Zac Urban Medan
2. To understand the customer loyalty at Zac Urban Medan
3. To know whether customer satisfaction has an influence towards customer loyalty at Zac Urban Medan.

1.5 Benefit of the Research

The benefit of this research can be elaborated into two kinds of benefit, which are:

1.5.1 Theoretical Benefit

The theoretical benefit of derived from this research are as follow:

1. For the author, this research will be able to help the author gain more knowledge and insights about customer satisfaction and customer loyalty.
2. For the readers, this can be used as reference in academic and hospitality industry through the insights and knowledge of customer satisfaction and customer loyalty.
3. For the company, this can help to improve knowledge and insights about customer satisfaction and customer loyalty.

1.5.2 Practical Benefit

The practical benefits derived from this research are as follow:

1. For the author, it provides more clearer and detailed understanding regarding customer satisfaction and customer loyalty, which may be handfull for many areas in the daily lives and future opportunities that are yet be discovered.
2. For the company, it would help the company to understand better regarding the influence of customer satisfaction and customer loyalty, which would then provide rooms for improvement in various aspects, better decision making, and maintaining the sustainability of the business.
3. For future researchers, it is able to act as references to the next research conducted relating with this specific topic