CHAPTER 1

INTRODUCTION

1.1 Background of the Study.

Nowadays especially in this era of globalization, business competition is growing rapidly. Accompanied by the increasing of the human population and the flow of money and goods on the business flow. This is making business owner need to have a competitive advantage to survive and compete with other business competitors. In this era where the level of business competitive is very tight, the effort that can be done by the company to survive in the industry is improving the product, service quality, and applying the modern marketing concepts such as market or customers orientation. Also, consumer buying interest in a variety of products and services has shifted substantially as a result of mature economies, rising markets, and market segmentation. Consumers have higher expectations and are more demanding than ever before.

By the growing of the competition has pushed many services and retail businesses to aim the most profitable ways to differentiate themselves from their rivals. According to (Rudie & Wansley, 1985; Thompson *et al*., 1985) in Safi and Awan's journal (2018), providing high quality services is the most effective ways for a company to do in a business.

One of the business segments that is growing up so fast is the food and beverage business. The competition in the food and beverage business seems to be

getting tighter. As evidenced by the recent emergence and the overgrowing of food and beverage place for the past view years here in Indonesia. If roughly calculated, there are at least dozens of new food and beverage place standing every year. According to Badan Pusat Statistik (2020), the food and beverage industry in the second quarter of 2020 increased by 0.22 percent on an annual basis. In 2018 it had been recorded that the number of food and beverage industries in Indonesia is around 11,001 (Badan Pusat Statistik, 2018, p.29). By the increasing number in various places, it reflects the results of the demand market for food and beverage industry is very high and the business also promising.

Human is a social being that's needed to communicate and socialize to each other. Some people need a place to stop after a hectic day and relax their mind and to get socialize with each other to ease their mind. Café is one of the alternatives places for people to have their interaction space and can enjoy their social life. Café is one of the foods and beverage provider that provide different kind of food and drinks. It provides not only food and beverages, but also provide a place to relax for people to enjoy. For people that lives in the city is already one of tertiary needs, especially for people who in younger generation.

On food and beverage industry services plays an important role. Attention for the interest of the consumers by observing their needs for the desires of satisfaction by the service performance is key factor for the success of a business. The quality of service in a company can determine the company's relationship with consumers in the long run. Therefore, companies are necessitated to be capable of

providing something valuable for the customers that it will give a deep positive impression.

The understanding service quality can be interpreted by understanding the term of quality that is defined from the "zero defect" ,or it can be understand by preforming it right on the first time (Parasuraman *et al.,* 1985) in Al-Haqam & Hamali's journal (2016).When a service provider failed to provide the service which customer expected, customers tend to seek for other service provider that has the ability to provide expected service. From this explanation it can be seen that by performing a good service can lead to customer loyalty.

Customer's loyalty is the key point to survive for a long period. Attempting to retain customers loyalty is not an easy task for company to do, because it's needed the focus and learning what is the customer behavior and wants. Loyalty of the customer comes from the commitment that keep them for always subscribing to the same product or services, and the loyalty of the customer will not be affected easily from other brand competitors as their perception towards the brand is the best compared the other brand competitors.

The Customers that is loyal to his/her buying decision will not going to consider the aspect of that is influence on deciding the choice of the levels of price, the quality, range, and other aspect, because it has embedded in his/her mind that the product or the service performance already meet the expectation. According to Sari (2015) in Maisya et al. (2019), that consumers who are loyal and faithful is someone who does the repeated of using the same company and will notify all other

potential customers from mouth to mouth, and it will become the defense mechanism for the company from the attack of other competitors.

This research takes place at Hidden Place café that is located at Sei Bangawan street number 74. Hidden place was first open for public on May 3rd ,2019. The café itself open from 09:00 am – 23:00 pm. Hidden Place is famous for their coffee and others blended drinks that have affordable price, that is make many people from many variants of age like to go there. Hidden place also provides variant of foods from main course to dessert. The cafe itself were surrounded by many green plants and trees, so it gives the illusion that the café was hidden. For people who like take pictures for the content of social media Hidden Place café is the place because the place itself was surrounded by photogenic spot. The first time when Hidden place was open, the café only known by the people who lives nearby, but now the café already popular and visited by many people.

According to the online review that complaining about the service performance and quality at the café. Some of the reviews are complaining that the services performance of the waiter does not exceed their expectation. This kind of review can lead to the failure of customers satisfaction and loyalty and leads to finding a new café or other food and beverage companies as their destination.

Below are the several online reviews towards the Hidden Place Café that is obtained from Google.com:

Figure 1.1 Online Reviews of Hidden Place Café Medan
Source: Google (2021)

For more accurate data, the researcher decided to interview the Café manager to get the complain that come from the guest to the service performance of Hidden Place Café. Down below is the customer complaint that had been recorded by the hidden place.

Table 1.1 Complaints that has been recorded by the Hidden Place Café Medan

Time Period	Complaints that had been recorded by the Hidden Place Café to the services performance
Year 2020-2021	1. The employee never smiles while performing the services to the guest.
	2. The employee gave the customer wrong order.
	3. The order that had been ordered took a long time to arrive.
	4. The employee can't explain some of the product that the customer asks.
	5. The employee didn't say any greetings.
	6. The employee forgetting the customer order.

Source: Hidden Place Café Manager (2021)

From the data above it can be seen that the service quality it still needs more improvement. The employee still lacking on how to perform basic services including greeting and smiling while greeting customers. Another crucial thing that the employee still needs to improve is the lacking on product knowledge. Product knowledge need to be mastered by the employee due to it can convincthe customers with the product that is available for purchase in Hidden Place Café.

Oliver (1999) in Al-Haqam and Hamali's journal (2016) stated that consumers can be "loyal" at each attitudinal phase relating to different elements of the attitude development structure. According to Sargeant and West (2001) in Tuan & Rajagopal (2017) it is clearly that the perceptions of the service quality and commitment is connected to loyalty.

Based on the description above customer loyalty can be achieved through presenting remarkable service quality at Hidden Place Café thus, researcher is interested in conducting a research which may provide significance on identifying the important of service quality variable. Which contributes in food and beverages industry as well as proceeding as guidance in conducting new research to serves as cross-reference in providing insight regarding service quality and customer loyalty value. Therefore, the title of this research is "**THE INFLUENCE OF SERVICE QUALITY TOWARDS CUSTOMERS LOYALTY AT HIDDEN PLACE CAFÉ**".

1.2. Problem Limitation

Based on the Background of the study above, the researcher needs to limit the problem with the purpose to make the research more focused and to avoid over-discussion. The problem limitation that set on in this research is: The problem of the research is only based on the services sectors of Hidden Place café. The only variables that will be talk about in this research is variable X (independent variable) that is customer loyalty to variable Y (dependent variable) that is customer loyalty.

The sample that can be used in this research, is only for the customers who ever came to Hidden Place café. The research area will be limited to the relevant area only which is the Hidden Place café.

1.3   Problem Formulation

Based on the background of the study, the problems can be described as follows:

1.   How is the service quality provided by Hidden Place Café?
2.   How loyal are the customers of Hidden Place Café?
3. Does the service quality have the influence towards customers loyalty at the Hidden Place Café?

1.4   Objective of the research

The purpose of this study is:

1. To examine the influence of the service quality at Hidden Place Café

2. To examine the influence of the customers loyalty at Hidden Place Cafe.

3. To examine the influence of service quality towards the customer loyalty at Hidden Place Cafe.

1.5   Benefit of the research

1.5.1   Theoretical Benefits

1. For the writer, the results of this study are expected can be used for developing and expand the knowledge about the theories of services management.

2. For the company, this study is expected to develop and giving insights about the importance to maintain customers satisfaction and loyalty.

1.5.2   Practical Benefits

1. For the company, it can be used as a reference to improve service quality in order to create excellence and be able to compete with another opponent.

2. For employees, it can be used as a reference to improve their service performance and to maintain the customer loyalty.

3. For other researchers, hopefully this research can be a guide for those who have the desire to learn about service quality and consumer loyalty