

CHAPTER I

INTRODUCTION

1.1 Background of the Study

It is the desire of every company to achieve its stated objectives. These objectives may include profit maximization, increase in sales, business development, product accessibility, product awareness and customer satisfaction, where profit maximization will primarily serve as the backbone of business objectives. To this extent, the degree of profit maximization depends on the level of customer satisfaction which has direct association with customer loyalty as one of the most important indicators of good performing organizations.

The influence of the satisfaction towards loyalty has been one of the most popular subjects in study of the marketing theory. Various studies have proved that satisfaction and loyalty have the significant relationship between one another. Furthermore, as there are many new brands which are established today, people are having more option in choosing the products and services that they prefer. Considering that there are many companies in this world which deliver similar products and services to their customers, some companies may perform some strategies to distinguish them from other companies in the same industries. Thus, in order to win the competitive market, maintain and expand the market, every company is demanded to be able to adapt to their market environment, by having the ability to give a satisfying respond and outperform to the altering customers' demand.

Customer loyalty and customer satisfaction perform as an important role in modern day business as the profit of a company may decrease due to customer satisfaction which also leads to the decrease in customer loyalty. Therefore, it is proven by several studies that customer satisfaction and customer loyalty are linked to each other. Ensuring customers' trust towards the brand are being build and well-maintained is crucial for a company (Barreto & Ramalho, 2019). Hence, the best and probably the easiest way for businesses to build trust with their customers is to deliver products/services based on the commitment they made to the customers, and exceed expectations whenever possible (Khan, et al., 2017). Not only related towards revenue generating factor, but customer satisfaction also connected to the cost reduction perspective as well (Hassan & Shamsuddin, 2019). In general, a company may have greater expenses in acquiring new customers rather than retaining them. Therefore, loyal customer which is built by relationship marketing will mainly serve as a valuable asset who encourage the other customers to form emotional connections with the company and its brand.

As it is important in building loyal customers, the satisfaction of each customer is highly measured nowadays. It is believed that customers will provide trust and maintain loyal to a specific brand on the assumption that they are satisfied with the products or services that are being provided. Brand loyalty also indicates a strong brand equity because without brand loyalty, a company may not achieve strong brand equity. Furthermore, the loyalty of customers towards a brand will also result in the motivation of them showing consistent buying behaviors.

Stated by the Ministry of Trade in the press conference held in October 2020, Indonesia has been one of the largest coffee beans exporting countries. During the press conference, it is stated that based on the data provided by Central Bureau of Statistics, Indonesia's coffee trade balance during January - July 2020, there is a surplus of USD 670.03 million in both coffee beans and processed coffee. This achievement has ranked Indonesia to be the 7th largest coffee beans exporting country in the world with an export share of 4.05% in 2019 after Brazil (14.02%), Germany (8.74%), Vietnam (7.8%), Switzerland (7.33%), Colombia (7.13%), and Italy (4.88%).

PT. Mulyo Kawi Wijoyo, Medan is a family business established in the late 1990s to offer the finest coffee beans to both domestic and international level. The employees of PT. Mulyo Kawi are eager in making sure that their customers are satisfied with everything that PT. Mulyo Kawi Wijoyo, Medan provides. This may include the way PT. Mulyo Kawi Wijoyo, Medan provides better quality of service in responding to their customers, offering a more reasonable pricing to the customers, and most importantly providing best quality coffee beans. With all of these aspects combined together, it is expected that the company may increase their customer satisfaction, in which may help the customer to increase their customer lifetime value (CLV). In this case, if PT. Mulyo Kawi Wijoyo, Medan is able to have high CLV, the Customer Acquisition Cost (CAC) might be decreased where the company may allocate the budget in another aspects, such as improving the service quality. If a customer's satisfaction is earned, then it is sure that customer loyalty will eventually take place as the relation of customers and the business

organization or market is, therefore, the most important one. However, after the interview was done with the manager, the writer found out that there are problems arising in the company. Based on the information obtained by the writer, it is informed that there was a decreasing in the number of customers who are renewing their purchase agreement with the company. The company expect that the dispute is caused by several factors. Information on customer disloyalty is represented in the following table.

**Tabel 1.1 Total Customers of PT. Mulyo Kawi Wijoyo, Medan
(January - December 2020)**

Period	Number of Customers
January	116
February	118
March	111
April	105
May	109
June	98
July	101
August	90
September	79
October	78
November	81
December	79

Sources: Prepared by the writer (2021)

It is mentioned by the director that the loyalty of their customers is gradually decreasing. This can be seen from the decreasing number of the customers who are willing to extend the purchase agreement with PT. Mulyo Kawi Wijoyo, Medan, where the number of customers has been declining from 116 in January 2020 to 79 at the end of the year. The changes in the number of customers have been experienced by the company since the last few years, however the declining number is getting clearer as the pandemic hits. The decrease in the customer loyalty occurs

due to the gap between the expectation of the customers and what the company provides which lead to customers' dissatisfaction. Another issue is there is a lack of the service quality which is due to the lateness in replying to the e-mails that are sent by the foreign customers which may let the competing company win the customers' heart. This lateness is in result of the time differences between Indonesia and also the countries where the customers are.

It is informed by the employees of the company that there are complaints from customers referring to the dissatisfaction of the delivery speed which lead to poor product quality, such as discoloration of the coffee beans. In this case, the discoloration itself is caused by high level of humidity which is resulted from the delay in the shipping process caused by the pandemic. This can be seen that since the pandemic, the number of shipping schedule has been reduced by the shipping company. It is stated by the director that the ship (feeder vessel) will only arrive at Port of Belawan once to twice a week, where the shipment will operate four to five times a week before pandemic. The lack of shipping schedule will cause the coffee beans to be stored at the warehouse for a long period of time without calculating the processing time and the transshipment period. Generally, the growth of the warehouse pests began to occur after the coffee beans was stored for more than three months in a normal environment and less than three months in extreme environment. Furthermore, it is stated that the tardiness in the shipping schedule will caused the coffee beans which have been loaded to the containers to be stored in the temporary storage area or container yard (CY) at the Port of Belawan. As being recognized, the temporary storage has a dry environment, area and the

container yard has relatively high temperature from direct sun exposure, and high humidity level. Damage caused by the pests and also the extreme environment may reduce the product quality through weight loss and quality of coffee itself, which will eventually lead to price reduction. Based on the explanation above, table 1.2 shows that there has been gap between the customer's expectation and reality where customers expectation in the delivery speed and product quality is not fulfilled.

Table 1.2 Customers' Expectation of PT. Mulyo Kawi Wijoyo, Medan

Number	Expectation	Reality
1	The arrival of products is on time	The arrival of products is often delayed
2	Quality of the coffee beans are according to standard	Some of the coffee beans are not according to standard quality

Sources: Prepared by the writer (2021)

To discover more about how customer satisfaction affects the loyalty of the customers, a research is conducted with the title **“The Influence of Customer Satisfaction Towards Customer Loyalty at PT. Mulyo Kawi Wijoyo, Medan.”**

1.2 Problem Limitation

Due to limited time, resources and budget, the research report will focus more on the influence of customer satisfaction toward customer loyalty at PT. Mulyo Kawi Wijoyo, Medan. In this research, the writer would like to limit the research by having customer satisfaction as the independent variable (X) and customer loyalty as the dependent variable (Y). Furthermore, the data collection process will be done by interviewing and distributing questionnaires to the customers by sampling method, where the analysis will be supported by using the Statistical Product and Service Solution (SPSS) program version 22.

1.3 Problem Formulation

Through analyzing both independent and dependent variables in PT. Mulyo Kawi Wijoyo, Medan, the writer finds out that the following problem formulation will help the firm in realizing how customer satisfaction may affect customer loyalty.

1. How is the customer satisfaction at PT. Mulyo Kawi Wijoyo, Medan?
2. How is the customer loyalty at PT. Mulyo Kawi Wijoyo, Medan?
3. Does customer satisfaction influence the customer loyalty at PT. Mulyo Kawi Wijoyo, Medan?

1.4 Objective of the Research

Based on the problem identification described in previous point, the objective of this research are listed in the following.

1. To measure the level of customer satisfaction at PT. Mulyo Kawi Wijoyo, Medan.
2. To measure the level of customer loyalty at PT. Mulyo Kawi Wijoyo, Medan.
3. To analyze whether customer satisfaction may influence customer loyalty at PT. Mulyo Kawi Wijoyo, Medan.

1.5 Benefit of the Research

The writer expects that this research can give benefits both theoretically and practically.

1.5.1 Theoretical Benefit

The theoretical of the research are as following.

1. The research is expected to help readers in understanding the topic of the influence of customer satisfaction on customer loyalty.
2. To be the reference for other researchers in the future regarding topics related to customer satisfaction and customer loyalty.

1.5.2 Practical Benefit

The practical benefits of the research are as following.

1. The research is expected to provide the company with the problems and information about the influence of customer satisfaction on customer loyalty.
2. The research is expected to provide the writer more understanding and knowledge on how customer satisfaction may influence the customer loyalty.
3. The research is expected to serve as an additional report of scientific research to the university as one of research results in the library.
4. The research is expected to provide references, information, and theoretical education for other researchers for further research regarding customer satisfaction and customer loyalty.