

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Recently, there have been many businesses related to hospitality. In the past, the general public or community was more familiar with hospitality with the world of hotels and tourism. Even though hospitality is very broad, almost every sector in any fields is currently side by side with hospitality. Hospitality is an attitude of delivering the warmth and friendliness that is carried out between people. The hospitality industry in Indonesia is often found at gas stations, hospitals, restaurants, banks, traditional markets, and so on. Hospitality in Indonesia is increasingly developing along with the number of tourist attractions, entertainment, and the most popular culinary field. Especially after the Ministry of Tourism continues to broadcast the visit of Indonesia or Wonderful Indonesia tag in the media. As a result, many businesses are competing in the hospitality sector. The service sector is the fastest-growing sector worldwide and contributes more to global output than any other sector (Diao et al., 2017). There are more and more service products innovation that are offered in various form of services. Therefore, companies must try to be different from other companies with the services and products delivered to maintain customer satisfaction as well as customer loyalty to the company. The goal is to provide satisfactory service so that customers can continue to increase (Sebastiana Sitompul et al., 2019). Every company has a unique way to determine a good marketing strategy, so its business can survive or

compete to achieve the company's main goals. It can be seen from the current business competition. The company must be able to gain the trust of the community; for example, the company must be able to build reliability and good service quality, promote prices that can be reached by the community, build brand image and create customer satisfaction and loyalty, as well as products quality that becomes consumers' repurchase interest in what the company has provided. The role of branding is very important in building customer trust (Iglesias et al., 2017); it provides value for customers (Kotler and Keller, 2016) and provides a basis for differentiation among service providers.

Customer loyalty is an important thing to pay attention to. Every entrepreneur or marketer hopes to be able to retain his customers for a long time. Because if the company has a loyal customer, this can be a valuable asset for the company. These customers continuously use the company's products or services, then automatically, these customers will also recommend to others according to their experience, either through Word of Mouth or by posting online reviews through social media or the marketplace.

Customers are the link to business success. Business cannot afford to lose customers in business competition. Therefore, customer satisfaction and customer loyalty should be included in the long term goals of the company. Satisfied customers can become loyal customers (Schirmer et al., 2016), and these loyal customers increase the customer base for the company. Therefore, customer satisfaction is an essential key to longevity and business growth. The more satisfied they are, the more loyal they are and the more likely it is that the

business will be successful. However, with increasing competition and other factors, customer expectations develop rapidly to change customer satisfaction. If the company does not pay attention to these factors, it will have an unhappy customer who will most likely leave and never repurchase.

Along with the development of the times, the lifestyle of urban people has also changed. One of the lifestyles is the habit of spending time in cafes. In Medan, there are currently many cafes. Even the existence of cafes has become part of the life of the urban people. A café is no longer just a place to eat and drink but also a place to socialize, gather with a group of people, a place become a photo spot for millennials, also be a place to do the assignment with their gadgets or to get rid of fatigue due to the routine that is carried out every day. The current trend of the urban people is going to cafes. They came there with the aims of wanting to spend their free time in a place with a friendly and pleasant atmosphere while relaxing and chatting. Therefore, cafes need to provide supportive entertainment and friendly service for consumer convenience.

With this phenomena, the number of cafes in big cities in Indonesia has grown rapidly, including the city of Medan. This is because many people open café businesses with a variety of menus and prices offered. As a result, the café has a different concept and vision from one another. In fact, because of the current development, many cafes have developed from the initial concept of a café in a general definition that provides coffee, tea, soft drinks, and snacks.

In choosing a café, everyone has different ways. For example, people can choose a café because of its unique place because of its strategic location, satisfying service, or unique interior theme.

Some consumers think that by choosing a unique café, they can enhance their creativity and their image. In addition, they will feel satisfied after spending some time and money at a café. Some other consumers prefer a café with a strategic location for easy access. Meanwhile, other consumers will prefer a café with satisfying service that makes them feel comfortable in that café.

The development of the cafe has become a trend for the people of Medan. The cafe business is starting to be in great demand because, besides generating high profits, there are also changes in human life patterns from era to era. This is also supported by a change in the mind-set of the people of Medan who want to try hanging out with family and friends. Young people began to like socializing. Not only young people but middle-aged women also like to hold social gathering events in cafes that are scattered in every corner of Medan. This can be seen in the list of cafes on Jalan Abdullah Lubis, Medan.

**Table 1.1 List of Cafes in Jl. Abdullah Lubis**

<b>NO</b>	<b>LIST OF CAFÉ</b>	<b>ADDRESS</b>	<b>ESTABLISHED SINCE</b>
1.	Sosmed Café	Jl. Abdullah Lubis No. 8/20	2013
2.	Habitat Coffee	Jl. Abdullah Lubis No. 14	2017
3.	SS Coffee Medan	Jl, Abdullah Lubis No. 9	2018
4.	A Dua Coffee	Jl. Abdullah Lubis No. 2	2016
5.	You-Nine Café & Lounge	Jl. Abdullah Lubis No. 26A1	2015
6.	Blu Jardin Coffee & Dining	Jl. Abdullah Lubis No. 6A	2020

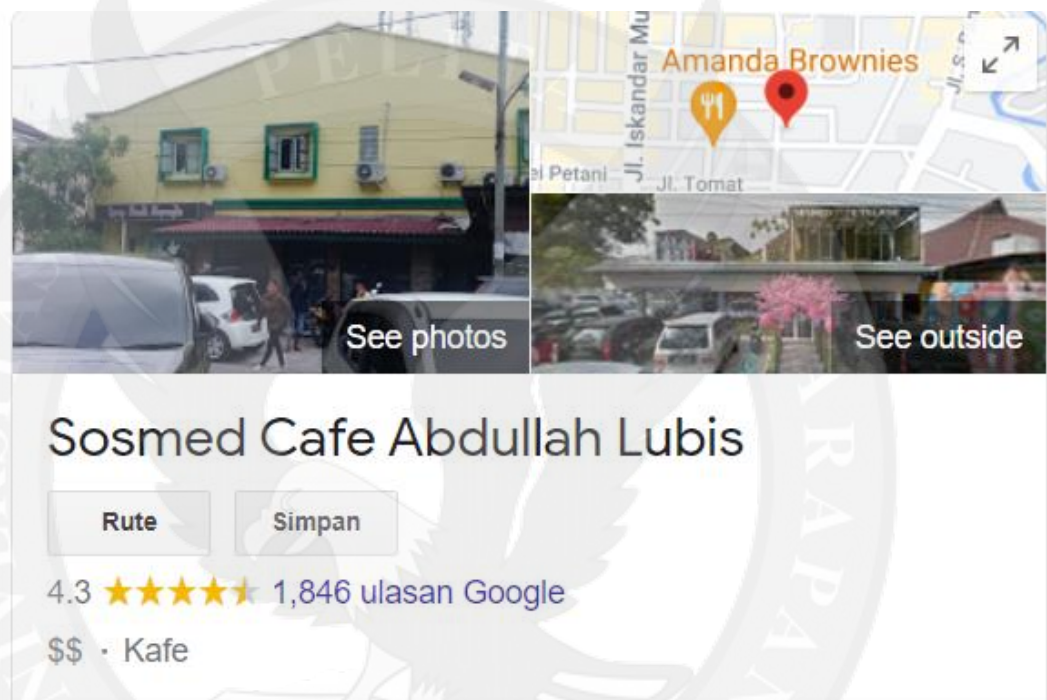
Source: Data survey prepared by the writer (2021)

The number of existing cafes creates competition among these companies. Companies can win the competition, take advantage of existing business opportunities, and try to implement the right marketing strategy to dominate the market. Market control is one of the main activities carried out by entrepreneurs to maintain the viability of their business, develop and get the maximum possible profit. This can be achieved if consumers are satisfied with the performance of the products offered by entrepreneurs.

One of the cafes that are currently booming among the people of Medan is Sosmed Café. The writer chose Sosmed Café as the object of research because Sosmed Café is a pioneer in the food and beverage business with the theme of social media in Medan. Sosmed Café realizes that innovative concept can steal the attention of millennials with the concept of social media. This café has Instagram-able photo spots and a unique named food menu. Sosmed Café is implementing an attractive interior design following the modern lifestyle that is happening nowadays, which is the concept of social media. Almost everyone is very familiar with social media to communicate, seek information, devote moments, and use it for business. Sosmed Café promises to be unique in every food and beverage menu. The name of the menu, the appearance of the food served are unique to attract the attention of many people—innovative taste and unique serving concept. Not only provide indoor facilities, but Sosmed Café also provides an outdoor garden area for relaxation and fresh photo spots. This is an exciting experience offered by Sosmed Café for their customers. Sosmed Café target market is for every age because it has an affordable price that all groups can enjoy but more

focused on millennials because it has a unique interior design and food appearance. Based on these considerations, the writer needs to examine cafes that are crowded with customers.

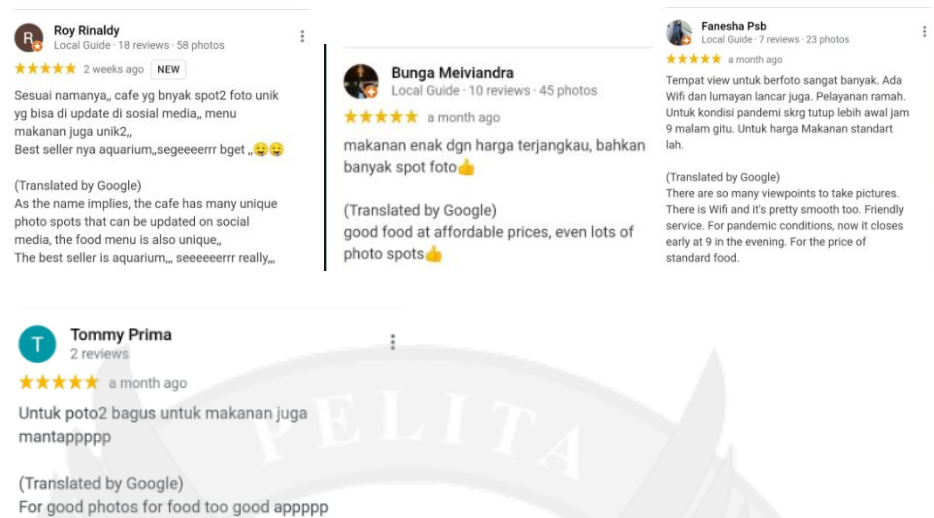
The figure below shows the rating of Sosmed Cafe Abdullah Lubis on Google Reviews with a total of 1,846 reviews.



**Figure 1.1 Google Reviews of Sosmed Café**

Source: Google Reviews (2021)

Customer Satisfaction at the Sosmed Cafe Abdullah Lubis is quite satisfying and has a fairly high rating. This can also be a benchmark for Sosmed Cafe Abdullah Lubis in increasing customer satisfaction. Ratings and reviews for Sosmed Cafe Abdullah Lubis can be said to be high at 4.3 stars, so it can be said that Sosmed Cafe Abdullah Lubis is sufficient to meet customer satisfaction in its performance and service. This can be seen through consumer reviews in the following figure 1.2.



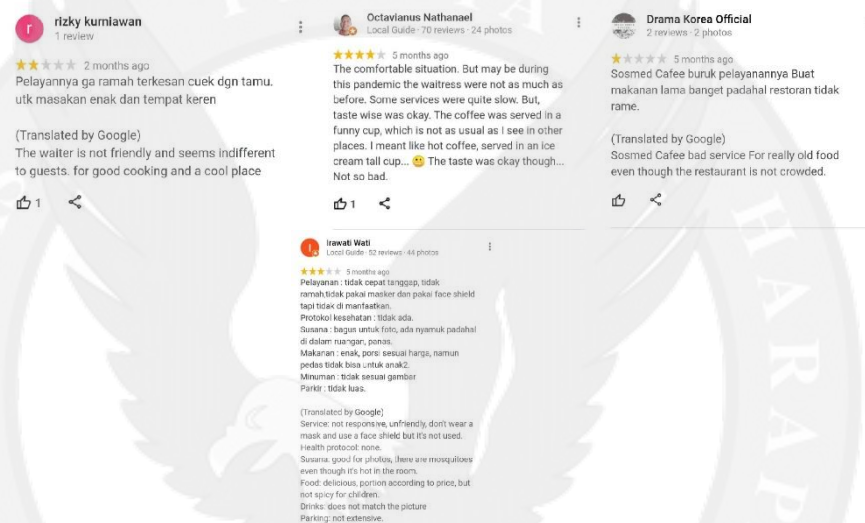
**Figure 1.2 Google Reviews of Sosmed Café**

Source: Google Reviews (2021)

Company management always strives to provide the best quality service for customers, the quality provided by management will lead to customer perceptions of the quality provided. However, oftentimes there are differences between customer expectations and perceptions of the quality of service provided by management. In order to find out customer satisfaction, it is necessary to evaluate the performance, especially the quality of service from customers. Therefore, to deal with increasingly diverse views of service quality, companies are always required to increase innovation and be sensitive to changes and market desires to provide a degree of satisfaction that meets customer expectations.

During the pandemic, the President of Indonesia appealed to Indonesian citizens to stay at home and support the government's decision to lockdown and quarantine areas to prevent the spread of the coronavirus. This clearly affects the level of sales and income. Including Sosmed Café Business is hampered in 2020 due to a pandemic, which resulted in a reduction in sales and visitor levels in early

2020. Over time, and the New Normal protocol was established, the sales and visitor levels gradually increased. However, when the New Normal was implemented, there was a reduction in the services provided to its customers. This creates a gap in the expectations built by customers. This can be seen in the online customer comments via google reviews below.



**Figure 1.3 Google Reviews of Sosmed Café**

Source: Google Reviews (2021)

Based on customer reviews on Google, there are several negative comments regarding the quality of service provided, especially during this pandemic. However, seeing the increasing number of competitors, as shown in Table 1.1, companies are starting to compete to provide customer satisfaction so that customers have high loyalty to the services offered by the company. Therefore, Sosmed Cafe Abdullah Lubis must pay more attention to employee performance and also convince consumers that the possibility of similar things as



lack of responsiveness can be reduced and improve employee performance, especially in terms of service.

In carrying out service activities, adequate communication factors are needed. With the existence of communication, it is believed to improve the performance of better employees to achieve reasonable satisfaction. Employees are also required to improve performance to achieve the expected goals. If the decrease in visitor levels occurs in succession, it will threaten the survival of the Sosmed Cafe Abdullah Lubis. Of course, this is not profitable because this can have an impact on reducing income.

For mutual convenience, the company's data cannot be displayed to the public because the data is the company's privacy. However, the problem related to customer loyalty is that customer loyalty is only based on the number of visits. For this reason, it is necessary to know customer loyalty through customer satisfaction based on actual responses in Sosmed Café in terms of reviews survey given from customers. Therefore, the writer is interested in examining how much influence customer satisfaction has on customer loyalty at Sosmed Café Abdullah Lubis branch, Medan.

According to previous research, Ibojo et al. (2015) "Impact of Customer Satisfaction on Customer Loyalty: A Case Study of a Reputable Bank in Oyo, Oyo State, Nigeria" state that customer satisfaction has a positive influence on customer loyalty. Roger et al. (1996) stated that many researchers examined the fact that customer satisfaction affects customer loyalty, which positively affects the development of profitability. Reichheld (1996), in his book "The Loyalty

Effect”, states that in various industries, a five per cent increase in customer retention rate will result in a 25 to 100 per cent increase in profits. Therefore, if the relationship between satisfaction and customer loyalty is positive, then high satisfaction will increase customer loyalty.

From the phenomena and explanations above, it is seen that it is important for Sosmed Cafe Abdullah Lubis to always strive to increase customer loyalty in the midst of this tight and very competitive cafe competition. Therefore, this study will focus on customer satisfaction and customer loyalty at Sosmed Cafe Abdullah Lubis.

Based on the background stated, the writer is interested in researching the title “The Influence of Customer Satisfaction towards Customer Loyalty at Sosmed Café Abdullah Lubis” thoroughly in this applied research project/skripsi.

## **1.2 Problem Limitation**

Based on the background previously described and due to time and budget constraints, this research's problem is limited to focus on the research and avoid overly broad discussion. The limitations of the problems set out in this research are as follows:

1. The research was conducted at Sosmed Café Abdullah Lubis branch.
2. Respondents were selected from consumers who had visited Sosmed Café Abdullah Lubis at least twice.
3. The writer limited the problems to customer satisfaction and customer loyalty.

### **1.3 Problem Formulation**

Based on the problem boundaries described previously, the writer formulates the following problem:

Does customer satisfaction influence customer loyalty at Sosmed Café Abdullah Lubis?

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

Based on the problems formulated, the objective of this study is to analyse the influence of customer satisfaction on customer loyalty at Sosmed Café Abdullah Lubis.

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

The results of this research are expected to provide the following benefits. These can be separated into two kinds of benefit, which are:

#### **1.5.1 Theoretical Benefit**

The results of this research are expected to serve as a reference for other research related to the problem under study and the consideration of the related companies through the results of this study and documentation at Universitas Pelita Harapan.

### 1.5.2 Practical Benefit

The practical benefits of this research are:

1. For the writer, this research can increase the knowledge and understanding of the writer in the field of research starting from data collection, data processing to presentation in the form of a report.
2. For the company, the results of this study are expected to serve as:
  - 2.1 Providing material considerations to the company, especially regarding the effect of customer satisfaction on customer loyalty for the improvement and development of the company under study.
  - 2.2 Increase scientific insight and ability to research problems.

For future researchers, this research is expected to be a reference material for future research related to customer satisfaction and customer loyalty related to the hospitality management industry.