

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nowadays, culinary business has become one of the businesses developing rapidly. It has been competing with each other in order to attract customers' interest. According to Putra (2018), the culinary business in Indonesia is definitely more developed than in previous years. This can be seen from the existence of new culinary business, new restaurants, and new foods that are so exciting. According to Putri (2017), in this era of competition, a strategy that only prioritizes service quality is still considered insufficient to attract and retain customers. The growing culture and lifestyle of people in Indonesia has created a new perspective on how consumers do not only think about what to consume but more on satisfaction and comfort so that loyalty is created from consumers. This also applies to service companies, especially cafes, because today's cafes not only fulfill the need for food and beverages, but also provide benefits in the form of exterior and interior facilities.

The first impression that would make the customer decide to enter a service firm is the physical environment. According to Hendriyani (2018), after entering a restaurant, the physical condition of the restaurant is the first aspect that customers can feel, becoming a core factor for clients. In reality, customers want to eat at a

restaurant not just for their nutritional needs, but also to have a memorable experience, to get along with others and get away from the problems and routines of life. This is the reason why the owners of food and beverage industry need to have an attractive physical environment in order to attract more customers.

According to Githiri (2019), the physical environment plays an important role in increasing financial success and the customer's desire to buy purchase again, as well as customer loyalty. Physical proofs of good will have a major impact on every customer's perception and at the same moment, this factor is one of the causes that will have an impact on customer expectations (Yosep et al., 2016).

Customers who are satisfied with service industry would spread their experiences to the others such as friends and families. This could benefit the industry as it may gain more customers who would likely to experience the same service. According to Hendriyani (2018), undoubtedly, oral feedback from peers has a positive long-term effect on restaurant profitability. From this statement, the service industry is expected to provide its customer with the best atmosphere and experience.

Once the customer has an experience with the firm and feels satisfied with it, customer would come back repeatedly to enjoy the same experience and customer would soon become a loyal customer to the firm. According to Thakur (2016), attitudinal loyalty as a customer's desire to remain faithful to a single supplier in marketplace by repeating their buying experience.

D'raja Coffee was founded in 2013 by the two brothers, Rudy and William. Before D'raja Coffee, the two brothers have literally made a small coffee business which only contain of four tables. Slowly, both brothers start to make the small business become bigger and name it as D'raja Coffee. The first ever coffee bean that the two brothers had served using the method of manual brew was Toraja bean. This is the history behind the name of the coffee shop which is from Drip Toraja Coffee, shorted as D'raja Coffee. As the coffee shop grows through the year, they start to open branches and franchise to gain more profit.

In doing business, sometimes it is not always working smoothly as the business needs to balance themselves with the customers' need and comfort in order to satisfy them. D'raja Coffee is a business that operates in service industry. Every year, customer might find something new which interest them. The company also needs to find out a new way to attract the customer so that they would like to visit the coffee shop. It cannot be denied that there are ups and downs in every branches and franchise of D'raja Coffee. Below is the data collected by the writer from the company.

Table 1.1 Number of Transactions for Year 2016-2020

Year	Number of Transaction (Approximation)	Percentage (%)
2016	27,000	-
2017	26,000	-3,7
2018	30,000	15,38
2019	28,000	-6,67
2020	24,000	14,29

Source: Prepared by the Writer (D'raja Coffee Hub KNO, 2021)

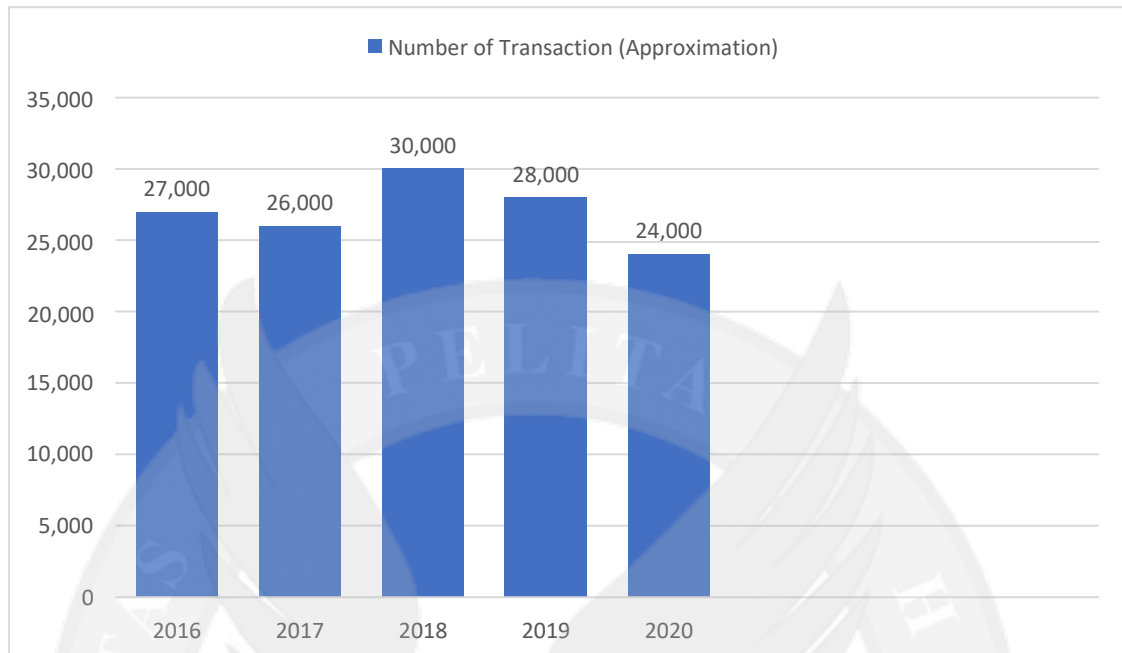


Figure 1.1 Number of Transaction for year 2016-2020

Source: Prepared by the Writer (D'raja Coffee Hub KNO, 2021)

The table and figure above show the number of transactions per year in D'raja Coffee Hub KNO, Medan. 2016 is the first year of D'raja Coffee Hub KNO began to operate and as written above, the number of the transaction is 27,000. The next year of 2017, the number of transactions decreased a bit to 26,000. The percentage from the year 2016 to 2017 is -3,7. In the year 2018, the number of transactions hit it highest of 30,000 transactions. The percentage from the year 2017 to 2018 is 15,38. In the year 2019, the transaction went down a bit to 28,000. The percentage between the year 2018 to 2019 is -6,67. In the year 2020, the transaction hit the lowest number of 24,000. The percentage between the year 2019 to 2020 is 14,29.

Aside from this data, the writer has also found some poor reviews from the customer that might be also the reason for the decrease in the transaction.









<p> Edy Utomo Local Guide · 44 reviews · 104 photos</p> <p>★★★★☆ 2 weeks ago Suasana cukup nyaman, hanya saja jendela hendaknya bisa diperbesar, akan lebih indah dan nyaman</p> <p>(Translated by Google) The atmosphere is quite comfortable, it's just that the window should be enlarged, it will be more beautiful and comfortable</p>	<p> Kh Umam 261 reviews · 141 photos</p> <p>★★★★☆ 4 months ago Rasa standar, tempat duduk di luar lbh sebaiknya di kasi atap supaya gak kepanasan dan kehujanan</p> <p>(Translated by Google) Standard taste, the outside seating is better given the roof so it doesn't get hot and rainy</p>
<p> Januar Pribadi 10 reviews · 9 photos</p> <p>★★★☆☆ a year ago Kafe elit tp ruangnya kontainer</p> <p>(Translated by Google) Elite cafe but the room is container</p>	<p> IWAN MILALA Local Guide · 130 reviews · 641 photos</p> <p>★★★★☆ a year ago Sempit</p> <p>(Translated by Google) Narrow</p>
<p> Deli Framework Local Guide · 15 reviews · 8 photos</p> <p>★★★★☆ 2 years ago Serem karena di ujung jalur pesawat.</p> <p>(Translated by Google) Scary because at the end of the plane lane.</p>	<p> rangga rahmananda Local Guide · 100 reviews · 134 photos</p> <p>★★★★☆ 3 years ago Okelah...sayang nyamuknya keroyokan baik duduk dalam maupun luar</p> <p>(Translated by Google) Okay ... dear mosquitoes keroyokan either sit palace and outside</p>
<p> Rizky Wijanarko 2 reviews · 5 photos</p> <p>★★★★☆ a year ago Atap payung bocor</p> <p>(Translated by Google) Umbrella roof leaked</p>	<p> Adril Amran Local Guide · 147 reviews · 36 photos</p> <p>★★★★☆ 2 years ago Kamar mandi kotor</p> <p>(Translated by Google) Dirty bathroom</p>

Figure 1.2 Customers Online Reviews

Source: Google Review (2021)

From the figure above, it could be seen that many customers have visited the coffee shop complaining about the physical environment in the shop. The complaints are how the customer wishes the window inside the café could be bigger, how the outdoor should have an umbrella so that the customer does not get hot or wet during a rainy day, the layout is made from a container, how narrow is the place, the location is at the end of the airplane lane, how uncomfortable the environment in the café because there are many mosquitoes whether it is indoor or outdoor, the leaking umbrella, how dirty the toilet which makes the customer uncomfortable.

From the data and review which the writer has gathered, it could be seen that there is indeed a problem in the shop. From the customers' reviews, it is stated that the physical environment in the coffee shop is bad. The bad physical environment in a service industry will inflict the coffee shop reputation. It is necessary to know about the importance of the physical environment in a coffee shop to gain more customers. This is the reason why the writer is interested to write the title of **“The Influence of Physical Environment and Customer Satisfaction on Customer Loyalty at D’raja Coffee Hub KNO, Medan”**.

1.2 Problem Limitation

The decrease in customer loyalty can be caused by many factors such as service quality, customer satisfaction, physical environment, price, food quality,

and many more. However, due to the limitation of time and budget, the scope of this research will be limited to:

- a. D'raja Coffee Hub KNO, Medan
- b. The Influence of Physical Environment on Customer Satisfaction and Loyalty. From this statement, physical environment is an independent variable. Customer satisfaction is an intervening or mediating variable. While customer loyalty is a dependent variable.
- c. The indicator of physical environment: aesthetic, lighting, ambience, layout, table setting and service staff (Mahalingam et al., 2016). The indicator of customer satisfaction: over-all satisfaction, confirmation of expectation, and comparison to ideal (Kusumasitta, 2014). The indicator of customer loyalty: repeat purchase, retention and referrals (Nurmillanita, 2018).

1.3 Problem Formulation

To aim the investigation of this, which is The Influence of Physical Environment on Customer Satisfaction and Loyalty at D'raja Coffee Hub KNO, Medan, below are the lists of problem formulation which will be used:

- a. How is the physical environment at D'raja Coffee Hub KNO, Medan according to the customers?
- b. How satisfied are the customers of D'raja Coffee Hub KNO, Medan?

- c. How loyal are the customers of D'raja Coffee Hub KNO, Medan?
- d. Does physical environment influence customer loyalty at D'raja Coffee Hub KNO, Medan?
- e. Does customer satisfaction influence customer loyalty at D'raja Coffee Hub KNO, Medan?
- f. Does physical environment and customer satisfaction simultaneously influence customer loyalty at D'raja Coffee Hub KNO, Medan?

1.4 Objective of the Research

According to the problem limitation and problem formulation, here are the objectives of the research:

- a. To describe how is the physical environment at D'raja Coffee Hub KNO, Medan according to customers.
- b. To evaluate the satisfaction of customers at D'raja Coffee Hub KNO, Medan.
- c. To assess the customers' loyalty at D'raja Coffee Hub KNO, Medan.
- d. To analyze whether physical environment influence customer loyalty at D'raja Coffee Hub KNO, Medan.
- e. To examine the influence of customer satisfaction on customer loyalty at D'raja Coffee Hub KNO, Medan.
- f. To explain whether physical environment and customer satisfaction simultaneously influence customer loyalty at D'raja Coffee Hub KNO, Medan.

1.5 Benefit of the Research

The benefit of this research can be categorized into theoretical and practical benefit as follow:

1.5.1 Theoretical Benefit

The result of this research is expected to add insight and enlarge the knowledge of the hospitality industry especially in the influence of the physical environment on customer satisfaction and loyalty. Aside from that, this can be a compass to the future researcher.

1.5.2 Practical Benefit

For the practical benefit, it can be categorized as follow:

- a. For the writer, to enhance more experience, knowledge and understanding on how physical environment influence customer satisfaction and customer loyalty.
- b. For the company, to increase the customer loyalty at the company and improve the company itself for the better future.
- c. For other researchers, it is expected to be useful for not only the research object but also as a references or study cases for scholar and future researchers that might have similar issues in the future.