

CHAPTER I

INTRODUCTION

1.1 Background of the Study

A business that is entering the era of free trading nowadays will face a very tough competition. The increasing of competitors intensity requires each company to always pay attention to customer needs, wants, and strive in order to reach customer expectations, by offering a better service, so as to offer more customer satisfaction. Each company's quality and the market will provide a boost to the customer to establish a strong bond. Such bonds allow a company to understand thoroughly the expectations desired by the customer, in order to create customer loyalty, (Tiong, 2018).

Every business organization's success can be measured through how satisfied and loyal of the customers. In every start-up or big business, profit always comes from customers. The businesses which are in the high position in the market are the ones that are successful in satisfy the customers. Satisfaction of customer is the vital to the business' achievement as well as taking on a crucial position in expanding the market value. Customers are generally those individuals who purchase products and services from the market or company that fulfils the customers' needs and wants. Customers buy goods or service to satisfy the expectancy after purchase. The businesses need to decide the product or service quality with the cost which will attracts the customer to become loyal and so do to retains a relationship in a long-term. If we can reach customer's satisfaction, then it

is certain that customer loyalty will come along as well. (Khadka & Maharjan 2017)

Services are business activities that happen among two parties that are willing to create value for both seller and buyer. Customers purchase services as they are looking for desired results such as experiential and functional. Indeed, many companies are explicitly marketing their services as alternatives to the requirements of potential customers. Instead of ownership transfer, all the expected value from customer from the service purchase in exchange for time, money and effort arise from a variety of the creating components value, (Lovelock & Patterson, 2015).

According Brysland & Curry (2015) in his research stating that the service quality should be measured at least for these three reasons: First, the measurement results can be used to make comparisons between before and after the change in an organization; Secondly, the measurements are needed to find out how problems are related to quality; Third, the measurement results are required to establish quality of service standards. Paying attention to the quality of service can make an organization different from other organizations and will ultimately gain competitive advantage, (Pramukti & Buana,2019).

Apart from service quality, customer satisfaction is also a priority after providing good service. Customer satisfaction is the result of the services provided in meeting the expectations expected by customers. Customer satisfaction can be defined as the overall experience with a purchase, known as general satisfaction. Customer satisfaction has a very strong influence on the competitiveness of the product and, therefore, on the company, so it is also necessary to examine customer

satisfaction within the context of competitiveness. Customer satisfaction with a company's products or services is often seen as the key to a company's success and long-term competitiveness, (Suchánek & Králová, 2019). Customer satisfaction become the most significant goals that every business searching for long-term relationship must be the highest priority. Customer satisfaction is defined as the consequence of a comparison between the customer expectations and perception quality results of their subsequent service (Minh & Hu, 2016).

Customer loyalty shows how the company maintains the relationship with their customer. A customer will be loyal when he feels satisfied using the products or services. Hereby we know that customer satisfaction is especially important in order achieve customer loyalty. Customer is loyal if their needs are fulfilled. Customer loyalty depends on the customer behaviour, repeating order from time to time shown that the customer is loyal. The return of customer loyalty is a long-term business which can be seen by the increasing profit of a company. Through the service process, it creates give and receive information. If there has been exchange of information and positive benefit, it will increase the trust of both who serve and be served. The customer whose expectation has been met will surely build trust on the company itself, then it will develop loyalty of customers.

Customers will submit a feedback in complaint or suggestion form for improvement if they end unsatisfied with product or service received, by associating the expected quality based on the information received before purchasing a product or service. Basically, customer complaints have been received verbally, by call or a directly visit to the company, and in writing by mail or

distributed questionnaires. Therefore, company must act immediately in responding all the feedback to create a better service for customers, (Al-Haqam & Hamali, 2016).

Service quality is expected level of excellence or control over the level to meet customer desires. Customer satisfaction can be defined as the overall experience with a purchase, known as general satisfaction. Customer's loyalty is expected to bring long term benefit for the company from mutualism relationship during a certain period. Therefore, by achieving service quality and customer satisfaction, customer loyalty will also be achieved because the company is able to meet the expectations expected by customers. It can be concluded that the understanding of the service quality itself is all form of service provided to the maximum provided by the company to meet customer expectations. If company is able to reach both customer's need and expectation, it will automatically lead to the satisfaction and loyalty of the customer itself.

According to the previous research results, Indah (2016), Sari (2017), and Hariansyah et al (2018), service quality has influence towards the customer loyalty while according to Triandewo and Yustine (2020) and Octavia (2019), service quality has no significant influence towards customer loyalty.

PT. Top Remit is a remittance company which is located in Asia Street No.23/55, Sei Rengas I, Medan City - North Sumatera. A remittance business is a worldwide money transfer service for everyone with a growing transaction across the country. Trust problem, hidden fee, long queue are the significant problems they have solved. The company began quite small in 2009 where they could only send

between Indonesia-Malaysia and now, PT. Top Remit allows sending money to 60 countries, in addition, the company offers the customers services such as, instant transfer, bank transfer, cash pickup, e-wallet and home delivery to ease the customer in doing the transaction. In transaction, there will be fees charged and the fee that PT. Top Remit offers is a good price which is Rp75.000 to every destination. This fee is way more affordable than a transaction that is done by a traditional way. PT. Top Remit believes that there is a better way of transferring money in a more efficient and simple way without having to queue in counter and not to mention the high markup fee and safety reason. The company wants to make this task more transparent and secure with a desire to enhance society participation.

Table 1. 1 Annual Revenue of PT Top Remit Medan (Year 2015-2019)

Year	Revenue	% Change / Year
2015	Rp 490,458,000	-
2016	Rp 470,950,000	-3.98%
2017	Rp 488,625,000	3.75%
2018	Rp 495,950,000	1.49%
2019	Rp 490,735,000	-1.05%

Source: Prepared by the Writer (PT Top Remit Medan, 2021)

Based on the table above, there is a problem where every year the revenue of PT Top Remit Medan is unstable. Moreover, the revenue was increasing at decreasing rate from 2016 to 2019. This has posed another question whether the revenue will start decreasing again as in the previous years. There are some customer complaints about the time accuracy where sometimes the money delivered not on time and the website can also be error. The writer wants to analyze that if the customer complaints will have an influence to service quality which will lead to the satisfaction of customers.

Table 1. 2 Annual Customer of PT Top Remit (Year 2015-2019)

Year	Customers	% Change / Year
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2015	2,226	-
2016	2,136	-4.00%
2017	2,216	3.76%
2018	2,249	1.5%
2019	2,225	-1.06%

Source: Prepared by the Writer (PT Top Remit Medan, 2021)

From the table above, we can see that the customers of PT Top Remit each year is quite unstable. The customers decrease from 2015 to 2016, increase from 2016 to 2018 and decrease again in 2019. This points to the loyalty of the customers because each year it have some changes. This inconsistency is suspected to occur due to the service quality. The company time accuracy in transferring the money is quite unstable, information given by the company is not sufficient and the respond of the customer service is dissatisfied.

The time accuracy where sometimes the money delivered is not received on time by the recipient caused by the un-responding system for certain time. This un-responding system might cause the delay in the transferring money. The company mentioned that the recipient would receive the money within 5 minutes by using instant transfer and receive the latest 1-day work time by using bank transfer. But in fact some people tend to experiencing delay in receiving the money.

The other problem is the information given by the company is not sufficient where some information that needs to be understood by the customer beforehand is not given. The information mentioned is that in transferring the money to other countries, there is actually a range of amount that is fixed so the customer can't fall behind nor exceed the range. This information is known after sometimes of usage and when the customer enters the amount that falls behind or exceeds the range.

In addition, it was mentioned by the company that their customer services will actually fast-respond on every issues. However, the inconsistent customers

happened are suspected due to the poor respond of the customer service regarding the complaints, company does not provide a quick solution to the complaints from customers and do not solve problems well instantly which causes dissatisfied customers.

Therefore, in this research, the researcher wants to analyse PT. Top Remit Medan in case to discover how the quality of service has influence on the loyalty of customer at PT. Top Remit Medan, thus write it in this thesis entitled “**The Influence of Service Quality on Customer Loyalty with Customer Satisfaction as Mediating Variable at PT. Top Remit, Medan**”.

1.2 Problem Limitation

The scope for this research is limited with the purpose to simplify the data collection and processing. There are so many remittance businesses in Medan. This study will only examine one of the remittances which is PT Top Remit Medan. There are three variables that are being studied in this research, they are: independent variable (X) which is service quality, mediating variable (Z) which is customer satisfaction and dependent variable (Y) which is customer loyalty. The indicators for service quality are tangibility, reliability, responsiveness, assurance, and empathy; for customer satisfactions are overall customer satisfaction, expectation, and customer dissatisfaction; for customer loyalty are willingness to recommend, future repurchase intention and price sensitive. The process of data retrieval is done by handing out questionnaire to every customer of PT Top Remit Medan.

1.3 Problem Formulation

Based on the description on the research background, the research issues in this study are as follows:

- a. Does service quality have any influence towards customer satisfaction at PT Top Remit?
- b. Does service quality have any influence towards customer loyalty at PT Top Remit?
- c. Does customer satisfaction have any influence towards customer loyalty at PT Top Remit?
- d. Does customer satisfaction have any influence in mediating service quality and customer loyalty at PT Top Remit?

1.4 Objective of the Research

- a. To identify the influence of service quality towards customer satisfaction at PT Top Remit
- b. To identify the influence of service quality towards customer loyalty at PT Top Remit
- c. To identify the influence of customer satisfaction towards customer loyalty at PT Top Remit
- d. To identify the influence of service quality towards customer loyalty with customer satisfaction as a mediating variable at PT Top Remit.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The result of the research will develop and expand the insight knowledge in academic area, especially on service quality, customer satisfaction and customer loyalty.

1.5.2 Practical Benefit

- a. For the company, the research will offer recommendation for the company to improve the service quality and customer loyalty
- b. For the writer, the research will provide more understanding and experience about quality of service and the loyalty of customer in the context of real life.
- c. For other researchers, the results of this research can be used as references for studies in the similar special.

