CHAPTER I

INTRODUCTION

1.1   Background of the Study

As the world grows, customer's behaviors also grow. As a result of the growing, customers become more demanding than before. Customer will keep demanding until customers get what they want. Countless of companies in every industry in the world are experiencing the fast-growing of customer's demand. Hospitality industry is inevitably involved in this fast-growing demand. As a service sector, hospitality industry keeps fulfilling the high demand of customers which will satisfy customers' needs and will eventually be loyal to a certain company.

Hospitality industry is a wide industry that satisfy customers through service. Many companies are included in the hospitality industry such as, Food and Beverage service (restaurants, café, and so on), leisure sector, hotel, airlines, and many more. Being included in the hospitality industry, Food and beverage has become one of the most contributed sectors in serving customers' demand. This is proved by the increasing on the contribution in national's Gross Domestic Product. According to Priadi et al. (2020) the national's GDP of Food and Beverage industry in 2016 reached around 580 trillion rupiah or 6% of the whole national's GDP. In 2017, Food and Beverage industry contribute up to 6,4% of the whole national's GDP. From the data above, we can conclude that the GDP of Food and Beverage industry grows and benefit to nation economically.

This research is done in Medan. Medan is the capital city of North Sumatera, Indonesia. Medan is considered as the biggest city in North Sumatera where different ethnics stayed here. There are Chinese, Javanese, Indian, Bataknese and many more. Different kind of attractions are also to be found here in Medan and become one of the most visited tourism spots in Indonesia. Due to the attractiveness, many tourists from overseas and domestic are eager to visit Medan. This result in the rapid construction of many Food and Beverage Industry such as Café.

As the market grows, obstacles also become more enormous. There are many companies that succeeded in growing deeper in the market but there are also companies that going out of business. This is due to the incapability of the companies to attract new customers and retain the existing customers. Due to the era of digitalization, customers behaviors slowly begin to change, becoming more demanding than ever. Technology allows customer to compare one product to another, their qualities, environment, price, feedbacks. Therefore, company that did not reach the expectation of customer may be suffer, as customer has many alternatives to decide on.

Numerous of companies have tried to attract customers using different kind of peculiar schemes. These peculiar schemes may include uncommon ingredients, competitive price, magnificent interior/exterior design, and captivating concept. Customers are attracted to unusual or new idea due to their curiosity. Nevertheless, these ideas will only last in the first several months. Customers will get to the point where the unusual has become usual. To sustain after the first several months is the challenge that company should be facing afterwards.

Experimental evidence that indicated the positive relationship between customer satisfaction and customer loyalty has been shown by a large number of previous research (Han & Ryu, 2009; Kandampully & Suhartanto, 2000; Mittal & Kamakura 2001; Rather, 2017; Rather & Sharma, 2016a, as cited in, Rather & Sharma, 2017). Therefore, companies are attempting their foremost effort to ensure customer satisfaction that will eventually lead to loyalty of customers.

One of the ways to achieve customer loyalty is through customer satisfaction. Customer satisfaction could be defined as the fulfilment of the customer's needs towards the product or service. Customer satisfaction may also come from the beyond expectation of a customer. It is important to meet the customer's satisfaction as it will affect the customer loyalty. In a market where the level of competition is quite high, customer satisfaction and customer loyalty are interconnected, which means that if there is an effort from the company to increase customer satisfaction, customer loyalty will also increase and vice versa if the company decrease customer satisfaction, then loyalty of customers will also decrease (Utama & Si, n.d.).

Customer loyalty is an attitude that shows loyalty to the company for the services or products offered by the company, customer loyalty may affect the future of a customer behavior into consistency according to Oliver in Huriyati in (Ulfa & Mayliza, 2019). Hoe and Mansori (2018) said that a strategy to increase the loyalty and to maximize share of customers is to build customer loyalty. There are many factors that influences the customer loyalty, such as product quality, service quality, customer satisfaction, and many more. According to Timm (2013) in (Manajemen

& Viii, 2018) customer loyalty is a customer who always makes repeat purchases guarantee the income of the company, tend to buy more, willing to pay higher price, which will have a direct impact on the profits earned by the company.

In this research the author has decided to make Padi as the research objective. Padi is a start-up company based in Medan, Indonesia. Padi itself is a café that established in the early year of 2019. Padi is located in Cemara Asri, Medan, Indonesia. As a café, Padi has their main target market which are the people who live is Cemara Asri. They are also a café which customers can order through online service platform.

Although Padi has their own characteristics, the characteristics may not determine the loyalty in Padi. Although Padi has positively thrived past years, unfortunately the company experience downward of customers coming starting from July 2020. According to the interview, the data shows that there are declining of customers in the past six months. The table below shows the declining number of customers:

Table 1.1 Number of Padi Customers (July – December 2020)

Months of 2020	Number of customers compared to June 2020 (453 customers)
July	420 (Decline 7%)
August	435 (Decline 4%)
September	350 (Decline 23%)
October	410 (Decline 9%)
November	367 (Decline 19%)
December	400 (Decline 12%)

Source: Prepared by author (2021)

The table above shows that customers are declining compared to June 2020. Therefore, in order to find out the issues of the declining customers; the author has conducted preliminary interview for customers who have ever made purchase in Padi. The preliminary interview is shown below:

Table 1.2 Preliminary Interview

Purchased item	Feedback
Nasi Crispy Chicken Barbeque	The food provided is not as good as what I can get in other places
Kopaja	Please add more coffee base drinks
Kopaja	There are not many menus, and the coffee does not have much coffee extract.
Nasi Liwet Ayam Mentega	The food quality is not consistent. Sometimes it was good but sometimes it was too spicy
Chicken Popcorn Large	The price is a little too high without using any voucher or online promotion.

Source: Prepared by author (2021)

Table 1.2 shows that the feedbacks in Padi café that the author has collected are mostly negative feedbacks. In other words, satisfaction is the repeated issue that needs to be overcame. Satisfaction plays an important role in the food and beverage company. From the data above, it can be concluded that satisfaction is the problem in order for customers to repurchase at Padi.

Thus, the author believes that the problem of the research is the satisfaction of customers. Nonetheless, customer's loyalty could not entirely be determined just from the number of the customers every month. One's type of psychological, characteristics or behavior may play part in the process.

Therefore, the author would like to research **"The influence of Customer Satisfaction towards Customer Loyalty at Padi in Medan"**.

1.2   Problem Limitation

- This research is limited only to find the influence of customer satisfaction (as the independent variable) towards the customer loyalty (as the dependent variable) at Padi in Medan.

- This research is limited only for the customers that have ever visited Padi.

- Due to limited of resource, time, and budget, which result in author experienced some limitations.

1.3   Problem Formulation

Based on the background of the study above, the writer formulates the following problem.

1.   How is the customer satisfaction at Padi in Medan?

2.   How is the customer loyalty at Padi in Medan?

3.   Does customer satisfaction have an influence toward customer loyalty at Padi in Medan?"

1.4   **Objective of the Research**

This research is conducted with the objective of:

1. Finding out the level of customer satisfaction at Padi in Medan.

2. Finding out the level of customer loyalty at Padi in Medan.

3. Finding out the influence of customer satisfaction towards customer loyalty at Padi in Medan.

1.5   **Benefit of the Research**

The benefit of this research could be separate into two kinds of benefit, which are:

1.5.1   **Theoretical Benefit**

The author hopes that the benefit of this research may offer some awareness to the company about the issues that they may be facing in the moment.

1.5.2   **Practical Benefit**

a.   Author

The benefit for the author is to make author understand the real-life working about the customer satisfaction and customer loyalty.

b.   Company

For the company, author hopes that this research may improve the business in the future by considering the analyzes that the author has conducted in the research.

c.	Other researchers

Expectantly, this study research may be helpful for other researchers that are interested in doing the same study research in the future.