

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Business is a continuous activity that begins with the acquisition of raw materials, continues with manufacturing, marketing, and distribution of goods and services to consumers. As we know, the objective of forming a corporation is to ensure the company's survival through growth and profit maximization with the expectation that profit would rise over time. The increase in revenue and profit can be used to assess the company's success in carrying out its operations. If a company's viability to develop and compete is maintained, it will operate more efficiently and in order to achieve these objectives, the corporation will need to undertake planned improvements and keep invigorating the surrounding environment.

Generally, in the process of running and developing a venture, there are many obstacles that occurs during the process as the result of the fast expansion on the business world today, and because of the highly sophisticated growth of business in Indonesia have resulted in more intense rivalry in the business sector, as there were increased number of different sorts of enterprises in Indonesia, indicates that the country's economic development is currently accelerating.

Hereinafter, because of that, plethora of companies will face such an intense competition in every element of their operations in today's market and each firm is fighting to persuade its customers to remain doing business with them in various ways. This compels the firm to pay greater attention to the surroundings that may have an impact on it, so they could choose what sort of management plan to employ and how it should be implemented. Still, every business player in every business category must be responsive to any changes that occur and focus on client happiness as the primary aim.

Thus, that's the reason why every company have to adept and compete fiercely when dealing with competition, not only by simply offering low-cost goods and positioning them in conveniently accessible locations, but companies have to be able to take the advantage of opportunities that exist in the market and used that to sustain customer loyalty where it is the importance and core point in the business sector as it is critical for long-term success. In addition to that, by controlling, invigorating the company tactics in attracting the customers, it could also become the key factor to increase the company performance as well as profit, as it is helpful in produce products, establish pricing, run promotions, distribute goods and in escalating the customer satisfaction and trust, that efficiently could differentiate the enterprise from other competitors as well as it could immensely affect the business development. Hence, it's notable for company to have a good perception in customers point of view.

Moreover, the miscellaneous issues that could appear during we operate a business. This could be seen by the creation of plethora of brands and goods to

satisfy customer demands. The existence of a wide range of brands and goods creates direct rivalry among business players, forcing them to use all of their skills and best efforts in order to stay ahead of their market competitors. One of the predominant problems in today's era is, many new entrepreneurs have sought to enter the market in a way in competing with the old enterprise, as they may have reinvented cheaper alternatives that excogitate new innovations in order to meet market needs as well as in offering cheaper price and service to the market, that could captivate the customers attention. However, those things could become substantial problem to the existence of an old company and if they are not capable to adapt with those challenges, they could be an amateurish effect towards the company continuity and even some of them may go collapse.

Thus, establishment must keep seeking an invention to coordinate with the capricious business challenges and confront it with strength and credence. Nonetheless, the main procedure that could be implemented is to continue in make improvements on the quality of the products. The importance of getting a good judgment of a product from customer demonstrates the creation of customer satisfaction. Other than that, cost of production is also useful as a basis for determining selling prices and profits, as it is a tool that could assess efficiency in the implementation of the production and pricing process, and as a guide in management decision making, where the company's inaccuracy in calculating or determining the cost of production could have a negative impact on the company and the customer perception. As a result, a competitive selling price is beneficial to the firm in order for make a good perception of price, as it will continue to develop,

remain sustainable in the face of more tough commercial rivalry, as well as in order to gain good customers perception, trust and satisfaction that could lead to invent the loyalty of customer.

Where the client is usually categorized as one of the company's assets that should not be lost by most businesses, because the costumers are someone who will purchase the company's product and without them, there will be no sales and profit to the business and customers are the eminent factor to the success of any organization, because they possess an ability to make a firm succeed or fail. Customers that are loyal to a brand, tends to be faithful to the brand, products, and services that the company provide. Besides that, customer loyalty could boost profitability, sales, and enables for long-term expansion. A well-designed and well-implemented loyalty program may assist retaining existing customers, attracting new customers, lowering turnover, and increasing revenues. Thereupon, if customer is loyal towards company, it automatically will affect and risen the company performance.

Customer loyalty be affected by product quality, perception of price and customer satisfaction because they correspond to each other and affects each other performance in order to enhance customer interest in purchasing.

According to (Astuti & Abdullah, 2018), the capacity of a product to perform its functions, such as durability, dependability, or advancement, strength, and convenience, is referred to as product quality. The product is defined as an object used by the firm to make market offerings that demands consumer attention, a sense of belonging, and happiness after possessing it.

According to (Firmansyah & Se, 2019), price affects consumer buying interest, consumers price perception refers to how pricing information is completely comprehended and given profound meaning to them. Information processing is one way to understanding pricing perceptions.

According to (Indrasari & Press, 2019), customer satisfaction is defined as a person's feelings about the performance of a product that is felt and expected. So, based on the definitions above, a person can be said to be content if their sentiments meet or even exceed their expectations. Moreover, according to Oliver in Tandon et al-2018, customer satisfaction is a crucial element to understand how customer wants and wishes are met (Saidani et al., 2019).

Those 3 variable have the strong connection that will effect the customer loyalty, the good quality of product will effects the customer trust as well as perception of price and satisfaction that ultimately will effects the customers loyalty towards the company.

This variable will be use or connected with CV Bintang Jaya Abadi (BJA), even though there are many factors that could be the matter of the issues that are occurring in the firm, the reason for applying these variables in this research is because most of the time, this are the major issues that frequently facing by the firm, which could be seen by the respond or comment from the customers day by day. The quintessence will be shown below regarding what issues that happen in the company related to the variables on this research. Besides that, that's the reason why this research still needs to be done in order to know the role of each of variables

towards the customer loyalty, whether there are also other factors that could be the causes to effecting the customer loyalty.

CV Bintang Jaya Abadi (BJA) located at Jalan Brigjend Katamso No.600 & 602, Medan, Kec. Medan Johor, Kabupaten Deli Serdang, Sumatera Utara 20146. This company could be categorized in family business states, because the enterprise has been bequeathing into the second generation. The first founder of this company is Mr. Gek Ngoan, where he has legate the firm it to his son Mr. Eric. Thus, CV Bintang Jaya Abadi establishment is on the second generation because it has been inherited to Mr. Eric. Moreover, this company is an electric based company that had run about 20 years, they first open the start-up company in 2000. They start off as the distributor of electric products from the brands such as Tesla, Hannochs, Kawachi, Uticon, Panasonic, Visicom, Yundai, Steel, Arashi, Surya, Sunfree, Sunsonic, Mikachi and etc. The goods are such as electric socket, MCB, lamp, plug, flashlight, battery, stabilizer, emergency lamp, head lamp, pipe, stove, flintstone for stove and other miscellaneous stuff and cooperate with a few employees in the beginning of the journey.

However, after their endeavor and hard uphill battle, now they have expanded the business and possess an office at Brigjend Katamso street No.600 & 602, Medan. Including several stores in Medan city, that located in Kampung baru and Marendal street. Nonetheless, they also have expanded their own brand which called as “Sympa” in 2017 which is a led lamp-based product, and the other brand of their products is “SS Premium” which is the cable product that was found in 2016, the other product from this company are such as electric plug, flashlight,

downlight, calculator, Christmas decoration lamp, fan, antenna, light socket, emergency lamp, regulator, pump, led-module, capacitor, stove burner and other miscellaneous stuff that was named after those two brand, as well as they also transforming the company to CV (Commanditaire Venootschap). Currently, the company have been doing stagnant, although they have gained more employees than before, but they are still sustaining and maintaining the company performance and sales. During the process, the company also face some encumbrances. Where after some order, many customers didn't come back to purchased products from CV Bintang Jaya Abadi again, even many old customers have forgotten their rapport with the company and there's an infidelity because they have moved to other competitors. That's the reason why the customer loyalty variable is being applied to become the dependent variable, in order to know what are the causes that have possibly affected the customer loyalty. Apart from that, the venture also notices there are some products that run into the degradation state which indicates the deficient performance of the company. All this problem could be an impediment to sustain the enterprise sales and performance. In addition to that, this is the examples of product sales from CV Bintang Jaya Abadi products that encounter derivation:

Table 1.1 The list products that encounter degradation

The product that encounters degradation	
Christmas Led Lamp	Sales
2017	5.000 Pcs
2018	4.500 Pcs
2019	3.000 Pcs
2020	1.500 Pcs

Source: Prepared by the writer (2021)

The product that encounters degradation	
Swing Fan	Sales
2017	7.000 Pcs
2018	5.500 Pcs
2019	4.500 Pcs
2020	2.000 Pcs

Source: Prepared by the writer (2021)

On the other hand, besides those problem, the other issues that the firm are facing is the pricing struggles. There's a condition where customer invariably complaint about the price and product quality, that shows the dissatisfaction of customer is occurring. Which is the reason why the variables on this research is regarding or related to those problem, They found out that, many competitors sell slightly similar price with the company, even the offered price is slightly cheaper, as it could excrete a blunder if the customer comparing the price that was given from the firm and they compare it with other competitors, whereas it will affect the customers loyalty and satisfaction and it could affect the company tenacity and sales. In addition to that, the example case of price comparison that betide:

Table 1.2 The example of price comparison table

Price comparison	Product	
	Arde Plug Uticon (S-28)	
	Number of Items Ordered	Given Price
CV Bintang Jaya Abadi	100 units	Rp.7.250 / pcs
Other Competitors	100 units	Rp.6000 / pcs

Source: Prepared by the writer (2021)

Nevertheless, the other example case that could be interpret is, arguably if the customer is ordering a small unit of goods or it's a new customer, the company

will provide a slightly diverse price when they compared to customer that order bounteous of goods or customer that's more preponderant. But most of the time, it could arguably say that some small customers will feel insulted and cease the relationship between the company if they found out the differences price that was given. In the reason of, usually customer is careless about the amount that they are ordering and on the other hand they just want to achieve a maximum profit and keep competing or negotiating the price match to the enterprise in order to equalize with bigger customer price list. The example of price negotiation could be seen from the data below:

Table 1.3 The example of price negotiation table between small and large customers

Customers Types	Product	
	Arde Plug Uticon (S-28)	
	Number of Items Ordered	Given Price
Customers order less units / Small customers	20 units	Rp.7.250 / pcs
Customer order big units / Big Customer	100 units	Rp.6000 / pcs

Source: Prepared by the writer (2021)

From above examples, it's showing the list of problems that are occurring in the firm. Hence, it's notable for the enterprise to investigate as well as take an action, in order to relieve these issues and decreasing the percentage of the same problem that could re-appear in the future. Besides that, it's also noteworthy to maintain and sustain the company sales and performance, in the result of to achieve the good product quality, customer perception towards price, customer satisfaction

that could affect to invent customer loyalty which is immensely necessary and have potent effects towards the business.

Therefore, this is the reasons why this research is made to do some studies for those problem. Because this problem might affect the company growth and development which could eventually decrease the sales performance and continuity. Thus, that's the reason why, this research title will be called as **The Effect of Product Quality, Perception of Price and Customer Satisfaction on Customer Loyalty at CV Bintang Jaya Abadi, Medan**. So, from this research it may provide the solution for this problem.

1.2 Problem Limitation

Most every research have certain limitations, as the results of the study will be less precise if the study is not limited, the author decides to conduct the study by setting several limitations, such as:

- a. The data of this research is gathered from the head office of CV Bintang Jaya Abadi that located at Jalan Brigjend Katamso No.600 & 602, Medan, Sumatera Utara, Indonesia.
- b. Due to geographical, time and cost constraints, the respondent were only taken from the customers of CV Bintang Jaya Abadi that are particularly located in Medan, Sumatera Utara, Indonesia. As well as the customers that have purchased the product more than once.
- c. As for product quality variable, it can only be use for the goods that is manufactured by the company. Thus, the respondent was only taken from the customer that have ever order or use the company own products.

- d. The research only uses four (4) variables, which are:
- a) The first independent variabel X1 is Product Quality, whose indicators are: Performance, Features, Reliability, Compliance, Durability, Service Quality, Aesthetics, Perceived Quality.
 - b) The second independent variable X2 is Perception of Price, whose indicators are: Price competitiveness, Price parity with price advantages, Affordability of price, Price is determined by the product's quality.
 - c) The third independent variable X3 is Customers Satisfaction, whose indicators are: Complaint and suggestion system, Lost customer analysis, Customer satisfaction survey.
 - d) While the dependent variable Y is Customer Loyalty whose indicators are: Repetition, Referral, Refers other, Retention.

1.3 Problem Formulation

In analyzing on how the Product Quality, Perception of Price and Customer Satisfaction effects on the Customer Loyalty at CV Bintang Jaya Abadi is the intention of the research. Therefore, this research attempts to answer the following questions:

- a. Does Product Quality affect Customer Loyalty at CV Bintang Jaya Abadi, Medan?
- b. Does Perception of Price affect Customer Loyalty at CV Bintang Jaya Abadi, Medan?
- c. Does Customers Satisfaction affect Customer Loyalty at CV Bintang Jaya Abadi, Medan?

- d. Do Product Quality, Perception of Price and Customers Satisfaction simultaneously affect Customer Loyalty at CV Bintang Jaya Abadi, Medan?

1.4 Objective of the research

Understanding the important role of Product Quality, Perception of Price and Customers Satisfaction in effecting the Customer Loyalty at CV Bintang Jaya Abadi is the main goal of this research. Hence the objectives of this study are:

- a. To understand whether product quality affect customer loyalty at CV Bintang Jaya Abadi, Medan or not,
- b. To understand whether perception of price affect customer loyalty at CV Bintang Jaya Abadi, Medan or not,
- c. To understand whether customer satisfaction affect customer loyalty at CV Bintang Jaya Abadi, Medan or not,
- d. To understand whether product quality, perception of price and customer satisfaction simultaneously affect customer loyalty at CV Bintang Jaya Abadi, Medan or not,

1.5 Benefit of the Research

Theoretical Benefit and Practical Benefit are the two (2) forms of benefits in this research.

1.5.1 Theoretical Benefit

As far as the educational context is concerned, the accomplishment of this research will stand as a means of extra learning about the effect of Product Quality, Perception of Price and Customers Satisfaction on Customer Loyalty. As a result,

this study is likely to provide more information to future researchers or readers working on a comparable topic.

1.5.2 Practical Benefit

The writer expects that this research will deliver three (3) benefits, which are as follows :

- a. For the writer, this research could improve the experience and knowledge of the effect of Product Quality, Perception of Price and Customer Satisfaction on Customer Loyalty in real-life setting.
- b. For the company, this research would serve as a foundation for improving the company's performance through the development of product quality, perception of price and customer satisfaction that would result in increasing of customer loyalty.
- c. For other researcher, this research would be able to stand as their references when they conduct in research on similar type.