

CHAPTER I

INTRODUCTION

1.1 Background of Study

The food and beverage industry has contributed 36.4% to Indonesia GDP in the first quarter of 2020. According to Indonesian Food and Beverage Entrepreneurs Association (GAPMMI), the number is expected to increase by 7% in 2021. In fact, USD 298 million was also invested into Indonesia Food and Beverage industry by foreign firms in the first quarter of 2020. But how lucrative is the food and beverage sector of Indonesia? The main reasons can be contributed to the spending behavior and also the number of Indonesian populations. Prior to COVID-19, Indonesia was qualified for being categorized as upper middle-income status. But of course, due to the COVID-19 crisis, the purchasing power have decrease and it also affected the food and beverages sector. Despite of the decrease, food and beverage sector is still performing better comparing to another sector (Nurhayati and Wolff, 2021). The purchasing power is still expected to rise in the upcoming years as economic condition are improving as it can be seen on figure

1.1 (“*Indonesia – Total expenditure on food and beverages 2010 – 2022/ Statista*”, 2021). The overall consumption of Indonesian is also oriented toward food and beverage with the total of 48.5% from the overall consumption, figure 1.2 (Santander Trade, 2021).

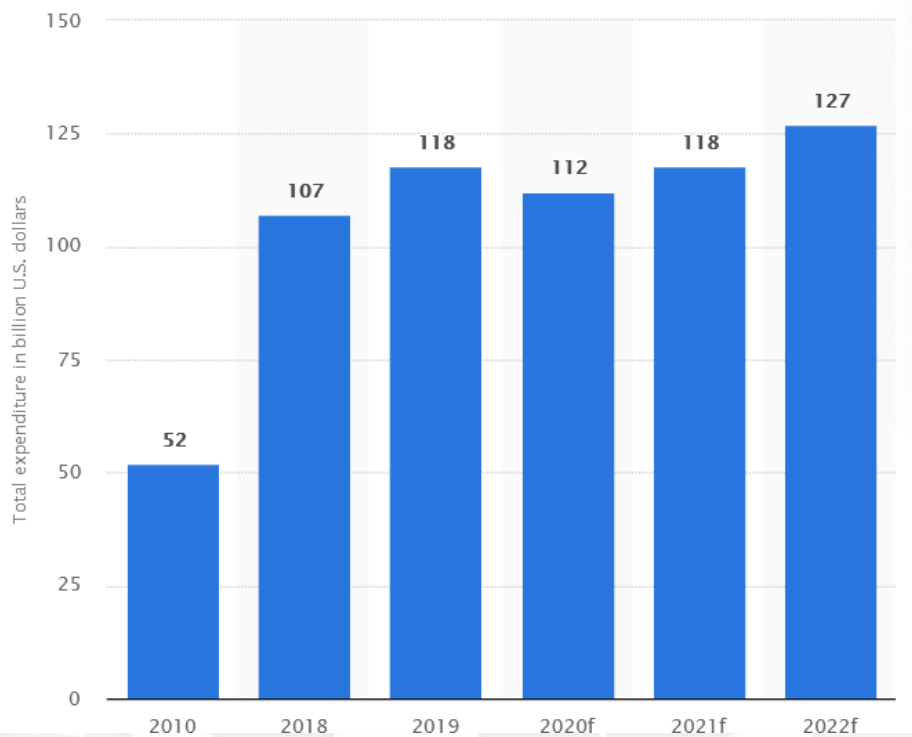


Figure 1.1.1.1 Indonesia's Food and Beverage Expenditure

Source: <https://www.statista.com/statistics/1177840/indonesia-expenditure-on-prepared-food-and-beverage/>

Household Consumption Expenditure

Sector	Percentage
Food and beverages	48.5%
Housing	11.6%
Transport	8.9%
Energy	5.5%
Clothing and footwear	3.5%
ICT	3.3%
Education	2.9%
Health	2.2%
Personal care	1.7%

Figure 1.1.1.2 Indonesia's Expenditure Category

Source: <https://santandertrade.com/en/portal/analise-markets/indonesia/reaching-the-consumers>

As the graph has shown, Indonesian food and beverage expenditure is predicted to keep on growing and their large allocation for food and beverage is inevitably fueling the growth of food and beverage sector. This is also supported by the fact that Indonesia is the fourth most populous nation with 276,361,783 population estimated by the United Nation in 1st July 2022. The number of populations have been increasing (figure 1.3) along the year which led to greater demand for food and beverages.

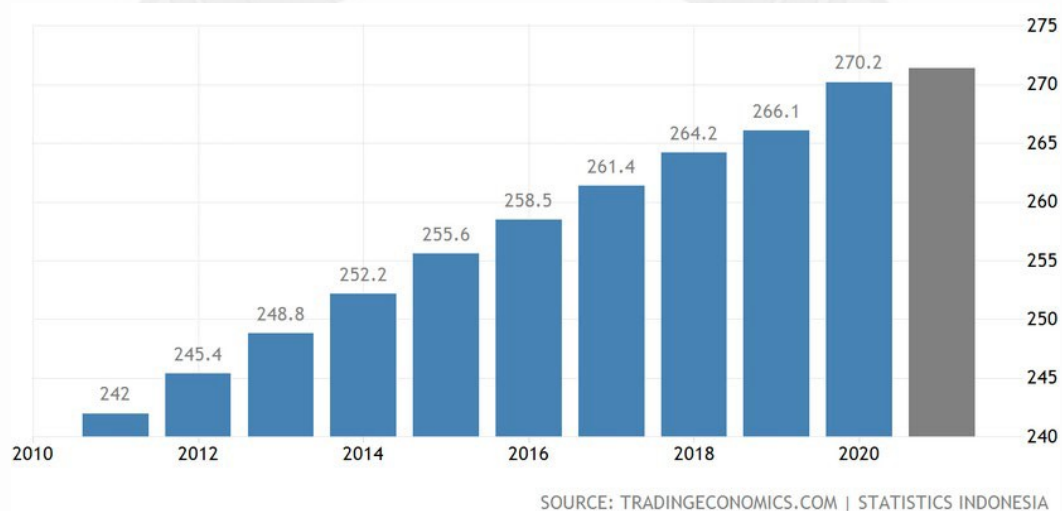


Figure 1.1.1.3 Indonesia's Population

Source: <https://tradingeconomics.com/indonesia/population>

Looking at that information, it is no wonder that Indonesia food and beverage industry is seen as a promising and lucrative investment.

The food and beverage industry has been around for a long time and it is one of the industries that are very dynamic and challenging to be into. Not only the taste and the qualities of the products, but the F&B industry should also provide additional value through their services or marketing to compete with others. Innovation should also be consistently done to remain relevant in the food and

beverage industry. The food and beverage in Indonesia are also quite variative due to different ethnicities and cultures. Medan, the fourth largest cities in Indonesia, is known for their culinary travel (Kompasiana, 2021). Not only known for their local cuisines, Medan also have a lot of franchises restaurants that is known for their quality and services. For instance, there are Burger King, Domino, Sushi Tei, Paradise Dynasty, Ichiban Suhsi, and many more. With abundant of restaurants popping up here and there, the challenge to retain customers have become increasingly challenging. Innovations are constantly being done to capture customers' attention. For instance, Sushi Tei, a Japanese restaurant franchise in Indonesia, come up with seasonal menus such as the most recent menu is "Ultimate Jumbo Dragon Roll" and "Sushi Tumpeng" (Internal sources, 2021). From figure 1.4, Sushi Tei ultimate jumbo dragon roll is shown on the left with Sushi Tumpeng can be seen on the right side. While its competitor "Ichiban Sushi" release "Taco Sushi". Figure 1.4 shows the concept of new innovation that integrate the Mexican concept into sushi by Ichiban Sushi. These are just some examples of the innovation menus conducted by restaurants. To have better understanding of how each Japanese Restaurant in Medan is different from another, table 1.1 provide information regarding the price that each restaurant charge. Following are the comparison of Japanese restaurant in Medan.

Table 1.1 Comparison of Japanese Restaurant in Medan

No	Restaurant Brand	Established Year	Number of Outlets	Price Range	Target Customer
1	Ichiban Sushi	2019	1	IDR 10.000 - IDR 66.000	Middle to Lower
2	Okinawa Sushi	2019	2	IDR 10.000 - IDR 650.000	Middle to Upper
3	Sushi Tei	2006	6	IDR 3.000 - IDR 990.000	Middle to Upper
4	Sushi Mentai	2019	3	IDR 4.800 - IDR 79.800	Middle to Lower
5	Tom Sushi	2021	1	IDR 10.000 - IDR 20.000	Middle to Lower

Source: Internal Sources (2021)



Figure 1.1.1.4 Sushi Tei "Ultimate Jumbo Dragon Roll" (left) and "Sushi Tumpeng" (right)

Source: Internal Sources (2021)



Figure 1.1.1.5 ICHIBAN Sushi Innovation "Tacoban"

Source: Internal Sources (2021)

Keeping up with the trend is one of the ways for the F&B industry to stay ahead in the competition. However, the food and beverage industry should also focus on making sure that customers are loyal to them as there are a lot of food and beverage products out there and mostly one can be easily replaceable by others. Thus, the industry cannot rely solely on their product but should also focus on other aspects which lead to the increasing practice of relationship marketing. Relationship marketing aims to retain customers which is in other word to maintain loyalty of the customers towards the brands. Customer loyalty has become the focus of many marketers along the years. Javed et al (2020) believed that trust and quality of services do affect customer's loyalty in restaurant business. According to Didit

(2019), commitment is also equally important in relationship marketing in order to retain customers.

If the F&B industry in the past were more likely to use transactional selling where the focus is on a single sale, nowadays, it is more likely towards relationship selling. Relationship marketing focuses on building, maintaining, and expanding customer base that can be achieved through relationship quality as one of the ways (Gronroos, 2017). The goal is to ensure that brands are being delivered in a way that forges and maintains a good relationship with their customers. A good relationship will lead to customer loyalty which offers advantages for the brands. Loyalty is very important for all brands as loyalty can be translated to profit and continuous growth. However, with the increasing choices of products and brands, it is getting more challenging to keep loyal customers. Relationship quality shows a significant effect on customer loyalty according to Ruswanti and Lestari (2016). Nurturing loyalty means the relationship between brand and customer is a long-term relationship program that involves trust and commitment. Loyalty also means that customers would not switch to other competitors and will keep repurchasing the brand they are loyal to. According to Song (2017), for a long-term relationship to success, relationship quality should focus on how to increase satisfaction and trust from its customers.

Through this paper, it will be explored whether brand loyalty is influenced by relationship quality. There are different opinions when it comes to what is considered as relationship quality. According to Mythal, Kang, and Murphy (2008), relationship quality consists of six dimensions which are trust commitment,

satisfaction, minimal opportunism, conflict, and communication. While Abdullah and Kanyan (2013), suggested that relationship quality consists of four dimensions which are trust, communication, empathy, and commitment. According to Barry and Doney (2011), the three dimensions of relationship quality is consisting of trust, commitment, and satisfaction. However, many don't know which part of the relationship dimension quality actually affect the loyalty of customers in the food and beverage sector. Thus, for this study the writer will be focus on Sushi Tei Restaurant to analyze how relationship quality is being practiced by Sushi Tei. The relationship quality dimension for this study will be: (1) price fairness (PF), (2) physical environment (PE), (3) food quality (FQ), (4) customer orientation (CO), (5) relationship benefit (RB), and (6) communication (CN). Explanation for each variable will be on the next section along with the examples.

In order to study the relationship quality effect on customer's loyalty, this paper will be using Sushi Tei Medan as the object of research. Sushi Tei is one of the most notable Japanese restaurants franchise in Indonesia that is originated in Singapore. Started in 1994, Sushi Tei now have partnered over 9 countries which are Singapore, Australia, Bangladesh, Brunei, Cambodia, Indonesia, Malaysia, Myanmar, and Vietnam. As for Indonesia, Sushi Tei are being franchised by PT. Sushi Tei Indonesia, which currently have branches in 11 cities (Bali, Medan, Palembang, Pekanbaru, Surabaya, Yogyakarta, Makasar, Depok, Batam, Bandung, and Jakarta). Not only known for its food quality, but Sushi Tei is also known for its exceptional services and delivering trust, commitment, and satisfaction that lead to the brand gaining a lot of loyal followers. Sushi Tei is

known to deliver the international standard of their services to every location they serve.

The high quality of services and products can be seen through Sushi Tei multiple awards. Most recently, under the Top Brand Award 2020 phase 2, Sushi Tei top the chart with the top brand index score of 40.6% compared to Icichan Sushi at the second place with 33.7% (Top Brand Award, 2021). Sushi Tei also received 2nd place for Millennial's top brand award in 2020 in the Japanese food category. While the first place is received by HokaBento restaurant. The millennial's top brand award is assessed through awareness of product, purchased of product/services, consumer loyalty, and also recommendation of product/services. With that as reference, the writer believed Sushi Tei have implemented relationship marketing which can be experienced in multiple customer touch point.

According to Sin et al (2002:660), communication (CN) is the formal or informal exchange of information between the buyers and sellers that is meaningful. Ivkov et al (2018) also believe that extent hospitality such as communication can increase customer's satisfaction toward brands. In Sushi Tei, the communication between customers and staffs happened all the time. Customers upon entering Sushi Tei will be greeted by the whole staff with their iconic welcoming sentence "*Irasshaimase*" which means come on in or welcome. After that, the staff will appoint customers to their table and will help the customer with the menu walkthrough. As the menu are in Japanese word, the staffs will be accompanying you to provide information regarding the food. After finishing, you will be asked to fill in a survey for the whole dining experience. The communication also happened

through online media where Sushi Tei will constantly upload new posts and customers can contact them through their social media.

According to Hanaysha (2016), food quality (FQ) consists of the food overall freshness, presentation, choices of menu, taste, and also healthiness. Japanese food is all about freshness and cleanliness. Seeing Sushi Tei topping the top brand award chart is a clear indicator that Sushi Tei has gained customer trust through their product quality. Study by Song et al (2019) has shown that brand trustworthiness has effect on consumer behavior. It is also a form of commitment delivered by Sushi Tei to their customers. According to Zhang et al (2016), commitment is the ongoing desire to ensure that the relationship form can sustain and continue in the future. Their consistency in delivering their food in any branches of Sushi Tei across Indonesia also show Sushi Tei's commitment for product qualities. This is also reciprocated by the customers constant visit to Sushi Tei.

Price fairness (PF) is the perceptions of customers when they compare the quality of their products or services towards the prices they have paid according to Al-Msallam and Alhaddad (2016). When customers believed they already receive the best quality out of the price they paid, this will lead to the customer satisfaction and repurchased. On the other hand, unfair price will lead to negative behaviors of customers such as bad word of mouth, complaints, and decreased purchasing behavior (Rothenberger, 2015). Unfair price happened when restaurant overly charged for product and services that doesn't lift up to the customers expectation. Customers might also have internal reference for price that they paid and thus,

pricing can create subjective value for the product or services. Sushi Tei price is considerably fair based most of the review on Zomato.com (Figure 1.6).

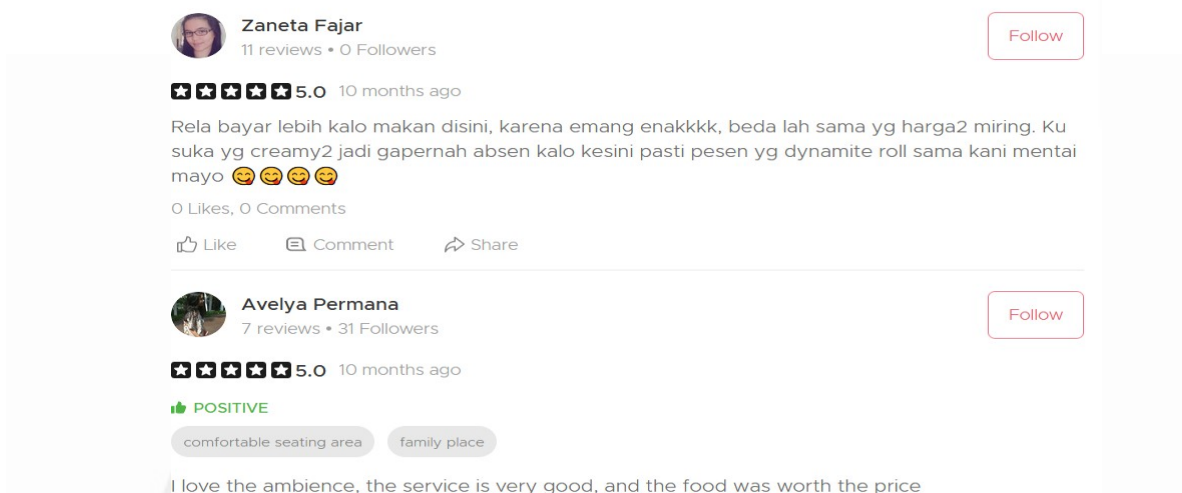


Figure 1.1.1.6 Sushi Tei Zomato Review

Source: <https://www.zomato.com/jakarta/sushi-tei-tanjung-duren/reviews>

Sushi Tei concerned a lot about their guests dining experiences and satisfaction. According to Lo et al (2017), customer orientation (CO) organization focus and committed to create value for customers. As mentioned above, staffs are required to give the survey forms to all diners. Every diner will be asked to fill in their guest satisfaction survey. They will quickly provide their guests with resolution when any inconvenience events happened. Sushi Tei would also provide customers with complimentary sushi cake when the customers are having birthday within the time range 7 days before and after the birthday as stated on ID card. This is also one of the way Sushi Tei created additional value for their customers.

According to Syafrizal et al (2019), relationship benefits (RB) exist after long term relationship between customers and brands and the benefit can be categorized

into two, which are functional and social benefits. Jang et al (2013) mentioned that providing benefits in the relationship has proven to bring significant effect on customer's relationship quality with the brand. Sushi Tei has implemented relational benefits which can be seen on its loyalty program. The program offers points for every purchase that can be exchanged for discounts. This attract customers to revisit as they are being awarded with benefits from the brands. Figure 1.7 is the loyalty card of Sushi Tei which can be earned if the customers dine in Sushi Tei accumulated IDR 1,500,000 of purchases within 2 months.



Figure 1.1.1.7 Sushi Tei Loyalty Program

Source: <https://www.sushitei.co.id/index.php/promotion/68>

Physical environment (PE) consists of all the external and internal environment of a restaurant whether it is tangible or intangible, according to Hanaysha (2016). In Sushi Tei, the tangible aspect of its physical environment includes the overall building designs and the utensils that symbolize Japanese restaurant. As for

intangible, this includes music, temperature, and overall ambience of the restaurant. Sushi Tei strived to provide the Japanese experience during dining while at the same time adapted it to match Indonesian style. The interior is designed in Japanese theme that incorporate wooden theme furniture and iconic Japan door called Shoji. In Sushi Tei Medan Teuku Daud branch, there is also open kitchen where customers can directly see how the chefs prepare the sushi. There is also soft Japanese instrumental music to accompany customer's dining experience. From figure 1.8, it can be seen that Sushi Tei incorporated the Japanese modern design onto their building which can be seen from the wooden veranda and sliding doors.



Figure 1.1.1.8 Sushi Tei Medan – Teuku Daud branch

Source: <https://makanmana.net/2012/02/06/sushi-tei-teuku-daud>

Thus, as mentioned above, with the reputation that Sushi Tei have in Indonesia (Top Brand Awards and Millennial's Top Brand Award), the writer is

interested in researching how Sushi Tei was able to maintain that reputation and especially the loyalty of their customers. Especially there have been increasing number of competitors in Japanese restaurant in Medan such as Tom Sushi, Okinawa Sushi, Sushi Mentai, and so on. Sushi Tei has been in Medan since 2006 and the brand is still being one of the most favorite Japanese Restaurant in Medan.

As for the research model, customer loyalty is assessed based on Physical Environment, Customer Orientation, Communication, Relationship Benefits, Food Quality, and Price Fairness with relationship quality as intervening variable. Thus, as relationship quality is treated as intervening variable, it is decided that the research model will be using SEM (Structural Equation Modelling). Another reason for this is based on Prayag et al (2019) where the main journal also used SEM in their studies.

1.2 Problem Limitation

To have better understanding and more focused researched, this problems in this study will be limited to:

1. Currently, there are 45 outlets of Sushi Tei across Indonesia with 6 of it in Medan. Thus, this research will focus on Sushi Tei in Medan, North Sumatera (located at Sun Plaza, Lippo Plaza, Centre Point Mall, Manhattan Mall, DeliPark, and Teuku Daud).
2. The study will focus on relationship quality (RQ) as the variable which will be indicated through Physical Environment (PE), Customer

Orientation (CO), Price Fairness (PF), Food Quality (FQ), and Communication (CN) along with dependent variable which are Customer Loyalty (CL).

3. Questionnaires will be limited to 150 respondents who are customers at Sushi Tei Medan with age limit of 18 – 60 years old.

1.3 Problem Formulation

The problem formulation for this study is as follow:

1. Does physical environment (PE) have influence toward relationship quality in Sushi Tei Medan Restaurant?
2. Does price fairness (PF) have influence toward relationship quality in Sushi Tei Medan Restaurant?
3. Does communication (CN) have influence toward relationship quality in Sushi Tei Medan Restaurant?
4. Does customer orientation (CO) have influence toward relationship quality in Sushi Tei Medan Restaurant?
5. Does relationship benefit (RB) have influence toward relationship quality in Sushi Tei Medan Restaurant?
6. Does food quality (FQ) have influence toward relationship quality in Sushi Tei Medan Restaurant?
7. Does Relationship Quality (RQ) have influence toward Customer Loyalty (CL) of Sushi Tei Medan Restaurant?

1.4 Objective of the Research

The objective of the research is as follow:

1. To examine whether physical environment (PE) has influence toward relationship quality in Sushi Tei Medan Restaurant
2. To examine whether price fairness (PF) has influence toward relationship quality in Sushi Tei Medan Restaurant
3. To examine whether communication (CN) has influence toward relationship quality in Sushi Tei Medan Restaurant
4. To examine whether customer orientation (CO) has influence toward relationship quality in Sushi Tei Medan Restaurant
5. To examine whether relationship benefit (RB) has influence toward relationship quality in Sushi Tei Medan Restaurant
6. To examine whether food quality (FQ) has influence toward relationship quality in Sushi Tei Medan Restaurant
7. To examine whether relationship quality (RQ) have influence toward customer loyalty (CL) of Sushi Tei Medan Restaurant.

1.5 Benefits of The Research

The results of the research hope to be of good use for everyone in relation to this paper. The benefits of the research are as follow:

1.5.1 Theoretical Benefit

Relationship quality consists of multiple dimensions and are varies among business sectors. With that in mind, the purpose of this study is to offer additional insight on how the relationship quality dimension appointed before can affect the F&B businesses customer loyalty. The relationship quality appointed before is then further analyzed to see whether it does have effect or not on the customer loyalty.

1.5.2 Practical Benefit

This research also has practical benefits which are:

1. **Benefits for the writer**

This research provides the insight on how customer loyalty of a restaurant can be affected by relationship quality. Relationship quality is part of relationship marketing and through this research, the writer can have better understanding on this topic. With the growing trend of implementing relationship marketing, this research also offers practical knowledge for the writer to use it for future endeavors.

2. **Benefits for Sushi Tei and other F&B industry**

This study will highlight how relationship quality affect the loyalty of the customers. Having loyal customers mean stronger customer based that lead to growth and more profit. Being able to build good relationship with their customers

at the most efficient approach is the goal for all industry. F&B industry is known for their tight rivalry due to constant innovation in products and thus, having loyal customers also serve as competitive advantages for the companies. Sushi Tei can also benefited from this study as it helps to point out which part of their services can help to increase customer loyalty. It also provides customer's feedback in general regarding the overall performance of one of the Sushi Tei branch in Medan.

3. Benefits for Employees

It is hope that this study can provide positive benefits which lead to a more work-efficiency that delivers satisfaction results for company, customers, and also employees.

4. Benefits for other researchers

Similar studies can be conducted in other sectors to provide additional insight on how relationship quality in other sector or other brands of the same sector can varies from one another. Further studies can also be developed or comparison can be developed to gain more comprehensive knowledge regarding relationship quality as part of relationship marketin