CHAPTER I

INTRODUCTION

1.1 Background of the Study

Over the last decades, there has been a lot of development in the culinary industry. The number of restaurants and cafés in Indonesia, especially in Medan, has significantly increased. To face the situation, each company should create their own strategies competitiveness to stay competitive. It will be a great challenge for new start-ups to meet the customer requirements which always changing dynamically.

Today culinary trends are significantly evolving, and it would be hard to depend on some signature dishes. In other words, it is not a sustainable competitive advantage. Every restaurant and cafe should keep creating a new competitive advantage and develop a new idea to strengthen their brands. Eventually, those competitive advantages could be replicated and developed by the competitors.

However, delicious food is insufficient to attract customers if there is a lack of quality service provided by waiters/waitresses, a lack of hospitality in the way of ordering, presentation, and payment made by customers to pay for the food that has been ordered, hence, that customers will think twice about returning to the restaurant. Factors in the pricing policies that are not in accordance with the quality and taste provided are likely to be the reason for the restaurant's low visitor count.

Furthermore, price is proven to affect increasing customer satisfaction, so the price must remain stable and in the policy, a determination must also be taken into account in order to reach the customer. The service quality significantly affects the increase in satisfied customers, furthermore, the quality of service provided must be maintained if necessary improved through the facilities and facilities provided by the company. The company should continue to improve the quality of its service in order to increase customer satisfaction, and so that it does not disappoint its customers. (Pane, D. N., Fikri, M. E., & Ritonga H. M., 2018)

After providing a high-quality service to customers, the customers will provide feedback on their whole experience from beginning to end. Customers will begin to feel satisfied if everything goes as planned. Satisfaction is the rating of service or product that a customer purchases and the total judgment may be completed after the consumer feels the experience, and consumers do judge based on their expectations.

Furthermore, The Neighbourhood Eatery Café Medan, as study material is one of the most popular cafes among teenagers and adults nowadays. Since 2020, the number of customers of the Neighbourhood Eatery Café Medan has been declining. According to the owner, the Neighbourhood Eatery Café Medan has just employed new cooks and altered its serving approach which also creates a lot of new menus. As a result, the owner wants to know if price and service quality affect client happiness. The Neighbourhood Eatery Café Medan must enhance all elements that might influence customer satisfaction in order to maintain customer retention. (Tamara, E. 2021)

Based on the observation on Google Reviews of The Neighbourhood Eatery, it can be seen that some of the consideration of customer satisfaction is based on its products' price and service quality towards its customers.

Table 1.1 Feedbacks and Reviews of the customers at The Neighbourhood Eatery

Name of the customers	Feedback / Review	Rating
Herry Liu	"Only if the prices are 10-15% lower, it will be perfect"	4 out of 5
Alex Wijaya	"Nyoba recommend menu nasi dengan wagyu steak dan scallops, mantap, harga termasuk muahal dibanding lokasinya yang sederhana"	4 out of 5
Teguh Mulyadi	"Okay place, Went there around 7 PM where we were their only customer. Unique menu item, but not much to brag about for the food. You get what you pay, although, in my opinion, it's pricey."	3 out of 5
Afifah Hanan Thahirah	"Went here for a meeting and sat down at the very front chair when all of a sudden another customer came and told the waiter that they want my seat. so the waiter came to me and asked me to move out in the very middle of my meeting. Overall, good ambience & tasty food BUT BIG NO for the services."	1 out of 5
Octaviani Halim	"Bad service, bad food. Disappointing. They should train their staff."	1 out of 5

Source: Google Reviews of The Neighbourhood Eatery Medan (2021)

Based on the table above, for the price variable, it can be seen that some of the customers have mentioned that the price is too high and should be lower that it is not compatible for its simple location and with the taste of the food that is very common and nothing special about the food. For the service quality variable, it can be seen that some of the customers have mentioned that the quality of service provided at The Neighbourhood Eatery is quite bad, they feel dissatisfied because of the staff which could ask them to move out while sitting and talking in the middle

of the meeting and some of the customers also said that The Neighbourhood Eatery should teach the staff more and better. From its bad reviews, it can have an impact on the decline or low level of customer satisfaction.

In addition, the writer is expected to make an observation and do research about the influence of the price and service quality on customer satisfaction and the writer will write about the final paper entitled **"THE INFLUENCE OF PRICE AND SERVICE QUALITY TOWARD CUSTOMERS' SATISFACTION AT THE NEIGHBOURHOOD EATERY"**. These results of the research are expected to give some consideration about the fair price and better service that can affect customers' satisfaction.

1.2   Problem Limitation

In order to be more focused on this research and easy to collect and process the data, the writer determine to limit the scope of the research which will take place at The Neighbourhood Eatery which located at Jalan Dazam Raya No.6, Petisah Tengah, Medan Petisah, Medan City, North Sumatera. Moreover, the writer will use 2 independent variables and 1 dependent variable which are: Price (X1) and Service Quality (X2) as the independent variables and Customer Satisfaction (Y) as the dependent variable. Price (X1) has the indicators which are as follows: Affordability; Price Compliance with the product quality; Price Competitiveness; and Price Compliance with the benefits. Service quality (X2) has the indicators which are as follows: Tangibility; Reliability; Responsiveness; Assurance; and

Empathy. Customer Satisfaction (Y) as the dependent variable has the indicators which are as follows: Positive comments about the product; Recommendation to others; Commitment to the company's products; and Willing to pay a premium price for the products.

1.3 Problem Formulation

Based on the background study above, the formulation in this study is as follows:

1. What is the price at The Neighbourhood Eatery Medan?

2. How is the service quality at The Neighbourhood Eatery Medan?

3. How is the customer satisfaction at The Neighbourhood Eatery Medan?

4. Does the price influence customer satisfaction partially at The Neighbourhood Eatery Medan?

5. Does the service quality influence customer satisfaction partially at The Neighbourhood Eatery Medan?

6. Do the price and service quality influence customer satisfaction simultaneously at The Neighbourhood Eatery Medan?

1.4 Objectives of the Research

The objectives of the Research in this study can be described as follows:

1. To identify the customers' perception of the price at The Neighbourhood Eatery Medan.

2. To identify the customers' perception of the service quality at The Neighbourhood Eatery Medan.

3. To identify the customer satisfaction at The Neighbourhood Eatery Medan.

4. To analyse the influence of price toward customer satisfaction partially at The Neighbourhood Eatery Medan.

5. To analyse the influence of service quality toward customer satisfaction partially at The Neighbourhood Eatery Medan.

6. To analyse the influence of price and service quality toward customer satisfaction simultaneously at The Neighbourhood Eatery Medan.

1.5 The benefit of the Research

1.5.1 Theoretical Benefit

Theoretically, the completion of this study is expected to provide a better understanding of the factors that affect customer satisfaction, primarily about the impact of the price of the products on customer satisfaction.

1.5.2 Practical Benefit

1. For other researchers

The results of this study are expected to give additional information and can be used as the sources of references who are interested to conduct the relevant research.

2.   For The Neighbourhood Eatery Medan

The results of this study are expected can be used as a recommendation for the company to be concerned and pay more attention to the fair price and provide better service quality toward customers in order to achieve customer satisfaction.