

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is part of large countries in both population and land area. It has a great tourist attraction and destination with diversity of culture and scenic of nature landscape. The potential of natural wealth and diversity of arts and culture from Sabang until Merauke with diversity of excellent tourism and rich resources if we are developing it properly. Medan is one of the third largest metropolitan cities in Indonesia which is one of the best tourist destinations of the archipelago. Therefore, it is one of the opportunities for entrepreneurs to open their businesses in Medan. The thriving capital of North Sumatra, Medan, is a regional economic hub and commercial center, rich in history and culture. Recently, the businesses that is developing in Medan are variety start from the business restaurants, laundry services, property/ real estate business, trading and agriculture manufacturing. With this business opportunities, competition will occur in the business.

Contributing to the culinary industry as a Micro, Small, and Medium Enterprise (MSMEs) is a difficult challenge, especially in current era of digital economy, which relies on innovation and creativity (Salmon & Allman, 2019; Frank et al., 2019; Jiménez et al., 2020). Entrepreneurship and family business research have yielded some fascinating results (Kushins & Behounek, 2020). A family business has numerous distinct beliefs and dynamic capacities that affect the company's behavior, with the goal of achieving long-term competitive advantage, and vice versa. (Soares & Perin, 2019). To build culinary business, it involves

innovation and creativity in strategy to expand and develop the business. In order to achieve the sustainable competitive advantage culinary business has to keep innovating and adapting to the customer's trending (Hasan et al., 2020).

In this industrial era 4.0 or namely era disruption, innovation of technological has changed the traditional system into the latest. Old technology has been replaced with digital technology to produce something more effective and efficient. The term "Industrial Revolution 4.0" refers to a transformation effort in industry that integrates the online world and production lines, with the internet serving as the primary support for all production operations (Hartato, 2020). Era Disruption puts the organization in major change, both in terms of HR, work environment, and industry as a whole. It becomes serious challenge for organizations to develop their business models, so that organizational leaders are required to have sensitivity (fast response) towards digital utilization (Zuhri, 2019). The rapidly increased amount of internet happened in Indonesia. Based on the latest reports (Hootsuite and We Are Social), Indonesia's internet users reached 202.6 million as early of 2021. Compared in 2020, there was an increase of 15.5% or more than 27 million people in one last year. The whole population of Indonesia has touched 274.9 million. If it reaches 202.6 million internet users, it means that 73.7% of Indonesians are free to surf in cyberspace.

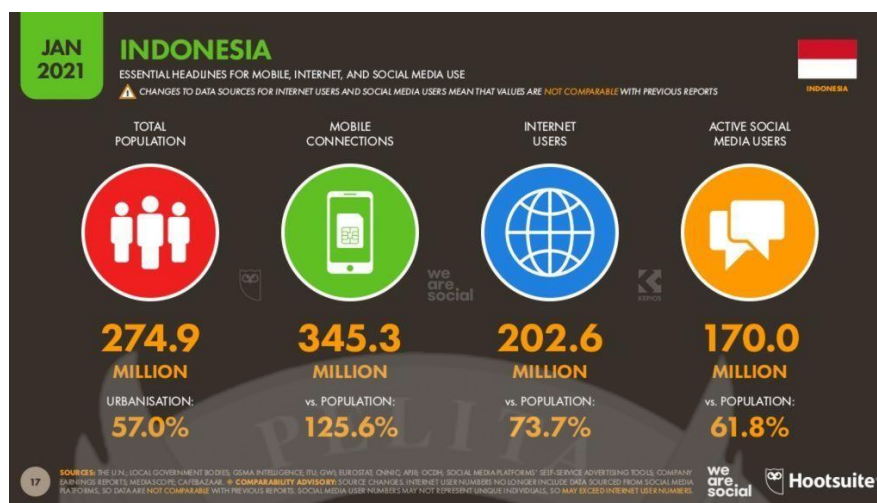


Figure 1. 1 Internet user in Indonesia in 2021, January

Source: detik.com (2021)

The revolution has changed a lot of sectors and one of them is the culinary industry. This revolution 4.0 in culinary industry is altering the way raw materials are purchased, food is made, packages are packaged, and goods are marketed in the culinary industry. Virtual systems are essentially analyzing, controlling, and continually developing the whole path from farm to table. Culinary is not just about the taste of food, but also how to prepare and recognize the origin of food. Culinary business should offer food and beverage that looks interesting and could satisfy the customers' needs. It also involves the experiences, culture and promotion.

Restaurants and culinary industry SMEs are the solution in terms of meet the food needs of consumers who are unable to prepare his own food. One of the innovations that must be given by the actors of food industry business is the ease in the delivery process and serving food to consumers. Along with the needs of culinary business people which requires convenience in the food delivery process and also consumers who have limitations in meeting food needs. Food delivery service is here to provide a solution. (Wijaya et al., 2018)

Customers are always assisted by service employees at offline companies during the purchase process. Customers at online enterprises can occasionally complete the full purchase process without the aid of customer care (McLean & Wilson, 2016). Customers may also inquire for more specific information about the goods they wish to buy through online firms' customer service. Due to the crisis of COVID-19, several sectors have failed to adapt to the significant changes in global living, resulting in major economic turmoil. Otherwise, with the emerge of digital technology platforms is flourishing in the culinary industry especially the emerge of cloud kitchen business.

The main reason of the popularity of cloud kitchen market is due to changes in consumer habits and behavior, such as the desire for detailed information before purchasing goods. The variety of products is also a deciding factor for consumers when selecting products, and using this delivery service saves time and energy because there is no need to queue for a long time (Kesko Group, 2017). Cloud kitchens are one of the best options for starting a business in today's digital era, because to technical advancements and a shift in the way people purchase online (online) (Prabowo & Nugroho, 2019).

Based on the theory, cloud kitchens are restaurants that exist completely online that focus exclusively on takeaways/ delivery is made in accordance with all online orders, and the meal is subsequently delivered to the consumer as a takeout or delivery. These restaurants do not offer dine-in facilities. In these outlets, only the progress of food production in the kitchen. Furthermore, because of their single infrastructure, cloud kitchens have a faster payback and are more versatile in terms

of menu possibilities and changing food brands as a whole. Beginning in 2020, the globe will see major changes in lifestyle, resulting in shifting expectations and trends. Based on Report and Data, the worldwide Cloud Kitchen market was worth USD 0.65 billion in 2018 and is anticipated to grow at a CAGR of 17.2 percent to USD 2.63 billion by 2026. The cloud kitchen market emphasizes the income earned by vendors in the market by providing solutions for managing a cloud kitchen and all operations connected with ordering, inventory, supply chain, food delivery, customer happiness, customer experience, digital payments, and other activities.

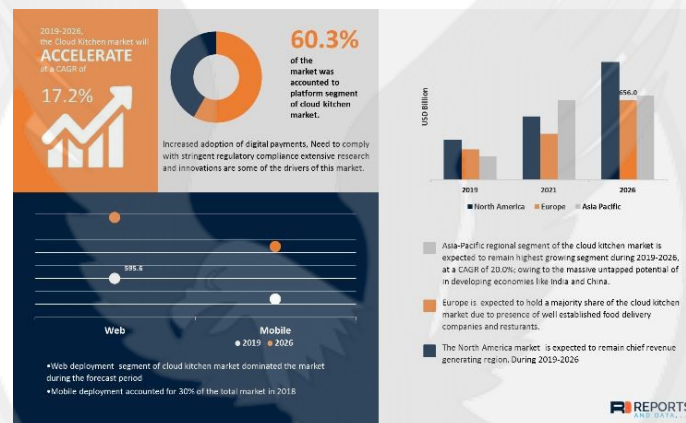


Figure 1. 2 Global Cloud Kitchen Market was at a CAGR of 17.2%
 Source: reportsanddata.com (2019)

Recently, cloud kitchen business has grown so rapidly with new strategies that have been implemented to achieve the success of business. In Indonesia, this restaurant business with the cloud kitchen concept has grown more and more. Many consumers have used delivery services from their smartphones. In fact, some conventional restaurant entrepreneurs admitted that they have experienced a decrease in the number of customers who dine-in and more demand in receiving delivery orders. This shows that most consumers prefer to wait for their food while doing various activities rather than visit the place and queue to get food.

The processing industry is one of the biggest contributors to Medan City's economic growth in 2018. Meanwhile, the food and beverage industry are included 61.46% of the total value of processing industry (Data Statistic Medan,2018). This shows that the food and beverage industry have a considerable influence. According to Center for Strategic and International Study (CSIS) and Southeast Strategics stated that in 2018, GrabFood had contributed IDR 1.03 trillion to the economy of Medan City. The local culinary industry has also experienced rapid growth, with the average sales turnover of GrabFood partners in Medan increasing 19% before collaborating with GrabFood, IDR 1.5 million per day had increased to IDR 1.8 million per day. According to App Annie data, as of June 2020, 187 million people had downloaded the Grab app, whereas 170 million people had downloaded Gojek, as illustrated in Figure 1.3. Indonesia has the greatest user base. Grab has a market share of about 66 percent, while Gojek has a market share of 90 percent.

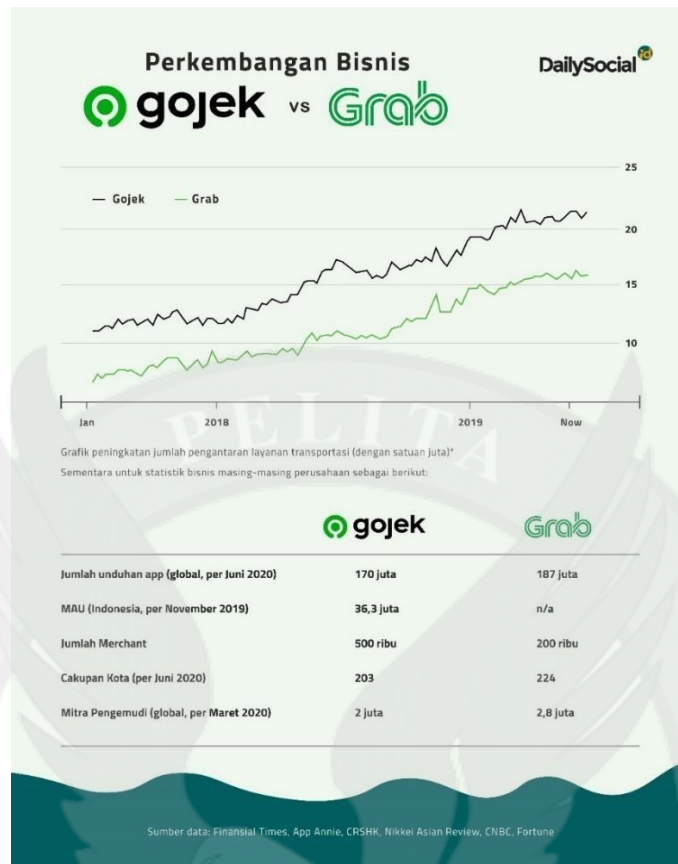


Figure 1. 3 Comparison user of Gojek and Grab per June 2020
Source: dailysocial.id (2021)

Although the Grab users are higher than Gojek users, but according to the results of a survey conducted among 966 respondents, 51 percent of respondents frequently use the GoFood application, 48 percent use the GrabFood application, and only 1% use other delivery services when ordering food online during the COVID-19 pandemic (Daily Social, 2020). This shows that the customer still would prefer to choose using GoFood application rather than GrabFood for food online. It indicates that the customer loyalty at GrabFood is decreasing.

Customer loyalty is needed by the companies engaged in services to maintain the company. Therefore, Grab needs to create satisfaction in its services so that customers feel happy with the company's performance and will use it again

in the future. This method will form customer loyalty to company. The company's success is marked by the number of customers who loyal.

In Indonesia, this cloud kitchen restaurant also generally cooperates with delivery services from third parties, such as Grab Kitchen. Grab Kitchen was first launched in April 2019 and now has expanded to Sumatra Island where Medan City is its newest destination. Currently, Grab operates 30 cloud kitchens spread across Jakarta, Bandung, Bali and Medan. In Medan, Grab presents two offices of Grab Kitchens, namely Grab Kitchen Polonia and Grab Kitchen Pahlawan. Grab Kitchen has collaborated with number of merchants in Medan such as *Karawaci Fried Chicken*, *Alida Chaniago Padang Bean Satay*, *Es Campur Reference*, *Warung Bos Gila Bos* and *Mbak Juez Geprek Chicken*. Through Grab Kitchen, MSMEs can now expand their business without having to spend big on opening an outlet. The emerge of Grab Kitchen is booming and increased customers trends in culinary industry. In Medan, there are three outlets of Grab Kitchen such as Grab Kitchen Pahlawan, Setia Budi and Pasar 3. It is shown in the Figure 1.4 that the rating of the Grab Kitchen Pahlawan is 3.8, Grab Kitchen Pasar 3 is 4.2, and Grab Kitchen Setia Budi is 4.6. Those ratings indicate the customer perceived value and customer satisfaction of the Grab Kitchen Medan. It shown that the rating at Grab Kitchen Pahlawan is lower than other outlets. It also shown in the figure that the reviewers of Grab Kitchen Medan are still low especially at Grab Kitchen Setia Budi.



Figure 1. 4 The rating of each outlet of Grab Kitchen Medan

Source: Google Review (2021)

Customer satisfaction has an influence on the company's quality management and marketing efforts, as well as its long-term commercial viability. Customer satisfaction has an impact on characteristics like client loyalty and long-term customer connections. Customer value, customer happiness, and customer loyalty are seen as the most important indications of success in the growth of a company's economy, and they all contribute to the company's long-term viability. Customer loyalty is generally defined as part of a person's determination to use a product or service. With loyalty that is owned it will grow into loyalty for customers in utilize the facilities and services from the company, as well as to remain a customer of the company (Mariana et.al, 2018). With a positive attitude and customer loyalty will form consumer loyalty for the company. Customer retention and loyalty are important factors in increasing a company's profitability and maintaining its market position.

The result acquired from the customer in comparison to the outcome producer is known as Customer Perceived Value. In other words, if the producer's outcomes are poor, the yield to consumers may be poor as well. This notion may be demonstrated in a buyer's appraisal of things that are extremely suitable, good, and can be compared to consumer expenses. Perceived value may also exist, and it can be determined whether the advantages till the transaction happens are equivalent to the manufacturer's items. Service-oriented products are now acknowledged as experiences in which all members of the service system must contribute to the creation and sharing of value for consumers. This viewpoint acknowledges the importance of customer input in improving the quality of services provided. To generate and give value for customers, service providers must have a comprehensive awareness of the perception and level of service required for the services supplied.

As a consequence of the findings of earlier studies, loyal consumers should be retained as a competitive asset of the company. Every company have to boost customers loyalty in order to prevent customers from switching to another company to purchase the goods. Customer loyalty is allegiance to a firm that arises from consciousness rather than force. Companies that can develop client loyalty will thrive, reducing the impact of rivals' attacks on comparable businesses. To maintain and gain customer loyalty, there are some several factors that need to be considered by the company. One of those factors that influences customer loyalty is the quality of service from the restaurant. When customers get good services, they would come back to eat at the restaurant again. Otherwise, if the service is bad, it will make

customers not want to come back to the restaurant. Therefore, good service is needed in forming comfort and cause the loyalty to the customer. In business restaurant, service quality play role on as business restaurant as how service industry not only sell product but also produce intangible product in form of service quality. Therefore, service quality can only be felt and experienced by the customers and be provided by the service provider. The better service quality is given to the customers, the more satisfy the customers are.

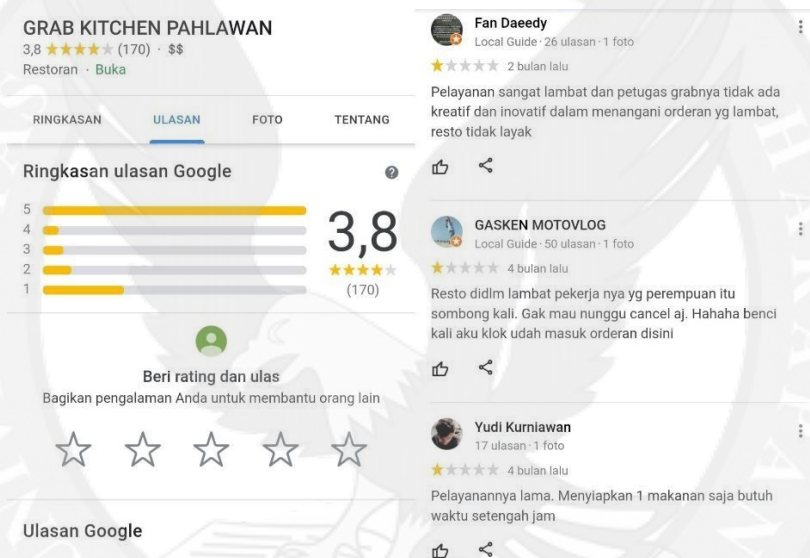


Figure 1. 5 The review of Grab Kitchen Pahlawan per July 2021
Source: Google Review (2021)

Grab Kitchen Pasar 3
 Jl. Pasar III No.30, Glugur Darat I, Kota Medan, Sumatera Utara
 4,2 ★★★★★ 57 ulasan

Mulia Harahap
 8 ulasan
 ★★★★★ 6 bulan lalu
 Lama kerjaannya
 Suka

Freki Sibarani
 130 ulasan · 1 foto
 ★★★★★ setahun lalu
 Lambat pelayanannya
 Suka

Figure 1. 6 The review of Grab Kitchen Pasar 3 per July 2021
 Source: Google Review (2021)

Grab Kitchen
 Jl. Setia Budi No.93, Tj. Sari, Kota Medan, Sumatera Utara
 4,6 ★★★★★ 18 ulasan
 Tulis ulasan

Maulana Rifa
 ★★★★★ 2 bulan lalu

Julian Manurung
 2 ulasan
 ★★★★★ 2 bulan lalu

Mauza Perdana Lubis
 Local Guide · 270 ulasan · 2.348 foto
 ★★★★★ sebulan lalu
 Di resto ini tersedia banyak sekali resto mulai dari The Alilo Express, Dimsum Express, Nasi Mbakarin, Salad Buah ICU, Box Eat, Kepak Madu Uncle Fath, Nasi Ayam Chef Omar.

Figure 1. 7 The review of Grab Kitchen Setia Budi per July 2021
 Source: Google Review (2021)

Even though the Grab users are increasing over few years. Still, there is problem which there is some complaints from customers and low rating. One of the causes is the problem of service quality. The problem of service quality is still found in complaints from customers who visited Grab Kitchen about personnel who are frequently late in providing services, employees who are inattentive to client requirements slow respond of the complaints and long queue by customers. **The**

complaints of the user of Grab Kitchen are shown in Figure 1.5, 1.6 and 1.7 above. This demonstrates that the service quality is still lack to meet the expectations of the customer. Problems in service quality are known from the reviews that is written by several customers who get the services. This is the complaint data from 2021 based from the reviews and comments that were written by customers. Below is shown the table of complaints data from customers toward Grab Kitchen Medan compiled from the three outlets of Grab Kitchen Medan.

Table 1. 1 Complaints Data of Customers based on Google Review (2021)

Month	Numbers of Complaints
January	5 Complaints
February	2 complaints
March	5 complaints
April	2 complaints
May	12 complaints
June	7 complaints
July	4 complaints

Source: Compiled by the Writer (2021)

Therefore, from the gap phenomenon described above, it is important for Grab Kitchen to increase market share to increase their customer loyalty. This can be used as a performance indicator from Grab. Thus, it is important to do research to examine what factors influence customer loyalty in using the Grab Kitchen application to achieve their customer loyalty. So, in this research, writer would like to research more about Grab Kitchen might be able to create a positive effect to serve customers well and potentially to achieve sustainability in Hospitality Industry. Therefore, the writer decided to conduct research under the title " The Influence of Service Quality, Customer Perceived Value and Customer Satisfaction Towards Customer Loyalty at Grab Kitchen Medan as a Cloud Kitchen".

1.2. Problem Limitation

Due to the vastness of the problem, in this case the researcher limited the problem to the analysis of customer loyalty in Grab Kitchen Medan. With the limited knowledge and ability possessed by researchers in conducting research, the problem limitation on this study to service quality, customer perceived value, customer satisfaction as independent variable and customer loyalty as dependent variable. In addition, researcher limit the research object which the research will only take in the Grab Kitchen Medan with three outlets such as Grab Kitchen Pahlawan, Grab Kitchen Pasar 3 and Grab Kitchen Setia Budi.

1.3. Problem Formulation

Analyzing whether customer loyalty has an effect Grab Kitchen Medan is the purpose of this study, therefore this study has several questions that must be answered:

1. What happened to Grab Kitchen Medan's service quality?
2. How is the customer perceived value at Grab Kitchen Medan?
3. How satisfied are Grab Kitchen Medan's customers?
4. In what way that the customer loyalty at Grab Kitchen Medan?
5. Does service quality have partially influence on customer loyalty at Grab Kitchen Medan?
6. Does customer perceived value have partially influence on customer loyalty at Grab Kitchen Medan?

7. Does customer satisfaction have partially influence on customer loyalty at Grab Kitchen Medan?
8. Does service quality, customer perceived value, customer satisfaction have simultaneously influence on customer loyalty at Grab Kitchen Medan?

1.4. Objective of The Research

The goal of this study is as follows:

1. To evaluate in what way the service quality at Grab Kitchen Medan.
2. To estimate customer perceived value at Grab Kitchen Medan.
3. To identify satisfaction at Grab Kitchen Medan.
4. To assess the worth of customer loyalty at Grab Kitchen Medan.
5. To identify whether service quality has partially influence on customer loyalty at Grab Kitchen Medan.
6. To identify whether customer perceived value has partially influence on customer loyalty at Grab Kitchen Medan.
7. To identify whether customer satisfaction has partially influence on customer loyalty at Grab Kitchen Medan.
8. To identify whether customer satisfaction, customer perceived value and customer satisfaction have simultaneously influence on customer loyalty at Grab Kitchen Medan.

1.5. Benefit of The Research

This research is expected to fulfill the theoretical benefit and practical benefit as follows:

1.5.1 Theoretical Benefit

It is aimed to develop the existing theory with the addition logics and facts. The purpose of writing this statement is to answer or explain a phenomenon that occurs based on the explanation that happen in the reality. This study focuses on several variables that influences the customer loyalty in using the Grab Kitchen in the Medan city. This research determines how much influence on the customer loyalty of Grab Kitchen users. The results of this study can be used as a means to develop knowledge and insight about loyalty theories of customers at Grab Kitchen Medan.

1.5.2. Practical Benefit

It is to share some things about information and knowledge that must be brought into the workplace, which can have an impact on improve the results of research or practical.

1. For Students: It is aimed that by doing this research, it can help the writing of a papers or research concerning customer interests or related to the indicators in this study.
2. For Researchers: This study is estimated to serve as a foundation for future research in the field, existing problems in this research.

3. For the Community: This research is expected to have an impact positive in terms of social and education to better understand customer loyalty in the Medan city.
4. For Campus: This research is expected to have a significant impact good for the campus in increasing literacy and knowledge that can useful for campus progress.
5. For Company (Grab): The outcomes of this study are expected to provide an overview about how is the customer service that is provided by Grab Kitchen, whether the customer is satisfied with the services provided, how the customer perceived value to Grab Kitchen. If there is any that still lack, then the company can improve more customers loyalty and employees can improve their performance especially in providing services quality, perceived values and satisfaction.