

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of study

Since the beginning of the pandemic, Indonesia and many other countries has had a period of economic recession which forces many businesses to close down or for others, operating on the brink. Due to this, many new entrepreneurs shift to the industry that is less risky and is assumed to be always in demand which is the food and beverages industry. Today's restaurant business shows a relatively rapid development and this indicates that the intensity of competition in the restaurant business is getting stronger. Moreover, every business are in a position where they need to escalate their performance in order to stay in the competitive market with the current condition where Indonesia and most countries in the world are getting hit by covid-19 pandemic. These types of restaurants which are generally located in strategic locations requires business owners to pay attention to consumer desires that are rapidly changing in order to have a competitive advantage. In a way, consumers tend to pay attention to the perceived satisfaction values and for service providers, this became a problem as businesses also need to pay attention to the quality of the services provided so that they are able to meet consumer's expectations. The quality of service is determined by consumers as users of these services. Therefore, service quality can be created by first identifying consumer perceptions of the services they need and want, then adjusting it to the services provided by the restaurant. Other factor that creates customer perceived value

Include the implementation of promotions. It is defined as an activity done by businesses to introduce the product or service to the customer in means to boost sales or increase brand awareness. Thus, restaurants always try to provide services in accordance with the needs and desires expected by consumers so as to achieve customer satisfaction. Both of this driving factors to customer satisfaction do seem simple but then again, many businesses in the industry underperformed and resulted in bankruptcy.

Customer satisfaction is a condition in which the wants, expectations and needs of consumers are met and satisfied customers are customers whose expectations are met for what they consume. On the other hand, factors that influence the customer satisfaction include the service quality which refers to business's performance in comparison to the customer's expectation and promotion which is defined as a media of communication between sellers who aims to make people aware and attracted to the product to the user or buyer who will purchase the product. Both this factors that affect customer satisfaction are not easily determined as we should understand the customer behavior. For most businesses, it may not be hard to gain simple information from the customers like their age, gender, preferences and etc. But the challenging part is predicting the interchanging behavior of customer when it comes to making a purchase. Many factors come in mind when it comes to customer's behavior. Things like product price, product quality and etc. are just some of the many that businesses have to understand in order to fully satisfy their customers. In this digitalized era where everything is made easy, it is important for

Businesses to keep up with the growing need of quality demanded by customer. Albari (2020) stated that customers are not really sensitive to price changes but are always willing to submit suggestion to improve the quality of product and service provided by the business. Moreover, marketing is another major contributor to customer satisfaction. Due to this, it is important for businesses to include an effective sales promotion towards their products to gain competitive advantage as well as increase customer's satisfaction. Most type of promotion will be successful if it was created based on analyzing the customer's characteristics (Nam & Yoon,2018).

33% of Americans say that they'll consider switching brands just after a single instance of poor customer service (American Express, 2021) and 78% of customers have backed out of a purchase due to a poor customer experience (Glance, 2021). If a restaurant can provide what consumers want and need, consumers will be satisfied with the restaurant. According to Microsoft (2020), around the globe, 96% of consumers say customer service is an important factor in their choice of loyalty to a brand. When asking consumers what impacts their level of trust with a company, offering excellent customer service is ranked number one (Zendesk, 2020). For this reason, product and service providers must be able to meet consumer expectations of the products and services to be consumed and the prices given by restaurants are affordable to any group. So that consumers feel a certain satisfaction after visiting the fast food restaurant. With 89% of businesses soon to be expected to compete mainly on customer experience, organizations that take customer

Experience seriously will stand out from the noise and win loyal customers (Gartner, 2020).

The appearance of this kind of restaurant, starting from the location, type and taste of food, arrangement, service system, etc., brings the impression to some people that the image of the restaurant is luxurious or prestigious. So, for consumers who come and eat at restaurants like this, it is not only used for a place to eat, but also for a place to celebrate important events. In some restaurants like this, sometimes special places are also provided for children to play, so as not to disturb people who are enjoying their food. So, it is very natural to say that the variety and service systems of restaurants in fact can relatively influence a person's decision in the buying process.

According to a study done by Khodadadi (2017), researching about the impact of promotion price, product quality, service quality, customer satisfaction and repeating purchase incentives using a sample of 300 questionnaires have shown that price promotion have an effect towards customer satisfaction and also the service quality can also impact customer satisfaction significantly. Sales promotion is one such strategy which is used by marketers to attract new and prospective customers towards their product while retaining the existing customers (Shamsi & Khan, 2017). Sales promotion has also become a very important marketing tool and this importance continues to rise over the years (Nakarmi, 2018). The types of sales

Promotions that can be done are as follows: giving coupons, conducting contests, giving samples, giving discounts, and holding sweepstakes. There are various kinds of sales promotion goals, including: increasing sales volume, increasing trial purchases, increasing repeat purchases, increasing loyalty, expanding usability, creating interest, creating awareness, diverting attention from prices, getting support from intermediaries, and discriminating users. The implementation of a sales promotion requires a response from consumers.

Pondok Indah Restaurant has operated in their new location for nearly 2 years and has had a good and steady customer base retention and growth. However, impacted by the pandemic in their early days in the new location has given the restaurant no choice but to improve every quality of service they have which include following the safety protocols and also work on more promotions to keep customers attracted. Although efforts like the following are given and promotions like giving discounts and social media marketing are done, there seems to be no significant changes to the customer's satisfaction. The writer believes that this phenomenon happens due to the lack of owner's knowledge about the changing system of marketing businesses use especially in this pandemic. As we know, new business in this industry emerge very quickly and most of it are established by young generation who is more familiar of the way businesses are marketed nowadays. Due to this, the writer believe that improvements can be made especially in this pandemic era. Digitalization of menu or making a system where customers can ring on the waiters better will be a great improvement in the service quality as it is sometimes hard for customers to call the waitress in the restaurant's big area or

Maybe providing free delivery services or home services to customers. While improvements in the promotional area can be in a form of a more interactive contents in the media or a more attractive sales promotion.

The average customer satisfaction taken from the Google review of Pondok Indah Restaurant shows that the average customer satisfaction gradually decreases.

**Table 1. 1 Customer Review Average in Pondok Indah Restaurant**

| Month                         | Average rating |
|-------------------------------|----------------|
| June 2020 – November 2020     | 4,6            |
| December 2020 – February 2021 | 4,1            |
| March 2021- May 2021          | 4,1            |
| June 2021 – August 2021       | 4,4            |

Table 1.1 shows the average rating taken from Google review. According to Adam Heitzman (2017) google are using a five-star rating which include a grade from one star which shows poor performance to five star which shows excellent performance to grade businesses. The table shows how the customer satisfaction gradually decrease overtime and only increases when there are improvements in the service quality and promotional efforts in the last 3 months. Improvements that is done include the tightening of safety protocols and also the promotional improvements like doing value packages and bank discounts. However, despite the efforts, the restaurant is unable to go back to their initial rating or increase their ratings.

Taken from the Google review comments of the restaurant, most customers are

intrigued by the menu of the restaurant that provide limited information about the food and does not state prices of the items. Due to this, many of the customers have mentioned that they preferred other competitors whom provided more information about their products. Others have also mentioned that despite the big area of the restaurant the air conditioning provided is not enough and the mosque provided for the customers is too small and does not make a very comfortable praying area. Which effected the comfort of customers and resulted in customers not coming back. Lastly, some customers have also mentioned how the waiter and waitress should be trained for their friendliness and also their service attitude which also resulted in angry customer and giving customers no intention in repurchasing. Additional problem also arises amid the pandemic as many service operations constantly change during the period. Due to this, some additional problem arises adding up to the amount of complaints the restaurant receives.

The service quality and promotional performance are very heavily affected by the recent rules that is applied by the government due to the pandemic. It is known that every restaurant is advised to only provide takeaways which means customer dine in are not allowed for a period of nearly a month and this rule changes over-time. As a result, this causes uncertainty to the effectiveness of restaurant's promotional activities and changes in the service quality as some changes are done for a period of time only before the rule changes again. Due to this constant change, employees are also overwhelmed by the changes and have less time to adapt to the changes. Furthermore, the management and owner of the restaurant are not very familiar with modern promotional tools and are still not updated with the changing

market which made the business stay in a stagnant stage whereas number of complaints keep increasing.

Based on the description above, the writer is interested in studying the "Effect of Promotion & service quality towards Customer Satisfaction at Pondok Indah Restaurant, Medan". Like any other places, the very best service does not guarantee a full customer satisfaction as there will always be customers who is not satisfied. Also, despite the promotional activities that the restaurant has done which includes the usage of social media platforms, print media such as pamphlets and promotion in their physical store, the restaurant are still unable to reach their desired level of customer satisfaction. This failure was caused by various reasons which includes failures in social media engagement as the content shared are not interesting enough or the price promotion offered is not communicated well to the customers. Due to this, Pondok Indah will need to gradually improve their ways to satisfy their customers. The writer believe that the restaurant could have make a bigger effort when it comes to promotions. As we know, giving promotions are very important to increase the number of customer but it seems that Pondok Indah has made little to no effort in doing promotions for their customers.

## **1.2 Problem Limitation**

Considering the limitation that the writer has, this research is focused on how both promotion and service quality contribute to the level of customer satisfaction specifically in a restaurant. The research will be conducted on Pondok Indah Restaurant which is located in Medan. The population will be taken from the customers which visited or has ordered digitally from the time period of the last 2 years of the restaurant operation which include the lockdown and PPKM

(*pemberlakuan pembatasan kegiatan masyarakat*) period due to the pandemic. Due to the topic of the thesis which focuses on the effect on service quality ( $X_1$ ) and promotions ( $X_2$ ) towards customer's satisfaction ( $Y$ ), other factors that contribute to customer's satisfaction will be disregarded. The service area to analyze service quality ( $X_1$ ) include parking area, dining area and kitchen area while the promotion. ( $X_2$ ) analyzed will include digital promotion, sales promotion, general advertising and direct marketing. Indicators of service quality ( $X_1$ ) in this research are tangibility, reliability, responsiveness, assurance, empathy and indicators of promotion ( $X_2$ ) include frequency, quality, and quantity, period of promotion and accuracy of promotional goals. Lastly, indicators of customer satisfaction ( $Y$ ) are product quality and price.

### **1.3 Problem Formulation**

Problems that will be analyzed in this paper include:

1. How is the quality of the current promotion system in Pondok Indah Restaurant?
2. How is the service quality in Pondok Indah Restaurant?
3. How is the customers' satisfaction in Pondok Indah Restaurant?
4. Do Promotion and service quality affect Customers' Satisfaction in Pondok Indah Restaurant?

## **1.4 Research Objectives**

The goals of conducting the research include:

1. To identify the current level of customer satisfaction in Pondok Indah Restaurant
2. To identify the effect of service quality towards customer's satisfaction in Pondok Indah Restaurant
3. To identify the level of customer satisfaction in Pondok Indah Restaurant
4. To identify the effect of promotion and service quality towards customer's satisfaction in Pondok Indah Restaurant

## **1.5 Benefit of Study**

### **1.5.1 Theoretical benefit**

This research is done to provide a better insight to other researchers that wishes to study about the importance of building a good promotional base and the provision of a good service quality to the customer of a culinary business in order to achieve a higher level of customer satisfaction.

### **1.5.2 Practical benefit**

1. For the Business

As the research is done on the baseline from Pondok Indah Restaurant, it will be beneficial for the business as the business can have an insight on the restaurant's performance and will also obtain some recommendations to increase promotion and service quality which will be useful for the business.

## 2. For other Researchers

This research is also expected to be useful for any researchers in the same study as it will provide more information about the variables and also the writes hope that this research will provide a wider knowledge for the subject in general as it is a common yet unnoticed problem.

## 3. For the Writer

The study on the subjects will be useful to widen the knowledge and understanding on the mentioned variable. Also, it will be beneficial for the writer in the long term as it can help in providing a greater insight for potential business in the future

