

# CHAPTER I

## INTRODUCTION

### 1.1. Background of Study

Customer satisfaction is defined as a condition where customer expectations for a goods and service are in accordance with the accepted reality of the services provided to customers. If the service of a service company is far below consumer expectations, customers will be disappointed. Conversely, if the services provided meet customers' expectations, they will be happy. Customer expectations can be known from their own experiences when using the services of a service company, other people's words and advertising information (Panjaitan and Yuliati, 2016).

The research by Zardi, et.al (2019) showed that quality products, price, locations have relationship to customer satisfaction and customer loyalty. Customer loyalty has a relationship with the quality of products or services. The occurrence of brand loyalty in consumers is due to the influence of customer satisfaction or dissatisfaction with the brand which accumulates continuously in addition to the perception of a quality. Customer loyalty is also influenced by a product quality. The product quality can be used to develop customer loyalty. Several research results show that consumers will be loyal to several high-quality brands. In terms of a quality, a product quality also implies the existence of a customer quality.

The marketing concept emphasizes the importance of customer satisfaction in supporting the success of a company in order to realize the expected goals. In simple terms, customer satisfaction with a particular product is the result of a

comparison made by customers on the level of benefits offered with the level of expected benefits. Customer loyalty will appear when customers are satisfied with the quality of the products offered by the company. Loyalty is customer loyalty to make repeated purchases of the products offered by the company. Customer loyalty is one of the important factors for the continued development of the company and increasing company sales. Businesses in the food sector will benefit greatly when they are able to create satisfaction in every customer, satisfied customers will form their loyalty to the company (Anggraeni, et.al, 2016).

Grand Maximum Seafood Restaurant is one of the well-known restaurants in Medan, North Sumatra. The restaurant which is located at Putri Merak Jingga street No.2 D conduct a unique concept that is never been done before, it's a collaboration between Indonesian culture and Chinese tradition. Grand Maximum was held a grand opening on Thursday, 22<sup>nd</sup> July 2010. Although it is said the restaurant is still new, all the staffs, waitress, bartenders, chefs and other skilled officers who involved in this restaurant is the chosen people with international skill qualification. Besides that, this restaurant is managed by professional people which prioritize food quality above other things. Grand Maximum Seafood Restaurant prioritize its hygiene, customers' comfort, and many room facilities such as birthday celebration, lottery club, reunion, seminars and Ala Carte wedding reception which facilitated with satisfying sound system.



**Figure 1.1. Photo of the Front of the Restaurant**  
Source: Grand Maximum Seafood Restaurant, 2021

At the front of the restaurant, there is a security guard whose job is to check the temperature of guests. Besides, the company has already make sure that all of the employees have been vaccinated. This is done to give customers confidence that the restaurant is safe to receive guests.



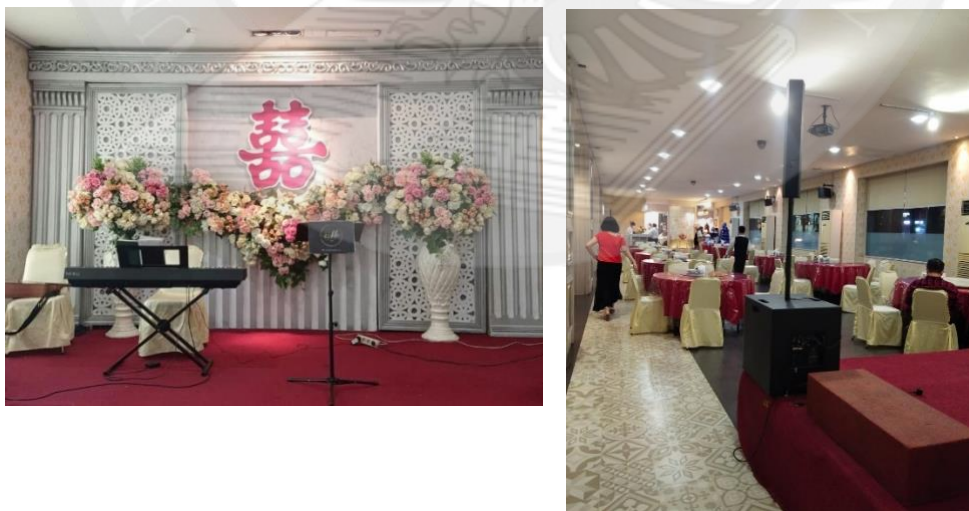
**Figure 1.2. Photo of the Restaurant Interior**  
Source: Grand Maximum Seafood Restaurant, 2021

The above picture is the interior of the restaurant which consists of stage and guest tables. Besides that, the restaurant also has private room for customers who want to have private banquet.



**Figure 1.3. Photo of the Private Room**  
Source: Grand Maximum Seafood Restaurant, 2021

Besides that, the restaurant also has its own sound system to support customers' events. It also has projector to complete the needs of the event.



**Figure 1.4. Photo of the Sound System and Projector**  
Source: Grand Maximum Seafood Restaurant, 2021

Based on the preliminary interview with the director, the phenomenon that happened in the company is the decrease in customer loyalty. The customer loyalty decline has caused the lack of repeat order numbers, a decline in sales numbers which chose to eat or buy food from Grand Maximum Seafood Restaurant, a decline in sales number of a reception / parties which held in the restaurant. At the restaurant, there are many customers who used to often buy from the restaurant but no longer come to buy. In addition, the impact of Covid-19 which makes customers reluctant to dine in or hold events at the company also causes customer loyalty problems. This means that customers still lack confidence in the hygiene guarantees provided by the company to dine-in, thereby reducing the number of dine-in customer visits, and besides that there are also customers who are less willing to buy food from outside because of concerns over hygiene and the COVID-19.

Customer loyalty has an important role in a company, retaining customers' means improving financial performance and maintaining company viability. The benefits of customer loyalty are reduced the influence of attacks from competitors from similar companies, not only competition in terms of products, but also competition in terms of perception. Loyal customers are those who reuse the same company, tell other potential customers, word of mouth, and become a deterrent to attacks from competitors (Tarumingkeng, 2019).

The director said that one of the problems that caused decrease in customer loyalty is quality of products. Product quality in the food and beverage sector has some main problems namely freshness of food, food presentation, well cooked, and variety of food. If the quality of the food provided is good, it will benefit both

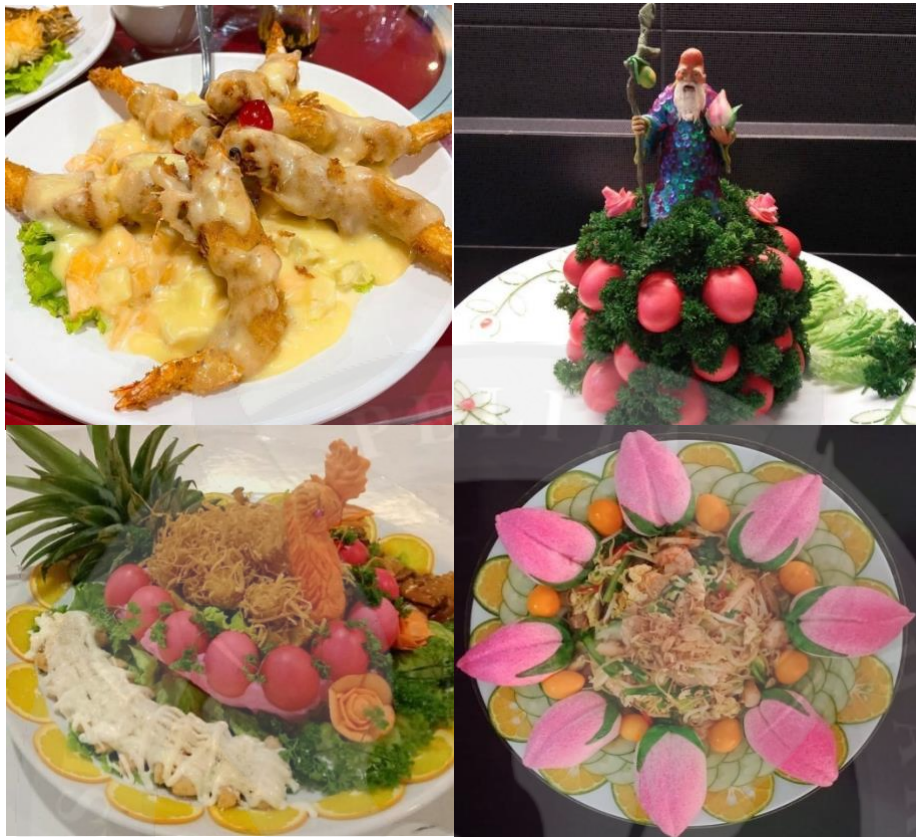
parties, the restaurant will get a good image and profit in its business, while the customer will get the expected satisfaction and will raise the loyalty to restaurant. Thus, food quality is one of the best ways to maximize success in the restaurant business.

Food quality is a level in the consistency of menu quality which is achieved by establishing a product standard and then checking the points that must be controlled to see the quality to be achieved. Every food product has its own standards, so there are many standards in every food menu. The quality of a food product is very important for every founder of a food selling company. Food quality standards are difficult to define and cannot be measured mechanically, but can be evaluated through their nutritional value, level of ingredients used, taste, and appearance of the product. Broadly speaking, the factors that affect food quality are color, appearance, portion, shape, temperature, texture, aroma, level of maturity and taste (Listiani and Zahara, 2020).

Based on the interview with the marketing head, the products problem in the company is the presentation of the food seems old-fashioned and doesn't change, while other restaurants offer a visually appealing side. Besides, the customers are worried that fresh food is guaranteed in the store, considering the COVID-19 situation which has a bad impact on almost all sectors, so customers are worried that the food served is not fresh because it was less selling. In addition, almost all of the menus offered have similarities with products from other restaurants, so there is no uniqueness or characteristic that distinguishes them from other restaurants. Besides that, the taste of food often gets complaints from

customers, such as too salty or too spicy. Customers complain the difference in taste felt at each different visit. The company does not have cooking standards as a result the food produced is not standard so that sometimes it meets customer expectations and sometimes it doesn't. In addition, the cooking process is often slow and causes customers to have to wait.

According to the restaurant supervisor, the other problems that caused decrease in customer loyalty is price. Customers will be satisfied if the quality of the food purchased is delicious and the price is also friendly and affordable. Both of these things will make customers satisfied and the company can win the existing business competition. This customer satisfaction is what then leads to customer loyalty. The company needs to be able to sell food at a low cost, but not cheap to display and sell to customers. In the restaurant, the customers perceive that the food sold is too expensive and not worth the expected quality, presentation and portion. The customers perceive that the portion is too little for the price paid. Besides, the materials used seem cheap and not worth the price, such as the use of small shrimp, small and thin chicken and others. Customers often compare price with competitors who also offer the same price with larger portion. The restaurant doesn't give discount to customers, and doesn't hold any promotions for customers. The company also does not participate in discount programs organized by credit card service providers, as a result the price offered are less attractive. Customers become less interested in doing repetitive purchase.



**Figure 1.5. Photo of Food Presentation**

Source: Grand Maximum Seafood Restaurant, 2021

The supervisor also said that the location also plays an important role in a decrease of customer loyalty. The location problems in the company include a parking problem and a visible location problem. The location of the restaurant is near the gas station, the badminton court and a church and is on a less wide road / not a big road. Most people pass this road for alternative routes to other major roads, so the location is a less eye-catching and there are no similar businesses nearby. The company is not in a crowded area, causing the restaurant to be less sought after by potential buyers.

The supervisor also said that customers are often faced with the problem of finding parking space. When choosing a place to eat, a common factor to consider to is parking space. Customers prioritize comfort when deciding to eat outside. If a



parking is a major problem, it will be difficult for a restaurant to get regular customers. The restaurant has a limited parking lot, when there is an event/ a party, customers have to park up to the road, so that often makes customers lazy to hold events or eat at the restaurant. The customers also faced the security problems, because they felt insecure when they had to park in the road, and carrying their bags to enter the restaurant.

The writer used the variables of quality of products, price, location, customer satisfaction and customer loyalty because there is phenomenon happened in the restaurant which includes those variables and have a relationship with each other. The following is a recap of the phenomena that occur in the restaurant according to the research variables:

**Table 1.1**  
**Phenomena in the Restaurant According to the Research Variables**

No.	Variable	Phenomenon
1	Quality of Products	<ul style="list-style-type: none"> <li>– The presentation of the food seems old-fashioned and doesn't change, while other restaurants offer a visually appealing side</li> <li>– Customers are worried that fresh food is guaranteed in the store, considering the COVID-19 situation which has a bad impact on almost all sectors, so customers are worried that the food served is not fresh because it was less selling.</li> <li>– Almost all of the menus offered have similarities with products from other restaurants, so there is no uniqueness or characteristic that distinguishes them from other restaurants.</li> <li>– The taste of food often gets complaints from customers, such as too salty or too spicy.</li> <li>– Customers complain the difference in taste felt at each different visit.</li> <li>– The company does not have cooking standards as a result the food produced is not standard so that sometimes it meets customer expectations and sometimes it doesn't.</li> <li>– The cooking process is often slow and causes customers to have to wait.</li> </ul>
2	Price	<ul style="list-style-type: none"> <li>– The customers perceive that the food sold is too expensive and not worth the expected quality, presentation and portion.</li> <li>– The customers perceive that the portion is too little for the price paid.</li> <li>– Customers often compare price with competitors who also offer the same price with larger portion.</li> </ul>

		<ul style="list-style-type: none"> <li>– The restaurant doesn't give discount to customers, and doesn't hold any promotions for customers.</li> <li>– The company also does not participate in discount programs organized by credit card service providers, as a result the price offered are less attractive.</li> </ul>
3	Location	<ul style="list-style-type: none"> <li>– The location problems in the company include a parking problem and a visible location problem.</li> <li>– The company is not in a crowded area, causing the restaurant to be less sought after by potential buyers.</li> </ul>
4	Customer Loyalty	<ul style="list-style-type: none"> <li>– Lack of repeat order.</li> <li>– Decline in sales number which chose to eat or buy food from Grand Maxim Seafood Restaurant.</li> <li>– Decline in sales number of a reception / parties which held in the restaurant.</li> <li>– At the restaurant, there are many customers who used to often buy from the restaurant but no longer come to buy.</li> </ul>
5	Customer Satisfaction	The quality of products, price and location problems have lead to customer dissatisfaction as the key factor to customer loyalty.

Source: The Writer, 2022

Based on description above, the writer want to conduct the research with title **“Analysis of Quality of Products, Price and Location towards Customer Loyalty through Customer Satisfaction in Grand Maximum Seafood Restaurant Medan.”**

### **1.2.Problem Limitation**

To focus on the research object, the writer makes problem limitation to the quality of products, price, location, customer loyalty and customer satisfaction at Grand Maximum Seafood Restaurant. This research will use questionnaire to obtain data from respondents. The writer will limit the respondents to customers from the company within the last 3 months.

The questionnaire will be about quality products with indicators of defective products, customer complaints, time differences and timeliness (Astuti and Matondang, 2020). The questionnaire about price with indicators of affordability,

price match with service quality, price match the benefits, price according to ability (Indrasari, 2019). The questionnaire about location with indicators of access, visibility, traffic, parking area, expansion, environment, competitor (Maskan, et.al, 2018).

The questionnaire about customer satisfaction with indicators of quality of products, service quality, emotional consumer, price and consumer costs (Fuadi, et.al, 2021). The questionnaire about customer loyalty with indicators of say positive things about the company to others, recommendation, considering company as the first choice, and do repetitive purchase (Sangadji and Sopiah, 2013).

The analysis method will use Structural Equation Modelling (SEM) as a statistical technique used to build and test statistical models which are usually in the form of causal models. The writer will describe the relationship among variables which are quality of products, price, location, customer loyalty and customer satisfaction.

### **1.3.Problem Formulation**

The problems formulation in this research are as follow:

1. Does quality of products have significant influence toward customer satisfaction at Grand Maximum Seafood Restaurant?
2. Does price have significant influence toward customer satisfaction at Grand Maximum Seafood Restaurant?

3. Does location have significant influence toward customer satisfaction at Grand Maximum Seafood Restaurant?
4. Does quality of products have significant influence toward customer loyalty at Grand Maximum Seafood Restaurant?
5. Does price have significant influence toward customer loyalty at Grand Maximum Seafood Restaurant?
6. Does location have significant influence toward customer loyalty at Grand Maximum Seafood Restaurant?
7. Does customer satisfaction have significant influence toward customer loyalty at Grand Maximum Seafood Restaurant?

#### **1.4.Objective of Research**

Objectives of research are as follow:

1. To know the significant influence of quality of products toward customer satisfaction at Grand Maximum Seafood Restaurant.
2. To know the significant influence of price toward customer satisfaction at Grand Maximum Seafood Restaurant.
3. To know the significant influence of location toward customer satisfaction at Grand Maximum Seafood Restaurant.
4. To know the significant influence of quality of products toward customer loyalty at Grand Maximum Seafood Restaurant.
5. To know the significant influence of price toward customer loyalty at Grand Maximum Seafood Restaurant.

6. To know the significant influence of location toward customer loyalty at Grand Maximum Seafood Restaurant.
7. To know the significant influence of customer satisfaction toward customer loyalty at Grand Maximum Seafood Restaurant.

### **1.5. Benefit of the Research**

#### **1.5.1. Theoretical Benefit**

This research has benefit to compare the theories and practice in working field. This research can be used to give recommendations to company to boost the customer loyalty by paying more attention to customer satisfaction, quality of products, price and location.

#### **1.5.2. Practical Benefit**

This research can be used as recommendation in controlling the customer loyalty through customer satisfaction, quality of products, price and location.