

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The Food and Beverage Industry has developed a significant growth over recent years. In this field of business, there is a lot of room for creativity and innovation. The Food and Beverage Industry encompasses all businesses that revolve around food and beverages. Restaurants, cafeterias, cafes, taverns, fast food, pubs, catering, food transportation services, and more are all part of this industry. Because Indonesia's market is so wide, the food and beverage industry has a lot of potentials. Starting a Food & Beverage company can be very promising if managed effectively and correctly.

In order to attain success and maintain a business's sustainability, F&B companies typically take a consumer-centered approach. Consumers are the driving force behind a company's success and long-term viability. Consumers, in general, are those who purchase products and services from the market to meet their requirements and desires. Of course, each customer has unique requirements and desires. A company that wants to succeed and survive in the long run must be able to produce products or services that meet the requirements and desires of its customers. Furthermore, it must also meet customer's price expectation for the products/services received.

However, to maintain long-term success in a firm, it is not enough to provide products and services and establish a price that is acceptable to satisfy customers.

Companies that want to stay successful must make customer loyalty a long-term objective that is constantly maintained and cultivated. Customer loyalty is crucial, particularly in the midst of the health crisis and economic recession caused by the Covid-19 outbreak, which hit several industries hard.

According to Wikipedia, the government's implementation of the Community Activities Restrictions Enforcement (PSBB) policy has had a significant impact on the community's reduction in economic activity, particularly in the food and beverage industry. The food and beverage industry has seen a drop in sales as consumers are encouraged to stay at home and refrain from excessive consumption in order to conserve money during the PSBB time. Based on the Central Statistics Agency (BPS), the Covid-19 pandemic affected 82.85% of companies. Accommodation and food and beverage industries, with a decline of 92.47%, were the most affected by the recession.

Sektor Usaha Paling Terdampak saat Pandemi Corona

Sumber : Badan Pusat Statistik (BPS), 15 September 2020

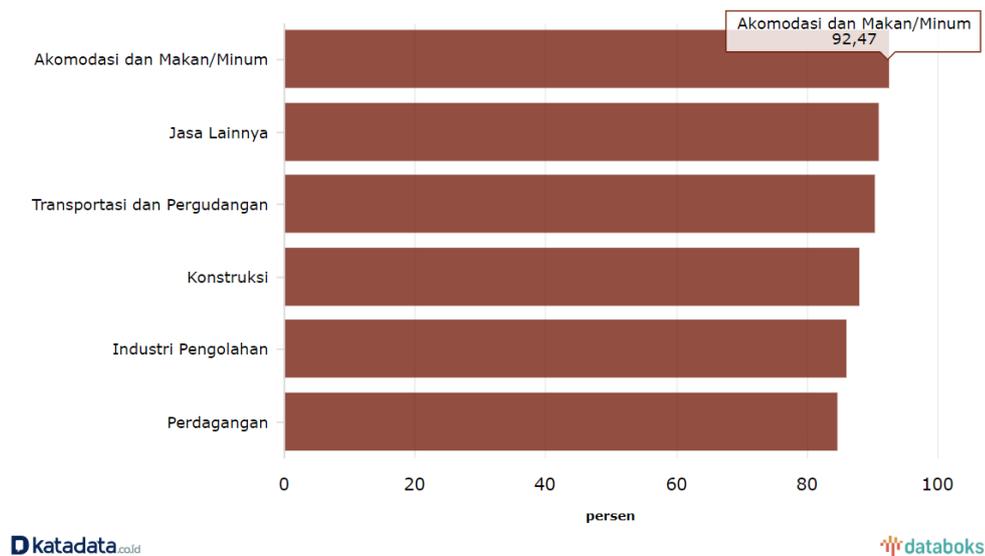


Figure 1.1 The Most Affected Business Sector During the Corona Pandemic

Source: Databoks (2020)

Even though many industries have suffered due to the pandemic and the implementation of PSBB, the food and beverage industry has the capacity to recover. Even though the performance of the food and beverage industry per quarter (q on q) still dropped by minus 0.1% in the first quarter of 2022, the annual performance (year on year) of this industry increased by 3.61% in the first quarter of 2022. This positive growth is the continuance of the 2021 F&B industry's performance. Although the performance in 2020 was fairly poor due to the policy of restricting activities to avoid the development of Covid-19.

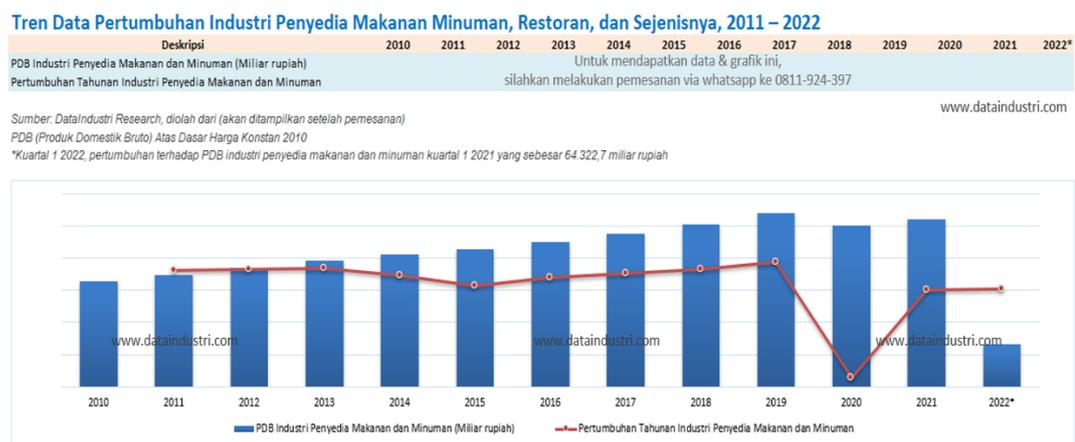


Figure 1.2 Growth Data for the Food and Beverage Providers, Restaurants, and Similar Industry 2011 – 2022

Source: Pusat Data Industri Indonesia (2022)

The development in the culinary industry, according to Parama Indonesia's Director, Agni Pratama, was driven by the demands of individuals in big cities. People in the city of Medan who have a consumptive lifestyle have increased economic growth in the city of Medan. This economic growth has led to the opening of more F&B businesses with diverse food menus, prices, and great service quality. This also led to more options and considerations for the consumer when deciding where to eat.

With more F&B businesses opening in Medan, the competitiveness in this market become higher. Likewise, the existing F&B business needs to stay competitive in order to sustain the company. As mentioned before, businesses in culinary industry need to maintain their customer loyalty as the long-term objective. For two key reasons, customer loyalty is critical in today's industry. For instance, consumers are precious assets, and obtaining one from an existing client is significantly easier than obtaining one from a novel one. Besides, customer loyalty has a favorable impact on the business's profitability and income. Customer loyalty, according to Oliver (in Kolonio and Soepeno, 2019), is a commitment made by customers to buy or prioritize a product in the form of goods or services on a regular basis, resulting in repeated purchases of the same brand, even when the customer is subjected to situational or marketing influences from competitors to switch to other brands.

Obtaining customer loyalty for F&B businesses can be driven by the availability of great food quality. Food quality measurement includes the whole quality of the food and beverage, as well as the flavor, freshness, nutritional value, and serving size (Serhan & Serhan, 2019). Berliansyah & Suroso (2018) stated that offering high-quality foods and drinks can increase customer satisfaction which increases customer loyalty. According to Liu et al., 2017; Suhartanto et al., 2019, food quality is an essential element of the restaurant's customer experience because it affects the entire performance of food to satisfy customer requirements. Furthermore, food quality has an impact on customer satisfaction, purchasing intention, and restaurant recommendations. This is a sign of customer loyalty.

Another variable that could affect customers' loyalty is price. According to marketing analysts, the relationship between customers and the price supplied has demonstrated a tendency if the seller is concerned about the customers' needs and wants. In Sari & Andjarwati (2018), Kotler and Keller claim that price is an amount of money or value transferred by customers in order to obtain gains from possession or paid for a product or service. According to Kotler and Armstrong in Friani et al. (2018), another definition of price is "the quantity of cash traded for goods/service." Moreover, prices are a set of values that customers trade for a range of advantages derived from owning or utilizing a product or service." Customers' willingness to pay a certain price for an item may have an impact on their satisfaction with the product's performance (Sheng, 2018).

Customer loyalty can also be influenced by the service quality provided. Customers will be more satisfied with the company's products or services if service quality is enhanced. Tjiptono and Chandra (2011, p. 177 in Hartono, 2018) define service quality as "the required level of excellence and control over these advantages to fulfill client desires." Customer satisfaction and loyalty are closely linked to service quality. Consumers are more likely to form a close relationship with a firm if the service is of high quality. With the relationship established, the organization will be able to understand the expectations and demands of customers in the long run. By enhancing a pleasant experience and decreasing or eliminating the unpleasant experience felt by its customers, the company can aim to boost customer loyalty even further.

According to Woen & Santoso (2021), the findings of testing this study model show that the variables of product quality, service quality, and average pricing have a substantial and positive influence on Burger King in Yogyakarta consumer satisfaction. Furthermore, satisfied customers are more likely to become loyal. Likewise, based on research by Sunaryo, et al. (2019), without customer satisfaction, pricing still has a significant impact on customer loyalty, making it the only quality factor that influences consumer loyalty in both cases. In a direct measurement, however, location becomes irrelevant. Instead of location, food quality has a huge impact on consumer loyalty.

Luigi Gelato as the research object is one of today's most popular Gelato Shop in Medan. Established in 2018, Luigi Gelato is a petite café specializing in gelato and sorbetto. Currently with 3 outlets available in Medan – Letjend S Parman Street, Cemara Asri Complex, and Interlokal Medan – this gelato shop operates every single day from 11 a.m. to 10 p.m. (11 p.m. on weekend). They offer various types of flavors with different prices depending on the amount of scoop. Besides, take-away is also available for those who love their product, customers can purchase a family package and choose 3 flavors they love. They aim to provide the best quality using 100% natural ingredients with no additional food coloring, preservatives, and artificial flavoring.

Table 1.1 Reviews of Luigi Gelato Medan

Rating	Customer name	Customer's review
1/5	Hanifah	"Just last night from here. The taste of the gelato is standard, plus the service is really bad. The waiters are like picking people who deserve to dine in or not. Because the store was busy, the waiter said that if there was an empty table, just fill it up, but I was rejected twice on the pretext of 'the table is for another customer, ma'am', with the fact that the customer had just arrived. And I was left to eat standing. Maybe my appearance isn't convincing, it's just shorts or flip-flops. Overall, I don't recommend it."
1/5	Mark Chandra	"The taste is normal, a bit artificial."
2/5	Andy Haslim	"the place is too small"
3/5	ferus habitus	"I only tried one flavor and it didn't wow me."
3/5	Wiyogo Edward	"Delicious and the choice of flavors is quite a lot. It's just that the employees tend to mishear."
3/5	Nero XVII	"Rasanya mantap, tapi pelayanannya kurang memuaskan.. antriannya acak²an udh lama ngantri malah yg belakangan yg dikasi duluan.."
3/5	Claudiac.c	"Nice, but small place. 15 people are already very crowded."
3/5	David Halim	"Ice cream ngak gitu bnyk rasa dan so so..."
3/5	Christine Angelia	"Pelayanannya aneh. Padahal toko kecil tapi begitu masuk ga disambut. Mbaknya rada jutek juga. Rasa gelatonya cukup baik. First impression agak ga mengeskan"
4/5	Vitorio Daud Ariel Sihombing	"Rasa nya memuaskan, tapi ruangan nya kurang besar untuk menampung banyak orang. Jadi terkadang ada customer yang terpaksa tidak jadi pesan."
4/5	Kelvin Lim	"Place is cozy. Price around 30 - 150k depending on size. The ice cream tastes good. Overall worth it"
5/5	Sylvia Johnshen	"Best gelato in town! Love how unique the flavors they have are. Sea salt and avocado are always my go-to flavors! Their hazelnut gelato is also delicious. 2 scoops for 30k, 3 scoops for 40k. Got this family pack size gelato on my birthday. The S.Parman branch is not too spacious. There are only 5 tables"

Source: Google Review

The data stated above are customers' review regarding their food quality, price, and service quality. With several research conducted regarding the mentioned variable, writer would like to conduct a research on how food quality, price, and service quality will influence customer loyalty and the writer will write the research in the form of final paper entitled "**THE INFLUENCE OF FOOD QUALITY, PRICE, AND SERVICE QUALITY TOWARD CUSTOMER LOYALTY AT LUIGI GELATO MEDAN**". This research is hoped to have a positive benefit on increasing consumer loyalty, allowing Luigi Gelato Medan to reach its business objective.

1.2 Problem Limitation

In order to be more focused on this research and due to the limited sources, the writer determines limitations of this study to food quality, price, and service as independent variables and customer loyalty as the dependent variable. Moreover, the writer will as well limit the research object where the research will only take place in the Luigi Gelato Medan.

1.3 Problem Formulation

Based on the background study above, the writer can take problem formulation as follows:

1. How does food quality partially influences customer loyalty at Luigi Gelato Medan?
2. How does price partially influences customer loyalty at Luigi Gelato Medan?
3. How does service quality partially influences customer loyalty at Luigi Gelato Medan?
4. Do food quality, price, and service quality influence customer loyalty at Luigi Gelato Medan simultaneously?

1.4 Objective of Research

The purposes of this research are as follows:

1. To find out how food quality partially influences customer loyalty at Luigi Gelato Medan.
2. To discover how price partially influences customer loyalty at Luigi

Gelato Medan.

3. To identify how service quality partially influences customer loyalty at Luigi Gelato Medan.
4. To determine whether food quality, price, and service quality have influenced toward customer loyalty simultaneously at Luigi Gelato Medan.

1.5 Benefits of the Research

The benefit of this research will be divided into two which are:

1.5.1 Theoretical Benefit

The completion of this study is expected to give a better understanding of how food quality, price, and service quality of F&B businesses will impact customer loyalty. As a result, this research is expected to provide additional knowledge to readers or future researchers working on a related topic.

1.5.2 Practical Benefit

1. For Future Researchers

This research is expected to bring additional references in learning the food quality, price, and service quality of food and beverage companies and how they impact customer loyalty.

2. For Luigi Gelato Medan

This research is expected to be a platform to give information about the food quality, price, and service quality of Luigi Gelato Medan so that it can become a concern for the leaders in making future policies.