

CHAPTER I

INTRODUCTION

1.1. Background of the Study

Changes and developments in the global economy continue to proceed at a breakneck pace in the current era of globalization, with businesses not only operating domestically but also globally. Companies, as producers, must be able to adapt to changing circumstances. Companies must have a sound business strategy to meet their objectives. The development of increasingly rapid and complex technology is also a challenge for businesspeople, and it drives them to grasp technology. In addition, businesspeople must be able to adapt to constantly changing consumer desires. To attract clients in this competitive environment, all businesses must offer the greatest items they have.

The pandemic that happened in 2020 made it hard for the company to grow its business because of the social restrictions and economic downturn that happened. Physical distance has a big effect on many people, including those in business. In business, especially in this economy, the ability of a company to keep customers happy is becoming more and more important.

Companies need to put customer satisfaction first if they want to reach customers and make more money. Customer satisfaction is something that people say about products or services that have met their needs. According to Srivasta (2014) in Yadav and Rai (2019), satisfied customer is a customer's cognitive choice based on an interaction between both the customer's personality and a company's

marketing activities in terms of the customer's desire for the product and perception of the advantages acquired.

Word of mouth is one of the things that can help make customers happy. The goal of word-of-mouth marketing is to give people a reason to talk about brands, products, or services and make it easier for them to do so. According to Tjiptono (2008) in Maghfiroh (2019), word of mouth is a statement (personal or not) that is passed on to customers by someone who is not the service provider. Most of the time, word of mouth is more reliable and effective because it comes from people who customers can trust, like experts, friends, neighbors, family, co-workers, and co-workers.

Product quality is the advantages and disadvantages of a product and service. In product quality complaints faced by the company. According to Singhdong and Setyawan (2017), quality is determined by the actual experience of customers with goods or services, and is quantified based on customer requirements, regardless of whether it is declared or not, recognized or only perceived, accomplished technically, or represents a moving target in a market with intense competition.

PT Malinau Cipta Persada is a company engaged in heavy equipment construction and building construction. Currently the company handles various projects spread across the city of Medan and outside the city. In handling projects such as property projects, construction projects and heavy equipment. In business activities that run in the company, customer satisfaction is not achieved, the current customer satisfaction in the company is not so good. This happens because there are still complaints from customer satisfaction that occur in the company. The

following is the complaint data that occurred in the company.

Table 1.1
Complaint Customer from PT Malinau Cipta Persada

Year	2019	2020	2021	Reason of Complaints
Month				
January	8	8	9	<ol style="list-style-type: none"> 1. Employees who are not friendly to customers 2. Employees are less responsive when providing services to customers. 3. The results of the construction are not according to the design 4. There are inappropriate construction raw materials 5. There is damage to the construction work 6. Provision of different raw materials from customer's request
February	5	8	5	
March	5	5	8	
April	6	8	11	
May	7	5	10	
June	8	6	8	
July	9	5	9	
August	5	8	8	
September	8	6	8	
October	5	8	9	
November	6	8	8	
December	5	9	-	
Total	77	84	93	

Source: PT Malinau Cipta Persada, 2021

From table 1.1, it shows that the number of complaints that occurred increased from 2019 to 2021. The increasing number of complaints showed that the company did not have good customer satisfaction. Customers tend to also feel that their expectations for the performance of the company have not been achieved. Consumer complaints in the end make trust in the company to decline and trigger the disruption of the company's income.

In word of mouth that is in the company, has a problem namely customers who do not recommend the company back to other customers, resulting in a decrease in the number of company customers. Customers do not recommend returning because customers do not have a good experience when using the company's services. The following is the data on the number of company consumers.

Table 1.2
Number of Customer from PT Malinau Cipta Persada

Year Month	Number of Customer		
	2019	2020	2021
January	40	22	23
February	30	29	18
March	25	22	21
April	23	28	25
May	26	25	26
June	31	26	23
July	32	23	22
August	34	21	24
September	23	18	28
October	26	24	26
November	29	22	23
December	30	27	-
Total	349	287	259

Source: PT Malinau Cipta Persada, 2021

From table 1.2, it can be seen from the data on the number of customers in the company until 2021 which shows a decrease in the number of customers. This decrease shows that most consumers do not recommend the company to other colleagues or colleagues because most customers are not satisfied with the services provided by the company. With customers who do not recommend the company again, it shows that the company is not able to carry out word of mouth properly and can be seen from the decrease in the number of customers.

Besides the word of mouth, in product quality complaints faced by the company. The company received complaints from consumers due to several construction services experiencing problems such as damage to construction results, inappropriate raw materials used and construction results that were not on time. this Recent in complaints from customers. To view complaints regarding product quality that customers have complained about, the following is data on

customer complaints who complained because they felt it was not in accordance with the results of their planned construction in the following table.

Table 1.3
Number of Customer from PT Malinau Cipta Persada

Year Month	2019	2020	2021	Problems in Product Quality
January	4	2	4	<ol style="list-style-type: none"> 1. Lack of expertise 2. Poor quality material 3. Estimation error 4. Not according to the planned procedure 5. Raw material type error 6. Equipment does not meet specifications required technical 7. Improper material procurement system
February	3	2	5	
March	4	2	2	
April	2	3	3	
May	3	4	4	
June	2	2	2	
July	4	3	3	
August	2	2	4	
September	3	4	2	
October	4	3	3	
November	2	2	4	
December	3	4	-	
Total	36	33	36	

Source: PT Malinau Cipta Persada, 2021

From table 1.3, customers who complain about product quality occur regularly every month. The problems that were complained about were not good construction materials, errors in planning and raw materials that were not in accordance with the plan. This shows that the quality of the products offered are not in accordance with the wishes of the customers.

Based on this discussion, the writer decides to conduct research entitled **“The Effect of Word of Mouth and Product Quality Towards Customer Satisfaction at PT Malinau Cipta Persada”**

1.2. Problem Limitation

In this study, the writer will limit problems for word of mouth and product quality towards customer satisfaction at PT Malinau Cipta Persada as a company engaged in heavy equipment construction and building construction as the main

problem of this study. Problem limitations are word of mouth (X1), product quality (X2) as the independent variable and customer satisfaction (Y) as the dependent variable.

Indicators for word of mouth are from Sernovirtz (2012) in Pratiwi and Lubis (2017), which include talkers, topics, tools, taking part, tracking. Indicators for product quality are from Supriyadi et al (2017), which include features, performance quality, durability, reliability, and ease of repair.

Indicators for customer satisfaction are from Simamora and Realize (2020), which include overall customer satisfaction, confirmation of expectations, repurchase intention, availability for recommendations and customer dissatisfaction.

1.3. Problem Formulation

Based on the background of the study, the question to be answered in this research are as follows:

- a. How is word of mouth at PT Malinau Cipta Persada?
- b. How is the product quality at PT Malinau Cipta Persada?
- c. How is the customer satisfaction at PT Malinau Cipta Persada?
- d. Does word of mouth have partial effect towards customer satisfaction at PT Malinau Cipta Persada?
- e. Does product quality have partial effect towards customer satisfaction at PT Malinau Cipta Persada?

- f. Does the word of mouth and product quality have simultaneous effect towards customer satisfaction at PT Malinau Cipta Persada?

1.4. Objectives of the Research

The purposes in doing this research are as follows:

- a. To describe the word of mouth at PT Malinau Cipta Persada.
- b. To describe about product quality at PT Malinau Cipta Persada.
- c. To evaluate the customer satisfaction at PT Malinau Cipta Persada.
- d. To analyze whether word of mouth have partial effect towards customer satisfaction at PT Malinau Cipta Persada.
- e. To determine whether product quality have partial effect towards customer satisfaction at PT Malinau Cipta Persada.
- f. To investigate whether word of mouth and product quality have simultaneous effect towards customer satisfaction at PT Malinau Cipta Persada.

1.5. Benefit of the Research

Benefits of this research can be listed as follow:

1.5.1. Theoretical Benefit

The theoretical benefit of this research as follow:

The results of this research are expected to contribute to the existing theories relevant with word of mouth and product quality have effect on customer satisfaction.

1.5.2. Practical Benefit

The practical benefit of this research is as follow:

- a. For the writer, the findings of this study will add to intriguing hypotheses about word of mouth and product quality, as well as their effect on customer satisfaction.
- b. For Malinau Cipta Persada, to determine whether the survey that was conducted would be beneficial in improving the company's performance.
- c. For other researcher, to serve as a guide in directing them to conduct additional research that is congruent with this study.

