

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Business has through many changes and it is going to keep changing as the time goes by when everything has a tendency to be sophisticated. Many people can easily build businesses by just using not so big capital or resources. The easiness of doing business makes many entrepreneurs come up with vary of business and unique idea and then the competition is getting tighter. Moreover, the existance of industrial revolution such as Internet of Things(IoT), E-Commerce, Cloud Computing, and Artificial Intelligence make the tight competition is not only among local businesses, but also the rivalry among businesses nationally and even internationally. Every company want to please its customers as many as it can through any ways the company could afford. A business should have an ability to deliver more value to the customer. Good customer value can be achieved only when product quality, service quality, and value based price exceed customer expectations. According to Earl Naumann's book Creating Customer Value, the customer value triad consist of : product quality, service quality, and value-based price (Taylor,2007). Where product quality and service quality are the pillars that support value-based price, if the product or service quality are poor, value-based price falls, but if price is too high, the sales suffer.

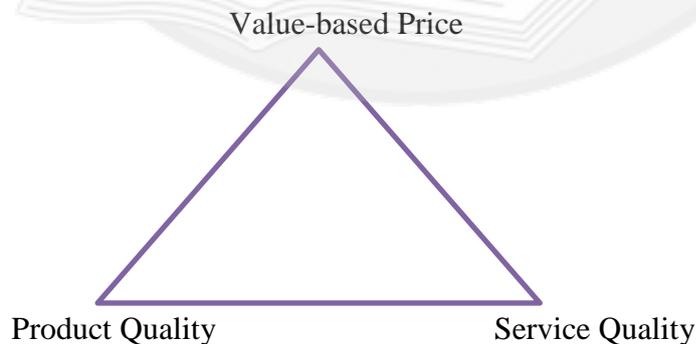


Figure 1.1 Customer Value Triad

Source : Prepared by Writer (2019)

From the understanding of Customer Value above, Besides Service Quality and Value-based Price. Product Quality is seen as a very necessary as it one of the factors that determine the success of the company in attracting people to buy and satisfy them. This study will explore more about product quality and how it affects the customer satisfaction. Satisfaction will be achieved and can be recognized by customers if the quality of the product provided is able to impress the customers and fit to their expectations. According to Kotler and Amstrong, the quality starts from customers needs and ends with customer perceptions (Zwischenberger, 2015). In other words, product quality can be seen mostly from the customers perceptions instead of company perception. The variation and change of customer desires urge the companies to be able to flexibly follow up what is desired by customers in the present and future. It's important for the company so that the company's productivity meets the target and also potentially get a chance expanding the market. If the company has considered market segment, then the next step is to make a marketing strategy policy related to the product. Product is something that offered by company as its effort to achieve company's profit by fulfilling needs and desires of customers, in accordance with the competence and capacity of the company as well as market purchasing power. For sure, the customers choose products that are in good quality compared to other products. Indeed it's not easy to produce good quality goods when the raw materials are expensive and the level of competition is high. But at least the company still need to pay attention to the quality of products that have been and will be released to the market. Good product quality is a very important thing to reach the market because this will lead it to customer satisfaction. This is what companies need to pay attention to if they want to achieve maximum value in sales and dominate the existing market share. To dominate the market and increase sales, the company must be able to maintain the quality of the marketed products, so that customers behaviour will be formed in consuming or using products, which will give rise to a positive image in the public opinion and then more customers to come.

Those product quality and customers satisfaction variables valid for any kind of industries, including food and beverage industries. No matter how great

the change caused by globalization era, The fact that food and beverage are humans primary need that can be replaced by anything else. No wonder nowadays, although the transportation industries such as city bus, conventional taxi, and any other public transportation defeated by online based transportation such as Grab, Gojek, etc, the development of food and beverage industries in Indonesia are increasingly rapid, both in terms of quality and quantity and they even make use of online application to support the food and beverage industries. Various of culinary businesses are now easily found, from restaurant businesses to popular catering businesses such as cafe, coffee shop, pastry, snack, dessert or steak house. Pastry business which is also a part of food and beverage industries has grown and have attracted many people to buy. The various types, shapes and flavors offered make the pastry awaited by pasty lovers. One of the biggest pastry industries in Indonesia is The Harvest, a family business from Sri Lanka which is famous for its pastry and chocolate.

Established since 2004 in Senopati, Jakarta, now The Harvest has established more than 45 outlets spread in major and small cities in Indonesia. The Harvest offers premium cakes and also Western food and beverages in order to expand their business which is more than a pastry store. The Harvest are also well-known in public for its chocolate specialties. Nowadays, The Harvest has many competitor in both pastry and restaurant due to the high growth of food and beverage industries in Indonesia. The following is a graph that showing the growth of industries including food and beverages in Indonesia:

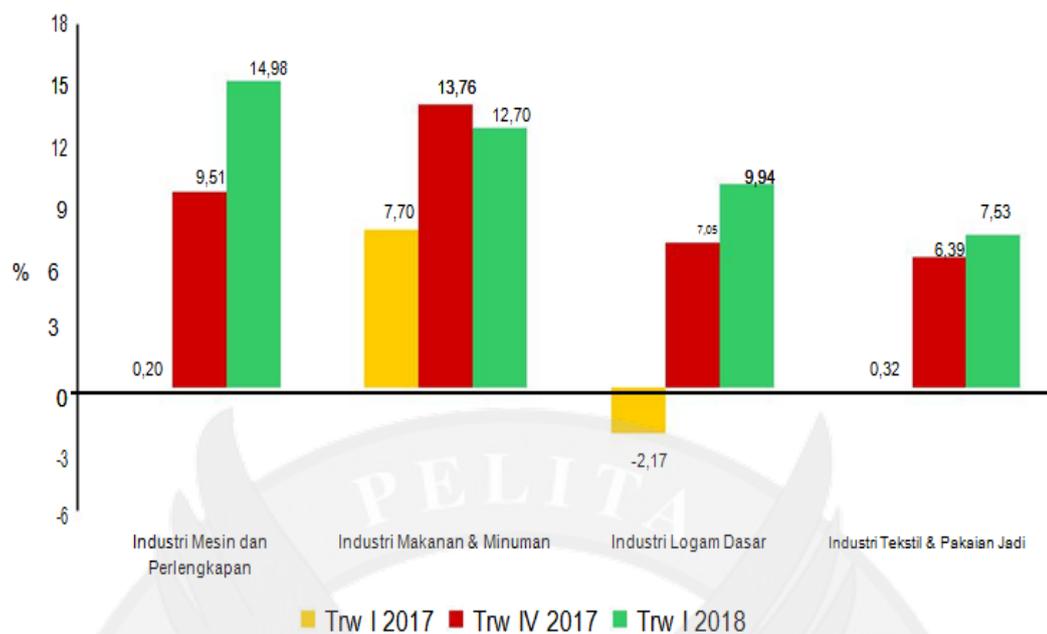


Figure 1.2 Growth of four kinds of industries that had the highest growth in 1st Quarter 2018

Source : kemenperin.go.id (2018)

According to the graph, food and beverage industries have a high escalation from first quarter 2017 which is 7.70 % into 13.76 % in fourth quarter 2017, and then slightly decreased in first quarter 2018 into 12.70 % (Pusdatin,2018). In conclusion, food and beverage industry is still very promising although the circumstance is keep going sophisticated. The success of food and beverage industry is also recognized by Ministry of Industry due to its positive contribution on national Gross Domestic Product (GDP). The Ministry of Industry, Airlangga Hartarto noted that the contribution of the food and beverage industry to the GDP of the non-oil and gas industry reached 34.95 percent in the third quarter of 2017. The results of this performance made this sector is the biggest contributor to GDP in the industry compared to other sub-sectors. In addition, this achievement has increased by four percent compared to the same period in 2016. Meanwhile, its contribution to the national GDP was 6.21 percent in the third quarter of 2017, up to 3.85 percent over the same period in the previous year. Furthermore, judging from the development of investment realization, the third quarter 2017 food and beverage industry sector for domestic

investment reached IDR 27.92 trillion or increased by 16.3 percent over the same period in 2016. Meanwhile, the value for foreign investment reached up to USD1.46 billion in 2017.

From the data above, The writer conclude that The Harvest are facing tight competition and many more will come. The Harvest must satisfy its customer as many as it could in order to compete with others. Indeed, product quality is not the only one that determine the satisfaction of customer but product quality seemed as a most influencing factors among other factors to satisfy its customer. It is proven in the review data from Google with the score of The Harvest itself is 4.5 out of 5, 4 out of 5 from TripAdvisor review, and 4.4 out of 5 from Traveloka review. It can be concluded from these three review score that The Harvest achieve positive feedback which the scores are above 4 from its customers. Most of the reviewer appreciate the quality of the product, especially the chocolate cake.

Table 1.1 Number of The Harvest Medan customer from January 2019 to April 2019

Month	Number of Customer
January	3982 customers
February	4001 customers
March	3931 customers
April	4443 customers

Source : (2019) Interview

However, there is a phenomenon of The Harvest's monthly customer. The next is data of number of The Harvest Medan customers for the latest four months from January 2019 to April 2019. From the data above, the number of customers are unstable when 3982 customers obtained in January, and then it increased to 4001 in February, then it decreased to 3931 in March, and then it greatly increased to 4443 in April. It's a bit unique when the review score of The

Harvest's product is high while the number of customers from certain month is decreasing

Based on the understanding of the importance of product quality and customer satisfaction for the sustainability, the interest of the author to analyse how much the product quality influences customer satisfaction among other factors, and also the interest of the author to observe the phenomenon's happened in The Harvest Medan, as well as the current fact that food and beverage industry is still successfully everlasting no matter how quick the era change, the author took the title "THE INFLUENCE OF PRODUCT QUALITY TOWARDS CUSTOMER SATISFACTION AT THE HARVEST MEDAN".

1.2 Problem Limitation

The research will be limited on the product quality as the independent variable and its influence towards customer satisfaction as dependent variable at The Harvest Medan.

1.3 Problem Formulation

The following are the research questions underlying the problems to be answered in this research :

1. How is the quality of products at The Harvest Medan?
2. How is the customer satisfaction of The Harvest Medan product ?
3. Does the product quality affects the customer satisfaction at The Harvest Medan?

1.4 Objective of the Research

The objective of this research are :

1. To identify the product quality at The Harvest Medan
2. To identify the customer satisfaction at The Harvest Medan

3. To examine the effects of product quality towards customer satisfaction at The Harvest Medan

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

This research will be expected to contribute on clarifying the theories of relationship between Product Quality and Customer Satisfaction

1.5.2 Practical Benefit

1.5.2.1 For Writer

For writers this research can increase the writer's insight regarding Product Quality and Customer Satisfaction. The writer also expect to gain more understandings about theory of Product Quality and Customer Satisfaction by observation that the writer did with the object is The Harvest, its products and its customers.

1.5.2.2 For Company

The result of this research will be expected to give preferences for The Harvest on how to deal with market share in this globalization era where the tight competition exist and many new challenge ahead to make a business sustaiable. This also will be expected to make company realize on how important to maintain the product quality to make sure what a company sell are the in the best condition and response the customers desire to ensure they are satisfied with its product

1.5.2.3 For Researchers

This research will be expected to be a source or reference for other researchers who are interested to elaborate more about Product Quality and Customer Satisfaction.

1.6 Systems of Writing

The system of writing in this skripsi will be as follows :

Chapter I : INTRDUCTION

This chapter includes Background of The Study, Problem Limitation, Problem Formulation, Objective of the Research, and Benefits of Research.

Chapter II : LITERATURE REVIEW and HYPOTHESIS DEVELOPMENT

This chapter includes Theoretical Background, Previous Research, Hypothesis Development, Research Model, Framework of Thinking

Chapter III : RESEARCH METHODOLOGY

This chapter includes Research Design, Population and Sample, Data Collection Method, Operational Variable, and Variable Measurement, and Data Analysis Method.

Chapter IV : DATA ANALYSIS AND DISCUSSION

This chapter includes General View of “Research Object”, Data Analysis, and Discussion.

Chapter V : CONCLUSION

This chapter includes Conclusion, Implication, and Recommendation.