

# CHAPTER I

## INTRODUCTION

The chapter further gives information about the background of the study, the problem statement, along with the research questions and its objectives. Additionally, the benefits, limitations and the outline of the research would also be discussed.

### 1.1 Problem Background

In the current era of globalization, telecommunications and media plays a very important and strategic role in human life (Khiabany, 2003). Technology has enabled us to communicate and exchange information remotely with a relatively fast and efficient time that makes a majority of people uses the Internet as a platform for communication and obtaining information (Hsieh, 2013).

The Internet is a necessity today as it is a development of technology that is very useful in everything that is connected to telecommunications and information (Chen, 2012). Nowadays, it is very easy for anyone to get access over the Internet anywhere and anytime. Due to this, demand for Internet increases and so there are many companies that deal with providing Internet service also known ISP or (Internet Service Providers (Chen, 2012). The Internet service industry currently a rapid growing industry it is very likely that the advanced economies depend heavily on communication technologies and the Internet industries (Hinson & Adjasi, 2009).

Today, the markets are getting more and more competitive with companies producing the same type of products and services. With the amount of providers offering the same service, the market is more competitive causing customer to have many choices making it easier for them to switch providers when they are dissatisfied (Eliaz & Spiegler, 2011). In order to compete and stand out from competitors, companies must make sure that they provide good product quality to keep customer satisfied and in addition they should also make sure that they provide good customer service to retain existing customers (Jahanshahi et al, 2011). By improving service quality, firms can influence customers' behavioral and attitudinal loyalty, which are critical for an Internet service provider success and long-term sustainability (Thaichon et al, 2012).

In December 2017, the Asia region counts a total of 2 billion Internet users, representing 55.1% of the global online population. This means that the Internet penetration in Asia reached 48.1%, which lies just below the global average of 54.4% (internetworldstats, 2018).

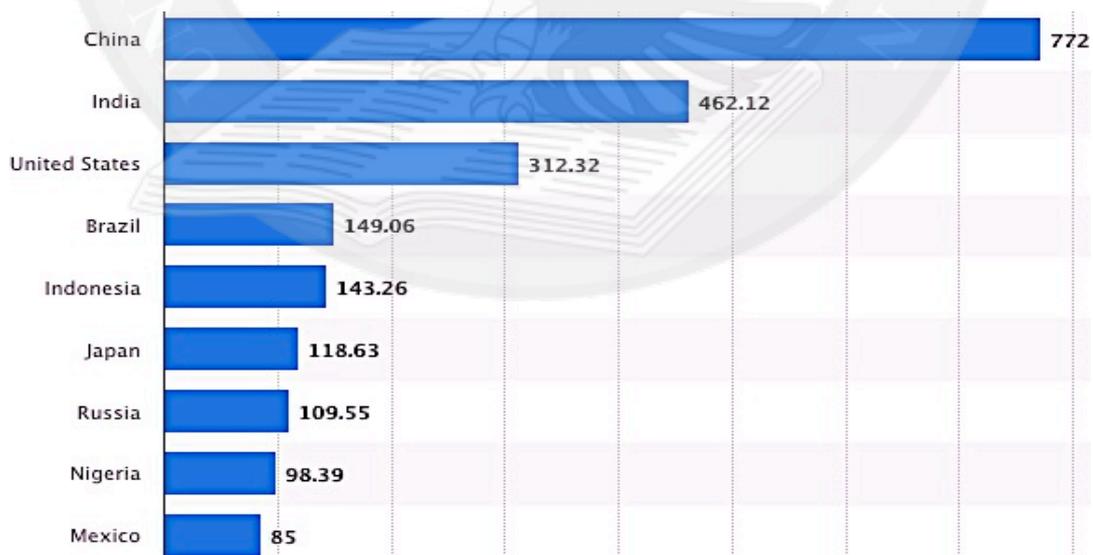


Figure 1.1 - Countries with the highest number of Internet user  
Source: Statista.com, 2017

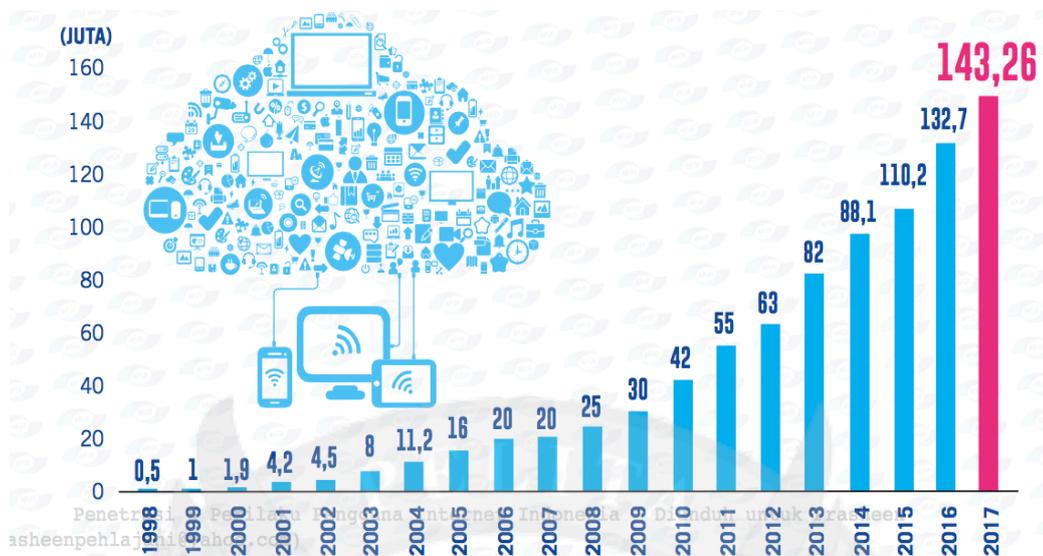


Figure 1.2 - growth of Internet users in Indonesia in million (S)  
 Source: APJII, 2017

Figure 1.2 shows the survey conducted by Indonesian Internet Service Provider Association (APJII). It was reported that in the year 2017 the number of internet users in Indonesia has reached to 104.96 million, which means an enormous 286 times from 0.5 million users in the year 1998. Figure 1.2 also shows that there is an increase of the number of Internet users in Indonesia, which reached 143.26 million in 2017, an increase of 10.56 million users from the previous 132.7 million in 2016, or in other words it has approximately increased by 7.9% over the year.

From Figure 1.3 above we can see clearly the difference in user penetration that are increasing each year in Indonesia, starting from 2016 where internet users about the number 132 million users which then eventually touched to 143 million in 2017 users which in equivalent of 54.68% of the total population of Indonesia (APJII, 2017). This indicates that Internet network service in Indonesia has been growing rapidly.



Figure 1.3 - penetration and behavior of Internet users in Indonesia.  
Source: APJII, 2017

There are many types of Internet connections provided by Internet service providers that can be assessed in different devices. Some of the most common ones include DSL, Cable connection also known as mobile broadband internet, cellular network connection and wireless network connection using fiber optic cables through the use of modems also known as fixed broadband internet (www.cornstar.biz, 2018).

ISP initially provide network very identical to network telephone, which is not wireless, and can be Internet access through phone network also known as mobile broadband Internet. Now, with Technological development, ISP developing not only with use the telephone network but also use technology like fiber optic and wireless also known as fixed broadband internet (Christiawan, 2012).

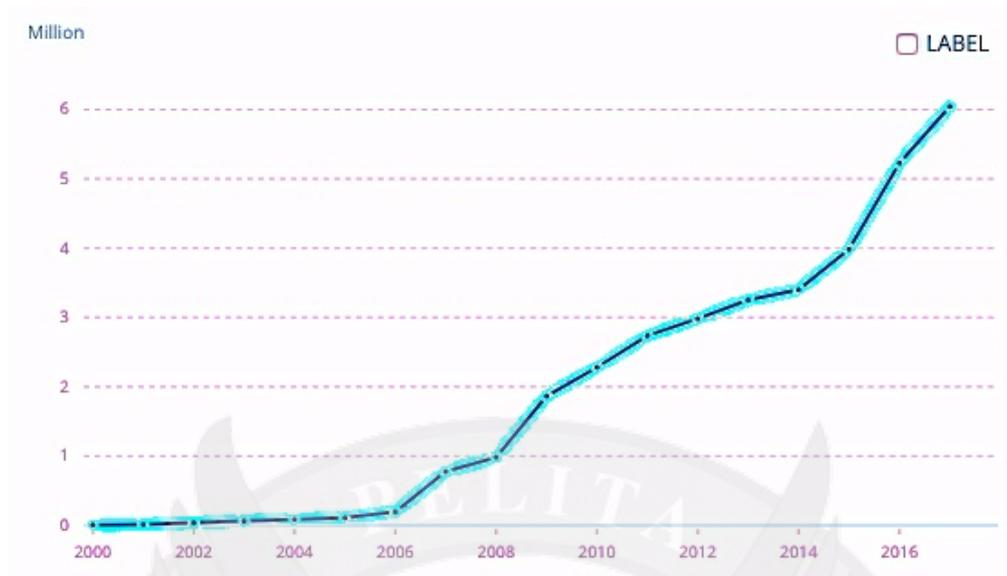


Figure 1.4 – Fixed Broadband Internet Subscribers in Indonesia

Source: [www.data.worldbank.org](http://www.data.worldbank.org), 2017

As seen from figure 1.4, the numbers of fixed broadband Internet subscribers in Indonesia was reported at approximately 6 million in the year 2017, which is an increase of 2.6 million or 76.4% from the year 2014 with only 3.4 million fixed broadband subscribers.

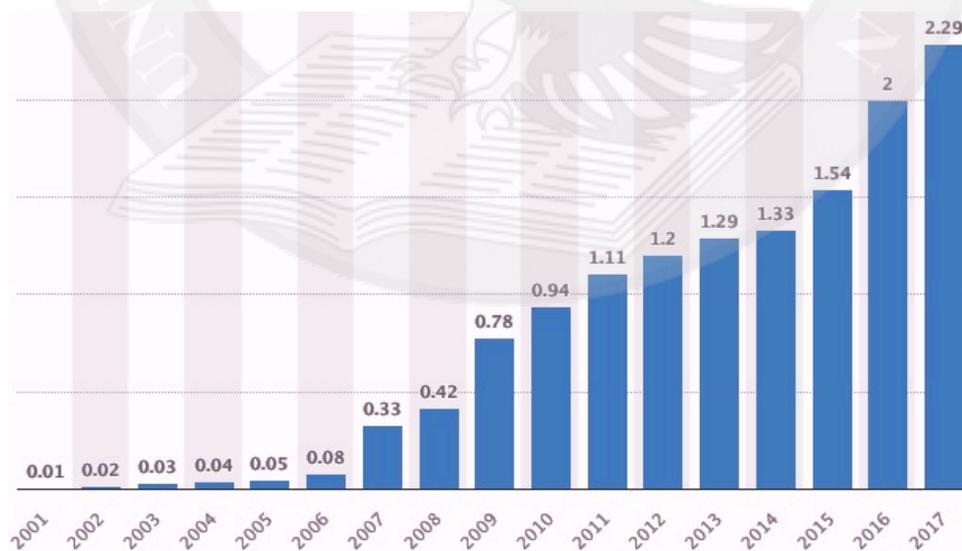


Figure 1.5 – fixed broadband subscriptions per 100 inhabitants in Indonesia

Source: [www.statista.com](http://www.statista.com)

Figure 1.5 shows the statistic of the number of fixed broadband subscriptions per 100 inhabitants in Indonesia between the year 2001 and 2017. By looking at the difference in values between the year 2015 and 2017 which is a difference of 0.75 head and with this we can conclude that there is an enormous growth of 48.7% for the number of fixed broadband subscriptions per 100 inhabitants in Indonesia between the year 2015 and 2017.

From those figure above, we can conclude that growth of Internet service subscribers especially for fixed broadband Internet in Indonesia has increasingly been growing year to year, making it a very attractive industry for investors. This forces Internet service providers to deliver good quality service in order to out win the market.

One well-known company providing fixed broadband Internet service subscription in Indonesia is PT First Media Tbk. The is a company engaged in the Technology, Media and Telecommunications field which includes Internet Services (cables and wireless), television broadcasting services and data communication services through digital telecommunications networks, passive multimedia infrastructure development services in buildings, telephone services through integrated smart networks, multimedia content providers and providers (PT. First Media Tbk, 2017).

In 1994 the Company was first established under the name of PT Safira Ananda. In the same year the Company changed its name to PT Broadband Multimedia Tbk and launched subscription television. Then in In 2004 the Company launched an internet service under the name "MyNet" trade and in 2006

the Company began to expand its digital-based network. In the year 2017, the company changed its name to PT. First Media Tbk (PT. First Media Tbk, 2017).

It was stated in the annual report of First Media PT. First Media Tbk, 2017 That the company established itself as a pioneer of integrated telecommunications and multimedia services in Indonesia through its Triple Play product concept namely FastNet (Super fast internet services for citizens who require seamless connection for accessing, downloading and uploading data and information, with speed up to 1 Gbps.), HomeCable (The pay TV service via cable airing various programs up to 187 channels, of which 122 channels in SD quality and 65 channels in HD quality), DataComm Super fast data and communication services for corporations (PT. First Media Tbk, 2017).

Since only around 50% of people in Indonesia have been connected to the Internet (APJII, 2017), which is still considered low compared to neighboring countries such as Malaysia, which has a penetration rate of 78.3% and Singapore at 83.6% (Internetworldstats.com, 2017). First Media sees that the low penetration of the Internet network in Indonesia is a promising business prospect (Annual report PT. First Media Tbk, 2017).

Companies are faced with intense competition in the Internet service industry. As one of the fixed fiber broadband Internet service providers, PT First Media faces competition from other telecommunications providers in obtaining market share.

Major players in the Internet service industry include: Indihome, First Media, Biznet, CBN, MNC Play Media. These are the Best choice of Internet service Provider Choice in Indonesia according to Ikhsanti (2018).

Table 1.1 - provider broadband in Indonesia along with the service they offer.

Provider	Package	Speed	Price per month (IDR)	Setup cost	Equipment rent (IDR)	Bonus
<b>Biznet</b>	Combo 3	100 Mbps	1 million	1 million	Free	TV cable
<b>Firstmedia</b>	Infinite X1 4K	200 Mbps	2,9 million* *	220k	Free	TV cable
<b>Indihome</b>	100 Mbps	100 Mbps	1.7 million**	75k	50k	1000 minutes call, TV cable, HOOQ
<b>Indosat Ooredoo GG</b>	1 Gbps	1 Gbps	5.5 million**	Depends on promo	Free	50 GB Google drive, chrome book
<b>MNC Play Media</b>	Light Speed	100 Mbps	3 million**	100k (promo)	Free	
<b>MyRepublic</b>	Supernova	200 Mbps	999k	Free (promo)	50k	TV cable

Source: Maulana, 2017

Table 1.1 shows the major Internet service providers in Indonesia also providing fixed broadband Internet. The table shows the highest priced and highest speed package as well as the backbone technology of each provider. We can see from the figure above that there are many providers offering the same service, the market is more competitive causing customer to have many choices making it easier for them to switch providers when they are dissatisfied. In order to maintain its existing customer and gain new customer, first media should take an action to better improve their product service quality and offerings.

Table 1.2 - Top Brand Index category ISP Fixed broadband

<b>Brand</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Indihome</b>	57.0%	48.1%	50.3%	42.1%
<b>First media</b>	13.5%	18.6%	17.3%	22.4%
<b>Biznet.net</b>	1.4%	N/A	2.1%	6.4%
<b>Others</b>	28.1%	33.3%	34.5%	29.1%

Source: www.topbrand-award.com, 2018

Table 1.2 shows the market share of three largest companies in this industry; they are Indovision, First Media and Biznet. Together they form a majority of the market share of fixed broadband Internet provider. Referring to the table, First Media has the second highest market share since 2015 till now in the fixed fiber Internet market share. The company's market share has been increasing gradually. In the year 2018, first media share is 22.4%, a rise of 8.9% from the year 2015. If First Media wants to compete to become a market leader among other telecommunications providers, First Media must improve the quality of its services so that the number of customers can increase.

Referring to digital consumption research shows the behavior of Internet users in Indonesia who always want new innovative products. This opportunity tried to be utilized and optimized by First Media as an opportunity to develop its business and increase their product quality (PT. First Media Tbk, 2017).

Talking about product service innovation, First Media released four newly innovated product service that is New android smartbox X1 4K, Ultra HD

picture 4K, mobile application First Media X, AND super high speed internet fastnet 1 Gbps in the year 2016 (Muslim, 2016).

This has been a successful strategy for first media as they won two awards, namely the 2017 Indonesia Most Innovative Business Award received in February and the 2017 Indonesia Wow Brand Award in March (Kure, 2017). Then later on in 2018, the company won the 2018 Indonesia Wow Brand Award. This shows that First Media has been successful in maintaining the reward by being consistent with their service level (Kure, 2018).

It was reported that in October 2017 PT Link Net Tbk Internet and multimedia service provider (First Media) won the 50 Best of the Best Companies award from Forbes Indonesia magazine. In this award the company was ranked second in the list of the 50 best companies in Indonesia (Intan, 2017).

PT. First Media has covered over 2 million home pass in its development, 3 million subscriber for bolt Internet service, 68 Wi-Fi building and 41 DAS Building for infrastructure telecommunication. This can be an assessment that first media has a very wide coverage in Indonesian market for Internet services (PT. First Media Tbk, 2017).

Since the year 2007, first media have been proving Internet service using fiber optic cables to provide greater bandwidth and enhance Internet connection for subscribers (PT. First Media Tbk, 2017). Since then their market share have been gradually increasing year to year serving more and more customer and covering more areas.

Table 1.3 – Triple play coverage

<b>Indicator</b>	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>HomeCable Customer</b>	Subscribers (thousand)	551	503	433
<b>FastNet Customer</b>	Subscribers (thousand)	570	521	457
<b>DataComm Customer</b>	Subscribers (company)	2090	1651	1567
<b>Fiber Optic Cable</b>	Km	11723	10744	10118
<b>Coaxial Cable</b>	Km	14317	13522	12740
<b>Home passes</b>	Home passed (million)	2	1,83	1,67

Source: Annual report PT. First Media Tbk (2017)

Table 1.3 shows the growth of the company from 2015 to 2017 for their triple play product service. The table shows that there is an increase of 27.2% on home cable customer, 24.72% on FastNet customer and 33.4% on datacomm customer along with a 19.6% increase in total number of home passed.

First Media successfully ranked first (Diamond Award) for the category of Internet Service Provider for Corporate Customers in the Service Quality Award (SQA) 2018 (IndoTelko.com, 2018). This title is given by looking at four aspects, first from the aspect of accessibility, ease of processing, human resources (namely friendliness, quality and skills), service solution (process of overcoming the problem). These four aspects are the main aspects assessed directly by customers (IndoTelko.com, 2018).

Despite their success gaining the second largest market share as shown in table 1.1, many customers feel the service is not to their expectation with the amount of complaints the company receive regarding the service of first media itself. This indicates that there is a gap between the fixed Internet service provider first media with its customer regarding the quality of service provided. There are also many complain about the quality of customer service of first media.

Customer complaints are meaningful non-transactional occurrence because they show critical turning points in the company's relationship with its customers (Blattberg, Kim, & Neslin, 2008). They give an opportunity for an organization to solve an issue (Bijmolt et al, 2010).

A number of articles from the sourced from [www.detik.com](http://www.detik.com) shows several Customer complaints for PT First Media include overcharged payments, no improvement on the network connection even after repairing service, poor quality of customer service which didn't help much in solving the issue, unstable network connection, several unanswered request for repair from the customer service.

There also have been petitions made regarding first media's poor service quality. In the year 2015, a petition titled "first media cheated customer" which was started by Risya Keren supported by 794 people. The petition talks about very poor Internet network quality and Internet breakdown which can last more than a day which when reported to the customer service, seem to lack understanding about the issue faced by customers (Change.org, 2015).

Later on in 2016, Vincent Irawan started a petition, which was then supported by 87 people. He complained about unstable and slow Internet connection. He called the customer service of first media and they responded really ruse and didn't really seem to bother with his problem (Change.org, 2016). In conclusion, both the petition talk about the same issues that is poor quality of customer service of the company.

To improve their service level and help solve the issues above, first media launched first squad in august 2018. This program is created as a form of commitment in maintaining and improving their service and product quality. First

squad will be implemented in different department in first media starting from customer service, technician, sales and management (Saputro, 2018). Marlo Budiman, the chief executive office of the company mentions that he wanted to bring back family togetherness by carrying out the #familyFirst campaign with an aim to make the function of the house as a warm gathering place for family. He then continues by saying that one method to reach this goals is to improve the connection quality (Setyaningsih, 2018). so therefore they present first squad as a form of commitment and to continuously increase service quality to all our customers (tempo.co, 2018).

Then in terms of improving customer service side, to make it easier facilitate customers problems and handle complain the company will continue to develop its digital communication channels continue to be developed. Among others are; checking the status of billing and payment, as well as the status of the First Media network through the website, the My First Media self-care application, and the latest FIA Virtual Assistant (Birra, 2018).

Although there are many research that has established the link between overall quality and loyalty (Kuo et al, 2013), there have been limited a research which studies the effects of specific ISP service quality on customer satisfaction and customer loyalty in the residential Internet services industry (Vlachos & Vrechopoulos, 2008).

This study is a replication of a research previously done in early 2018 titled “Effect of Service Quality and Quality of Products to Customer loyalty with Customer Satisfaction as Intervening Variable in PT. Nano Coating Indonesia” in context of factory products manufacturing industry in Indonesia by Nuridin

(2018) which uses saturated sample technique with all 100 respondents (customers) at PT. Nano Coating Indonesia. The results showed that directly the quality of service have a positive but insignificant effect on customer loyalty, product quality have a positive and significant impact on customer loyalty and Quality of service and product quality indirectly have a positive and significant influence on customer loyalty through customer satisfaction.

This study uses the same concept model but uses a different object and subject. This research is going to be done in the context of Internet service industry specifically for fixed broadband Internet services in Jakarta with PT First Media Tbk as the object of the study.

based on the phenomenon and problem above, the writer is interested to conduct research regarding this issue with the topic the title “ THE INFLUENCE OF SERVICE QUALITY AND PRODUCT QUALITY ON CUSTOMER SATISFACTION AND LOYALTY IN FIXED BROADBAND INTERNET SERVICE INDUSTRY: A CASE STUDY ON PT. FIRST MEDIA.”

## **1.2 Research Question**

With the presence many other affordable Internet service providers such as Indihome and Biznet, First Media has to perform well in order to excel performance in the Indonesian market.

For the purpose of this study, the equations raise;

1. Does the Product Quality of First Media have an influence on Customer Satisfaction?
2. Does the Service Quality of First Media have an influence on Customer Satisfaction?

3. Does Service Quality of First Media have an influence on Customer Loyalty?
4. Does Product Quality of First Media have an influence on Customer Loyalty?
5. Does Customer Satisfaction have an influence Customer Loyalty?
6. Does Customer Satisfaction mediate the relationship between Service Quality and Customer Loyalty of First Media?
7. Does Customer Satisfaction mediate the relationship between Product quality and customer loyalty of First Media?

### **1.3 Research Objective**

The objectives of this are:

1. To assess whether Service Quality of First Media directly influence Customer Satisfaction.
2. To assess whether the product quality of first media directly influence Customer Satisfaction.
3. To assess whether Service Quality of First Media directly influence Customer Loyalty.
4. To assess whether Product Quality of First Media directly influence Customer Loyalty.
5. To assess whether Customer Satisfaction of First Media directly influence Customer Loyalty.
6. To assess whether Service Quality of First Media indirectly influence Customer Loyalty through Customer Satisfaction.

7. To assess whether Product Quality of First Media indirectly influence Customer Loyalty through Customer Satisfaction.

#### **1.4 Research Benefits**

This research contains both academic and practical benefits.

Academic benefits - to gain and broaden insights, knowledge and experience about customer service quality, product quality, customer satisfaction and customer loyalty. The academic world may also benefit from this study, as findings from this study shall provide relevant literature for further studies in a similar discipline.

Practical benefits - The results of this study can provide input that will be useful for other parties or companies that wants to know deeper regarding the influence of customer service quality, product quality, customer satisfaction on Customer loyalty. Thus PT. First Media Tbk can find the best solution and develop the right strategy in building and managing their quality, so that it is expected to increase their customer satisfaction and loyalty.

#### **1.5 Research Limitations**

1. The research will be only be done on one type of first media's product service that is internet network service specifically fixed broadband internet.
2. Respondents of the research will only be consumers who are currently using or have experienced first media as their Internet service provider.

## **1.6 Research Outline**

This research will be divided into 5 chapters; the outline of each chapter will be as follows:

### **CHAPTER 1: INTRODUCTION**

The chapter further gives information about the background to the study, the problem statement, along with the research questions and its objectives. Additionally, the benefits, limitations and the outline of the research would also be discussed.

### **CHAPTER 2 : LITERATURE REVIEW**

This chapter will cover the entire theoretical concept to support the framework of the research. It will also include the relationship amongst the variables, which are customer service quality, product quality, customer satisfaction, and customer loyalty. The research model and hypothesis used for this study will also be included at the end of the chapter.

### **CHAPTER 3: RESEARCH METHODOLOGY**

This chapter will talk about the paradigm and methods used to conduct this research. It will cover the type of research used, its subjects and object, taking and designing of samples, technique of gathering data, measuring scale of research variables, construction of questionnaires and techniques of measuring and analyzing data

### **CHAPTER 4: RESULTS AND DISCUSSION**

This chapter will consist of the results obtained from the analysis and discussions related to the results from the questionnaires and linkages between variables,

which have been processed using SPSS and SmartPLS application.

## **CHAPTER 5: CONCLUSION AND SUGGESTIONS FOR FUTURE RESEARCH**

This last chapter of the research will discuss about the conclusion obtained from the analysis and also provide answer for the research questions. It also contains research implications and recommendations for future research related to this research

