

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Customers nowadays are getting more selective in choosing the product in fulfilling the customer's needs. Moreover, if the products are expensive, risky, purchased infrequently, and highly self-expressive (Kotler & Armstrong, 2010). Customer's needs also become more vary and complicated along with the vast growth of technology. Hence, the customers want to select products which perform outstandingly in the market and comforted with the preferences. This situation creates tight competition between business owners in various industries.

Fast food industry is one of the industries where this tight competition takes place. This notion is based on the numerous types of fast food in terms of products and the companies. The sample of fast food products are fried chicken, pizza, hamburgers, sandwich, tortilla, etc. As for the companies, McDonald's, KFC, Pizza Hut, A&W, Taco Bell, and Long John Silvers are some of the companies which are gained popularity worldwide. Sustaining the company in the fierce competition is the aim of each company mentioned previously. Differentiation, customer relationship marketing, price strategy are the common strategy used to achieve the objective. Among the companies, McDonald's has successfully maintained the business with creating superior customer value by the commitment of becoming the world's best service fast food restaurant (McDonald's Indonesia, 2012).

McDonald's was founded by Richard & Maurice McDonald's in 1937 and in 1940 Ray Kroc joined the company and developed it using fast food concept (Mcdonalds, 2010). McDonald's has grown since its inception and nowadays it has more than 33,000 local restaurants serving more than 64 million people in 119 countries each day (Mcdonalds, 2010). McDonald's also positions in the 4<sup>th</sup> rank from top 100 Most Valuable Global Brands according to milwardbrown Website (2011) and 6<sup>th</sup> rank of 2011 Top Global Brands according to interbrand Website (2011). These surveys show the recognition of McDonald's outstanding

worldwide success among the company's competitors. McDonald's offers several kinds of standard and specific fast food menu. The standard ones are the same throughout the world while the specific ones are adjusted according to the local tradition and preferences. For instance, it has the same taste of fried chicken all over the world, but in only in Indonesia and some of Asian countries, it offers rice menu.

In Indonesia, McDonald's first restaurant was opened in Sarinah Thamrin, Jakarta at 1991 and the country positioned as the 70<sup>th</sup> country where McDonald's opened its fast food chain. The sole right of franchise holder is Bambang Rachmadi. Under Bambang Rachmadi control, the number of restaurant was increasing in last two decades and spread in several places of the country. It reached more than 109 restaurants and employed more than 8,000 employees (Schonhardt, 2010). While in Surabaya, McDonald's Corp opens its outlets in several strategic places in the city such as in Darmo, Basuki Rachmat, Tunjungan Plasa Mall, Rungkut, and Plasa Marina. The city is selected as research location as it is the capital city of East Java, second largest metropolitan city in Indonesia (Institut Teknologi Sepuluh November [ITS], 2011) and has the largest population in the province (Badan Pusat Statistik [BPS], 2010). This research will be conducted in McDonald's Basuki Rachmat Surabaya.

The general assessment of McDonald's restaurant is acceptable based on pre-interview to ten McDonald's customers in Surabaya. This assessed from both in and out of store assessment such as the fastness of order serving and delivery service, the cleanliness of the outlet, the friendliness of the staff. From the pre-interview, the researcher can conclude that the general assessment of McDonald's restaurant is part of respondents' trust and affection toward McDonald's. Most of respondents told that McDonald's products are also safe to be consumed and the respondents feel happy when eating McDonald's products. This makes the respondents will choose to eat in McDonald's restaurant compare to similar restaurant and want to repurchase the products again. Aside of that, the respondents are willing to pay more for buying McDonald's products, even if the products' price is higher than the competitors' that derived from the loyalty.

This pre-interview result indicates respondents' loyalty toward McDonald's products. Hence, customer loyalty toward the brand or brand loyalty is derived from brand trust and brand affect according to pre-interview result and this result is suitable with Chaudhuri and Holbrook (2001) research. The result from brand loyalty is customer's willingness to buy the product though the price is higher than the competitor's that is known as premium price. Premium price is one of brand performance outcome determinants (Chaudhuri & Holbrook, 2001). Thus, this conclusion is congruous with the research conducted by Chaudhuri & Holbrook (2001). Furthermore, the researchers postulate that purchase loyalty leads to greater market share and attitudinal loyalty leads to higher price for the brand. These two aspects are determinant of brand performance. This research will not include market share explanation further.

Based on the pre-interview, respondents also state that the loyalty comes from the trust and affection toward McDonald's. Chaudhuri and Holbrook (2001) elaborate that when the product-and-brand-level variables are controlled for, brand trust and brand affect combine to determine purchase loyalty and attitudinal loyalty. Here, there can be concluded that pre-interview result is congruent with the result of Chaudhuri and Holbrook (2001) result. Given this circumstance, the researcher wants to examine whether the situation is applicable to the current condition in Surabaya.

However, the researcher gained not only good comments, but also various complaints about McDonald's general assessment presented by McDonald's customers from internet observation. The first one is regarding its delivery services. The customers were disappointed with the lateness of delivery order and the delivered order did not the same with customer's order (Handayani, 2011). This made the delivered order become cold and even the customer disposed the food. The second one is related with its in-store services. One of McDonald's customers told in [tribunnews.com](http://tribunnews.com) that McDonald's served expired fried chicken when the customers made party in McDonald's store and McDonald's staff did not serve the customers politely and friendly (Taufik, 2011). Also, in one of McDonald's outlets, the staff did not keep the cleanliness of the outlet, especially the water closet. Thus, it makes the bad fragrance comes from the water closet

(Nanda, 2011). The worst case is one of McDonald's loyal customers stated the unwillingness to do repeat purchase of McDonald's product because of the bad experience from McDonald's staff (Peter, 2011).

It can be concluded that the general assessment of McDonald's is contradictory between pre-interview and internet observation. Customers perceive positive assessment in pre-interview while it is negative from internet observation. As explained earlier, general performance is part of customers' trust and affection toward McDonald's restaurant. These two factors will affect brand performance outcome through the role of brand loyalty (Chaudhuri & Holbrook, 2001). Hence, the occurrence of this phenomenon attracts researcher to conduct deeper examination on McDonald's brand performance and the factors affecting it in one of McDonald's outlets which is McDonald's Basuki Rachmat Surabaya.

Aside of that, from pre-interview result, respondents perceived some feelings whenever the respondents see or hear about McDonald's such as playfulness, happiness, fun, family nuance, and deliciousness. Furthermore, according to pre-interview, this customer's perception on McDonald's restaurant is gained from the restaurant's logo, color, advertising, slogan, and other attributes. These feelings become the personality that represents McDonald's restaurants in the eye of customer or its brand personality. Brand personality is consumer's attribution of various descriptive personality-like traits or characteristics to different brands in a wide variety of product categories (Schiffman and Kanuk, 2010). In addition, respondents explained that this personality makes McDonald's become unique compare to other brands. This pre-interview result is congruous with the research conducted by Sophonsiri and Polyorat (2005) which shows that brand personality is essential to fast food chain company to be able to survive in tight competition.

Furthermore, brand loyalty is the consequences of brand personality which denotes that brand personality affects brand loyalty according to Hohenstein, Sirgy, Herrman, and Heitmann (2007) and Kressman, Sirgy, Hermann, F. Huber, S. Huber, and Lee (2006) directly and indirectly through functional congruity. The study of the congruence between human traits and brand has been developed by several researchers and resulted that human tend to choose brand which is similar

to the customer's personality (Kressman et al., 2006; Hohenstein et al., 2007). In line with the statement, research conducted by Mishra and Patra (2010) postulates that brand personality dimensions such as sincerity, competence, and ruggedness have significant role in developing brand loyalty. This implies customer will be more loyal to the brand if the brand evokes the personality that is similar to the customer. As explained earlier, brand loyalty will affect brand performance outcome which is higher premium price (Chaudhuri & Holbrook, 2001). Hence, this research also wants to prove whether brand personality takes an important role in developing brand performance through brand loyalty.

According to the phenomenon, pre-interview, and internet observation, it can be concluded that there is empirical gap occurred from elaboration of the difference assessment of McDonald's which is based on brand trust and brand affect. Previous studies shows that these two factors are determinant of brand loyalty and later brand loyalty affect brand performance. Brand personality is also another factor that affects brand loyalty according to previous study. From these elaborations, the research wants to examine the brand performance of McDonald's Basuki Rachmat Surabaya which is affected by brand loyalty. Also, the research wants to explain the causes of brand loyalty which from earlier elaboration, this is affected by brand trust, brand affect, and brand personality in McDonald's Basuki Rachmat Surabaya.

## **1.2 Research Problems**

Based on the background of the study that has been elaborated, thus the circumstances that will be researched are:

1. What are the respondents' characteristics of McDonald's Basuki Rachmat Surabaya?
2. Does brand trust significantly influence brand loyalty in McDonald's Basuki Rachmat Surabaya?
3. Does brand affect significantly influence brand loyalty in McDonald's Basuki Rachmat Surabaya?
4. Does brand personality significantly influence brand loyalty in McDonald's Basuki Rachmat Surabaya?

5. Does brand loyalty significantly influence brand performance in McDonald's Basuki Rachmat Surabaya?

### **1.3 Research Objectives**

Congruent with the background of the study and research problem (s) that has been elaborated previously, thus the general objectives of this research are to identify the effect of brand trust, brand affect, brand personality toward brand loyalty and brand loyalty through brand performance and describe respondents' demography characteristics such as gender, age, living area and purchase frequency in McDonald's Basuki Rachmat Surabaya. The Following are the specific objectives derived from the elaboration:

1. To identify the effect of brand trust toward brand loyalty
2. To identify the effect of brand personality toward brand loyalty
3. To identify the effect of brand affect toward brand loyalty
4. To identify the effect of brand loyalty toward brand performance

### **1.4 Research Contribution**

Congruent with the research objectives, thus this research is expected to be useful to related parties and the advantages covers:

#### **1.4.1 Academic Contribution**

1. The research is expected to confirm the previous researches that have become the source in this current research.
2. Enriching existed and previous theories which are brand trust-brand affect-brand loyalty toward brand performance and brand personality-brand loyalty that used in this research from the research outcome of this research.

#### **1.4.2 Empirical Contribution**

1. For McDonald's Corp, especially McDonald's Indonesia in Surabaya, this research is expected can be a learning in developing selling and marketing strategies and become one of referral in decision making in the matter that are discussed in this research.

3. For fellow students, especially in UPH Surabaya, this research is expected to be the reference for the later studies on similar areas or topic that are discussed in this research.
4. For marketer or practitioner in the field of management, this research is expected to be a useful resource to develop marketing strategies related to the outcome and elements that are discussed in this research.
5. For author, this research is aimed to apply the knowledge that has been obtained during the study in tertiary level.

### **1.5 Research Limitation**

This research is limited to the elements that are discussed and used such as brand performance, brand loyalty, brand trust, brand affect, and brand personality. Thus, other elements that possibly related with the used elements will not be discussed. This study also only conducted in one outlet of McDonald's restaurant which is McDonald's Basuki Rachmat Surabaya. This research will remain applicable if environmental condition sustains or does not change by other factors.

### **1.6 Research Outline**

To give clearer depiction about this research, a research outline is created thus the reader can understand how this research is made and the outcome gained. This circumstance is elaborated in each chapter in this research. The research outline is:

## **CHAPTER I**

This chapter sets up the effect of brand trust, brand affect, and brand personality toward brand loyalty and the impact of this toward brand performance. Then, this chapter elaborates the background of the study and objective to analyze the variables that are discussed in this research. Furthermore, this chapter postulates the contribution that the researcher wants to give toward many parties.

## **CHAPTER II**

This chapter poses the previous studies and findings that become the foundation of the current research on brand trust, brand affect, brand personality, brand loyalty, and brand performance. Besides, this chapter provides the theories that are used in building the research. Moreover, this chapter elaborates specifically the hypothesis, framework, and model of the research in order to describe the problems that have already defined previously.

## **CHAPTER III**

This chapter explores the methods of conducting the research which comprises of several factors namely research design, sampling plan, research instrument, statistical tool, and steps on analyzing the result.

## **CHAPTER IV**

This chapter provides the findings of the current research which aimed to explain the problems given earlier on whether brand trust, brand affect, and brand personality affect brand loyalty and later brand loyalty has effect on brand performance. This finding is obtained by the usage of statistical tool and relating back the statistical result to the theory and preceding research used as the basis of conducting the research followed by the logical link of the findings interpretation.

## **CHAPTER V**

This chapter comprises about summary, conclusion, and recommendation. In this chapter, the reader will be presented the conclusions and result's limitation of the research. Aside of that, this chapter will also elaborate the contributions to the related parties and advices for future research in the same field or topic with this research based on the research findings.