

CHAPTER I

INTRODUCTION

1.1 Background of the Research

In general, color could give an influence on a person's psychological condition depending on age, gender, social conditions or even can reflect to how the character of several people who likes those color variations (Junaedi, 2021). Besides that, color is the most prominent design element where the first vision that being filtered by the brain is the color of the object, so that the selection of the right color is crucial because basically people have different perceptions of the meaning of its color for themselves. In addition, according to Agrippina (2021) if a company able to choose the right color for their product, it will automatically easier to attract the attention of its customers in searching deeply about the background of the company concerned.

Basically, people will choose the color they like on the items they buy or when doing a drawing activity, this habit will later provide a view that color can provide a satisfaction in itself in various aspects and according to Agung (2018) with many existing wall paint brands in Indonesia could influence a person's behavior towards the purchase and use of goods where the giving of color to several object that are considered valuable is no longer on the basis of need but desire. Therefore, as time goes by, the improving economic growth in Indonesia and the increasing population give an impact on the people's

purchasing ability to be able to meet the primary, secondary and tertiary needs (Ardian, 2021).

Indonesia: Total population from 2017 to 2027 (in million inhabitants)



Figure 1.1 Indonesia's population in 2017-2027

Source: <https://www.statista.com/statistics/294100/total-population-of-indonesia/>

From figure 1.1, the population of Indonesia had increase 13.5 million between the time span of 2017-2022 from 274.86 million to 261.36 million. This number is projected to continue grow until 287.29 million on 2027. From the graphic, it shows that people will find another things that need to be fulfilled (beside of primary needs) which the consumption of wall paint product will be affected because generally, when people buy or manage a residence, they have to find a wall paint product which considered by them is a good quality. In addition, the price of wall paint product is depend on the quality, brand, and strength which for some people, wall paint is considered as important. Therefore, the economic growth in Indonesia will show how the society will choose and using certain wall paint product.

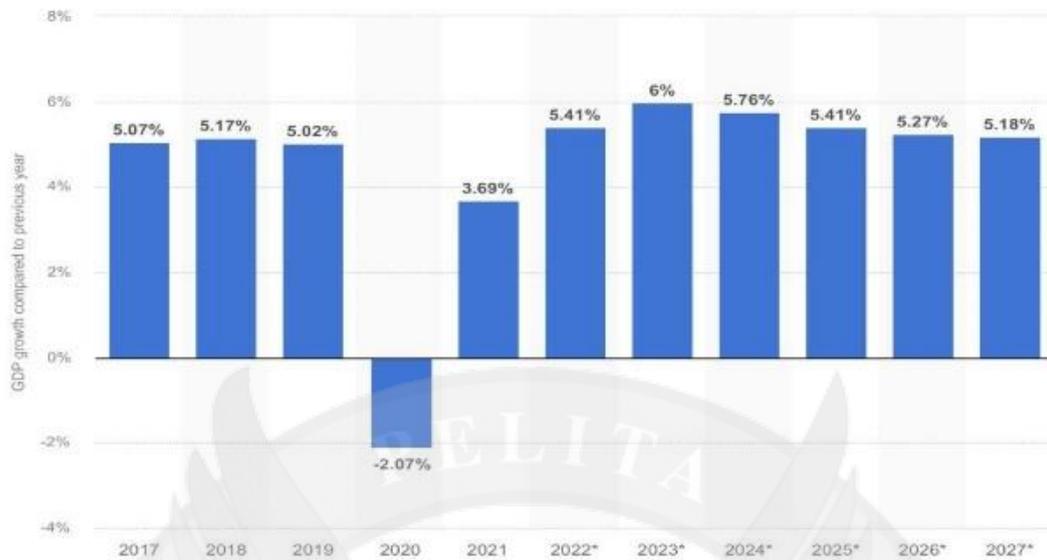


Figure 1.2 Indonesia's GDP in 2017-2027

Source: <https://www.statista.com/statistics/320068/gross-domestic-product-gdp->

From the figure 1.2, the GDP of Indonesia show the percentage of every year which it had an increase of 0.1% from 2017 to 2018 from 5.07% to 5.17% then slightly decrease to 5.02% in 2019 and extremely decrease to -2.07% in 2020 because of the pandemic that weaken the consumption power of Indonesia's citizen. However, it slowly increase and getting better to 3.69% in 2021 then it is projected to continue growing to 6% in 2023.

The connection of these dual things creates a desire for society to fulfill secondary needs that are identical with color with the aim of beautifying, so that people immediately think about what should be treated and been given a color that can satisfy the eyes where they give a conclusion that the taste for color especially for the wall paint in the buildings greatly affects a person's actions in daily activities because choosing several colors for the wall paint that suit to our appetite will give a comfort sensation or even affect the psychology or external factors such as environment which this trend have been happening until now.

Moreover, according to Setiyani (2019) supported with the increasing growth of property in Indonesia such as housing, apartments, hotels, hospitals, restaurants are the main factors that give an impact on the demand for wall paint products is getting higher, this is happen that beside of beautifying the building, the owner usually requires wall paint to strengthen and protect the layers of the building from bad weather and air pollution.



Figure 1.3 Real Estate Growth in 2010-2022

Source : <https://www.dataindustri.com/produk/tren-data-pertumbuhan-industri-real-estate-properti/>

From the figure 1.3, the real estate (property) growth in Indonesia had an increase of 32% between the time span of 2010-2021 from 23% to 55%. In addition, in 2022, it is lower because according to the data, there are still in the middle of the month and the percentage is under accumulating until the end of the year. This graphic show that the property business is increasing year by year and it will affected the consumption of wall paint product and becoming the prospective business. However, this does not eliminate the fact that business also could fail to survive due to high competition in the market.

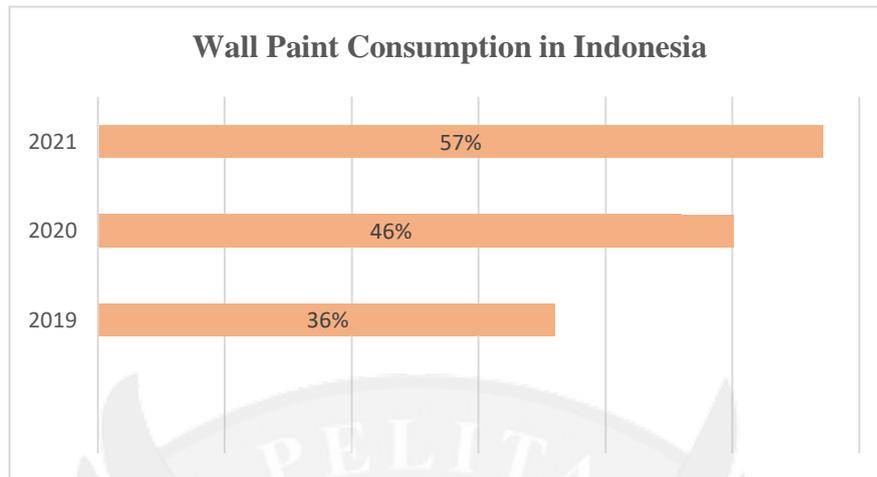


Figure 1.4 Wall paint consumption in 2019-2021

Source: <https://indonesiadata.id/produk/pengguna-cat-tembok-2021/>

Seeing from the conditions that have been described above and the opportunities that exist which according to Agung (2018) the number of manufacturers with various brands of wall paint products is started to increase in the paint market and from the influence of globalization developments, paint manufacturers from abroad are feel interested to invest the business of paint manufacture in Indonesia, both existing paint manufacturers or a new one that just emerged, which causes the paint market have become more competitive, this situation give a must for a companies to keep innovate on those products and try to make their own uniqueness that can be used as an advantage when compared to other wall paint products.

Apart from innovation that are continues to be considered, there are several aspects that will affect a company to run well which these aspects are being known as how companies think about the effect of product quality on customer loyalty in the long term, promotion that reflect on how satisfied the customer will react towards the product, and lastly, the impact of strategies

location that could be reached by customers in buying the product. Therefore, those aspects greatly affect how the company can quickly respond to problems that will occur regarding the customer loyalty. On the other hand, before exploring deeply to the customer loyalty regarding on how to maintain it, there are also one aspect that is important to be done in order to create a good atmosphere towards the customer loyalty which is customer satisfaction that also greatly affect either the customer will loyal or move to the competitor's product.

The quality of a product could give an effect on how the resulting product can compete in the market because along with the times, people tend to be more understanding and able to think critically when they want to buy a product that is at least able to meet the expectations where people will prefer to choose a quality product that equal to the amount of money they spend, so can be said that quality is the key to creating value and customer satisfaction (Adanti, 2017).

Beside of product quality, promotion is one of the variables in the marketing mix that is very important to be carried out by companies in market the products or services which according to Sistaningrum (2002) promotion not only functions as a communication tool between companies and consumers, but also as a tool to influence purchasing activities that are in accordance with the needs of actual and potential consumers so they are willing to make purchases of the products offered. Beside of that, promotion can also be said as the process of marketing strategy as a form of communication carried out to spread information and persuade the target market so that people can know, buy, and are also loyal to the products offered.

When a company has succeeded in attracting the attention of its customers in buying the products that have been offered from the promotion, including in the agreement on quality that could meet the expectation, then this process creates an activity that will affect the location of the company concerned. Seeing the wall paint product business which is growing rapidly make a challenge and a threat for business actors in order to win the competition and maintain the viability of their company, therefore location is one of the crucial factors that have an impact on the success of a company because according to Riadi (2020) location is a place where a business or company which activity is being operated and doing activities to produce goods, services, or a place for customers to come and buy where a location that is easily accessible by customers and close to the center of the crowd is the right location for a business.

The purpose of combining those three important that had been mentioned above are to create a satisfaction towards customer. According to Ratih (2020) customer satisfaction is the level of customer feeling after making a comparison between the expected product results and the expected expectations which gives satisfaction to the customer is an important factor for the survival of the company because it can increase their own excellence in the competitive market. Therefore, customers who are satisfied with the products and services provided by the company will tend to return using their products and services when the same needs reappear in the future (continuous consumption).

Through the customer satisfaction, companies are trying to maintain the customers in order to stay with the products and services offered so that sales

stability and company survival will be maintained which according to Cant and Toit (2012) loyalty is can be said as an emotional bond with the company in making repeat purchases from time to time and being willing to recommend the company to their relatives, even though they have other choices, it can be concluded that loyalty is actually not only seen from how much customers buy, but from how often customers make repeat purchases and recommend others to buy those products, then customer loyalty is created when they feel satisfied.

By connecting to those intervening variable, Jotun Company which an international company that engages in paint product that focus on several segments such as decorative, protective, marine, and powder is also operating their subsidiary company in Indonesia. As time goes by, Jotun paint products has grown rapidly by including 69 companies in 44 major countries around the world with 36 production facilities available in more than 90 countries. From several countries that been chosen by Jotun Company in marketing and distributing its paint products, Indonesia became one of the countries that had been chosen because of the availability of abundant resources and good potential of opportunities in paint business, especially in the decorative segment where the head office of Jotun Indonesia company named PT Jotun Indonesia is located in MM2100 Industrial Estate, Irian III street, Block KK1 West Cikarang, Bekasi 17520, West Java. While for their retailer store are spread to several locations in Indonesia such as North Sumatera, Banda Aceh, Lampung and so on (Sispro.co.id, 2022).

It can be seen that PT Jotun Indonesia must dealing with several retailer and distribute the paint product to them in many different regions store in Indonesia which depend on how many they order for restock. Beside of dealing

in fulfilling the demand of the retailers, every new business will ever experience the condition of low number of sales and Jotun brand is a foreign brand which this make the writer believes that when the first time, PT Jotun Indonesia was being established, they will probably face towards various problem such as the problem of marketing or introducing the product to the new potential customers, the reason is because at that time, before Jotun become the top brand in the paint market, another powerful brand had been dominated the market for a long time which is Dulux as it can be seen at the figure 1.5 (from left to right side where consist of several brand namely avitex, dana paint, decolith, dulux, jotun, mowilex, nippon paint, paragon, propan, property, and others) which automatically it is quite difficult for Jotun brand in entering the market because people are often feel comfortable and safe with the brand that already exist in the market rather than testing the new one, this proving that PT Jotun Indonesia might facing the problem how to take care the basic aspect of the business in order to attract thecustomers such as maintain their quality, making a right promotion to the targeted market, and choosing the strategic location towards customer which will affect the satisfaction in order to create a continuous purchasing.



Figure 1.5 Sales of wall paint product from several brand in 2022
 Source: <https://indonesiadata.id/produk/cat-tebok-yang-akan-dibeli-2022/>

From above explanation, since there are several aspect that interconnected to each other in order to create a good value of customer loyalty, the writer feel curious to make a research on the retailer store or known as Small and Medium Enterprises (SME) in Medan, Indonesia because writer location is on Medan and tend to have interview with the owner in order to obtain those information that related to the skripsi assignment. Beside of that, most of people tend to interview an owner of big company in order to obtain the research information but forget to the entity of several smaller store (retailer store) where the writer also feel been challenged to find out how of how those retailer store manage those three important aspect which as we know that retailer store highly dependent on those variable especially location in order to survive in the competitive market and if they have implement it, whether or not those three aspects will give a significant effect to the company performance as the factor in increasing the customer loyalty. Therefore, the writer decides and plans to conduct the research with one of the retailer store namely PT Multi Niaga Indotama that focusing on selling Jotun Paint Product that located in Gatot Subroto Street No. 5, Sei Sikambing D, Medan Petisah District, Medan City, North Sumatera 20118.



Figure 1.6 PT Multi Niaga Indotama Retailer Store
Source: Internal Sources (2022)

According to the interview with PT Multi Niaga Indotama's Director, they believe that although Jotun brand is quite new in the society especially for the wall paint market, Jotun has their own strength and uniqueness against other brand especially the dominant brand (Dulux) in the city of Medan which nowadays, Jotun has innovate various type of wall paint in protecting and beautifying people's with the guarantee of sustainable around 8-10 years in order to eliminate the chance in losing the competition. From the uniqueness, the director had been offered many job in paint several buildings and residence especially the highest achievement was being offered by Sun Plaza on 2021 in painting their lobby. Beside of that, PT Multi Niaga Indotama should stay afloat on the eyes of the market (increasing their entity awareness) in order to continue grow towards the changes in the business environment because as the director know that PT Multi Niaga Indotama is a retailer store which there will absolutely a lot of competitors that sell the same brand and even nowadays, many competitors start to emerge and introduce their new wall paint product to the society. Beside of that, the director also give a brief explanation about retailer store which the difficulties of retailer store are they dependently sell the wall paint accordance with the new innovation from Jotun headquarter company in Norwegia which in the other word, they could only sell the type of wall paint that is still being produced then the task of retailer store is the way on how the director execute the sales to the society. From the brief explanation, PT Multi Niaga Indotama has been trying to improve and adapt on the pandemic to boost the sales and compete with other competitors, therefore their condition of the number of customers that visit and purchase their product can be seen below.

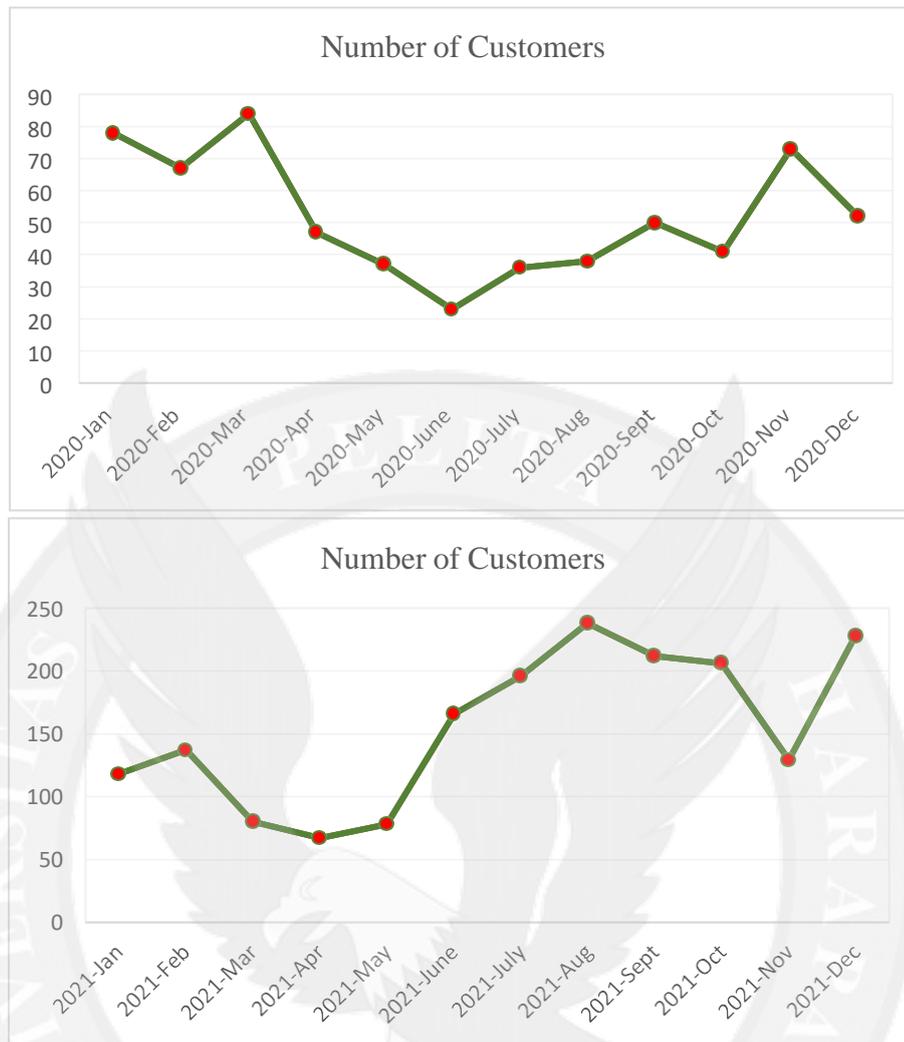


Figure 1.7 Number of Customers at PT Multi Niaga Indotama (January 2020 – December 2021)
 Source: Internal Sources (2022)

As we can see in the figure 1.7, another problem that PT Multi Niaga Indotama had been facing is the inconsistency of sales throughout in the year of 2020 which as we know that in that year, it was a condition for every company that are hugely affected by the pandemic affect. Aside from the pandemic itself, for the year 2020, PT Multi Niaga Indotama had experienced an extremely lower number of customers than expected in that year. In the first quarter, the number of customers were slightly good with 78, 67, and 84. As compared to the first quarter, second, third, and fourth quarter were dropped and did not

increase exponential as it was expected to be with the fact that January 2020 was the celebration of Chinese New Year, May 2020 was the month of Ramadhan, and December was the month of Christmas and New Year's Holiday. Moreover, when the pandemic happens, this raised the awareness of the Management of PT Multi Niaga Indotama in those several aspect that will be deeply discussed by the writer. Therefore, in the figure 1.7, the number of customers was inconsistently growing and dropping in the year of 2020 and since then, they evaluate their weakness and their starting to increase in the year of 2021, but according to the interview of the director, the number of customers in 2021, can be claimed as not much because if accordance to the company's target, they are still not achieving the number of customers in the same volume as before pandemic such as 300 or more customers monthly (Internal Sources, 2022).

From the inconsistently number of customers, PT Multi Niaga Indotama has been selling various type of wall paint product in order to have an ability in fulfilling the customer demand which can be seen at the figure 1.9 and in avoiding the out of stock moment, PT Multi Niaga Indotama had bought an instantly mixing machine name Jotun's automatic color tinting machines with the purpose of could mix thousand of custom colors for customers in the store and distribution center which this ability is to deliver the exact color for customers easily and quickly. Beside of the good ability in facilitating the customer, they also have ever experience the lowest number of sales or did not achieve the company target. From that experience, the director and his team keep finding on what elements are lacking and how to create a consistently high number of sales. This can be seen by the data of sales below.

Stock of Wall Paint Sales (January 2021 - December 2021)		
Month	Items Sold	Value
January	186	Rp. 374.673.704
February	138	Rp. 269.908.978
March	196	Rp. 428.422.677
April	127	Rp. 176.073.728
May	97	Rp. 153.712.067
June	86	Rp. 168.593.220
July	118	Rp. 211.549.365
August	148	Rp. 323.897.177
September	165	Rp. 254.647.881
October	263	Rp. 416.976.119
November	216	Rp. 379.556.276
December	176	Rp. 205.539.089
Total	1916	Rp. 3.363.550.281

Figure 1.8 Stock of Wall Paint Sales (Yearly)

Source: Internal Sources (2022)



Figure 1.9 Type of Wall Paint that available at PT Multi Niaga Indotama Medan

Sources: Internal sources (2022)

As what it had been mentioned before by the director of PT Multi Niaga Indotama, retailer store is a type of business that have a lot of competitors and stay in the high competitive market that force every owner to make and innovate a uniqueness towards their store in order to easily reach the potential customers. The reason is retailer store business sector is classified as an high competition business because the regulation of having a retailer store is not as difficult which this make the competition become fiercer and this situation give a difficult for the retailer store in order to differentiate themselves in the market because generally, the concept of retailer store is similar, then the way to differentiate it

are through the variables that are considered as important and relatable to the company. After determine several variables, then the researcher will analyze deeply the company’s competitors in order to know more specifically the market condition that located at PT Multi Niaga Indotama’s location and from those result, can be taken a result which type of competitors that PT Multi Niaga Indotama face in the retailer store market. Those comparison and the competitors information will be provided below:

	
<p align="center">Bintang Makmur’s Retailer Store</p>	<p align="center">Naga Jaya’s Retailer Store</p>
<p>Information: This retailer store is focusing on two brands of wall paint namely Jotun and Nippon Paint in introducing and increasing the awareness to the audiences. Moreover, they also sell another outliner product that related to the wall paint and they categorized their retailer store as “fulfillment property tools” in the market positioning. Thus, there are one wall paint brand that similar with PT Multi Niaga Indotama which is Jotun.</p>	<p>Information: This retailer store is focusing on several brand of wall paint namely Jotun, Mowilex, Dulux, Dana Paint, and Nippon Paint in attract the potential customers and increasing the awareness to the audiences. Moreover, they are a retailer store that is homogenous towards the wall paint market because most of the wall paint’s brand are available at their store which they do not make any brand is exclusive and they also categorized themselves as the “Brand Equity of Wall Paint” in the market positioning. Thus, there are one wall paint brand that similar with PT Multi Niaga Indotama which is Jotun.</p>

Above information are about the same sector of business that PT Multi Niaga Indotama runs, then I will provide one competitors that according to me, this company needed to be paid more attention because the location is located

beside PT Multi Niaga Indotama and their product are available in wide range.


PT HOSANA
<p>Information: This company is focusing on various products that ranging from household tools, ceramics, furniture, and some wall paint. From the wall paint, they sell various brand such as Jotun, Mowilex, Dulux, Nippon Paint, No Drop, Avitex, and many more. Even though their wall paint's brand are quite many, but they are more focus on the household tools which their wall paint are categorized as outliner products. Thus, there are one wall paint brand that similar with PT Multi Niaga Indotama which is Jotun.</p>

Figure 1.10 Competitor's Information
Sources: External Sources (2022)

After making a brief analyzing and observation to several competitors, PT Multi Niaga Indotama are facing the direct and indirect competitors where for competitors number 1 & 2, have the same sector of business namely retailer store, while for competitors number 3, have different segment of business namely private company. The similarity of all the competitors towards PT Multi Niaga Indotama are selling the same brand of wall paint which is Jotun while the differences are none of them are focusing only on one brand where can be said that the competitors are not exclusively any of the wall paint and refer as homogenous to every brand. Then, the final results that can be drawn is PT Hosana can be referred as quite high obstacle for PT Multi Niaga Indotama in

executing generating their wall paint sales because they are located beside PT Multi Niaga Indotama and the wall paint are also available in various brand which this indicates the company have an ability to fulfill the different demand from the customers. See from the condition, the director need to think of new innovation and differentiate his retailer store from those competitors where focusing only on one brand can be a strength at the market position and another additional strategy in executing the sales is also needed because the concept of retailer store are similar and the regulation is not complex as big company.

After make an analyzing to several important aspect that will be further developed, the problem and also the key to success in running a retailer store is maintain and conserve the customer loyalty. Based on the brief interview towards the director, most of his sales are came and executed by the current customers through a wide networking which can be said that new customers are seldom occur. In the other word, PT Multi Niaga Indotama is already having a customers that already loyal to their store and the way in making new customers notice their store is through the word of mouth method that distributed by the loyal customers which if the company make a serious problem towards the loyal customers, it will endanger the company reputation. Moreover, retailer store business is identic and refer to customer loyalty where every retailer store's owner are race to make their customers stay loyal to their store because as it mentioned before, retailer store business stay in the high competition market which indicates that new customers will seldom occur. Therefore, after determining and analyzing several important aspects, the dependent variable that will be considered is customer loyalty which the dependent variable will be influenced by the mediating variables namely customer satisfaction in order to

know whether all of the customers are already stay loyal or not. Moreover, if they feel loyal, what business strategy or marketing that is considered through the independent variables could make the customers stay loyal to the company.

Thus, this research will aim to analyze the factors of Customer Loyalty towards the company as the research object which after considered several variable that are important to be analyzed such as Product Quality, Promotion, and Location. By analyzing the Customer Loyalty, the writer also add the Customer Satisfaction as the mediating variable in order to examine the loyal customer. Based on the reason and description above, the writer decides and plans to conduct the research with the title of **“The Effects of Product Quality, Promotion, and Location on Customer Loyalty Using Satisfaction as the Mediating Variable at PT Multi Niaga Indotama Medan.”**

1.2 Problem Limitation

In this section, the writer gives some limitations to his research so that the discussion will not too broad or deviates from the title stated. Therefore, this research is only limited in the scope as follows:

- a. The company that become the object of this research by the writer is a retailer store that engaged in the sale of wall paint products named PT Multi Niaga Indotama that located in Medan, Indonesia.
- b. The writer will conduct this research through the owner or director from PT Multi Niaga Indotama named Mr. Sukardi Sarmi that will be done through the interviews in explain briefly his company and certain problem that faced by retailer store.
- c. Based on the geographical, financial, and time constraints which the data of

respondents were only collected from PT Multi Niaga Indotama at Medan through the distribution of questionnaire directly by the writer.

- d. The writer will implement the intervening variable where consist of three variables in this research which comprises of the Effect of Product Quality, Promotion, and Location as the Independent Variable (Variable X) towards Customer Loyalty as the Dependent Variable (Variable Z) with the mediation of Customer Satisfaction (Variable Y).
- e. Research and analysis of the questionnaire results are using software tools namely Amos 22.0
- f. Research conducted starting from 2022
- g. The indicators for Product Quality (X1) are performance, durability, conformance to specifications, features, reliability, and perceived quality.
- h. The indicators for Promotion (X2) are communication, media, and sales promotion.
- i. The indicators for Location (X3) are access, visibility, parking lot, and traffic.
- j. The indicators for Customer Satisfaction (Y) are conformity of expectation, performance outcomes especially service, and good integrity.
- k. The indicators for Customer Loyalty (Z) are repeat purchase, retention, referrals, and making purchases outside the product or service line.

1.3 Problem Formulation

In conducting the research on PT. Multi Niaga Indotama regarding the effects of three main variables on loyalty through satisfaction as the mediating, the formulation of the problem that will be put forward are as follows:

- a. Does Product Quality (X1) have significant effect on Customer Satisfaction (Y) at PT Multi Niaga Indotama, Medan?
- b. Does Promotion (X2) have significant effect on Customer Satisfaction (Y) at PT Multi Niaga Indotama, Medan?
- c. Does Location (X3) have significant effect on Customer Satisfaction (Y) at PT Multi Niaga Indotama, Medan?
- d. Does Customer Satisfaction (Y) have significant effect on Customer Loyalty (Z) at PT Multi Niaga Indotama, Medan?

1.4 Objective of The Research

Based on the problem formulation that have been listed above, the purpose of the research on the PT Multi Niaga Indotama company in terms of the effects of the three main variables that affect the customer loyalty through customer satisfaction as the mediating for wall paint products are as follows:

- c. To find out the significant effect of Product Quality on Customer Satisfaction at PT Multi Niaga Indotama, Medan
- d. To discover whether Promotion that being implemented have the significant effect on Customer Satisfaction at PT Multi Niaga Indotama, Medan
- e. To measure whether Location have the significant effect on Customer Satisfaction at PT Multi Niaga Indotama, Medan
- f. To explore the significant effects of Customer Satisfaction on Customer Loyalty at PT Multi Niaga Indotama, Medan

1.5 Benefit of The Research

The Benefit of this research consists in both of theoretical benefit and

practical benefit that will be explained below:

1.5.1 Theoretical Benefit

The results of this research are expected to provide information and knowledge about the effect of the three main variables on customer loyalty through satisfaction as the mediating at PT Multi Niaga Indotama which it can be useful for the development of company marketing knowledge or improve this related discussion on the same topic in the future.

1.5.2 Practical Benefit

The practical benefits of this research are divided into three perspectives, such as:

- a. For the writer, this research activity can be used as a valuable experience in increasing wider insight in developing knowledge and being able to find out more about the experience about the effects of the three main variables on customer loyalty through satisfaction as the mediating at PT Multi Niaga Indotama.
- b. For the company, this research can be used as a media in exploring deeply and could help companies in evaluating the effect of the three main variables on customer loyalty through satisfaction as the mediating.
- c. For other researchers, the results of this study are expected to inspire other researchers to conduct further research and can be used as a reference in conducting research that related to the title being discussed.