

CHAPTER I

INTRODUCTION

1.1 Background of the Study

These days, competition in business will make an understanding of the significance of business techniques in expanding deals of their products, repairing or finding arrangements for issues existing to preserve customer loyalty, and expanding the number of new clients. One of the business competitors is bakery management. A pastry shop could be a cake shop that existed in old times and to this day all cake shops are still competing with each other to deliver the leading to buyers so that their bakery will survive and be in request by numerous customers.

In this modern era, all bakeries are competing to be trending so that many consumers come to the store to review and post products to their Instagram. the benefit that is obtained is that the bakery will become crowded and its products will be recognized by many people. The packaging of the product is also very influential for the bakery. product packaging must follow the existing trend and must have an efficient function so that buyers feel satisfied with the product purchased.

According to Kotler and Armstrong (2018), state that location could be an assortment of company exercises to create items delivered or sold reasonably and accessible to target markets, in this case, related to how to convey items or administrations to customers and where vital areas are. According to Bagas (2022),

product design is one of the elements that promote an industry so that people can accept the results of the industry. According to Arianto (2018), the Quality of Service can be translated as centering on assembly needs and necessities, as well as on opportuneness to meet client desires.

Customer loyalty shows that the customer is always back and shopping at Madam Souvenir, Medan. However, according to the interview with the owner of Madam Souvenir, there has been a decrease in deals which has caused a decrease in sales turnover at Madam Souvenir, Medan. Whereas competitor bakeries have expanded the number of customers.

Since it was founded in 2016, Madam Souvenir has become the only bakery located in Jalan Pekan baru number 11, Pandau Hulu I, Kecamatan Medan Kota, Kota Medan, Sumatera Utara 20233. Before Madam Souvenir was founded. There is The Jaya Baru brand with Moon Cake product and it becomes a traditional product from the Madam Souvenir brand. At the beginning of 2016, Jaya Baru was replaced by Madam Souvenir and created a modern vibe following modern times. From that time Madam Souvenir was founded with new packaging and with better quality.

Madam Souvenir was established on September 1, 2016, with five employees. Madam Souvenir is a bakery that sells a variety of old cakes such as mocha cakes and roll sponge cakes that have various flavors. Five employees are working at Madam Souvenir, Medan, including one cashier and four people in the production process. Madam Souvenir has competitors in the field of sponge cake, there is a Bolu Meranti

brand and in the field of moon cakes, there is the Tamiang brand. In 2023, Madam Souvenir is the 6th generation of the Jaya Baru brand.

The location has an important influence on the bakery industry because each bakery must have a strategic location so that consumers can see and be interested in buying products from the bakery. The location of Madam Souvenir is a bit remote and not right next to a major road. Only consumers who have become customers or consumers who have known the owner for a long time will go directly to the store to buy their products.

There is the data that shows the number of transactions per year of Madam Souvenir from 2016-2022 as shown below:

Table 1.1
Number of Transactions per Year

| Year | Number of Transactions per Year |
|-------------|--|
| 2016 | 2.331 |
| 2017 | 2.097 |
| 2018 | 1.823 |
| 2019 | 2.373 |
| 2020 | 2.271 |
| 2021 | 2.031 |
| 2022 | 2.176 |

Source: Prepared by the writer (Madam Souvenir, 2023)

As shown in Table 1.1, the number of transactions in 2017 decreased because of the changing location of Madam Souvenir, and based on the interview with the owner of Madam Souvenir (Mr. Lawrence), The location of Madam Souvenir now is rarely crossed because there is more people house and no other store there. Indicator of Location is traffic, visibility, accessibility, and environment. In 2016 Madam Souvenir has 2.331 sales transactions per year, then decreased to 2017 with

2.097 transactions per year. in the next year which is 2018, Madam Souvenir's sales transactions decreased to 1.823 sales transactions per year, 2019 increased to 2.373 sales transactions per year, 2020 decreased to 2.271 sales transactions per year, 2021 decreased to 2.031 sales transactions per year, and the last year is 2022 is decreased to 2.126 sales transactions per year.

Table 1.2
Preliminary Study: Location

| Indicators | Result |
|---------------|---|
| Traffic | There is a low number of people passing by Madam Souvenir |
| Visibility | The location of Madam Souvenir can not be seen clearly from a normal viewing distance |
| Accessibility | The location of Madam Souvenir is easy to reach but not frequently traveled |
| Environment | Madam Souvenir's location is clean, comfortable, and environmental safety. |

Source: Prepared by the writer (2023)



Figure 1.1 Location of Madam Souvenir

Source: Prepared by the writer (2023)

As shown in Figure 1.1, the traffic of Madam Souvenir location is a low number of people passing by because the location is mostly a place to live and no one opens a business near the Madam Souvenir location. the visibility of Madam

Souvenir location can not be seen clearly by the normal viewing distance. Because location of the Madam Souvenir must enter the alley and many resident's houses which are almost similar to the madam souvenir building.

The accessibility of Madam Souvenir is easy to reach because the road that entered Madam Souvenir's location is not too narrow and seems wide enough to be passed by two cars. But, this location is not frequently traveled, and quite impressed. The environment of Madam Souvenir location is clean, there is no trash or items that spoil the atmosphere at the Madam Souvenir location. make customers feel comfortable with the location environment at Madam Souvenir.

Product design can be seen in how the bakery runs its business. However, based on the interview with the owner of Madam Souvenir (Mr. Lawrence), they used to add a stamp on the cake to design the top of the cake, but now it is no longer used because it is difficult to use because the tool has to be heated for a very long time. Indicators of product design are model, interesting design, design variety, and up-to-date.

Table 1.3
Preliminary Study: Product Design

| Indicators | Result |
|--------------------|---|
| Model | Madam Souvenir's product model is visible and delighted customers. |
| Interesting design | The design of Madam Souvenir's sponge cake do not have an interesting design. |
| Design Variety | Madam Souvenir do not have many variety of product design and the cookies result is not consistent. |
| Up to Date | Madam Souvenir always follows the trends. |

Source: Prepared by the writer (2023)



Figure 1.2 Product Design of Madam Souvenir

Source: Prepared by the writer (2023)

As shown in Figure 1.2, The cookie design of Madam Souvenir can not be consistent because they do not use mold but only measure the cookie dough. The cake from Madam Souvenir looks not so attractive and plain with just baked and not flavored.

Quality of Service applies to all sorts of services given by the company whereas the customers are within the company. Indicators of Quality of Service are reliability, responsiveness, assurance, empathy, and tangible.

Table 1.4
Preliminary Study: Quality of Service

| Indicators | Result |
|----------------|--|
| Reliability | Madam Souvenir serve all their customer with the same service and with a sympathetic attitude. |
| Responsiveness | Nowadays, Madam Souvenir does not have an admin to respond to customer. Especially for online order. |
| Assurance | Customer trust in Madam Souvenir and Madam Souvenir always keeps communication with the customer |
| Empathy | Madam Souvenir services are giving customer individual attention according to their product. |
| Tangible | Madam Souvenir's waiting area for customer is just a few chairs. |

Source: Prepared by the writer (2023)

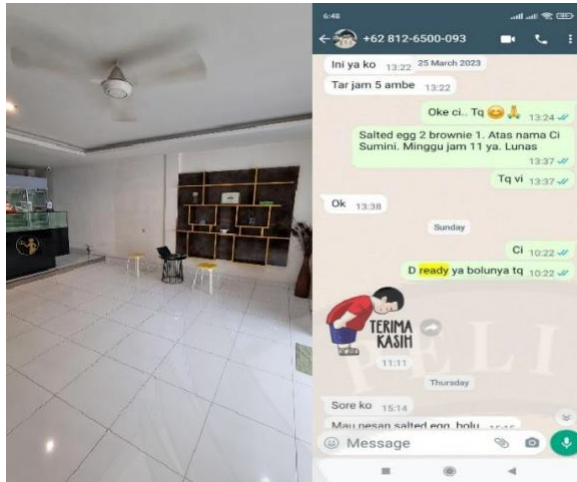


Figure 1.3 Quality of Service of Madam Souvenir

Source: Prepared by the writer (2023)

As we can see from Figure 1.3, Madam Souvenir's service area and waiting area is just a few chairs and which can make customer not comfortable with Madam Souvenir waiting area and Madam Souvenir online process in online order having a slow response from the admin where the customer make order at 1:22 pm and admin reply the fixed order is at 1:37 pm.

Based on the interview with the owner of Madam Souvenir (Mr. Lawrence), most of Madam Souvenir's customer loyalty before is because Madam Souvenir's previous location is more strategic and their product design is more attractive with the quality of service served by the owner. Nowadays, customer loyalty problem is the in the quality of service factor which the several customers are not loyal and affect the number of transaction decreasing because the time of reply customer chat need a long time, there is no employee service at the location of Madam Souvenir, and the appearance of the product is not interested as before. It makes the customer has purchased products from competitors which the competitors is Bolu Meranti Medan.

Table 1.5
Member of Customer at Madam Souvenir, Medan

| Year | Member |
|-------------|---------------|
| 2016 | 354 |
| 2017 | 328 |
| 2018 | 316 |
| 2019 | 321 |
| 2020 | 319 |
| 2021 | 308 |
| 2022 | 303 |

Source: Prepared by the writer (2023)

As we can see from Table 1.5, Madam Souvenir's customer at the 2016 year is 354 member, 2017 year is 328 member, 2018 year is 316 member, 2019 year is 321 member, 2020 year is 319 member, 2021 year is 308 member, and 2022 year is 303 member. It means customer loyalty at Madam Souvenir, Medan is decreasing each year.

Based on all explanations above, the writer is interested to find out whether customer loyalty is caused by location, product design, and quality of service at Madam Souvenir. So, the research carried out with the title of **“The Effect of Location, Product Design, Quality of Service on Customer Loyalty At Madam Souvenir, Medan”**.

1.2 Problem Limitation

This study is focused on the effect of Madam Souvenir's shop location, Madam Souvenir's product design, and the quality of service at Madam Souvenir's service on customer loyalty in Madam Souvenir. This study will not cover any problems that are not considered as one of the focus materials with the research time from January until Mei 2023. The independent variable (variable X) of this research is Location (X1)

with the indicators of traffic, visibility, accessibility, and environment. Product design (X2) with the indicators design, interesting style, variant, and up-to-date. Quality of service (X3) with the indicators reliability, responsiveness, assurance, empathy, and tangible. While the dependent variable (variable Y) is customer loyalty (Y) with the indicators of making repurchases online regular, buying between product lines of goods and services, referring to others, and being immune to competitor products.

1.3 Problem Formulation

According to the information that has been identified in the background of the study, then the writer can formulate several questions in this research with the below such as:

- a. Does location have partial effect on customer loyalty at Madam Souvenir, Medan?
- b. Does product design have a partial effect on customer loyalty at Madam Souvenir, Medan?
- c. Does quality of service have a partial effect on customer loyalty at Madam Souvenir, Medan?
- d. Do location, product design, and quality of service have simultaneous effect on customer loyalty at Madam Souvenir, Medan?

1.4 Objective of Research

The research objectives are as follows:

- a. To identify whether location has partial effect on customer loyalty at Madam Souvenir, Medan.
- b. To discover whether product design has partial effect on customer loyalty at Madam Souvenir, Medan.
- c. To determine whether quality of service has partial effect on customer loyalty at Madam Souvenir, Medan.
- d. To examine whether location, product design, and quality of service have simultaneous effect on customer loyalty at Madam Souvenir, Medan.

1.5 Benefit of The Research

This research on location, product design, and quality of service affects customer loyalty at Madam Souvenir, Medan. There are two types of advantages that the writer can get as the below:

1.5.1 Theoretical Benefit

The theoretical benefit of this research is to show whether the location, product design and quality of service affect customer loyalty at Madam Souvenir, Medan. Besides, doing this research helps to update the theories about location, product design, quality of service, and the relationship with customer loyalty.

1.5.2 Practical Benefit

The following are some of the practical advantages of doing this research:

- a. For the Writer, this research provides information and understanding about location, product design, and quality of service.
- b. For the Company, the research results are intended to be applied as a guide to the company to determine how the location, product design, and quality of service on customer loyalty at Madam Souvenir, Medan.
- c. For Other Researchers, this research can be used as a starting point and reference for their work related to the location, product design, and quality of service.

