

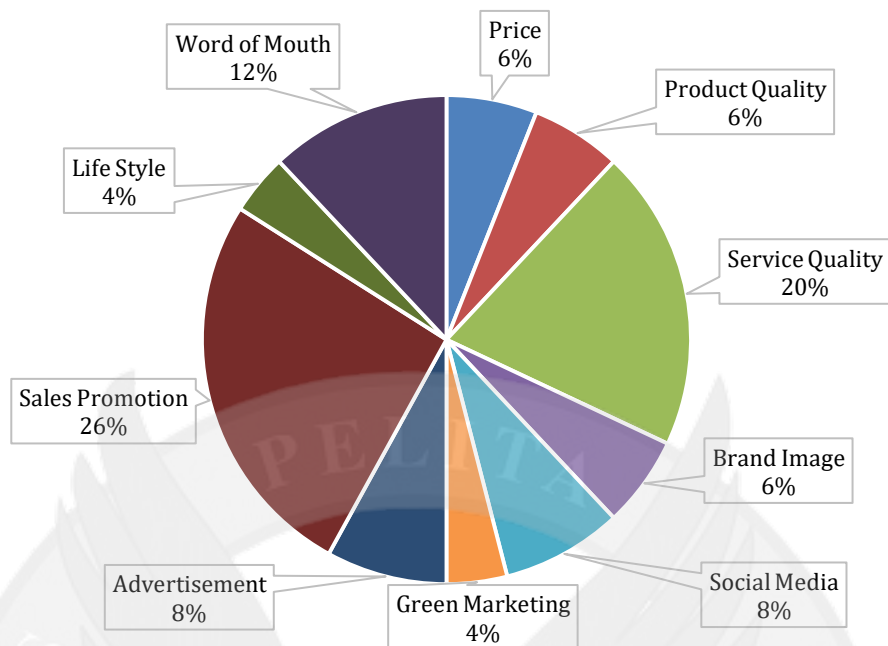
# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of Study**

Commercial activity consists mostly of the purchase and sale of goods or the provision of services with the purpose of generating a profit. A distributor company is one of the several types of businesses that exist in the business world. A distribution company acts as a link between the people who produce things and the people who buy the products. It delivers goods and services around until they reach the final consumer. Direct distribution, semi-direct distribution, and indirect distribution are the three primary categories of distribution activity. First, producers participate in direct distribution when they sell their own goods or services directly to final consumers. Second, semi-direct distribution is a type of distribution in which an intermediary is required between producers and consumers. Lastly, indirect distribution is a distribution system that incorporates a large number of intermediaries between the producer and the ultimate customer.

Distribution companies are formed for the same objective as companies in other industries, namely, to make profits for the people involved. Profit is essentially the income less the expenses in company accounting. There must be customers willing to acquire the products in order to generate income. Therefore, the customer's purchasing decision is the most important factor in earning profits. There are a variety of factors that influence a customer's purchasing decision. Based on pre-survey that have been conducted before, the author get the illustration that can be seen as follows.



**Figure 1.1 Pre-Survey Table of Customer Purchase Decision Factors**  
Source: Prepared by Writer (2023)

From the pre-survey conducted on 50 respondents, the data obtained are 26% (Sales Promotion), 20% (Service Quality), and 12% (Word of Mouth) will influence customer purchase decision.

Hence, the author of this study has decided to concentrate on the following three variables:

1. Service Quality

According to Haddad et al. (2019), service quality refers to the extent to which a company meets or exceeds the expectations of its customers. According to studies, good customer service is when the fulfillment of client demands can be coordinated, matched, or surpassed by other concerns.

2. Sales Promotion

According to Zephaniah et al. (2020), sales promotion can be described as

any short-term incentive offered to customers to elicit a predetermined response.

### 3. Word of Mouth

According to Mosahab et al. (2010) in Wilson & Christella (2019), customer satisfaction is the customer's overall evaluation after witnessing the product or service performance of a company; if the performance meets the customer's expectations, then the customer is satisfied.

Marketing channel/distribution decisions are one of the most crucial considerations faced by management. The chosen channel affects all other marketing decisions and obligates other businesses. Therefore, there is a propensity for a strong corporation to determine its own distribution channels. Many manufacturers utilize intermediaries because they delegate a portion of their selling responsibilities to the intermediaries, even if it means abandoning some authority over how and to whom their products are sold.

Several benefits accrue to businesses that utilize intermediaries: In some instances, direct marketing is impractical for certain items; businesses might boost their profitability by seeking higher investment in their core company; Intermediaries aid with consumer search, promotional activities, information provision, packaging, and sorting. In addition, to assist in distribution, storage, and the financial sector by providing credit facilities to buyers and acquiring cash from producers, intermediaries aid in distribution, equipment provision, maintenance services, and transportation.

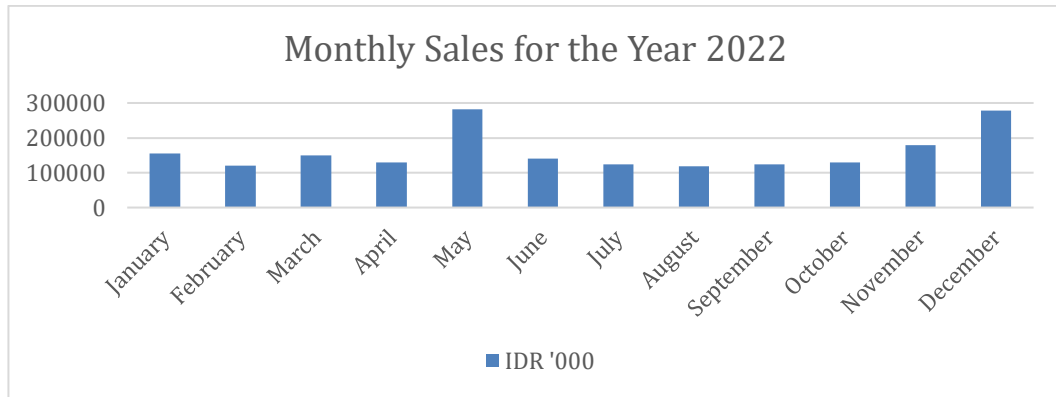
Marketing channels serve a number of crucial purposes in:

1. Collect information about prospective customers, current customers, and

competitors;

2. Create and disseminate convincing communication to encourage purchase;
3. Come to an agreement on price and other terms in order to influence transfer ownership;
4. Place an order with the manufacturer;
5. Financing inventories at various marketing channel levels;
6. Management of distribution implementation risks;
7. Provision of warehousing and physical product mobility;
8. Ease of payment by purchasers through banks and financial organizations;
9. Oversee the ownership transfer from one organization to another. In order to increase investment in its primary business; Intermediaries assist in consumer search, promotional activities, information provision, packing and sorting; Intermediaries assist in distribution activities, providing equipment, repair services and means of transportation, storage activities, and in the financial sector by extending credit to buyers and purchasing cash from producers.

PT Cahaya Samudera Agung is a distribution company involved in indirect distribution. The company acquires products from producers of consumer goods and becomes a supplier for another distributor to reach final consumers, such as supermarkets, which have been people's traditional supply of necessities.



**Figure 1.2 Monthly Sales of PT Cahaya Samudera Agung in 2022**

Source: Sales Admin Staff at PT Cahaya Samudera Agung (2023)

Profit maximization is the basic objective of business operations. A firm is successful if it is able to promote its products at competitive prices while maintaining the requisite quality level. The above graph depicts the number of monthly product sales for PT Cahaya Samudera Agung. As seen by the graph, the monthly sales are very erratic and typically uncertain from one month to the next. The number rapidly climbs in April and reaches its peak in May. Nonetheless, it declined until August and showed signs of expansion until the end of the year.

PT Cahaya Samudera Agung is not the only distribution company in Medan. The following table lists various distribution companies in Medan.

**Table 1.1 List of Distribution Companies in Medan**

No	Company
1	PT Alamjaya Wirasentosa
2	PT Majaria Kencana Sakti
3	PT Gudang Ada Globalindo Medan
4	PT Adam Dani Lestari
5	CV Inti Surya Distribusi

Source: Google (2023)

In the present business climate, a significant number of new companies are joining a certain industry. New businesses have the benefit of being able to endure in an environment where competition is intensifying. Since the purpose of running a company is to generate profits, the purchasing decisions of customers become crucial. Profits are earned when clients exchange their money for a company's

goods and/or services. Therefore, PT Cahaya Samudera Agung will earn a profit if a consumer chooses to purchase its items.

Despite PT Cahaya Samudera Agung's service quality is deemed adequate, there are still several service components that can be improved. When the product supplied for the consumer is high quality but the service is subpar, the consumer will undoubtedly be dissatisfied. During the transactional process, every consumer desires to be regarded well and to receive excellent service from the company. When trying to purchase a product or service, consumers want to be answered and treated with concern.

PT Cahaya Samudera Agung must conduct further intensive sales promotions to influence customer purchase decisions, due to the fact the company rarely provides sales promotion information. Consumers are more likely to purchase and subscribe to a company's products or services if the company's promotions are more convincing and appealing.

Regardless of PT Cahaya Samudera Agung has a positive reputation by word of mouth, the company's name is rarely mentioned in the community. The more and the better a customer's experience spreads to other customers through word of mouth, the greater the impact on the company's customers purchasing decisions.

As provided by Figure 1.2 before, it shows the real customers purchase decision occurred in PT Cahaya Samudera Agung. It can be seen that monthly sales are very erratic and frequently unpredictable from one month to the next. In April, the number grows quickly before peaking in May. However, it started to rise again until the end of the year after falling until August. This can indicate that

something influences the customer purchasing decision, of which three of the independent variables explained above are part of the problem. The service quality of PT Cahaya Samudera Agung is inadequately efficient. PT Cahaya Samudera Agung has a less aggressive sales campaign, moreover there are numerous methods for conducting online sales marketing in this technological era. PT Cahaya Samudera Agung does not have a strong public image, the company's name is rarely mentioned mouth to mouth.

Based on the background of the study that has been provided and explained above, it encourages the writer to do research entitled *“The Influence of Service Quality, Sales Promotion and Word of Mouth on Customer Purchase Decision at PT Cahaya Samudera Agung”*.

### **1.2 Problem Limitation**

Problem limitations have been established by the writer in order to prevent any deviations from the research topic such as follows:

1. The research object is limited to PT Cahaya Samudera Agung.
2. The dependent variable in this research is Customer Purchase Decision.
3. The independent variables in this research are Service Quality, Sales Promotion and Word of Mouth.
4. The data of this research will be limited by the annual year of 2022.
5. The questionnaires collected from the customers exist at current period.

### **1.3 Problem Formulation**

Based on the previously stated background, the problem formulation in this research are as follows:

1. Does service quality have a significant influence toward customer purchase decision partially?
2. Does sales promotion have a significant influence toward customer purchase decision partially?
3. Does word of mouth have a significant influence toward customer purchase decision partially?
4. Do service quality, sales promotion and word of mouth have a significant influence toward customer purchase decision simultaneously?

#### **1.4 Objective of the Research**

In accordance to the problem formulations that have been described above, the objective of research which supposed to solve the problems that already been found are as follows:

1. To find out whether service quality has significant influence on customer purchase decision at PT Cahaya Samudera Agung partially.
2. To find out whether sales promotion has significant influence on customer purchase decision at PT Cahaya Samudera Agung partially.
3. To find out whether word of mouth has significant influence on customer purchase decision at PT Cahaya Samudera Agung partially.
4. To find out whether service quality, sales promotion and word of mouth have significant influence on customer purchase decision at PT Cahaya Samudera Agung simultaneously.



## **1.5 Benefit of the Research**

This research is supposed to be beneficial to all parties involved and the benefits can be divided into two categories, such as:

### **1.5.1 Theoretical Benefit**

The anticipated consequence of the research is a greater knowledge of why PT Cahaya Samudera Agung's monthly product sales fluctuate and how service quality, sales promotion, and word of mouth may influence customer purchase decisions.

### **1.5.2 Practical Benefit**

#### **1. For Company**

The findings of this research may be used as a benchmark for PT Cahaya Samudera Agung in determining the impact of service quality, sales promotion, and word of mouth on the company's performance and on the purchase behavior of its customers.

#### **2. For Other Researchers**

Consumers' purchasing decisions may be influenced by a number of factors, including the service quality, sales promotion and word of mouth.

#### **3. For Writer**

With the knowledge gained from this research, the author will have a better understanding on how to conduct a marketing study and the impact of service quality, sales promotion and word of mouth on sales in the real world.