

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background**

Since 2000s, the retail business development in Indonesia has grown a lot. This can be proved through the increasing number of retail companies that settled in Indonesia. The increasing number of retail companies allows the consumers to be able to have more choices for fulfilling their daily needs. In the other hand, the competition between each retail companies become fierce since there are new companies with their new brands enter the same market in which the old player must maintain to be able to survive in the business. Each of those retail companies tries to provide the best products for its customers since the key of become a successful retailer can be delivered through service personalization and merchandise selection based on the market segment that the retail companies have targeted (Gagliano and Hathcote, 1994). Even more, the companies must keep up with the latest innovation available as most of the developments of retail business are influenced by the globalization in which it transforms the way of business that are done by those retail companies.

The Indonesia economy growth cannot be separated from the retail business development. The fierce competition of retail business market helps the country to generate benefits significantly especially in economic and financial terms. In global terms, Indonesia also has a great potential for retail business market. Retail business has a lot of contribution to the Gross Domestic Product in Indonesia in which the industry contributes 4.97 percent of the Indonesia's overall GDP (Laporan Perekonomian Indonesia, 2018). The retail business also become one of the main industries that helps Indonesia to recover its economy growth after 1998 monetary crisis.

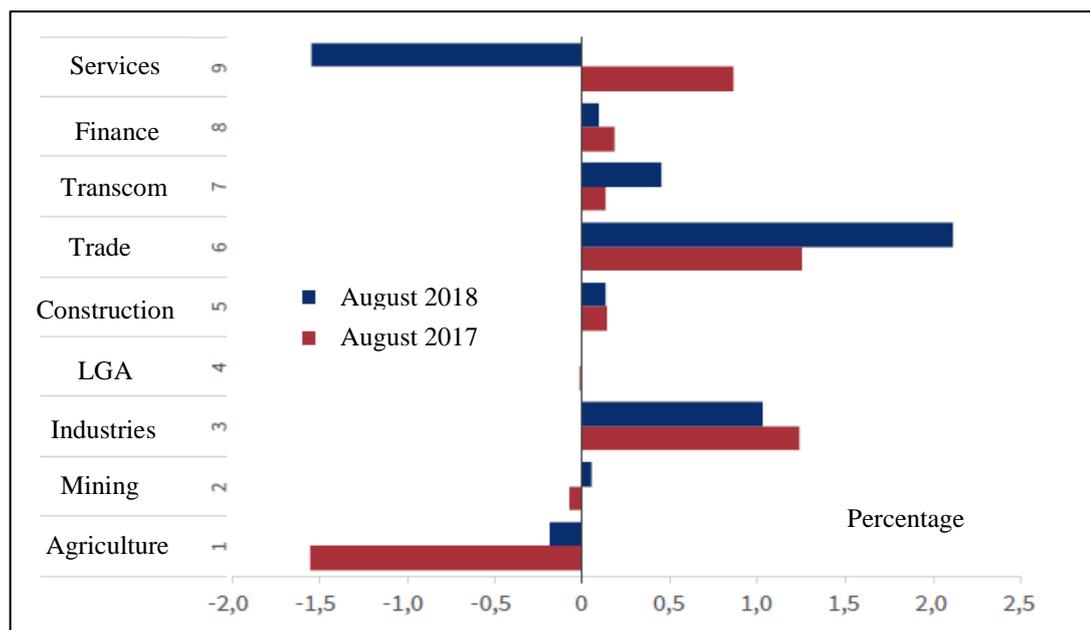
The GDP data in Table 1.1 retrieved from Laporan Perekonomian Indonesia Tahun 2018 shows the retail business has a very important role for Indonesia's economy since the business contributes around 5 per cent of Indonesia's GDP. It makes a lot of Indonesians entered the industry as it shows a lot of benefits that can be gained from the industry. In last few years, people tend to enter the retail industry rather than other sectors since Indonesians is relying their life in trading business in

current days. It can be proved that trade business contribution for labour growth has the biggest improvement during last few years. Also, the retail industry characteristics makes it easier for people to enter the market since the industry does not require for having specific skills or even high education to understand. When it is easy for people to understand about this retail business, it makes the retail industry will be developed instantly since new merchants are established as they are dominating the business.

**Table 1.1**  
**Indonesia's GDP based on Business Field (in percentage)**

Business Field	2014	2015	2016	2017	2018				
					I	II	III	IV	TOTAL
Wholesale and Retail, Automobile Repair, and Motor	5,18	2,54	4,03	4,46	4,99	5,22	5,28	4,39	4,97
<b>Gross Domestic Product</b>	<b>5,01</b>	<b>4,88</b>	<b>5,03</b>	<b>5,07</b>	<b>5,06</b>	<b>5,27</b>	<b>5,17</b>	<b>5,18</b>	<b>5,17</b>

Source: Laporan Perekonomian Indonesia Tahun 2018



**Figure 1.1 Contributions to the Growth of Workers' Number based on Economic Sector (in percentage) in Indonesia**

Source: Laporan Perekonomian Indonesia Tahun 2018

According to the graph in Figure 1.1, it shows that trade economic sector has the biggest contribution for the workers' number growth in Indonesia. From 2017 to 2018, trade economic sector growth has improved from 1.25 per cent to 2.2 per cent in which the improvement was almost 1 per cent annually. While trade

economic sector growths, it means the retail business will also grow as retail is an industry that requires trade during its operation and retail industry become Indonesian's pioneer for trading business since 1998. The growth of trade economic sector involved the retail business directly since retail is the last and most important link in goods distribution as retail connects the product with the buyer directly. Retail industry is defined as an industry that sell products and goods with additional values to fulfil the user's needs and mostly, the products sold by retailers are purposed to fulfil household needs of the buyers.

Looking at Surabaya, the city has around 3 million people live in Indonesia's second largest city. According to BPS Kota Surabaya in 2018, there are more than 1.52 million people are working in Surabaya which means more than 50 per cent of Surabaya's population are working in the city in which will take effect on Indonesia's economy significantly. Dick (2002) explains that Surabaya has regained its prominence as Southeast Asia leading non-capital-city industrial area after export boom in 1990s. Since then, Surabaya is considered as an alternative city to the Jakarta-centric focus of the country in term of economy and it makes Surabaya becomes business, trade, industry and education centre in Indonesia ("Surabaya - Ibukota Jawa Timur Yang Menjadi Pusat Pemerintahan Dan Perdagangan Jawa Timur", n.d.). This shows that Surabaya has a vital role in building the nation's economy and it can be said that Surabaya is being a city that is able to control the economy of the nation since it offers a lot of opportunities for business to settle themselves especially for retail business that most of Indonesians have entered since few years ago.

According to APRINDO, retail business itself in Indonesia starts in 1980s with the purpose of developing Indonesian's economy. This business arises because of the growth that occur in middle class society which causes demand towards supermarkets and departments store (convenience store) especially in the urban area. Another thing that encourages the development of retail business in Indonesia is lifestyle change of the upper middle-class community, especially in urban areas in which they tend to shop at modern shopping centre as it also offers entertainment while people are not interested to buy anything or just window shopping. The development in this retail industry is also followed by tight competition between

several local and foreign retailers that settled in Indonesia. The establishment of retail business in Indonesia is marked by the opening of foreign retailer outlets in many cities in Indonesia and one of the foreign retailers that have settled in Indonesia is ACE Hardware.

(Retrieved from <https://historia.id/ekonomi/articles/awal-mula-ritel-skala-besar-di-indonesia-6jJgJ>).

ACE Hardware Corporation is an American hardware retailers' cooperative based in Chicago, Illinois which was founded by Richard Hesse, E. Gunnard Lindquist, Frank Burke and Oscar Fisher in 1924 under the name of "ACE Stores". The company was named after the ace fighter pilots of World War I, who were able to overcome all odds. After ACE Stores was incorporated in 1928, the company set up its first warehouse in 1929 and changes its company name into ACE Hardware in 1931. The company itself focuses its business on home improvement and lifestyle products. Ace Hardware received its success after World War II when stores grew dramatically with the increasing number of sales by threefold from the 1940s to 1959. In the late 1940s, ACE had wholesale sales of more than \$7 million from 133 stores provided. With its 35th birthday in 1959, the company had expanded its wholesale sales that becomes \$24.5 million from its 325 stores. ACE Hardware itself has entered Indonesia since 1995 as a subsidiary of PT. Kawan Lama Sejahtera as the first technical and industrial equipment retail in Indonesia. Under the name of PT. ACE Hardware Indonesia, Tbk which is appointed directly by ACE Hardware Corporation, USA as sole licensee of ACE Hardware in Indonesia, the company opened its first store in Karawaci, Tangerang, Banten in 1996.

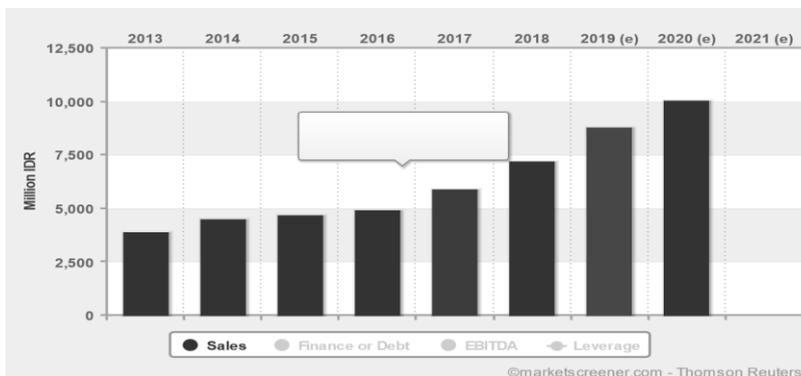
(Retrieved from <https://acehardware.co.id/en/profil-perusahaan>).

ACE Hardware has entered the Indonesian market for more than 20 years, but currently ACE Hardware is facing competition from other brands that also enter the same market in Indonesia as well. Some of the prominent competitors in this home appliances retail industry are Super Home, IKEA, and Informa. There used to be a company named AJBS who entered the same market as ACE Hardware did. However, AJBS went bankrupt in early 2019 and because of the company's closure, ACE Hardware become the sole company that entered this household retail industry as the other national competitor such as IKEA is still new to this market especially in Indonesia and IKEA still has only 1 store in Indonesia. These companies are

competing to survive in this fierce competition in which every strategy that each company has plays a role. As ACE Hardware became the only company that remains in this retail industry's household appliances, it is necessary for them to improve to anticipate newcomers that will enter the same market in the future. In terms of strategy, ACE Hardware also has its own strategy during its operation. As an example, ACE Hardware specializes themselves as a household and interior furniture retail in Indonesia. They choose to focus more on those products since there are culture differences in which it underlines the differences between Indonesia and overseas ACE Hardware's products. With this strategy, ACE Hardware has received many awards during its operation and one of those awards is Indonesia Most Innovative Business Award 2017 in Retail category. In Surabaya itself, ACE Hardware has 10 stores which locates in Lenmarc Mall, Tunjungan Plaza, Grand City Mall, PTC, Galaxy Mall 2, Plaza Surabaya, Royal Plaza, Marvell City Mall, East Coast Center, and BG Junction.

(Retrieved from <https://acehardware.co.id/id/penghargaan?page=2>).

Repatronage Intention is consumers' desire to make repeat purchase (Yang and Chang, 2011), positive shopping intentions, and repeat patronage (Hu, 2011). Previous studies have explored various factors influencing customers' store choice and shopping frequency, which further determine store patronage (Zinkhan and Pan, 2006). The repatronage intention plays an important role on number of sales since people tend to buy the company's products again after they are satisfied with the previous. In ACE Hardware products, repatronage intention can be seen from the increase in sales of ACE Hardware products from year to year. The following graph below is the sales data of ACE Hardware Indonesia:



**Figure 1.2 ACE Hardware Indonesia Sales**

Source: <https://www.marketscreener.com/ACE-HARDWARE-INDONESIA-TB-11853991/financials/>

According to the picture 1.1, ACE Hardware's sales has increased significantly in which in 2016, the company's sales was about 4,936 Million IDR and it improved around 20 per cent in 2017 which makes the sales amount is 5,939 Million IDR and the sales was 7,240 Million IDR in 2018, improved 21.9 per cent. (Retrieved from <https://www.marketscreener.com/ACE-HARDWARE-INDONESIA-TB-11853991/financials/>).

According to Levy and Weitz in 2009, customer satisfaction is a post consumption evaluation of how well a store or a product meets or exceeds the customer expectations. Quality service products have an important role to create the customer satisfaction (Kotler and Armstrong, 1996). Customer satisfaction of ACE Hardware itself was mainly obtained through their effort to sell high quality products for customers and the company's service and aftersales. Krisbow, Passport, and Kris are some of product brands sold by ACE Hardware that already well-known for its durability. The facilities that customers may receive after buying ACE Hardware products are *100% Satisfaction Guarantee* which means customer may return products bought from ACE Hardware if they change their mind within 14 days after payment and *Delivery Service* to facilitate the customer with a minimum amount of payment. (Retrieved from <http://www.acehardwareeg.com/return-and-exchange-policy/>).

Product Quality is the ability of a product to perform its functions properly which is determined through its durability, reliability, accuracy, ease of operation and repair, and other valuable attributes (Kotler and Armstrong, 2001). Product quality is a condition that every product offered gets attention from the public where they buy the product to be used and get the benefits from its usefulness. The public gives attention to how does the product has performed during its usage and how it has benefitted them from its features. A product that has a good quality will have its own achievements so that it can be valued as a high-quality product. This is proved by many awards that ACE Hardware received such as Best of the Best Awards 2018 from Forbes Indonesia that ACE Hardware has received since 2012, Indonesia WOW Brand 2019 which is the fifth time the company received this award, and Infobank 100 Fastest Growing Companies Award from INFOBANK for three consecutive years since 2017 ("ACE Hardware Indonesia", n.d.). Those awards show how ACE Hardware proved themselves to customers that they

provided high-quality products since ACE Hardware has won many awards and achievements for consecutive years.

(Retrieved from <https://acehardware.co.id/files/uploads/financialreport/file/2019/Feb/28/5c779d2379d84/materi-public-exposes-aces-2018.pdf>).

Huang (2009) defines service quality as the total characteristics of service that satisfies one's needs. Retail service quality turns out to be an effective measure to differentiate one retailer from another (Reichheld and Sasser, 1990). ACE Hardware's Service Quality cannot be doubted anymore since ACE Hardware is a multinational company that is well known throughout the world. To improve service quality for consumers, ACE Hardware employs service staffs in every store to help consumers find products to meet their needs and create direct interaction with customers. In addition, ACE Hardware also has a website and mobile phone application and social media such as Facebook account where all have the same name, ACE Hardware Indonesia, where customers can submit all complaints and suggestions about the product or about the service received from ACE Hardware. Through those applications above, ACE Hardware can reach all their customers throughout the country.

(Retrieved from <https://www.acehardware.co.id/services>).

Store-related attributes involve activities and environments related to retail stores, such as the atmosphere, image and convenience of the store. A consumer's impression of a store is greatly influenced by the store environment in terms of store atmosphere and store convenience. Kotler (1973-1974) mentioned that store atmosphere directly involves the physical appearances of the store itself as those atmospheres represent intended management and environmental cues constructions. In terms of store convenience, Pan and Zinkhan (2006) describe it as "a key benefit that shoppers seek in the modern environment". In terms of ACE Hardware, ACE Hardware stores itself has its own characteristics of store atmosphere and store convenience. The atmosphere of the store itself was made as attractive as possible in which each ACE Hardware stores placed its products based on their utilities such as placing home appliances products especially cleaning tools in front of the stores as its inventory turnover is much faster than other products. Beside of store atmosphere, store convenience of ACE Hardware is also having its

own characteristics as most of ACE Hardware stores has Chatime, a teahouse brand which is a subsidiary to PT. Kawan Lama Sejahtera in which the company holds the sole licensee of ACE Hardware Indonesia. Both can give the customers the convenience even the business is not connected to each other since people tend to rest after they are looking for products and they can buy Chatime products during their rest. In addition, most ACE Hardware stores in Indonesia are always inside shopping malls in which the stores can be easily find by customers as its location is strategic since people just need to take few steps to reach ACE Hardware stores.

(Retrieved from <https://industri.kontan.co.id/news/kawan-lama-group-memacu-bisnis-ritel-aneka-rupa>).

This study will examine the factors of Product-related Attributes, Service Quality-related Attributes, and Store-related Attributes that influence Repatronage Intention through Customer Satisfaction on the object of research used which is retail ACE Hardware. This research will take data by distributing questionnaires containing statements about ACE Hardware customers which will be randomly selected in Surabaya that targeted at men and women who have purchased products at ACE Hardware.

## **1.2 Research Problems**

1. Does Product Quality have a significant effect on Customer Satisfaction on ACE Hardware customers?
2. Does Service Quality-related Attributes have a significant effect on Customer Satisfaction on ACE Hardware customers?
3. Does Store-related Attributes have a significant effect on Customer Satisfaction on ACE Hardware customers?
4. Does Customer Satisfaction have a significant effect on Repatronage Intentions on ACE Hardware customers?

## **1.3 Research Objectives**

1. To examine the significant effect of Product Quality on Customer Satisfaction.
2. To examine the significant effect of Service Quality-related Attributes on Customer Satisfaction.

3. To examine the significant effect of Store-related Attributes on Customer Satisfaction.
4. To examine the significant effect of Customer Satisfaction on Repatronage Intentions.

#### **1.4 Research Contribution**

1. For academic institution, to broaden information and knowledge about retail industries especially in Management regarding Product Quality, Service Quality-related Attributes, Store-related Attributes, Customer Satisfaction, and Repatronage Intentions. The results of the study can support previous theories about the interest between each variable.
2. The results of the study can be a tool and reference for the next researcher who wants to raise a similar theme or use relationships between certain variables.
3. As suggestion to ACE Hardware competitors to establish long-term strategies or short-term strategies that must be used to be able to continue to develop in increasingly fierce competition.
4. This study can be used as information and considerations for the company in improving Product Quality, Service Quality-related Attributes, Store-related Attributes, Customer Satisfaction, and Repatronage Intentions.

#### **1.5 Research Limitations**

In this study, the research limitations consist of Product Quality, Service Quality-related Attributes, Store-related Attributes, Customer Satisfaction, and Repatronage Intentions of ACE Hardware customers in Surabaya.

The internal factors of the respondents based on their age, occupation, and economic conditions have been determined in the characteristics of the population as the respondents will be all ACE Hardware customers who are domiciled in Surabaya, with ages between 18 and 60 years old (Kotler and Armstrong, 2009) that have bought and used ACE Hardware products during last three months and it is assumed that the respondents is able to buy ACE Hardware products without any helping from other parties.

## **1.6 Research Outline**

Research outline is written to explain the systematic writing of this study. The study will compose of five (5) chapters as follows:

### **CHAPTER I – INTRODUCTION**

This chapter explains about the background information about the problem that this study covers. This will include previous studies and defining important problems and terms that will be used throughout the study. It will also specify the research objectives discussed in greater detail to be able to contribute for future research. This chapter also contains research problems, research objectives, research contribution, and research limitations.

### **CHAPTER II – LITERATURE REVIEW**

This chapter will describe the methods being used while performing the experiment while it summarizes previous findings that has been published to public in which become the basis of this study. Description of theories will be described on why it is applicable for the current research, an explanation why it is relevant, and how the modelling effort address the hypothesis to be tested on this study.

### **CHAPTER III – RESEARCH METHODS**

This chapter will showcase the methods that are being used and discuss the detailed scientific and technical activities done to accomplish the current study. This will include the research design, sampling plan, instruments being used, statistical tools and treatment of the data collected.

### **CHAPTER IV – DATA ANALYSIS AND DISCUSSION**

This chapter explains the results of the research in the form of tables and figures with detailed explanation of the obtained research results and a discussion of the results of data processing on how these key findings can be related back to the theory and prior researches that is presented in the beginning of the study.

### **CHAPTER V – CONCLUSION**

This chapter provides the summary of the whole study, implications on how the study can be related back in real life, conclusion and recommendations that is created to advance the study of the research topics theoretically, methodologically and substantive contributions that may be necessary to overcome the limitations of existing empirical facts.