

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia, country located off the coast of mainland Southeast Asia in the Indian and Pacific oceans. It is an archipelago that lies across the Equator and spans a distance equivalent to one-eighth of Earth's circumference. Indonesia is the largest country in Southeast Asia, with a maximum dimension from east to west of about 3,200 miles (5,100 km) and an extent from north to south of 1,100 miles (1,800 km). It shares a border with Malaysian in the northern part of Borneo and with Papua New Guinea in the centre of New Guinea. Indonesia is composed of some 17,500 islands, of which more than 7,000 are uninhabited. Almost three-fourths of Indonesia's area is embraced by Sumatra, Kalimantan, and western New Guinea; Celebes, Java, and the Moluccas account for most of the country's remaining area. In the early 21st century Indonesia was the most populous country in Southeast Asia and the fourth most populous in the world. The Indonesian archipelago represents one of the most unusual areas in the world: it encompasses a major juncture of Earth's tectonic plates, spans two faunal realms, and has for millennia served as a nexus of the peoples and cultures of Oceania and mainland Asia. These factors created a highly diverse environment and society that sometimes seem united only by susceptibility to seismic and volcanic activity, close proximity to the sea, and a moist, tropical climate. Nevertheless, a centralized government and a common language have provided Indonesia with some sense of unity (<https://www.britannica.com/>, retrieved on 1 October 2016).

Furthermore, Indonesia is one of the countries that is well known for his rich culture. The culture of Indonesia has been shaped by long interaction between original indigenous customs and multiple foreign influences. Indonesia is centrally-located along ancient trading routes between the Far East, South Asia and the Middle East, resulting in many cultural practices being strongly influenced by a multitude of religions, including Hinduism, Buddhism,

Confucianism, Islam and Christianity, all strong in the major trading cities. The result is a complex cultural mixture very different from the original indigenous cultures. Several Indonesian islands are famous for their batik, ikat and songket cloth. In addition to the traditional patterns with their special meanings, used for particular occasions, batik designs have become creative and diverse over the last few years. Many traditional games are still preserved and popular in Indonesia, although western culture has influenced some parts of them. Among three hundred officially recognised Indonesian cultures, there are many kinds of traditional games: cockfighting in Bali, annual bull races in Madura, and stone jumping in Nias. Stone jumping involves leaping over a stone wall about up to 1.5 m high and was originally used to train warriors. Pencak Silat is another popular form of sport, which was influenced by Asian culture as a whole. Another form of national sport is *sepak takraw* (<http://www.gbgindonesia.com/>, retrieved on 1 October 2016).

The entire factor above make Indonesia continues to attract growing numbers of travelers from around the world. Because of the increasing numbers of travelers that visit Indonesia, the demand for hotel accommodation is set to rise significantly over the coming years and decades as more holidaymakers and business people visit the country. Intensifying trade integration in the ASEAN region and increasingly affordable airfares are a boon for hotels and related businesses in Indonesia and should help the industry overcome current challenges of oversupply in some areas. Business opportunities in Indonesia's hotel and hospitality industry are no longer limited to holiday resorts in Bali or hotels and convention centers in Jakarta. Without a question, the tourism hotspot and the capital city remain the two most important markets. But some provincial capitals are developing into important regional business hubs, while other areas are keen to establish themselves as unexploited tourist destinations. (<http://www.gbgindonesia.com/>, retrieved on 1 October 2016).

The number of foreign tourists visiting Indonesia grew by 7.3% to 9.44 million in 2014, up from 8.80 million in 2013. The government targets a further

increase to at least 10 million in 2015 and the president has proclaimed a goal of more than 20 million tourists a year by the ends in 2019. A major driver of demand for hospitality services in Indonesia is the tremendous increase in airline passengers. Low-cost carriers (LCCs), in particular, have been booming in Indonesia and the wider region, driving demand for budget hotels. Indonesia's LCCs saw their combined annual passenger traffic nearly double from 29.9 million in 2010 to an estimated 56 million in 2014, according to figures compiled by the Centre for Asia Pacific Aviation (CAPA) (<http://www.gbgingonesia.com/>, retrieved on 1 October 2016).

Assuming continued economic development and urbanisation in the world's fourth most-populous country, the potential for expansion of the hotel and hospitality market is immense. In the long run, increasing business travel within and beyond Indonesian borders, improving transport connectivity and a growing tourism industry should underpin demand across the entire spectrum of lodging, conference and restaurant services. In the current economic climate, however, with travelers watching their expenses and low-cost carriers ruling the skies, the budget end of the market offers more straightforward investment opportunities. Lower-cost services would also cater to the growing number of local business travelers, many of whom represent small and mid-sized enterprises that lack the spending power of large domestic or global corporations. With ever more Indonesians travelling for leisure, business or family visits, the country is already seeing a rise in budget and mid-scale hotel services, especially outside of Bali and Jakarta. Two or three star-rated hotels should benefit most from the expansion of Indonesia's middle income class. In the long run, the growth prospects in Indonesia's hotel and hospitality industry should eclipse the challenges. Looking beyond the current oversupply in some regions, it is expected that over the next decade hundreds of new hotels will be needed, which spells opportunities for domestic and foreign investors in the budget, standard and luxury segment (<http://www.gbgingonesia.com/>, retrieved on 1 October 2016).

One of the biggest cities in Indonesia is Surabaya. Surabaya situated on the northeastern coast of Java, it lies along the Surabaya Strait opposite the island of Madura. The canalized Mas River, which is a branch of the Brantas River, flows through the centre of the city. Surabaya has been the chief trading centre of eastern Java since the 14th century. Surabaya is surpassed in size only by Jakarta and has remained the chief commercial centre of eastern Java. From its port is shipped the bulk of Java's chief agricultural products, including sugar, as well as coffee, tobacco, teak, cassava, rubber, spices, vegetable oils, and petroleum products. The city also has a large fishing fleet (<https://www.britannica.com/>, retrieved on 1 October 2016; <https://www.worldbank.org/>, retrieved on 1 October 2016).

The city's industries include shipbuilding and ship-repair yards, locomotive workshops, and the manufacture of textiles, glass, chemicals, beer, cigarettes, and shoes. A suburb has a petroleum refinery. The surrounding area is a flat, rich agricultural region. Surabaya is linked by rail and road to the eastern and western coasts of Java and is thus in communication with the other chief cities of the island. It also has major shipping communications with the chief ports of the Indo-Pacific region because it lies along the main sea route from Singapore and Jakarta to the Pacific and eastern Asia (<https://www.britannica.com/>, retrieved on 1 October 2016; <https://www.worldbank.org/>, retrieved on 1 October 2016).

As the provincial capital, Surabaya is also home to many offices and business centers and is an educational hub for Indonesian students. Surabaya's economy is also influenced by the recent growth in foreign industries and the completion of the Suramadu Bridge. Surabaya is currently building high-rise apartments, condominiums, and hotels as a way of attracting foreigners to the city. The expansion of the city gives a big impact to the hotel industry in Surabaya. The rapid expansion of the hotels sector can also be attributed to the good market growth prospects and favorable investment regulations affecting domestic and foreign hotel developers seeking to take advantage of the sector's huge

opportunities that turn Surabaya as a “battlefield” for hospitality industry (<https://www.britannica.com/>, retrieved on 1 October 2016; (<https://www.worldbank.org/>, retrieved on 1 October 2016).

The expanding business and economy in Surabaya also give birth to a new kind of hotel which is the Low Budget Hotel/ Budget Hotel. These hotels provide clean, comfortable, safe, inexpensive rooms and meet the basic need of guests. Budget hotels appeal primarily to budget minded travelers who wants a room with minimum services and amenities required for comfortable stay, without unnecessary paying additional cost for costly services. The main idea of a budget hotel is to provide a good/comfortable place to stay with affordable price (<http://setupmyhotel.com/>, retrieved on 1 October 2016).

However, Indonesian hotel owners faced a challenging market environment in the first half of 2015, with occupancy rates declining more than in neighboring countries. According to market research firm STR Global, occupancy rates fell by 12.6% year-on-year to an average 56.2%. Weak demand combined with an increase in capacity led to a decline in average revenue per available room. On the other hand, average daily room rates (for the hotels surveyed) rose by 3.8% to 1,073,903 IDR. However, despite the continued occupancy rate dropped to 57.31 percent in 2015 from 60 percent, but did not dampen investors to build hotels in Surabaya. This year alone, Colliers International Indonesia recorded 25 new hotels by number of rooms 3,863 rooms. Of this amount, a cheap hotel, or economics, or so-called *budget* dominates the composition of 10 hotels. (<http://properti.kompas.com/>, retrieved on 1 October 2016).

CitiHub is one of the biggest budget hotels chain in Indonesia. They have 11 hotels across seven cities in Indonesia. In Surabaya itself, CitiHub have five hotels. Among of all five hotels, Grand CitiHub Tunjungan is “Grandest”. The tremendous growth of budget hotels showed that Budget Hotel succeeded to maintain their customer buying decision. Schiffman, Kanuk and Wisenblit (2010) describe consumer behavior as the behavior that consumers display in searching

for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. In the steps of fulfilling customer's need, there is a process called consumers' buying decision, as the process for deciding what kind of product or service that consumers are really going to buy with resources that they have. According to Hiransomboon (2012), there are seven factors that could influence consumer buying behavior, those are Product, Price, Place, Promotion, People, Process, and Physical Evidence.

A product is the item offered for sale. A room with a good quality will give a good memories for the hotel guest and they will remember their experience when they stay in the hotel as a good memories Grand CitiHub Tunjungan are different with higher segment hotel (five star hotel, etc) because their main purpose is to provide a good comfy room for their customer with a good affordable price not a complementary thing such as ball room, fancy restaurant, swimming pool, etc, so in order to create an advantage from the competitor, the Grand CitiHub Tunjungan will try to improve the quality of their rooms, a good, clean, elegant, and comfy room will attract consumer and will create a good image of the hotel that will increase the likeliness of the consumer will stay in the hotel again in their next trips. Grand CitiHub Tunjungan provide all of the requirement needed for a good high quality room, such as clean and tidy room, High quality bed, and additional facilities like hot shower and Cable TV.



Figure 1.
City Hub Product
Note. www.citihub.com (2016)

Another factor is Price. Price is the value of an item or service is measured by the amount of money which is based on the value of a person or company willing to give goods or services belonging to other parties Price became the deciding factor in the purchase and become one of the important elements in determining the part of the market and the level of corporate profits. As a budget Hotel, Grand CitiHub Tunjungan use pricing as the spearhead of their effort to maintain the customer. The price of the room in Grand CitiHub Tunjungan is reasonable and the value for money ratio is good, because with a lower price, customer can enjoy a good quality room with a low prices.



Figure 2.
City Hub Price
Note. www.cithub.com (2016)

Third factor is Place. Location is essential for every hotel including the budget hotel segment. Consumer tends to choose a strategic located hotel rather than other non-strategic located hotel even thou the price and facility is the same. Grand CitiHub Tunjungan located in a very strategic location, the place is clean and tidy, and the decorations give a simple yet elegant and modern impression. These factors will provide Grand CitiHub Tunjungan another advantage to attract consumer to choose Grand CitiHub Tunjungan.



Figure 3.
City Hub Place
Note. www.citihub.com (2016)

Fourth factor is Promotion. Promotion is the communications, promise to introduce and invite consumers to consume products. With a good promotion; the customer will have a reason to choose Grand CitiHub Tunjungan rather than another competitor. Grand CitiHub Tunjungan use voucher and online voucher that issued in social media. Grand CitiHub Tunjungan also provide informations about promotion in Grand CitiHub Tunjungan website to make it easier for the customer to know about the promotion. Consumer will tend to choose a hotel with more promotions and discount.



Figure 4.
City Hub Promotion
Note. www.citihub.com (2016)

Fifth factor is People. Personnel are referred to all those who play a role in providing services and affect the perception of the consumer purchases made. A good employees are an important factor for consumer satisfactions, in order to create a good experience for consumers; Grand CitiHub Tunjungan employees provide friendly, efficient, and professional services.

Sixth factor is Process. The process is all the actual procedures, mechanisms, and the flow of activities that constitute the system serving over the operation of the service. A good SOP will increase the satisfaction of a consumer, also with a good consumer service, Grand CitiHub Tunjungan can maintain their service quality and give a solution for consumer's needs, with a good consumer service and effective SOP Grand CitiHub Tunjungan provide a good services for their consumer that can build a consumer satisfaction.



Figure 5.
City Hub People & Process
Note. www.citihub.com (2016)

Seventh factor is Physical Evidence. Physical evidence are a means of physically tangible and visible to the consumer. The style and physical appearance places the presence of product service take place can give you a special experience to its consumers and may be used to describe the services offered product, with a good physical evidence in form of good atmosphere of room and lobby, suitable facilities, lighting and decoration, and cleanliness of the facilities and room, consumer will enjoy their stay in Grand CitiHub Tunjungan.



Figure 6.
City Hub Physical Evidence
Note. www.citihub.com (2016)

1.2 Research Problems

1. Is there a significant effect of product on Grand CitiHub Tunjungan Surabaya customer decision making?
2. Is there a significant effect of price on Grand CitiHub Tunjungan Surabaya customer decision making?
3. Is there a significant effect of place on Grand CitiHub Tunjungan Surabaya customer decision making?
4. Is there a significant effect of promotion on Grand CitiHub Tunjungan Surabaya customer decision making?
5. Is there a significant effect of people on Grand CitiHub Tunjungan Surabaya customer decision making?
6. Is there a significant effect of process on Grand CitiHub Tunjungan Surabaya customer decision making?
7. Is there a significant effect of physical evidence on Grand CitiHub Tunjungan Surabaya customer decision making?

1.3 Research Objectives

1. To determine the significant effect of product on Grand CitiHub Tunjungan Surabaya customer decision making

2. To determine the significant effect of price on Grand CitiHub Tunjungan Surabaya customer decision making
3. To determine the significant effect of place on Grand CitiHub Tunjungan Surabaya customer decision making
4. To determine the significant effect of promotion on Grand CitiHub Tunjungan Surabaya customer decision making
5. To determine the significant effect of people on Grand CitiHub Tunjungan Surabaya customer decision making
6. To determine the significant effect of process on Grand CitiHub Tunjungan Surabaya customer decision making
7. To determine the significant effect of physical evidence on Grand CitiHub Tunjungan Surabaya customer decision making

1.4 Research Contributions

1.4.1 Theoretical Advantage

This study made its contribution as a reference in marketing management, by identifying the significant of marketing mix that affect customer decision making. This study is also reference for further studies related or similar to the field of study.

1.4.2 Empirical Advantages

1. For Grand CitiHub Tunjungan Surabaya

This result of this study can be used for Grand CitiHub Tunjungan Surabaya regarding customer decision making and how to improve their strategies in marketing by learning the essential factor to maintain customer decision making.

2. For the researcher

This study helps the researcher to understand more about the marketing management. It gives the researcher a much broader awareness about the importance of customer decision making and its element to its marketing strategy.

1.5 Research Limitations

This study was conducted in order to find out the reason behind customer decision making in Grand CitiHub Tunjungan. This research used product, price, place, promotion, people, physical evidence and process as the dependent variable. The researcher is limited in the terms of location because the research will be done in Surabaya, Indonesia.

1.6 Research Outlines

Researcher outline explain the systematic writing of this study. The outline is divided into five chapters as follow:

Chapter I

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specific the research objectives explored in greater detail to contribute to understand the research problems.

Chapter II

This chapter summarizes the major studies and finding that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of theories that apply to research problem, an explanation of why it is relevant, and how the modeling effort addresses the hypothesis to be tested.

Chapter III

This chapter explains the detailed technical and specific activities which include the research design, sampling plan instrumentation, social tools and treatment of data.

Chapter IV

This chapter organizes the logical presentation of all findings in the research questions, and focus on how these key finding relate back to the theory and prior researches presented in the beginning of the study.

Chapter V

This chapter consist of conclusions, implications, and recommendations to advance the contributions of the study and overcome the existing limitations, methodological or substantive contributions that may be necessary to overcome the limitation of existing empirical facts.