

## **CHAPTER 1**

### **INTRODUCTION**

#### **1. Research Background**

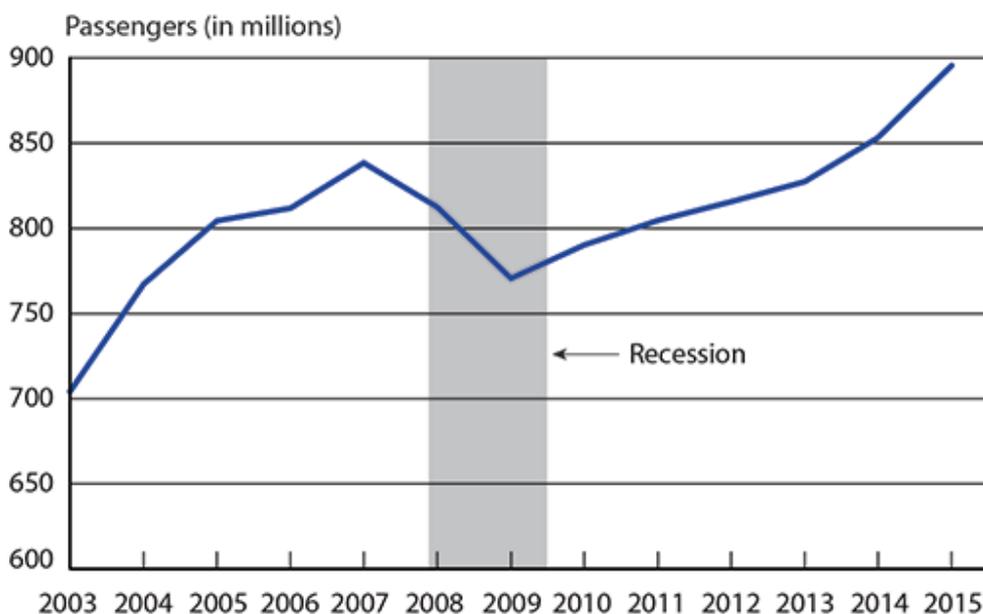
Nowadays there has been a significant growth in terms of Indonesia's economy. Investors and business alike will be able to take advantage of the economic growth of the country. One of the most credible institutions (DRI) Danareksa Research institute has shown that the citizens of Indonesia has a high degree of expectation regarding the country's economy in the year 2017. Their expectation in the end will greatly affect their buying behavior. The citizens are more willing to conduct business and invest their money. The increase in investment will possibly also increase the GDP and job vacancies. Other than that another factor which is affected by the increase in expectation is the buying power of the citizens. Additionally, the increasing local expectation will also greatly appeal to the foreign investors. Indonesia Recently, have already been identified as one of the best countries for investments. In fact Indonesia is one of the 3 best countries which appeals to investors in Asia. The increasing expectation in the following year of 2017 will significantly boost the possibilities of foreign investors.

The economic growth of 2017 also translates to opportunities that are available in terms of the tourism industry. Tourism is one of the industries which the local government focuses their enhancements on. They deemed the industry to be very crucial since it contributes greatly to the GDP of the country. In the recent years, businesses which operate in the tourism industry have felt a significant increase in terms of potential customers. According to BPS ( Badan Pusat Statistik) the growth of the tourism industry was constantly growing. From their Foreign Tourist Arrival statistics it can be seen that there has been a notable jump for the number of tourist coming into the country of Indonesia. Between the years 2015 to 2016 it was measured that there was a 10- 20 % increase of foreign tourist. The development of Indonesia's tourism industry gives an array of opportunities for investors and business in the particular area. Due to the increasing number of visitors and investment GDP there is a growing demand for living spaces such as Apartments, condominiums and hotels. By the year 2020 it is even expected that the country of Indonesia will be welcoming over 20 million visitors. The expectation was based on

the government's policy on boosting the tourism industry. In the year 2015 the government granted over 45 country free visa

to Indonesia. This indefinitely increases the number of visitors coming into the country. Due to its effects on tourism industry the government decided to further increase free visa to a total of 169 countries. The policy changes are expected to attract an additional 450,000 foreign tourist each year. Considering that each tourist will spend on an average of \$ 1200 the country will expectedly gain around \$ 500 million in foreign exchange revenue yearly.

Data's and research have shown that there will be a major increase in terms of travellers both domestically and internationally. The in-Oxford Economics analyzes billions of visa transactions to identify the patterns of purchases in regions and countries. The results show that over 280 households globally will create at least one international trip by the year 2025. There are 2 important factors contributing to the facts. First, the rises of global middle-class citizens are allowing them travel more frequently, especially in the more developed countries. Eventually this creates a new trend of what the researchers call as a new travelling class. It consists of a group of consumers which considers travelling as a part of life instead of a luxury. Another deciding factor is that international travelling will become affordable due to technological advancements. Better connectivity through the internet another sources of communication increases a more spontaneous and customizable trips. Visa estimates more than 340 airports to be built in the next 9 years, making international travel much more convenient and via new routes and accessible tourist destinations. Additionally, digital connectivity is increasing the awareness and access to alternative modes of transport and accommodations.



## **Overseas travelling trend Rita.dot.gov. (2016)**

### **Figure 1**

The graph above shows the significant increase of travelling in the previous years. Visa estimates that the growth will be more rapid in the next few years of time.

Another aspect which promises great opportunities for the tourism industry is the AEC. AEC (Asean Economic Community) was launched back in the 2015 and have shown some notable differences to the countries in it. The aim of AEC was to increase the competitiveness and connectivity for the region of SEA as a whole. Ideally AEC will help link up the less developed economies with the more developed ones, bringing about a more equitable economic development across the region. Asean as a whole will be better integrated into the global economy. In AEC as the cooperation between each country increases there will be less constraints and bureaucracy for foreign business investments and travelling from the countries listed in it. Other than that business operations within the circle will also be made to be easier. To put it in short within the Asean community there will be a free flow of goods, services, communication, labor force, and capital investments. AEC in the end will bring great things and improvements towards the tourism business. To the country of Indonesia especially there will be a notable increase in its potential customers. Due to the AEC more tourists and foreign business travelers will more frequently travel to the country. As of now some of the places in Indonesia which are frequently visited is Jakarta and Bali. (WOO 2017)

By the year of 2017 business in Indonesia would increase and flourish. It is known that in the following year there will be less barriers for establishing business. One of the main reason is the policy of low interest rate for entrepreneurs in Indonesia. In short the governments are giving subsidies through soft loans given to business starters. As Surabaya is a metropolitan city A prove of how business grow is very noticeable. Due to this people are willing to travel from different parts of Indonesia to Surabaya. In major malls in Surabaya people travel from other cities to join the bazaar markets. During weekends the number of visitors coming from other towns such as Malang, Sidoarjo , Kediri , increased significantly during the weekends.

For hotel businesses especially this is an opportunity that can't be passed on. Most of these travelers are aiming to stay for 1-2 nights at the city of Surabaya. The majority of potential customers from other cities consists of middle to low income people. Budget hotels will

definitely be able to cater the needs of such customers. It needs to be known that for the hotels to be successful there will be several criteria that it will need to fulfill. In the past cheap hotels often means that the facilities are dirty. However in the recent Era the model of cheap hotel businesses have evolved well. One of the first budget hotels that have been successful is the popular Tune hotel. Tune hotel have successfully presented a budget hotel with 5-star quality. The difference between it is that they offer less services such as breakfast, towels, soaps, condiments, and beverages. For several hotels the services can be bought by paying an additional fee.

Entrepreneurs are already aware of the environment which encourages budget hotel businesses. Due to this fact the numbers of budget hotels in Surabaya have increased significantly. During the year of 2016 data's have shown that there is a total of 150 hotels. Most of the 150 hotels are in fact 2 star and budget hotels. This in the end causes the competition between hotels to become a lot higher. The high competition rate even causes additional problems to the hotel owners. The competition causes the occupancy rate average between the hotels to decrease by a significant amount. In the year 2016 alone the AOR (Average Occupancy Rate) decreased by a whopping 11%. PHRI ( Pemerintah Kota Surabaya) is very well aware of the issue. The competition causes unhealthy price wars between the hotels. Due to such reasons PHRI have decided to limit hotel constructions along the years. As a result of that the competition of hotel businesses in Surabaya became tighter.

To have a competitive advantage over the other hotels Rock Hotel will need to have several criteria's which differentiates themselves from the others. As a budget hotel price differentiation may not be enough for them to thrive. There will be a total of 6 key factors that will be measured in the thesis. These 7 key factors are the bases of what the customers will expect from budget hotels. It helps measures how well Rock Hotel have managed to fulfill the customer expectations. The 7 key factors includes front desk service and café service for operant and cleanliness, lobby interior, room interior, food quality , and parking space for operand. Operant consist of intangibles which are considered as an items of behavior. Operant usually consist of factors such as service. Operand on the other hand consists of tangibles which can be perceived at a first glance. (Ostdick 2017)



TELAH DIBUKA BUDGET HOTEL BERKONSEP HOTEL KELUARGA YANG NYAMAN



Berada strategis dekat sentra perdagangan Surabaya Timur, dekat dengan berbagai objek wisata kuliner Surabaya, seperti Pecel Bu Kus, Bebek Palupi, Soto Madura Wawan, Pemppek Ny. Farina, Rawon Nginden, dan pusat oleh-oleh Panen Raya

SPECIAL PRICE  
**IDR 250.000**  
per malam



**ROCK** hotel  
Comfortable Family Hotel  
Jl. Barata Jaya 17 No. 55 Surabaya

RESERVASI: **031-5019642, 5019645**  
CONTACT: LIA | RIO | MARCUS

**Figure 1.1 Rock Hotel Brochure**

First of all Front desk service will be an important factor we will be measuring. In every hotel the front desk / receptionist will hold a massive responsibility. The receptionists are in charge of assigning the customers to the right rooms; receive phone calls, and welcoming the customers. In budget hotels especially, most of the customer satisfaction will come from the receptionists. The receptionist in short can be considered as the hotels frontline to interact with the customers.

The café service is another factor that is measured in the operant. The café service measures the customer satisfactions regarding the staffs of the café including the cashier and server. For operant there will be 5 factors to measure. Cleanliness can be considered as one of the most important factors to measure. In hotels one of the basic needs of the customers is the cleanliness of the facilities.

Lobby and room interior are to measure the look of the hotel from the inside. The interior of the hotel will decide the atmosphere the customers are getting in the hotel. Food quality measures the tastes of food being served at the cafes to the customers. Lastly the factor that will be measured is parking space. For the convenience of the customers a more spacious parking space would be preferred.

### **1.2 Research Problem**

1. Does operant service quality have a significant effect on customer engagement of Rock Hotel in Surabaya?
2. Does operant service quality have a significant effect on customer satisfaction of Rock Hotel in Surabaya?
3. Does operand service quality have a significant effect on customer satisfaction of Rock hotel in Surabaya
4. Does Customer engagement have a significant effect on customer satisfaction of Rock hotel in Surabaya?
5. Does operant service quality have a significant effect on customer loyalty of Rock Hotel in Surabaya?
6. Does operand service quality have a significant effect on customer engagement of Rock Hotel in Surabaya?
7. Does Customer engagement have a significant effect on customer loyalty of Rock hotel in Surabaya?

8. Does Customer satisfaction have a significant effect on customer loyalty of Rock hotel in Surabaya.

### **1.3 Research objectives**

1. To examine the significance of operant service quality on Customer engagement of Rock Hotel in Surabaya
2. To examine the significance of operant service quality on Customer Satisfaction of Rock Hotel in Surabaya
3. To examine the significance of operand service quality on Customer Satisfaction of Rock Hotel Surabaya
4. To examine the significance of customer engagement on Customer Satisfaction of Rock Hotel Surabaya
5. To examine the significance of operant service quality on Customer Trust of Rock Hotel Surabaya
6. To examine the significance of operand service quality on Customer Satisfaction of Rock Hotel Surabaya
7. To examine the significance of customer engagement on Customer Loyalty of Rock Hotel Surabaya
8. To examine significance of customer satisfaction to customer loyalty in Rock Hotel Surabaya

### **1.4 Research Contribution**

The aim of the research was to contribute the information gotten to Rock Hotel and future researches. Result of the research can be used to improve Rock Hotels performance overall. Rock Hotel would be able to identify which of their current operations contribute more towards the customer satisfaction. The results will allow them to focus on the functions most influential towards the customer satisfaction. Other than questionnaires will also be given to the customer to identify if they are satisfied with the current service rock hotel is providing. Eventually Rock Hotel would be able to make improvements towards areas which are proven to be lacking. The research gotten can potentially be used for other budget hotels. The results will point out which factors and functions should budget hotels in general focus on to give customer satisfaction.

### **1.5 Research Limitations**

Other researchers should anticipate other variables and functions which were not measured in the current research. In this research the variables which are measured includes café service and front desk service for operand and lobby interior, room interior, cleanliness, parking space, and food quality for operand. The research as of now is only entitled to Rock Hotel Surabaya. Other limitation of the research includes:

- Research conducted in Indonesia ,East Java, Surabaya
- Research conducted in 2017
- Questionnaires are only distributed in Rock Hotel
- Possible customer bias
- Only limited to 100-200 participants

### **1.6 Research Outline**

#### **CHAPTER 1: INTRODUCTION**

This chapter mainly describes about the external factors that which greatly effects the establishment of the business. This chapter contains introduction regarding how the business is set up and the factors that lead to it. Other than that it contains additional information regarding the business environment pertaining to the business such as competitor and customers.

#### **CHAPTER 2: REVIEW OF RELATED LITERATURE**

This chapter contains a summarized version of the findings and studies that have been conducted previously. These literature sources contribute to the facts presented in the research.

#### **CHAPTER 3: RESEARCH METHOD**

This chapter consists of the explanations regarding the methods that are used for the research. It contains both technical and scientific activities such as the usage of sampling, statistical tool, and data treatments.

#### **CHAPTER 4: DATA ANALYSIS AND DISCUSSION**

This chapter explains about the objects of study and the descriptive analysis of the data's

#### **CHAPTER 5: SUMMARY, CONCLUSION, AND RECOMENDATION**

This chapter consists of the summary, conclusion, and recommendations towards the business and future researches