

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Food and beverage industry in Indonesia still emerging from year to year. Food and beverage industry consists of restaurants, producer of food products, and many other industry relating to food and beverage. The number of increase is also higher than any oil and non-oil industry improvement in Indonesia. Therefore, many businessman and entrepreneurs tried to expand their business in this area of food and beverage. Foreign investment on this industry in 2015-2016 is predicted to reach US\$ 3 billion or equivalent to Rp 41 trillion which is a high amount of investment. Other finding from Antara News that the growth of food and beverage industry reached 8.46 percent in the first half 2015, which slowed compared to the first half 2014 at 10.14 percent. However, Saleh Husin as Minister of Industry in Bekasi, Indonesia said that the growth of food and beverage in semester I in 2015 is much higher than the growth of non-oil industry in the same period i.e. 5.26 percent. This fact also strengthen by comments from a chairman of The Association of Food and Beverage Industry in Indonesia (GAPMMI) in period 2015-2020 Andhi S. Lukman, he said that food and beverage industry in Indonesia has an important role in economic growth in Indonesia and he also said that the data shown to him, the growth and value of investment in food sector has always increased in the past period, and he added that in the future, challenges faced by the food and beverage industry will increase heavily in Indonesia, competition may become tougher in accordance to ASEAN Economic Community (AEC) also as a country with 4th largest population across the globe with correlation of high growth of middle level economic society makes food and beverage industry makes the important role in Indonesian economy. Indonesia become the targeted market by foreign investors in food and beverage industry. (<http://www.gapmmi.or.id/>; <http://www.antaranews.com>, retrieved on 20 January 2016).

One of the sector that foreign investor collaborate with Indonesian businessman is by franchising to enter Indonesian food and beverage industry. Franchise is actually a business system that has long been recognized by the world, which for the first time introduced by the Singer sewing machine company in the United States of America, in 1851, followed by General Motors Industry in 1898. Also regarding to the International Franchise Association (IFA), franchise is method for expanding a business and distributing goods and services through a licensing relationship also IFA indicates that advantage of franchise is increase the potential of success because it will be associating with proven products and method (<http://www.franchise.org>, retrieved on 20 January 2016). In its development, franchise business systems have undergone many improvements, especially in the 1950's which then became known as business format franchising or also called as second-generation franchise, franchise is improved rapidly. Given that Law No. 9 Year 1995 regarding Small Business mentions that the franchise is a partnership scheme between business from small to large company and medium-sized business. It should also presumably note the interest of consumers on the availability of goods in the market at cheaper prices become a major factor for the occurrence of a franchise contract (www.bu.edu, retrieved on 26 December 1995)). One of the various franchise food and beverage business located Indonesia from foreign business is McDonald.

Indonesia first established a McDonald's restaurant in 1991 and that is 70th McDonald's restaurant worldwide. Exactly on February 22, 1991, McDonald's restaurant in Sarinah area Thamrin, Jakarta operates by employing 460 crew and 26 managers with its vision is to become the fast food restaurant with the best service in the world and followed by its first mission of being the best company for all their employees in every community throughout the world, second mission of deliver services with superior operational system for every customer in every branch of McDonald's restaurant, and third mission of continuing to experience growth in a favorable direction as a brand, and continue to develop McDonald's operational system towards better through innovation and technology (<https://id.wikipedia.org>, retrieved on 25 March 2016).

In its progress, McDonald's Indonesia has launched 167 restaurants throughout Indonesia and in their 25th Birthday on 14 February, McDonald's Indonesia's Marketing and Communicator Director, Michael Hartono said that McDonald's has won customer's love upon its brand and one of the main reason to win customer loyalty is their strategy to love customer. PT Rekso Nasional Food as the main franchiser of brand McDonald's in Indonesia has turned their strategy from having a store in malls to an independent restaurant outside malls because the reported sales were higher than in malls. As said by Sutji Lantyka as Associate Director of Communicator PT Rekso Nasional Food that sales at independent stores is much better than at the mall. From January 2015 to September 2015 PT Rekso Nasional Food has closed three restaurants in malls; ITC Roxy Mas, Mall Taman Anggrek, and Mall Cikini. The company implement that strategy in purpose to open in independent restaurant outside mall. In a report submitted, Easterbrook said company policy changes that will make McDonald's as "enterprise burger modern and progressive" (<http://www.voaindonesia.com>, retrieved on 20 January 2016).

Customer Satisfaction is the result of a customer's perception of the value received in a transaction or relationship – where value equals perceived service quality relative to price and customer acquisition costs (Hallowell, 1996; Heskett et al., 1990; Blanchard and Galloway, 1994). According to Jahanshahi et al. (2011), Service Quality and Product Quality are an important factors that influencing Customer Satisfaction and Customer Loyalty. Customer satisfaction has been defined in various ways, but the conceptualization, which appears to have achieved the widest acceptance, is that satisfaction is a post-choice evaluative judgment of a specific transaction (Bastos & Gallego, 2008). Oliver (1981) describe his study that customer satisfaction is the part of marketing and play important role in the market. In any organization, satisfaction of customer is more important, because if the customer is satisfied with the services or products, its position will be good in the market which can create loyal customer and the company in sense as a profit.

Research also shown that when a person is satisfied with a company or service, they are likely to share experience with other people. On the other hand,

dissatisfied customer are likely to tell their unfortunate experience with anyone (social media, people, and many other) (<http://wparesearch.com>, retrieved on 15 July 2015) However, company cannot achieve customer loyalty without making them satisfied. Thus, though customer satisfaction does not guarantee the loyalty. It has an important role in achieving customer loyalty (<http://wpresearch.com>, retrieved on 10 July 2015)

Customer loyalty is defined as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior” (Oliver 1999). According to Kumar and Shah (2004) states that there are two types of loyalty: behavioral and attitudinal loyalty. Creating loyalty among customers can help the company to increase purchases of existing products, charge premium prices for appreciation of companies’ added-value service and create positive word-of-mouth promotion for the companies (Gaunaris & Stathakopoulos, 2004) Customer loyalty becomes important to a company when it results in purchase behavior. This generates for a company in direct and tangible returns which attitudinal loyalty does not. Behavioral loyalty is important for a company in order to generate probability, attitudinal loyalty on the other hand is important for a company, because it helps the company to build up an exit barrier for their customer. The main goal for every company is profitability and one method to achieve this for a company is to gain and maintain loyal customer.

Oliver (1997) argues that service quality can be described as the result from customer comparisons between their expectations about the service they will use and their perceptions about the service company. That means that if the perceptions would be higher than the expectations the service will be considered excellent, if the expectations equal the perceptions the service is considered good and if the expectations are not met the service will be considered bad. McDonald’s deeply concern about this factor since it is regarding to its vision is to become the fast food restaurant with the best service in the world. This picture shows the quality of

McDonald's Indonesia on their service. Both employees come with tidy outfit and a warm smile to welcome every customer. Black uniform becomes the strategy which McDonald's Indonesia used to perform their best service.



Figure 1.

McDonald's Service Quality

Note. [http:// mcdonalds.co.id](http://mcdonalds.co.id) (retrieved on May 18, 2016)

For Product Quality, McDonald's implements *Good Food* idea within the restaurant to offer complete and balanced food and giving complete information to the customer about every process and ingredients used in the menu, McDonald's also keep in mind to promote children health and sport activities to support health and wellness of customer which all of them McDonald's try to serve customer with best product quality. Product quality is similar to the idea that it is the totality of features and characteristics of a product or service that bears on its ability to satisfy given needs (Winder, 1996; Chavan, 2003). It is also defined as the the collection of features and characteristics of a product which contribute to is ability to meet given requirements. It is recommended that products offering value for money not only influence customer's choice behavior at the pre purchase phase but also affect their satisfaction, intention to recommend and return behavior at the post purchase phase (Dodds, Monroe and Grewal 1991; Parasuraman and Grewal 2000; Petrick 2001). However the importance of quality is like a race to capture a bigger slice of the market pie with competition rising up from domestic as well as foreign business. More and more industries are re-orientating their focus on customer's need to make them satisfied and keep them as their loyal customer. Quality is the bandwagon as in 21st century, customers are expecting a better deal and quality is the only way to make both customers and businesses can sustain but it should be understood clearly

that quality is an attitude of mind and a way of life where “excellence is a journey, not a destination”. This picture shows the superior menu of McDonald’s authentic McMuffin. Other competitors don’t have the same menu with McDonald’s. This product shows the quality of clean and hygienic ingredients to make delicious McDonald’s products.



Figure 2.

McDonald’s Product Quality

Note. [http:// mcdonalds.co.id](http://mcdonalds.co.id) (retrieved on May 18, 2016)

External is belonging to or forming the outer surface or structure of something (www.oxforddictionaries.com retrieved on 30 June 2014). The external environment variable includes the exterior signs, entrances, exterior display, windows, height of the building, size of the building, color of the building, surrounding stores, lawns and gardens, address and location, architecture style, surrounding area, parking availability, congestion and traffic, and exterior wall (Turley & Milliman, 2000). For General exterior, it is necessary for restaurant in planning to focus on independent store outside malls. First thing which will be seen by the customer is exterior of the store since retailers store layout (parking, attributes, signage, plant, wall, front door, and image) for instance wall, Wall material and finishes can have effects on atmosphere, interior areas and entire design in the restaurants. They can be wood, stone, plaster, brick, glass, concrete, metal, plastic or wall paper; these materials can have different color, pattern and texture (Ozay, 1998) and second example is front door, Entrance is the transitional and intersectional point between indoor and outdoor; it is separator and connector between human space and nature (Berkman, 2004). results in greater consumer elaboration and more positive consumer outcomes (Griffith, 2005: 1391) and based

on the views of Shaffer and Greenwald (1996: 242), a well-defined, attractive and friendly store layout will attract potential customers to the store and, at the same time, discourage those who are not interested in the merchandise from entering the store. McDonald's Basuki Rahmat Surabaya has its own uniqueness in exterior which is giant guitar struck right next to its store. It's unique because no other McDonald's store in Surabaya has the similar idea like the one in Basuki Rahmat.



Figure 3.

McDonald's General Exterior

Note. [http:// google.co.id](http://google.co.id) (retrieved on May 18, 2016)

According to D.K. Ching (2002:46) General Interior or known as Interior is the planning, layout and design of the interior space within buildings. These physical settings satisfy our basic need for shelter and protection, they set the stage for and influence the shape of our activities, they nurture our aspirations and express the ideas which accompany our action, they affect our outlook, mood and personality. The purpose of interior design , therefore, is the functional improvement, aesthetic enrichment, and psychological enhancement of interior space McDonald's interior is also have a relation to customer satisfaction. The physical appearance of a store has the greatest impact on the overall service quality,

higher customer retention and higher future consumption, respectively (Siu and Hua, 2001: 88). Furthermore, a study by Kokko (2005) suggests that atmosphere in a restaurant is often perceived by customers as the single most positive characteristic of the establishment and even more important than food served. However, Soriano (2002) mentioned that comfortable atmosphere inside the restaurant will make customers stay longer and possibility to order more food is higher which can indicate the increase of profit. Added by Cruz (2001) a conducive room with well-lighted surrounding, ventilation and sanitary makes the meal pleasant with long lasting experience. Concerning about space inside the restaurant, Size of dining area is equally effect the number of customers, bigger dining area can serve more amounts of customers, and defining a service space; it is necessary in dining room especially in big dining area to increase the speed of service. (Stipanuk, 1992).

1.2 Research Problem

1. Does service quality has significant effect on McDonald's customer satisfaction in Surabaya?
2. Does product quality has significant effect on McDonald's customer satisfaction in Surabaya?
3. Does general exterior has significant effect on McDonald's customer satisfaction in Surabaya?
4. Does general interior has significant effect on McDonald's customer satisfaction in Surabaya?
5. Does service quality has significant effect on McDonald's customer loyalty in Surabaya?
6. Does product quality has significant effect on McDonald's customer loyalty in Surabaya?
7. Does general exterior has significant effect on McDonald's customer loyalty in Surabaya?
8. Does general interior has significant effect on McDonald's customer loyalty in Surabaya?

9. Does customer satisfaction has significant effect on McDonald's customer loyalty in Surabaya?

1.3 Research Objective

1. To examine the effect of service quality on McDonald's customer satisfaction in Surabaya
2. To examine the effect of product quality on McDonald's customer satisfaction in Surabaya
3. To examine the effect of general exterior on McDonald's customer satisfaction in Surabaya
4. To examine the effect of general interior on McDonald's customer satisfaction in Surabaya
5. To examine the effect of service quality on McDonald's customer loyalty in Surabaya
6. To examine the effect of product quality on McDonald's customer loyalty in Surabaya
7. To examine the effect of general exterior on McDonald's customer loyalty in Surabaya
8. To examine the effect of general interior on McDonald's customer loyalty in Surabaya
9. To examine the effect of customer satisfaction on McDonald's customer loyalty in Surabaya

1.4 Research Contribution

The result of this research is expected to provide more information to the existing theory about service quality, product quality, general exterior, and general interior to a fast food restaurant. Specifically, the research will be beneficial to the following:

1. The academic institution

This research can be used as reference for other students who will conduct related research thesis topic.

2. Current and future researchers

This research may help current and future researchers to have more understanding on service quality and its relation to customer satisfaction, customer trust, and customer loyalty, especially on McDonald's in Surabaya.

3. The Author

The study gave the author the opportunity to enhance the theoretical knowledge gained from lectures, text books and other literature, as well as practice the analytical skills in solving managerial problems.

4. McDonald's

The result of this research can be used as an input for McDonald's to improve its service quality, customer trust, and customer satisfaction to maintain customer loyalty.

1.5 Research Limitation

This study was conducted with McDonald's customer as the research object. This research used service quality, product quality, and general exterior as the independent variable, customer satisfaction as intervening variables, and customer loyalty as the dependent variable. The researcher is limited in terms of locations because the research is done in Surabaya, Indonesia.

1.6 Research Outline

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

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 specifies the research objectives explored in greater detail to contribute to understanding the research problem.

Chapter II

This chapter summarizes the major studies and findings 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 the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

Chapter III

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

Chapter IV

This chapter organized a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.

Chapter V

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.