

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Slow growth, overcapacity, and intense competition between each players in the market make customer retention as primary target for most firms (Vlachos, 2009). Defense marketing can be a useful strategy for a company that already had a wide customer base and large market share. It focusing on protecting existing customer to repurchase product rather than attrac new customer. It is supported by Kitchathorn (2009) that the cost for acquiring new customer is approximately six times more expensive than to retain old customer also customer repeat purchase/retention is important for a company in order to achieve success. The ability of company to retain existing customer is also affecting the net growth rate of the company, for example a company can attract new customers up to 30% in a year, but can only retain 80% of its old customers, the company will have a net growth rate of only ten percent (30 % increase less 20% decrease), it can double the net growth rate just by retaining 90% of its old customers.

In order to retain its existing customers, company has to analyze the factor behind the customer repurchase intention. According to Kwok (2007), customer loyalty is one of the areas that repurchase intention studied in. Customer loyalty is not only about frequent purchases but also the perception of a customer to a brand or product (Mesarosch, 2008). Islam (2009) stated that as competition tighten among producers, customers bargaining power increased, building trust and image become more important, and company should put more effort on the factor affecting customer loyalty . Another research stated that the probability of selling to a new customer is only 5-20%, on the other hand the probability of selling to an existing customer is 60-70% (Griffin, 2002). By making customer loyal, it has a powerful influence on firm's performance (Agustin & Singh, 2005; Lam *et al.*, 2004). In that case, building customer loyalty is one of the important tools to achieve sustainable competitive advantage (Bansal & Gupta 2001).

Customer trust is found as one of the important drivers to customer loyalty (Sharma, 2003), many other authors also supported this statement (Chaudhuri & Holbrook, 2001; Singh & Sirdeshmukh, 2000; Sirdeshmukh *et al.*, 2002). While the relationship of the two variables is already proved, the authors want to re-examine the relationship between customer trust and loyalty but with additional variable as the moderating variable, Perceived Corporate Social Responsibility (CSR). The foundation of the author choosing perceived CSR as moderating variable, other than the replicate of the anchor journal, is based on previous research perceives CSR is proved to be influenced by both Customer Trust (Hosmer 1994) and Customer Loyalty (Pirsch *et al.*, 2007).

Since 1950's the CSR concept is still rare, but because of the globalization and mass international trade, firms attracted to engage in CSR (Guo *et al.*, 2009). Bowen (1953) is the first person who recommend businessman to pursue CSR and it becomes the spotlight during 1960-1970 as the social awareness increased high. The definition of CSR is the is the obligation to improve, protect the welfare of the society (Percy, 2008). CSR is a long term commitment plan that do not generate money right away, but more to build image and trust that will generate long term profits (Herpen *et al.*, 2003). That is one of the reason that company voluntarily publish CSR activities on websites or another media. Another reason is that consumers will be more interested in purchasing, if the company is responsible socially (Percy, 2008).

Ultra Milk, one of the product from PT Ultrajaya Milk Industry Tbk and Trading value in liquid milk sector. In 2006 based on AC Nielsen research, Ultrajaya is the market leader in liquid milk sector by 50 % market share. Now, in 2009 PT Ultrajaya Milk Industry Tbk's market share is decreased to 29.7 %, because its competitor manage to take large percentage in the liquid milk sector. The top four brands (Ultra Milk, Bear Brand, Indomilk and Frisian Flag) have two-thirds of the market for liquid milk in 2009 (CIC Report, 2010).

Table 1
Market Volume of Liquid Milk by Companies, 2009

Company	Percent Share
Ultra Jaya	29.7
Frisian Flag	21.2
Nestle	6.3
Indolakto	16.9
Greenfields	9.0
Danone	4.9
Sekar Tanjung	3.6
Fonterra	2.0
Lintang Visikusuma	1.7
Garuda Food	0.4
AB Food	0.3
Diamond Cold Storage	0.1
Cisarua Mountain Dairy	0.1
Sari Husada	0.0
Others	3.9
TOTAL	100.0

Note: From CIC report on “Study on Industry and Market of Liquid Milk & SCM in Indonesia”, 2010

As a top players in liquid milk sector, PT Ultrajaya Milk Industry Tbk has receive many awards, one of them is in 2007, PT Ultrajaya Milk Industry Tbk. received Platinum award as top performer, the award is only given to brands that is demanded by many consumers in Asia. It means that PT Ultrajaya Milk Industry Tbk already has many loyal customer, that’s one of the reasons the authors want to analyze neither the perception of Customer of CSR activities that PT Ultrajaya Milk Industry Tbk engaged will have positive relationship or not with customer trust to customer loyalty. PT Ultrajaya Milk Industry Tbk has already engaged in CSR activities for 27 years. PT Ultrajaya Milk Industry Tbk grouped its CSR Activities into four areas: Community, Regional Art and culture, Religious Life, and Education. In concern for the surrounding area or community of the company, PT Ultrajaya Milk Industry Tbk is actively supporting the health program in Cimareme village and Gadobangkong village by donating an ambulance to each and donated medical tools for Community Health Centers located in these areas, PT Ultrajaya Milk Industry Tbk also actively helps provide clean water to the community living in the neighborhood of the company by

building water reservoirs, all furnished with waterworks pipelines. In art and culture, the company very much involved in develop, enrich and preserve local art and culture. In religious life the company takes an active role in religious event, and build or renovate mosque, while in education area, the company also takes an active part in providing scholarships and assistance programs of constructing and renovating school buildings, sponsorships in various seminars and other education activities.

This research is replicate from the previous study of Kwok (2007), *The Effect of Customer Trust on Customer Loyalty and Repurchase Intention: The Moderating Influence of Perceived CSR*. Kwok (2007) want to determine the relationship between customer trust to loyalty of pharmaceutical chain stores in Hongkong, also the author want to examine the role of Perceived CSR towards a company on customers trust and customer loyalty link. The reasons why Kwok (2007) choose Perceived CSR is because the importance of its elements in customer eyes, CSR is closely linked to the sustainable development in business, and several researchers such as (Brown, 1998; Brwon & Dacin 1997; Sen & Bhattacharya, 2001; Berens, Van Riel, & Van Bruggen, 2005) found that CSR may affect, either directly or indirectly, consumer product responses, customer to company identification, and customers' product attitude. Kwok makes questionnaire into two part question, one with the stories that the company have high CSR activities, and the other one with low CSR activities.

1.2. Research Problem

Based on the background, the research problems of this study are as follow:

1. Does Customer Trust have direct positive effect towards Customer Loyalty of Ultra Milk in Surabaya?
2. Does Customer Loyalty have direct positive effect to Repurchase Intention of Ultra Milk in Surabaya?

3. Does Perceived CSR have positive effect as moderating variable in the relationship between Customer Trust and Customer Loyalty of Ultra Milk in Surabaya?

1.3. Research Objective

Based on the research problems, the research objectives of this study are as follow:

1. To determine whether Customer Trust has direct positive effect towards Customer Loyalty of Ultra Milk in Surabaya
2. To determine whether Customer Loyalty has direct positive effect to Repurchase Intention of Ultra Milk in Surabaya
3. To determine whether Perceived CSR has positive effect as moderating variable in the relationship between Customer Trust and Customer Loyalty of Ultra Milk in Surabaya

1.4 Research Contribution

1.4.1 Theoretical Contribution

This study is helpful to determine the effect of Perceived CSR as moderating variable between Customer Trust and Customer Loyalty of Ultra Milk in Surabaya. Proofing the relationship between Customer Trust and Loyalty of Ultra Milk in Surabaya. This study also help explaining the relationship between Customer Loyalty and Repurchase Intention of Ultra Milk in Surabaya. The result of this study is referable in relevant field of study

1.4.2 Empirical Contribution

This study can be useful for Ultra Milk to retain its existing customer and enhancing the relationship between Customer Trust and Customer Loyalty by implementing CSR. The result also will determine the factor behind Repurchase Intention, which will resulted in retaining customer. This result also helpful to other companies that already have wide base customer.

1.5 Research Limitation

This research limited by only four variables, that will help determine the effect of moderating variable of Perceived CSR to Customer Trust and Loyalty, then to Repurchase Intention, without take into consideration other variable that have the effect also.

The subject of this study is Ultrajaya Milk Industry with Ultra Milk as the product, and limited respondents to Surabaya citizens with specific characteristics that are determined by the author.

1.6 Research Outline

CHAPTER I - INTRODUCTION

This chapter sets up the research problem for the reader. It also provides the background of 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 – REVIEW OF RELATED LITERATURE

The 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. It also states a clear description of the theory that applies to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

CHAPTER III – RESEARCH METHODOLOGY

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 – RESULTS AND DISCUSSION

This chapter explains the detail of the result after calculation that was conducted. It includes the company profile, description of survey respondents and variables, pretest, classical assumption and hypotheses testing.

CHAPTER V – SUMMARY, CONCLUSIONS, AND RECOMMENDATION

The authors summarizes the result from this research and gives conclusions. There are also recommendation for the company and future research.