

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

In the current era of globalization, science and technology is continuously developing. These changes encourage rapid development of the business world in an increasingly tight market competition, thus demanding a better marketing system for every company engaged in goods and services. According to Aeni (2020), by taking advantage of available business prospects and attempting to implement the best corporate strategy in order to dominate the market, many businesses are attempting to outperform the competition. Maintaining performance at a particular level is one of the company's objectives.

One of the important factors that businesses must take into account for the benefit of their ongoing operations is efforts to attract and keep customers' interest. It takes work to cultivate buying interest and then ultimately make a purchase decision because so many different things might affect it (Sihombing, et. al.2023). The decision to purchase refers to how the decision-making process is carried out. Many factors are considered by consumers before deciding to buy a product, so companies must be observant in looking at what factors must be considered to attract consumers.

It is believed that price is one of the factors affecting product sales profits, competition, and sales growth. Pricing strategy has played an essential part in providing consumers with value and shaping both the perception of the product and

the purchasing decisions. Also, word of mouth (WOM) has a very influential or effective role in the survival of a company. Joesyiana (2018) mentioned that consumers trust word of mouth more in assessing a product and influencing their purchasing decisions than advertising. On the other hand, businesses need to continue to improve the quality of their products or services because improving product quality can make consumers feel satisfied with the products or services they buy, and will influence consumers to make purchasing decisions (Sitompul & Hariyanto, 2020).

In several parts of Indonesia, the hospitality industry has seen a major rise in business. It has a reputation for being an industry that will grow quickly. The expansion was discussed in many media, and it appeared to be the tourism industry's fastest time period. The efforts of the hotel chains to benefit from the rapidly advancing technology have been strengthened by this development. Along with the hospitality sector, the culinary industry is experiencing rapid expansion due to the availability of freshly created recipes in the market. In carrying out all activities, humans need energy and this energy is obtained from the food and drinks they consume. Therefore, business in the food sector is one of the businesses that provides great opportunities for the perpetrators, because the need for food is a need that must always be met.

Vegetarian restaurants are one of the many business options that might be developed in tandem with the community's expanding requirements. This is due to the fact that vegetarian cuisine is becoming more and more popular in society, and more people are beginning to understand the value of adopting a healthy lifestyle

and switching to a vegetarian diet. The plant-based food market is expected to more than double by 2028 (Suryandari, 2023). The Indonesian Vegetarian Society (IVS) noted that 2019 is the year of the vegan. The reason is, in that year various vegan communities began to develop in several countries. This fact encourages world-class entrepreneurs to develop a restaurant business with a vegetarian menu.

Currently in the city of Medan, there are many vegetarian restaurants that have different strengths such as a very strategic place, food that specializes in vegetables as the main menu, unique menu which have their own customers. Many choices of vegetarian restaurants that exist become consideration for consumers to make their own choices. Currently, Green Village Vegetarian Restaurant is experiencing a decline in sales which can be seen as shown below:

**Table 1.1 Total Sales of Green Village Restaurant January-June 2023**

	Total Sales (IDR)	Percentage
<b>2023</b>		
<b>January</b>	612,298,945.50	
<b>February</b>	414,559,639.25	-32.29%
<b>March</b>	491,798,714.75	18.63%
<b>April</b>	505,647,800.75	2.82%
<b>May</b>	411,763,994.00	-18.57%
<b>June</b>	475,034,865.50	15.37%

Source: Prepared by Writer (2023)

Based on data above, it can be seen that total sales earned by Green Village Vegetarian Restaurant from January to June 2023 are fluctuating and have not consistently increased. From January to February, the sales dropped by 32.29% and increased in March by 18.63%. In April the total sales slightly increased by 2.82% and decreased significantly in May by 18.57%. In June, the total sales increased by 15.37%. These fluctuation results need to be traced so that restaurants can identify and evaluate business performance.

The writer went through Google Review to observe ratings and comments related to price perception of the menu given by customers who have visited Green Village Vegetarian Restaurant and the results shown in the table below:

**Table 1.2 Google Review related to Price Perception**

Customers	Review
<b>Victor Ho</b>	Good food but the price is a bit expensive
<b>Robin Ng</b>	There are not many menu varieties to choose from if you are a pure vegetarian and the price is a bit high
<b>Anita</b>	Price are relatively expensive
<b>Calista Wijaya</b>	Too expensive, price is twice compared to others

Source: Prepared by Writer (Google Review)

Based on table above, it can be seen that customers commented that the food and beverage sold by Green Village Vegetarian Restaurant is quite pricey. Therefore, in order to find out more about price offered by the restaurant, the writer compared the price of several foods sold by Green Village Vegetarian Restaurant and other vegetarian restaurants in Medan. The data is shown below:

**Table 1.3 Price Comparison of Three Vegetarian Restaurant**

Menu	Green Village Vegetarian	Green Bean Vegetarian	Golden Bells Vegetarian
<b>Nasi Goreng</b>	65,000	43,000	38,000
<b>Mie Goreng</b>	65,000	42,000	38,000
<b>Tauki Asam Manis</b>	65,000	54,000	65,000
<b>Kailan 2 Rasa</b>	70,000	58,000	60,000

Source: Prepared by Writer (2023)

Based on the data above, it can be seen that the price of several foods offered by Green Village are more expensive compared to other vegetarian restaurants. Golden Bells Vegetarian offers a much more affordable food price compared to Green Village and Green Bean. Herawati, et al. (2023) believed that pricing strategy played an essential part in providing consumers with value and shaping both the perception of the product and the purchasing decisions of customers.

As there is lower price set by other restaurants, it will create a price perception of the food in consumers' point of view. This condition will make consumers' price perceptions not match those price set in Green Village as it is higher than other competitors. Consumers perceive that the prices offered by Green Village are too high for vegetarian food. Additionally, consumers also express that the food prices are not in line with the portion sizes. Suharso (2020) mentioned that Price perception is a psychological factor from various aspects that has a significant influence on consumer reactions to prices. This is why price perception becomes the reason why someone makes a decision to purchase. Based on the research done by Suharso (2020) titled "The Effect of Products and Prices on Purchasing Decisions of Health Food" shows that prices can improve the purchase decision of healthy food of consumers in Malang City.

Another issue found by the writer was that several of the writer's relatives expressed their disappointment with the food at Green Village and did not recommend visiting the restaurant. There was also a suggestion from the writer's friend to visit another vegetarian restaurant instead of Green Village which has better services. Furthermore, there are negative reviews received by Green Village Vegetarian Restaurant in Google Review from their customers as shown below:

**Table 1.4 Google Review related to Word of Mouth (WOM)**

<b>Customers</b>	<b>Review</b>
<b>Hardian Chen</b>	Worst place to eat. The order has taken a long time and there is one rude employee. The bill is also added menu that was not ordered and served.
<b>Hendro</b>	Waited for almost an hour and didn't give any info even compliment while waiting for that long.
<b>Clarence Aurea</b>	The short hair manager is rude, impatient and unfriendly.
<b>Benny</b>	It was so bad. The voucher could not be claimed even though I have confirm before by calling to the restaurant. Worst service and management.

Source: Prepared by Writer (Google Review)

Based on table 1.4 above, it can be seen that Green Village Vegetarian Restaurant received several negative reviews from customers related to unfriendly service, food that takes too long to be served and also inconsistent response regarding voucher usage that customers had purchased. According to Joesyiana (2018), good discussion is produced by word-of-mouth communication. Before deciding to purchase or use something, someone will inquire about the caliber of the product or service. As a result, recommendations from others can affect a person's decision to buy something.

However, some customers were disappointed with Green Village services and they spread word of mouth about their unpleasant experiences to relatives and friends. They would not recommend coming to the restaurant as the food took a long time to be served, the waiter was not polite when being asked about the food that still hadn't been served and the table was also not clean enough. This message will be passed from mouth to mouth and will be a consideration for others visiting Green Village Vegetarian restaurants. Based on the research done by Winalda & Sudarwanto (2022) titled "Pengaruh Word of Mouth dan Kualitas Produk terhadap Keputusan Pembelian di Rumah Makan Bebek Sinjay Bangkalan" shows that word of mouth has positive and significant effect on purchase decision at Bebek Sinjay Restaurant Bangkalan.

In order to know the quality of the product offered by the restaurant, the writer conducted an interview with several customers who visited the restaurant to ask their opinion on the food they had. According to the findings of the interview, one of the customers stated that he had visited this restaurant for the second time

since there was a dish on the menu he particularly enjoyed. However, the food's flavor lacked a little in comparison to what he had previously eaten. He added that the veggies he ordered from the menu were not of fresh quality. Other customers who had eaten there on multiple occasions claimed that only the regular menus tasted nice, whereas the menus that were infrequently ordered had a less good flavor. Additionally, when the restaurant is busy, customers can have a long wait. Another patron, on the other hand, claimed that the food was tasty but that there are other vegetarian restaurants that serve better food in larger servings. Additionally, he commented on how unappealing the food presentation was.

In making purchase decisions, consumers will usually choose the best food for consumption. Food quality plays an important role for consumers in purchasing decisions by looking at the shape, color, taste, and others (Lestaria & Yusuf, 2019). In fact, Green Village was still inconsistent in the food taste where according to consumers, the taste of the food in their first visit was good but when they came back the taste of the food was a little bit too salty. Customers also found not really fresh quality material from the color of the vegetables that look dark which creates disappointment. Alamsyah (2021) claims that how pleasant customers are with the performance of the products they have purchased is a good indicator of product quality. Customers' level of satisfaction will affect whether or not they decide to purchase or utilize these products or services. Based on research done by Aeni (2020) titled "Effect of Product Quality, Price and Places on Purchase Decisions: Case Study of Consumers Ikhtiar Meatballs Tofu Cikarang Region" shows that

product quality has significant effect on consumers of Tofu Meatballs Ikhtiar in the Cikarang region.

Rismawati & Cyasmoro (2023) mentioned that there are several factors that drive individuals to make purchasing decisions, including product quality, price perception, and word of mouth. Satdiah, et. al. (2023) stated that the purchase decision is the stage in which customers determine whether they will make a purchase or not. When customers are making a decision to buy a service or product, they generally take into account factors like product quality, pricing, and the product's reputation within their community.

Based on the explanation above regarding how important price, word of mouth, and product quality is for a business, the writer would like to conduct a research titled **“The Effect of Price Perception, Word of Mouth, and Product Quality on Consumers’ Purchase Decision at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan”**

## **1.2 Problem Limitation**

This research will be restricted and conducted at Green Village Vegetarian Restaurant located at Karibia Boutique Hotel Jl. Timor Blok J No.I-IV, Gang Buntu, Medan Timur, Medan City, North Sumatra. The business was established in March 2014 and is under the auspices of the Karibia Boutique Hotel Medan. Green Village Vegetarian Restaurant offers a variety of vegetarian food menus that taste delicious and are made from vegetables and flour. The sample used for this research will be male and female ranging between 18 – 60 years old who have visited and dined-in

at Green Village Vegetarian Restaurant minimum once for the past 1 year. This research will focus on price perception with the indicator, price affordability, price compatibility with product quality, price compatibility with benefits, and price according to ability or price competitiveness; word of mouth with the indicator discussion, recommendation and encouragement; and product quality with the indicator taste, color, texture, aroma, appearance; customers' purchase decision with the indicator purpose of buying a product, information processing leading to brand selection, certainty of a product, providing recommendation to others, making repeat purchases.

### **1.3 Problem Formulation**

According to the background study mentioned and explained above, these are the problems formulated by the writer to use in this study:

1. Does price perception partially have an effect on consumers' purchase decisions at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan?
2. Does word of mouth partially have an effect on consumers' purchase decisions at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan?
3. Does product quality partially have an effect on consumers' purchase decisions at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan?
4. Does price, word of mouth and product quality simultaneously have an effect on consumers' purchase decisions at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan?

## **1.4 Objective of Research**

The objectives of this research are as follows:

1. To identify whether price perception partially has an effect on consumers' purchase decisions at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan.
2. To identify whether word of mouth partially has an effect on consumers' purchase decisions at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan.
3. To identify whether product quality partially has an effect on consumers' purchase decisions at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan.
4. To identify whether price perception, word of mouth, and product quality simultaneously have an effect on consumers' purchase decisions at Green Village Vegetarian Restaurant in Karibia Boutique Hotel Medan.

## **1.5 Benefit of the Research**

### **1.5.1 Theoretical Benefits**

With a focus on how customers' decision making can impact a restaurant's continuity, this research is anticipated to support the development of hospitality management theory as a source of writings for research and to enrich scientific studies at Universitas Pelita Harapan Medan Campus for Undergraduate Management Study Program. Additionally, by offering empirical data that readers can use as a source of knowledge, discussion topics, and further reading regarding

concerns related to customers' purchase decision, this research is anticipated to bring insight, science, or knowledge to both theory and practice.

### **1.5.2 Practical Benefits**

This research aims to provide benefits for several parties such as:

1. For Writer

By investigating aspects including price perception, word of mouth, and product quality that affect customers' purchase decision, this research deepens the writer's comprehension of the topic.

2. For Company

This study offers a thorough examination of the factors influencing customers' purchase decisions, which may be used for decision-making and business improvement initiatives.

3. For Other Researchers

This study can be provided as a starting point, point of reference, or informational source for further research on customers' purchase decisions.