

CHAPTER 1

INTRODUCTION

1.1 Background of Study

Now a days, the F&B industry, especially Cafe is growing rapidly all around the world, including Medan Indonesia. It has been a trend lately to open a Cafe, as people are seeking places to dine, socialize, relax, etc. Furthermore, the trend of WFC (Work from Cafe) is capturing a lot of people's interest, as freelance work lines are increasing rapidly due to the advancement of technology.

By looking at the trend happening, it is causing the competition between cafes in Medan to increase even more than before. To maintain the business's income, cafes need to be able to attract new customers and not lose them to new entries. Besides attracting new customers, retaining customers is also one of the most effective methods in keeping the business on trend, as loyal customers will give the business a long-term contribution. This is why companies need to maintain their business to be able to retain loyal customers for the business. To achieve that, companies need to do more research in analyzing factors that affect customers' loyalty. According to Oliver (2014) as cited in Hikmat & Nugraha (2023) customer loyalty is a commitment that a consumer will buy a product or service repeatedly regardless of the other company's influence.

One of the Cafe in Medan that has the impact of the F&B business high competition is Pilastro Medan. Pilastro Medan is a Cafe located in Jl. H. MisbahNo.18B, JATI, Kec. Medan Maimun, Kota Medan, Sumatera Utara. Pilastro

is a Cafe that sells various types of F&B products, mainly Indonesian and western foods. Pilastro Signature Medan is a rebranding Cafe of Pilastro Medan that has been operating since 2013. The rebranding is done to make the business better. By looking at the history of Pilastro Signature Medan, which is a rebranding brand and the increase of competition, the need to create loyal customers becomes even more important for the business to keep the business stable after the rebranding. Furthermore, the number of customers of Pilastro Signature Medan is experiencing a downturn during the latest year, as follows:

Table 1. 1 Number of Customers at Pilastro Signature Medan 2023

Year 2023	Number of Customers
Jan-23	6.598
Feb-23	5.613
Mar-23	5.328
Apr-23	6.304
May-23	5.421
Jun-23	5.206
Jul-23	5.666
Aug-23	4.668
Sep-23	4.755
Oct-23	4.445
Nov-23	3.688

Source: Pilastro Signature Medan (2023)

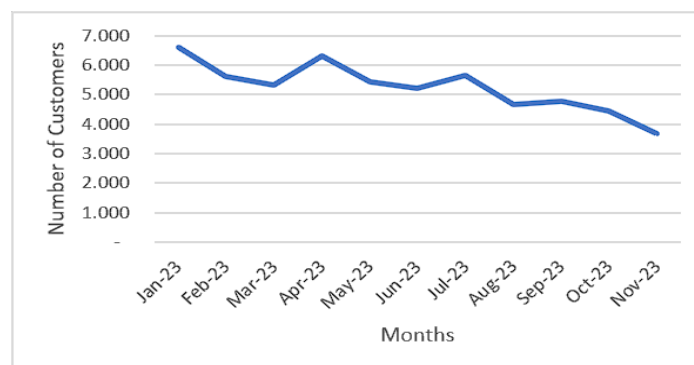


Figure 1. 1 The Number of Customers at Pilastro Signature Medan 2023

Source: Pilastro Signature Medan (2023)

By looking at the data presented, it can be said that there is a certain loss in the number of customers, which can be of harm to the Cafe's customers loyalty. In addition, remembering that one of Pilastro Signature's mission is to retain customers and create customer loyalty, this research is then conducted to find out the variables that can be improved to give solutions for Pilastro Signature Medan's customer loyalty downturn.

By observations, the variables that are considered to be the core of Pilastro Medan, which are service quality, Cafe atmosphere, and E-WOM will be the variables that are going to be researched.

In this modern world, a Cafe is a place where people not only seek for F&B products, but also services at the same time. According to Sim & Kim (2008) as cited in Calvo Porral & Nieto-Mengotti (2019), service quality is defined as the customer or users' overall impression of the relative efficiency of a service provider. Comstock & Nancy (2022) says that good service quality results in satisfied customers, a positive reputation, and overall growth of the business. That is why service quality of one of the most important factors in the Cafe business, and business owners need to take serious action in creating and maintaining a high valued service quality that will eventually end in customer loyalty.

By looking at the data from Google Reviews, it is said that the service of Pilastro Signature Medan is bad that makes customers say that it will be their last time coming to Pilastro Signature which means that they will not be loyal. The

major issues with the service quality of Pilastro Signature Medan are concluded as below:

1. Some staff are rude and have poor attitudes
2. Food delivery service is very slow
3. The workflow of the staff is unorganized

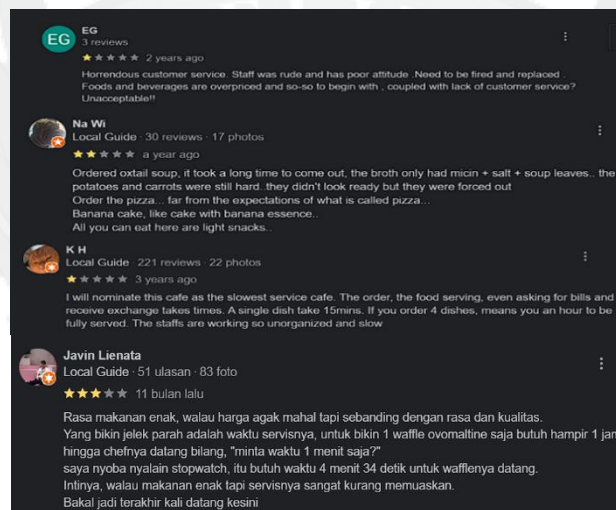


Figure 1.2 Service Quality of Pilastro Signature Medan
source: Google Review Pilastro Signature (2020-2023)

Besides service quality, as a Cafe, not only does Pilastro Signature provide F&B products and services, but also good vibes and places for the customers. Pilastro is a Cafe that has the concept of a modern & chill Cafe dominated with white and brown colour, where people can dine in, relax, focus, and socialize comfortably. Various store decorations are also placed here, such as indoor plants, Pilastro's signature logo, pictures, etc. Pilastro also provides 3 different dining areas, namely outdoor areas, indoor areas, and a VIP room with a capacity of up to 25 people. A small fish pond is placed in the outdoor area, making the Cafe more unique. Pilastro Signature also provides a spacious parking lot for customers who would like to dine in.

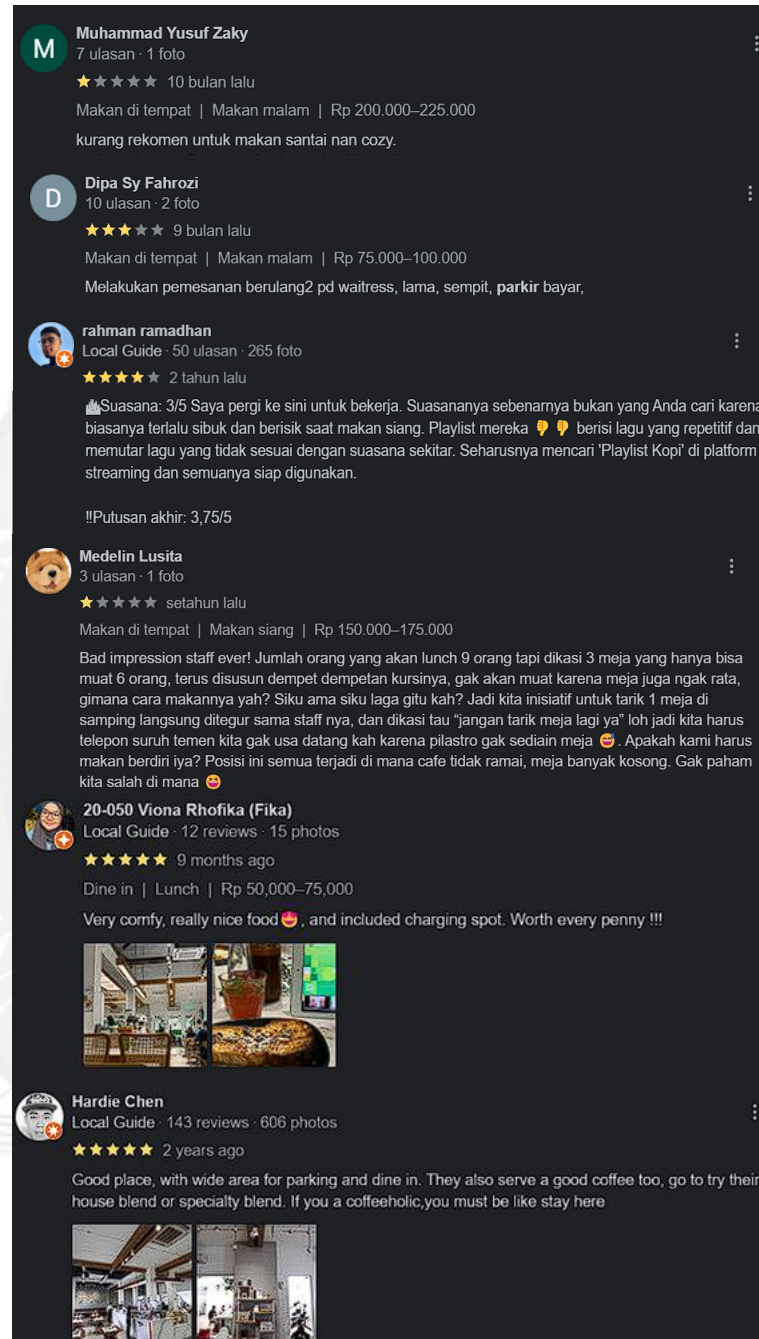


Figure 1. 3 Café Atmosphere of Pilastro Signature Medan

source: Google Review Pilastro Signature (2021-2023)

As what can be seen from the data shown above, it is said that there are some customers who feel uncomfortable with the Cafe atmosphere of Pilastro Signature Medan. In which are; the table is not alligned and too narrow, causing

customers to feel uncomfortable while dining, unmatched background music that makes it loses the cozy vibes, and difficulties in finding parking space. This kind of attitude is making those customers leave and not being loyal to Pilastro Signature Medan, as they don't like the atmosphere that is provided.

The other factors that need to be taken into consideration in creating customer loyalty is the store atmosphere, as people now a days takes Cafe not only as a place to dine but also a place to work and relax. That is why store atmosphere is one of the most important factors in maintaining and creating customer loyalty. If a customer feels uncomfortable staying in a store as the atmosphere is not good, then it will increase the risk of losing customers to the other Cafe with better atmosphere, and fail to create loyal customers. This statement is supported in the previous research by Ariningtyas (2020). According to Hikmat & Nugraha (2023) store atmosphere is a combination of various kinds of the store's physical characteristics such as architectural, lighting, colours, interior, temperature, music, and even smell that is created in a store, making it to be able to help the store in giving a positive impression to the customers and ultimately creating customer loyalty.

The next factor that is important in creating and maintaining customer loyalty is the E-WOM. As everyone around the world is using the internet and engaging virtually, hence E-WOM is created. According to Pedersen, Razmerita, & Colleoni (2014) as cited in Lindung Bulan & Chandra (2021), E-WOM refers to the communication that is done through online platforms such as email, blog, chat rooms, Twitter, Instagram, TikTok, and various other kinds of social media

platforms that can create interactions between consumers in sharing experiences and sharing. By looking at various types of E-WOM platforms there are some sharings that reviews and judgments toward Pilastro Signature Medan.

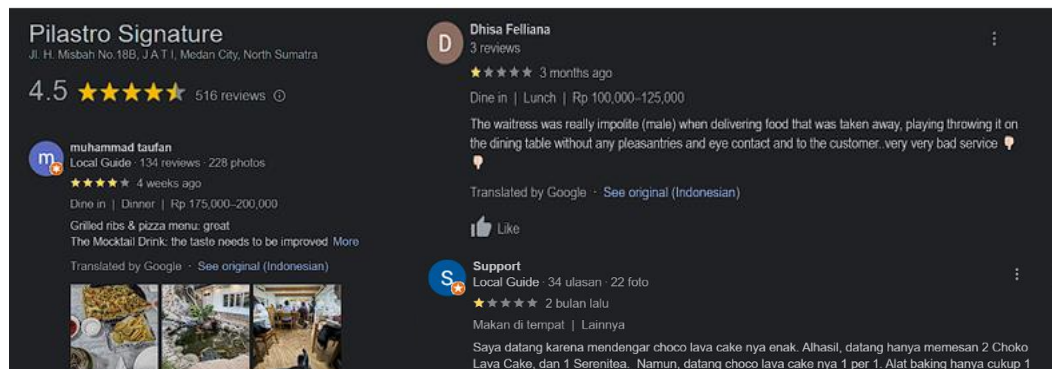


Figure 1. 4 E-WOM from Google Review
source: Google Review Pilastro Signature Medan (2023)

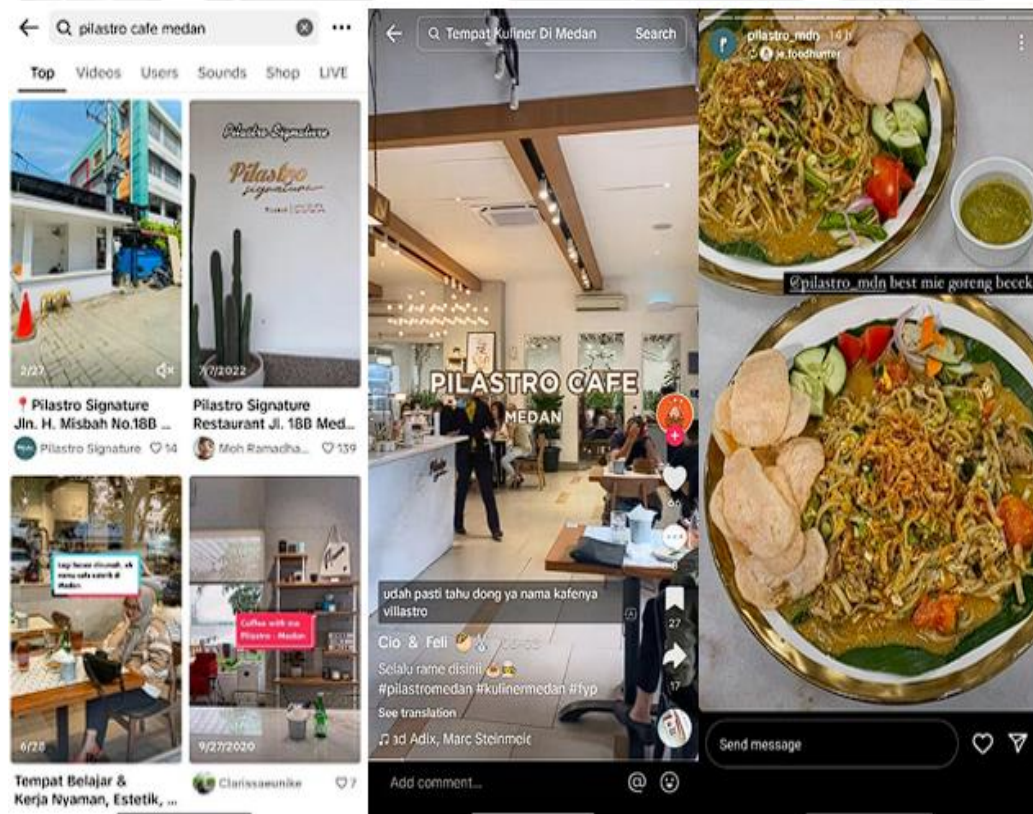


Figure 1. 5 E-WOM from social media platform about Pilastro Signature Medan
source: TikTok and Instagram Pilastro Signature Medan (2020-2023)

It can be seen from the figures that people are exchanging E-WOM in various types of platforms about Pilastro Signature Medan. Some of them are positive reactions and some of them are negative and bad e-woms about the Cafe that is gathered as follows:

1. E-WOM comments that are talking about the unpleasant issues that they have while dining in Pilastro Signature Medan
2. Giving one to two star ratings, which is considered a bad rating in the electronic rating platforms
3. Sharing their experience of dining in Pilastro Signature Medan on the social media platform in various types of content, which include videos, photos, and writforgs
4. E-WOM comments that are talking about the customer's concerns and dislikes while dealing with the employees of Pilastro Signature Medan

This kind of insight will then travel to the eyes of Pilastro's customers and affect their customer loyalty. Today, E-WOM is considered more influential than WOM, as it can reach a lot of customers at a time. The most common E-WOM that is used by people in sharing their thoughts are online reviews by reviewing platforms such as Google Review, Instagram, and TikTok. Through E-WOM, a company image will be affected influentially and hence influence the repurchase intention of the customers that will then grow into customer loyalty. In a previous research done by Lindung Bulan & Chandra (2021), it is stated that E-WOM has a significant influence on customer loyalty. It has been concluded that the more

interesting and better an E-WOM of a company is, than the more customer loyalty will be created.

By looking at the phenomenon happening and based on the problems that Pilastro Medan has on the service quality, Cafe Atmosphere, and E-WOM, as the reviews and ratings data presented, writer is intrigued to conduct a research on the influence of service quality and E-WOM, topped with Cafe atmosphere which is one of the most influential factor of a Cafe toward the customer loyalty in Pilastro Signature because of the massive influence of E-WOM and the competition of F&B industry in Medan is keep on increasing day by day. Hence, the writer decided to compose a research title of **“THE INFLUENCE OF SERVICE QUALITY, CAFE ATMOSPHERE, AND E-WOM TOWARD CUSTOMER LOYALTY AT PILASTRO SIGNATURE MEDAN”**.

1.2 Problem Limitation

There are several limitations in this research. As the research is conducted based on the perception of Pilastro Signature’s customers in Medan only, then the population will be limited to the customers of Pilastro Signature in Medan. The survey period for this research lasted for 2 weeks.

There are 3 independent variables and 1 dependent variable in this research. Variables and their indicators are stated below.

X1 : Service Quality indicators = reliability, responsiveness, assurance, empathy, tangible.

X2 : Cafe Atmosphere indicators = exterior, general interior, store layout,

interior display.

X3 : E-WOM indicators = intensity, valence of Opinion, Content.

Y1 : Customer Loyalty indicators = repeat purchase, retention, referrals.

1.3 Problem Formulation

According to the background of the study explained before, the writer has decided to formulate problems as follows to be used in this study.

1. Does service quality have a significant influence toward customer loyalty at Pilastro Signature Medan?
2. Does Cafe atmosphere have significant influence toward customer loyalty at Pilastro Signature Medan?
3. Does E-WOM have a significant influence toward customer loyalty at Pilastro Signature Medan?
4. Do service quality, Cafe atmosphere, and E-WOM have a simultaneous influence toward customer loyalty at Pilastro Signature Medan?

1.4 Objective of the Research

According to the problems formulated above, the writer has several objectives for the research as follows.

1. To analyze whether service quality has a significant influence toward customer loyalty at Pilastro Signature Medan.

2. To analyze whether Cafe atmosphere has a significant influence toward customer loyalty at Pilastro Signature Medan.
3. To analyze whether E-WOM has a significant influence toward customer loyalty at Pilastro Signature Medan.
4. To analyze whether service quality, Cafe atmosphere, and E-WOM have a simultaneous influence toward customer loyalty at Pilastro Signature Medan.

