

# CHAPTER 1

## INTRODUCTION

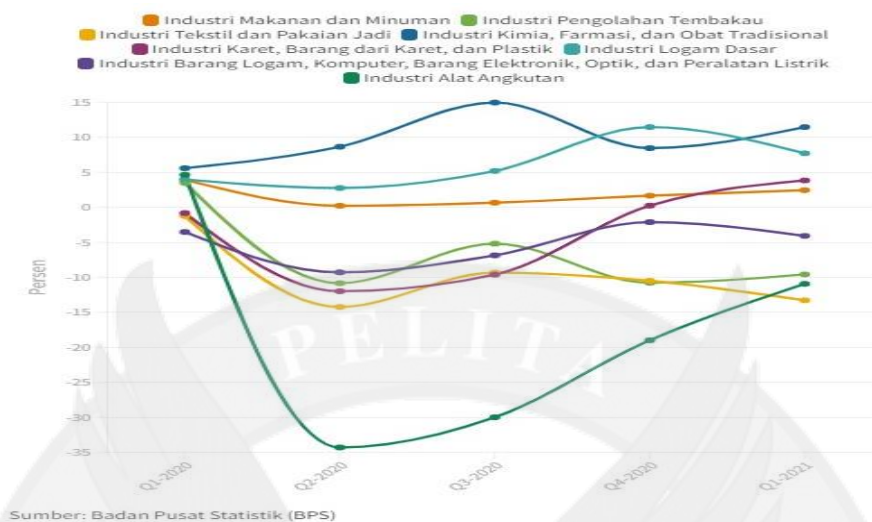
### 1.1 Background of the study

For a long time, the patisserie sector has existed and developed. A business in the patisserie industry that provides these services in addition to selling pastry. Pastry is now spread all over the world. This pastry also has its own market and space in the hearts of the people. The pastry business is growing with more and more bakeries and pastry shops opening. In addition, pastry is also a mainstay menu for restaurants and star hotels. Its crunchy and light texture and can be made into various shapes and flavors, of course, will become a favorite of the people (<https://katadata.co.id>, retrieved in 28 October 2023).

A news in 2017 stated that the bread and cake business ranked third with an increase in sales of 10%. This shows that people are increasingly fond of eating bread and cakes. Its popularity is also getting higher because many variants of flavors and shapes appear. It is inevitable that the activity of consuming bread and cakes occurs daily and repetitively. So, wherever and whenever people will always need food as a staple source of life (<https://katadata.co.id>, retrieved in 28 October 2023).

During the Covid-19 pandemic, numerous business sectors suffered from the health crisis and economic recession. However, despite weak public purchasing power, but certain industries, such as the food and beverage industry, have remained

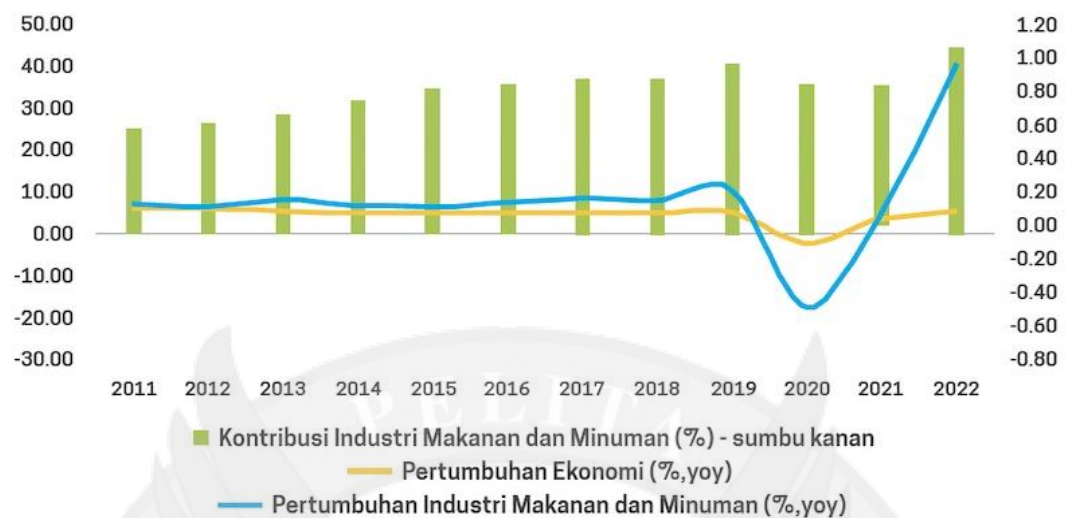
resilient (<https://katadata.co.id>, retrieved in 28 October 2023).



**Figure 1.1 Industry's Growth Rate from Q1 2020-Q1 2021**

Source : <https://katadata.co.id>, retrieved in 28 October 2023

In the middle of the Covid-19 pandemic, not many industries are able to survive. A variety of industries have suffered as a result of the health crisis and the slowing economy. The food and beverage business is one that has survived. This is evidenced by its performance, which has continued to improve over the last year. This industry's growth rate in the first quarter of 2021 was 2.45 percent, one of the highest in the manufacturing sector. The food and beverage industry isn't the only one that has grown in the last 12 months. (<https://katadata.co.id>, retrieved in 28 October 2023).



**Figure 1.2 Growth and contribution of the food and beverage industry**

Source : <https://datanesia.id>, retrieved in 28 October 2023

The food and beverage business, on the other hand, has a variety of obstacles in improving its performance during the epidemic. One of these is related to people's declining purchasing power. Though the purchasing power by household might be drop since the pandemic outbreak, but in general as time goes by, people will need food as a staple source of life.

Despite the fact that people's purchasing power is low during the pandemic time, the food and beverage industry continues to do well since their products are still a priority during the corona pandemic. According to a report by consumer research firm NielsenIQ, Indonesian consumer expenditure on food accounted for 22% of total spending in the first quarter of 2021. In comparison to the first quarter of 2020, this percentage was reported to have fallen by 1%. However, when compared to consumer expenditure in other categories, this figure remains the highest.

During the Covid-19 epidemic, the food and beverage business is still growing. The sector has been able to survive and flourish since 2011, despite a slowdown. The national food and beverage industry's GDP at current prices was IDR1.12 quadrillion in 2021, according to the Central Statistics Agency. (<https://databoks.katadata.co.id>, retrieved in 28 October 2023).

As can be seen on figure 1.1 and 1.2, it can be concluded if food & beverages industry keeps improving even after the pandemic outbreak because people still make the purchase. This leads to the great opportunity for entrepreneurs in innovating the food businesses.

After the pandemi, people have begun to dine in restaurants. in Medan, the number of people dine in restaurant increase up to 50%. It can be concluded that, customer has changed their lifestyle behavior and get used to adapt with the new normal condition by starting to visit restaurants, cafes and coffee shops (retrived from <https://www.instagram.com/angelic.patisserie/>, 29 October 2023).



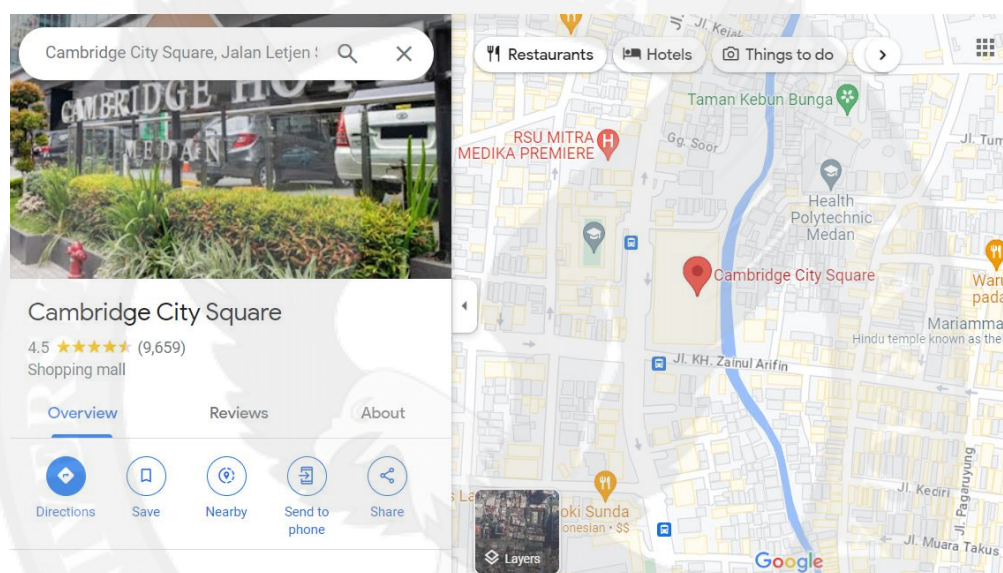
**Figure 1.3 Angelic Patisserie Logo**

Source : Instagram @angelic.patisserie

Angelic Patisserie Medan located at Cambridge city square mall, Medan, Indonesia. The location itself is precisely at the ground floor at the cambridge city square mall (retrived from <https://www.instagram.com/angelic.patisserie/>, 29

October 2023).

Angelic Patisserie Medan is a pastry shop that adopt minimalist pastry concept design. The interior itself is dominated with pink color, the café also provides its iconic aesthetic Instagrammable spot that many people often take picture with it (retrived from <https://www.instagram.com/angelic.patisserie/>, 29 October 2023).



**Figure 1.4** The location of Angelic Patisserie

Source : Google

The pink minimalist concept could be their attraction because there is still no pastry shop in Medan adopts the concept. The cafe's predominant color scheme is pink. The pink color makes the café's visual become fresh and sweet. The café concept is further supported and enhanced by the selection and positioning of assets such as tables, chairs, and other furnishings. As a result, many people enjoy visiting Angelic Patisserie Medan since the cafe provides a welcoming environment and aesthetic spots for taking photos and it is why Angelic Patisserie Medan is chosen to be the object of this research. From the observation, the

capacity in Angelic Patisserie Medan can limit to 10-20 customers (retrived from <https://www.instagram.com/angelic.patisserie/>, 29 October 2023).



**Figure 1.5 Angelic Patisserie Interior & Ambience**

Source : Instagram @angelic.patisserie

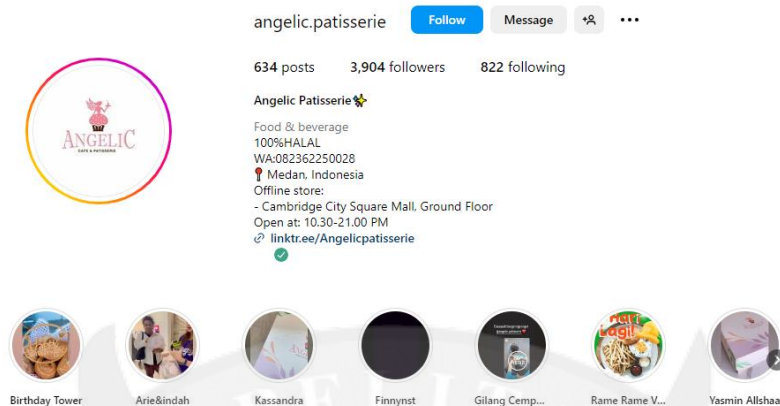
Angelic Patisserie Medan not only serves coffee as the beverage, but also has the non-coffee menu like green tea latte, choco latte, etc. Moreover, Angelic Patisserie Medan also serves pastry like croissant, tart, croffle, etc.



**Figure 1.6** Some food & beverages menu at Angelic Patisserie

Source : Instagram @angelic.patisserie

One of the most challenging things for a new entrepreneur to do is to identify the customers and target market. However, that challenge is most likely be able to be identified by using social media. Since nowadays everything is digitalized, many people from young to old generations are most likely to have social media account. Having a social media account could give easy access to any information for all ages.( <https://www.jurnal.id>, retrieved in 28 October 2023). Therefore, Angelic Patisserie Medan also has Instagram account as their social media to connect with customers and public.



**Figure 1.7 Angelic patisserie Instagram Profile**

Source : Instagram @angelic.patisserie

Angelic Patisserie Instagram profile as can be seen on Figure 1.7 they have 3.904 followers in general, it is stated on their Instagram Bio Profile that their operating hours is from 10.30 until 21.00. Angelic Patisserie is also available on food delivery application like GrabFood and GoFood where customers can order foods and beverages online. The implementation in using food delivery application for company like cafes or restaurants could make benefit for both customers and business owners. Many entrepreneurs nowadays are using the food delivery application like Grabfood and Gofood. According to 95% of merchants stated that Grab has aided the growth of businesses and entrepreneurs in Indonesia, while 93% of merchants stated that Gojek has aided the growth of businesses and entrepreneurs. (<https://industri.kontan.co.id>, retrieved in 28 October, 2023).

**Table 1.1 List of competitors nearby Angelic Patisserie**

No.	Pastry shop	Followers on Instagram	Google review rate	Specialty
1.	T1311	44.500	4.3 / 5	Pastries
2.	Mae	23.500	3.5 / 5	Pastries



3.	Brad and Butter	11.500	4.4 / 5	Pastries
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Source : Instagram account of @t1311.co, @bradandbutter.id, @bakewithmae, Google review (2023)

In this fierce competition among the pastry industry as can be seen from table 1.1, a strategy that only prioritizes service quality is still considered insufficient to attract and retain customers. The growing culture and lifestyle of people in Indonesia has created a new perspective on how consumers do not only think about what to consume but more on satisfaction and comfort so that loyalty is created from consumers. The culinary business in Indonesia especially in Medan is definitely more developed than in previous years. This can be seen from the existence of new culinary business, new restaurants, and new foods that are so exciting. The pastry shop or cafe industry is now increasing in a variety of settings, not just urban ones. This phenomenon is caused by the millennial generation's habit of spending a lot of time socializing. (<https://lifestyle.kontan.co.id> , retrieved in 28 October 2023).

Due to intense competition in the pastry industry, customer loyalty is much needed to face the tight competition. Customer loyalty, according to Kotler and Keller in Sinurat et al, (2017), is a firmly held commitment to buy orre-support a preferred product or service in the future, even though situational impact and marketing efforts may persuade customers to switch. The importance of conducting a research about customer loyalty are to increase the possibility of customers in visiting back Angelic Patisserie, improving the factors / variables that significantly influence to customer loyalty, and most of the goal is to generating profits.

In this case, Angelic Patisserie has put much attention and effort in order to obtain customer loyalty. It could be indicated from the way Angelic Patisserie is applying loyalty membership to its customers. A pre-research is conducted by interviewing the staff of Angelic Patisserie, according to him, the loyalty membership are created based on the request by their loyal customers.

Since the location of Angelic Patisserie itself is a strategic location which is inside a big mall, many customers visits Angelic Patisserie regularly and request for the loyalty membership programme.

However, customer loyalty can be formed by the satisfaction felt by the customer after the purchase of the products or services. Customer satisfaction is a customer's evaluation of a product's perceived performance as predicted prior to purchase or consumption, and it meets or exceeds expectations (Kamaru and Kurniati 2017). According to Widjaja and Nugraha (2018), customer satisfaction is needed to create customer loyalty. Customer satisfaction is the level of one's feelings after comparing the comparing performance or the results he feels compared to the expectations. (Lubis and Andayani 2017: 89). The satisfaction leads the customers to stay loyal with the brand.



**Figure 1.8 Customer Review on Instagram**

Source : Instagram (2023)

Angelic Patisserie is highly committed to engage with customer satisfaction, it can be seen from the Figure 1.8 above where customers are happy and satisfied with Angelic

Kotler in Dewi et al., (2017) defines physical environment as a spatial design developed to elicit specific effects in clients in order to increase the possibility of a purchase. A study by Kim and Lee (2013) stated that the design of appealing, unique physical environments has become an essential tool for engraving the desired image in the customers' mind, particularly in upscale restaurants. The first impression that would make the customer decide to enter a service firm is the physical environment. After entering a restaurant, the physical condition of the restaurant is the first aspect that customers can feel, becoming a core factor for clients. In reality, customers want to eat at a restaurant not just for their nutritional needs, but also to have a memorable experience, to get along with others and get away from the problems and routines of life. (<https://lifestyle.kontan.co.id> , retrieved in 28 October 2023). This is the reason why the owners of pastry industry need to have an attractive physical

environment in order to attract more customers. The physical environment in restaurants plays an important role in increasing financial performance and the customer's intention to buy again as well as customer satisfaction and customer loyalty (Githiri; Magnini & Parker, 2017). According to Seo in Kim & Choi (2018) physical environment also leads to customer satisfaction. Physical proofs of good will have a major impact on every customer's perception and at the same moment, this factor is one of the causes that will have an impact on customer expectations. (Kim and Lee, 2013). In this case, the physical environment of Angelic Patisserie itself has brings a satisfaction to customers as it can be seen on instagram. They are mentioning about the ambience and interior of Angelic Patisserie and most likely are satisfied with it.

Patisserie as well as they are giving a good review.



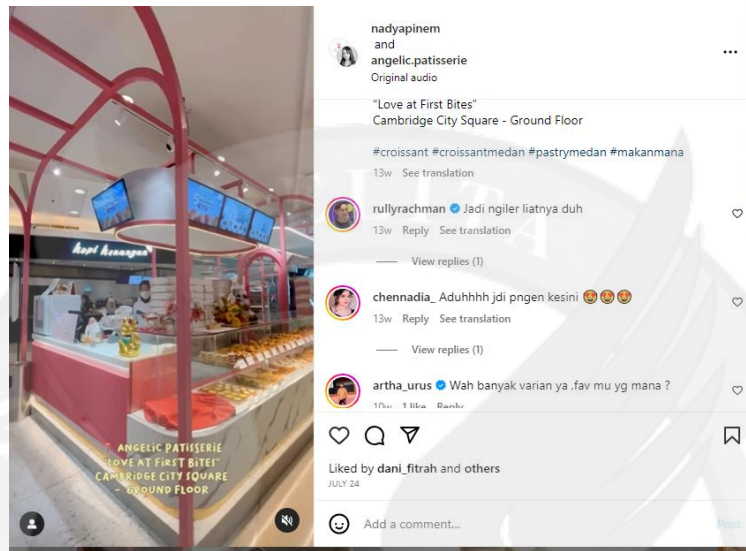
**Figure 1.9 The Physical Environment of Angelic Patisserie**

Source : Instagram @angelic.patisserie (2023)

Figure 1.9 shows the attractive physical environment of Angelic Patisserie which is dominant in pink colour. The dining table itself is also implement the health regulation in keeping the distance. Moreover, the ideal lighting at Angelic Patisserie is also on point since it adding up the environment value to be more minimalistic and white-dominant.

Sugianto and Syamsuar (2020) said that the customer must be able to feel that he can rely on the company with the quality of food provided by the company. According to Hanaysha (2016), food quality is an aspect of the food and beverage industry that aims to meet customers' expectations of taste, freshness, and temperature. Food quality is all of the provisions that have been established in relation to the quality characteristics of food required to satisfy consumer wants and expectations Alli in Dewi et al., (2017). Good food fulfill customer's expectation will lead to customer satisfaction. Food quality is 2one of the factors that affect customer loyalty (Mattila and Wirtz in Abdullah et al., 2018). Ing and Lin (2019) stated that higher customer satisfaction could be achieved by serving hygienically prepared food, served in good portion at appropriate temperature. Full-service restaurant would be able to meet their customer needs better by providing a variety of food menu and achieve higher level of satisfaction. (Kim and Lee, 2013). Customers visit Angelic Patisserie Medan because Angelic Patisserie Medan able to fulfill customers' hope from the taste and the quality of their food, also the quality of their services. Therefore, Angelic Patisserie Medan must have quality food and in accordance with customer tastes or expectations so that it can

make customers feel satisfied. Based on the customer's review sourced on Instagram, it can be seen that Angelic Patisserie has already provided the good food quality where the customers are happy and like the foods/beverages.



**Figure 1.10 Customer Review about Food Quality of Angelic patisserie**

Source : Google Review (2023)



**Figure 1.11 Food Presentation by Angelic Patisserie**

Source : Angelic Patisserie (2023)

In figure 1.11, it shows the attractive visual of food presentation by Angelic Patisserie which putting the best combination of the food that can enhance the appetite. Moreover, as can be seen the croissant which is liked by one of the customers also looks appetizing since the ingredients of making the food are always fresh and in a good quality condition.

Employee service quality is well defined as Service Quality on four dimensions, namely reliability, responsiveness, assurance and empathy (Parasuraman et al., in Namin 2017). In a restaurant, service quality is closely related to how employees perform their duties, whereas technical quality of service is related to food quality (Bell, Auh, & Smalley in Abdullah et al., 2018). Kim et al in Phang et al., (2019) also pointed that employee service quality plays a critical role in maintaining relationship quality for achieving customer satisfaction Service quality is guided by the level of perfection of service in meeting the needs and demands of each consumer. So that is defined by the quality of service that is representing the level of service excellence to bring a sense of complacent individual consumers or customers. The company's attempts to meet the requirements and desires of consumers in accordance with their expectations are referred to as service quality (Martina and Apriani, 2019). The role of good service quality is very important and has a very significant impact on customer satisfaction and customer loyalty, if there is no proper service it will reduce customer satisfaction and customer loyalty. With good service quality in a company, it will create satisfaction for its customers. Sugianto and Syamsuar (2020) argued that after the customer is satisfied with the product or service he receives, the customer

will compare the services provided.

When customers are completely satisfied, customers are most likely will repurchase and recommend others to buy at the same place. Based on the customer's review on instagram about the employee service quality, most likely stated that the employee service quality is great at Angelic Patisserie, specifically that the employees serves in a friendly way, polite, and moreover the employees are also responsive in helping the customers. The employees at Angelic Patisserie are also smiles and greets the customers.



**Figure 1.12 Employee' services at Angelic Patisserie**

Source : Angelic Patisserie (2023)

According to Jarvelin and Lehtinen in Kim and Park (2022) relationship benefit refers to a buyer's perception of how well the overall relationship meets customer expectations, forecasts, desires and goals regarding the overall relationship. Hennig-Thurau et al., in Fitria et al., (2017), relationship benefits are "additional benefits that consumers receive in addition to the core service" as a result of maintaining a long-term relationship with a service provider. Relationship benefit is defined as a measurement of the strength of the relationship between the customer and the store (Wang & Ha, in Fitria et al., 2017). Gwinner et al. in Fitria et al., (2017) stated that relationship benefits consist of social



benefits, confidence benefits, and special treatment benefits.

In the hospitality industry, building good relationships with customers is an important competitive strategy. Social benefits is a feelings of personal recognition, friendship, rapport, familiarity, and social support. (Barnes; Berry in Fitria et al., 2017). Gwinner et al., in Moliner et al., (2017) defined confidence benefits as feelings of reduced anxiety, trust, and confidence in the provider meanwhile according to Hennig-Thurau et al. in Kim (2020), special treatment benefits are a combination of economic benefits and the advantage of customer customization. Along with the customer experience in enjoying the provided benefits, then the relationship with customers will also develop. This will lead to the emergence of relationship quality which then impacts on customer satisfaction and customer loyalty (Kim and Lee 2013). Relational benefits imply additional personalized service, aside from food quality, physical environment, and employee service, that is given to loyal/profitable customers or to those holding membership. (Kim and Lee, 2013). This supported by the research of Ardyansyah (2017), Kim (2020), and Prayustika and Andriani (2020). In Angelic Patisserie itself, the relationship benefits is obtained by the customers as can be seen from the instagram, where one of the customers wrote if the employee recognized herself, meanwhile the other customers stated if the employees recognize her due to her several visits to Angelic Patisserie.

Therefore, the writer decided to find out if Physical Environment, Food Quality, Employee Service Quality and Relationship Benefits of Angelic Patisserie Medan could influence customer satisfaction and customer loyalty. The

writer will conduct the final result of this research in the form of a thesis with the title “The Influence of Physical Environment, Food Quality, Employee Service Quality, and Relationship Benefits Towards Customer Satisfaction and Customer Loyalty at Angelic Patisserie in Medan”.

### **1.2 Problem Limitation**

Due to some limitation of knowledge and ability possessed by the writer, this research will only focus on:

1. The variables such as Physical Environment, Food Quality, Employee Service Quality, Relationship Benefits, Customer Satisfaction and Customer Loyalty.
2. Data will be collected in the form of questionnaires based on the research object to be used in analyzing the research model.
3. The characteristics of the respondents; both male and female, 18 to 60 years old, domiciled in Medan city, know other similar pastry shop besides Angelic Patisserie, have bought and consumed (dine in) at Angelic Patisserie for more than 2 times in the last six months.

### **1.3 Problem Formulation**

Refer to the information provided on the background of study, here will be formulated some problems precisely to be researched. In order to see whether actual usage of digital payment systems is significantly influenced by the Behavior Intention to use digital payment systems. Here are the problems formulated:

1. Does physical environment significantly influence customer

satisfaction at Angelic Patisserie Medan?

2. Does food quality significantly influence customer satisfaction at Angelic Patisserie Medan?
3. Does employee service quality significantly influence customer satisfaction at Angelic Patisserie Medan?
4. Does relationship benefits significantly influence customer satisfaction at Angelic Patisserie Medan?
5. Does customer satisfaction significantly influence customer loyalty at Angelic Patisserie Medan?

#### **1.4 Objective of Research**

The objective of this paper is that researchers aim to find out the solution and conclusion from the hypothesis that are developed in order to be able to provide advantages for any stakeholders who might be benefits from this report. Refer to the background of study, this report aims to analyze and evaluates the influence of:

1. To determine whether Physical Environment (PE) have a significant impact on Customer Satisfaction (CS) at Angelic Patisserie Medan.
2. To determine whether Food Quality (FQ) have a significant impact on Customer Satisfaction (CS) at Angelic Patisserie Medan.
3. To determine whether Employee Service Quality (ESQ) have a significant impact on Customer Satisfaction (CS) at Angelic Patisserie Medan.
4. To determine whether Relationship Benefits (RB) have a significant

impact on Customer Satisfaction (CS) at Angelic Patisserie Medan.

5. To determine whether Customer Satisfaction (CS) have a significant impact on Customer Loyalty (CL) at Angelic Patisserie Medan.

## **1.5 Benefit of the Research**

The researcher really hope that this report could provide advantages for any stakeholders under this specific topic not only theoretically but also practically, as follows:

### **1.5.1 Theoretical Benefit**

1. The results of this research can be used by the writer to finish the academic form, to increase knowledge about the influence physical environment, food quality, employee service quality, relationship benefits towards customer satisfaction and customer loyalty.
2. The results of this research can be used as guidance in assisting further academic research, additional references, reference material for other researchers, interested parties to study a similar research subject or simply by examining the relationship within the certain variables

### **1.5.2 Practical Benefit**

This report wishes to provide practical benefits including:

1. This research outcome can be used as a reference by Angelic Patisserie Medan and other pastry shop / restaurant in understanding the variables that influences positively towards

customer satisfaction and customer loyalty so they can create strategies and make improvement in the future to increasing the customer satisfaction and customer loyalty.

2. The writer is expected to be able to increase knowledge about the variables that positively influences customer satisfaction and customer loyalty so when later in the future the knowledge that has been obtained in college will be useful and applicable for work/business life in order to apply the knowledge that has been obtained in college in business.

