

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In this sophisticated era today, people would like to conduct a business in order to survive in the society so that they can live with sufficient food and any materials which will keep them alive. Since Indonesia is known as one of the largest archipelago country in the world, Indonesia citizens are spread between islands where each of the island has their own materials to sell to another island. Example: Sumatera Island is famous with the natural sources of Coffee Gayo from Aceh (Batatx, 2015). Those people who lives in Aceh, would like to sell the Coffee seed from the Aceh city to another city such as Pontianak, Bandung, Surabaya, etc. This probably will give advantage to Aceh people to open a store which is selling Coffee seed and make them becoming an entrepreneur as the time goes by. Jepara is famous with their Jati Wood as their natural resources (Inspiring, 2018). Since there are lots of demand of Jati Wood from outside the country, it will become an opportunity for Jepara citizens to sell their Jati Wood to another country such as United States where the demand of Jati Wood is very high because they want to make furniture with high quality. Therefore, it is so challenging to conduct a business in Indonesia.

As the time goes by, technologies revolutions give so much differences to the world. When Thomas Alva Edison discovered and created light bulb for the first time, revolutions in human living has happened where people do not need candle light to light up in the dark night because candle light was directly replaced by Thomas Alva Edison's innovation known as light bulb. When this kind of innovation exist in the world, it created more opportunity for people in doing business where people can start to buy and sell light bulb to enlighten their house. It also created more jobs for people since many factories that manufacturing light bulb need engineers and employees to run the business.

As people getting smarter, people has successfully upgraded the innovations of light bulb to Light-emitting Diode (LED) which is more effective and efficient in consuming electricity. The durability of the LED itself is change as well which is live longer compared to the first invention of light bulb.

Nowadays, doing a business is not easy since there are lots of competitors who can sell the same products in the market. In this case, service innovation will be important for the entrepreneurs to make their business sustainable. By having a good innovation in service sector, entrepreneurs will be able to attract customers' attention to repurchase the products and they also believed that a good service innovation will bring advantages to their business as well, since it will make one customer to tell the other customers from mouth to mouth. According to Helkkula et al.

(2018), service innovation is the main source for entrepreneurs to have competitive distinction from their competitors , he also stated that service innovation is innovation in servicing a product or service which is focusing on the delivery of services that support entrepreneurs' product or service, or in delivery of entrepreneur's product or service. Based on the writer's opinion, service innovation is something more to the way on how the entrepreneurs serve their customers so that their customers will feel comfortable in buying products from their shops / stores.

Jack Ma, founder of Alibaba Group, stated that one of the reason why his company can be very successful and make his e-commerce platform become the most powerful and successful business model in China is because he always put the customer on the first line, which means that his company always prioritize their customers first before employees the second and shareholders the third. Service innovation is something about how entrepreneurs treat their customers so that their customers will be happy and likely to re-purchase products from the stores continuously.

According to Bernazzani (2019), customer satisfaction (CSAT) is a show of emotion either happy or unhappy after having the products and services. Base on the statement above, the writer can conclude that customer satisfaction is the situation when a company products or services meet the customers' expectation which means that customer really satisfied with either products or services that the entrepreneurs provided.

CV Era Sinar Listrik Medan is a family business based in Medan, Indonesia which was founded by Mr. Mau Lim Agus in 2006. CV Era Sinar Listrik Medan is a company that specialize in selling electrical products such as Energy Saving Lamps, LED light bulbs and any project lighting components. When CV Era Sinar Listrik Medan started their business in 2006, their sales are quite good because there are still few competitors that doing the same business sector. As the time goes by, there are lots of competitors come up with the same type of business and according to the marketing manager and staff, CV Era Sinar Listrik Medan sales are slightly decreased from year to year. Base on the acknowledgement of their marketing staff, CV Era Sinar Listrik Medan sales have declined for the last four years.

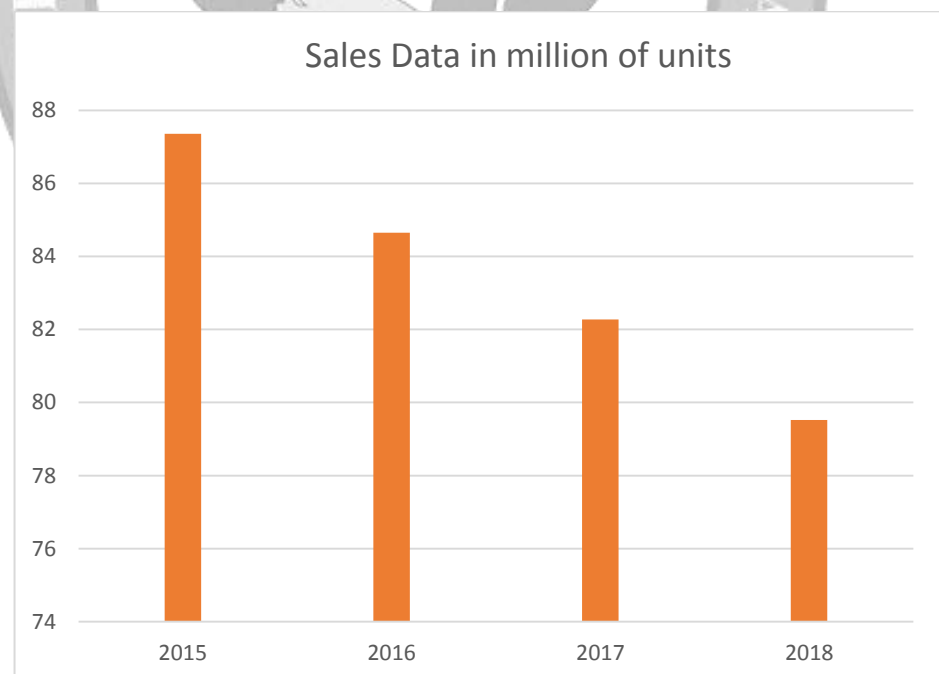


Figure 1.1 Sales Data
Sources: Prepared by the Writer (2020)

The bar chart above shows the sales data of CV Era Sinar Listrik Medan in millions of units from the year 2015 to 2018. From the bar chart, it can be seen that the sales of CV Era Sinar Listrik Medan products are slightly decrease because the demand of the products, that they sell to customers, are decreasing every year since 2015. This case could happen because customers' orders are getting low, which one of the factors that can affect customers' order diminish is customer satisfaction. Due to this problem, CV Era Sinar Listrik Medan probably need to consider about the innovation in the service sector in order to boost up the sales for the upcoming years.

Talking about the service innovation, one of the service innovation that CV Era Sinar Listrik Medan have come up with is to give six-month warranty for some of the products that they sell to their customers. This could be one of their strategies to make their customers feel satisfied in buying their products, because those customers can claim the products, that they brought, which have been broken before six-month, to be replaced with the new one. Customers are allowed to claim the light bulbs with the new one, if their light bulbs have been broken before or within six-month, because CV Era Sinar Listrik Medan allow their customers to claim for the warranty of the light bulbs. Not only light bulbs, any electrical products that are sold by the company can be claimed for warranty if those products have the production defect or broken within six-month. Due to this service innovation, people in Medan have recognized

CV Era Sinar Listrik Medan as one of the company that can give warranty to the products that they sold to customers. But this service innovation has been imitated by lots of their competitors, especially in Medan who are able to give warranty on their products to customers as well. Due to the imitation on their service innovation, the number of CV Era Sinar Listrik Medan customers are decreasing as it can be seen from the sales data from the year 2015 to 2018. Since CV Era Sinar Listrik Medan is a wholeseller and there are lots of retailers who buy goods / products from CV Era Sinar Listrik Medan for them to re-sell, CV Era Sinar Listrik Medan has the problem in delivering their customers order on time due to the limitation of man power. In some case, CV Era Sinar Listrik Medan cannot give fast responds to their customers when their customers have complains regarding the goods / products that they buy from CV Era Sinar Listrik Medan. These issues cause the dissatisfaction of the customers which make the customers do not want to either repurchase or recommend the company and correspondently cause the sales of CV Era Sinar Listrik Medan declined.

In connection with the background of study, the writer is encouraged to do a research study and analyze the relation between service innovation and customer satisfaction more deeply, which will be written in a paper format with a title: **“The Relationship between Service Innovation and Customer Satisfaction at CV Era Sinar Listrik Medan”**. The title chosen as the research material is also a part of

Indonesia government interest on building a good economy in Indonesia which most of the business are family business. Moreover, from this paper has a meaning to progress previous studies which will enrich knowledge as well as solving company problem.

1.2 Problem Limitation

The problem limitation is to know the relationship between service innovation as the independent variable (variable X) and customer satisfaction as the dependent variable (variable Y) at CV Era Sinar Listrik Medan. The indicator for variable X is service concept, customer interface, service delivery and technological options (Fan et al., 2018). The indicator for variable Y is customer satisfaction score, conversion rate, complain escalation rate, consumer retention rate, net promoter score (Parihar, 2018). The focus of this writing is to know the relationship between service innovation and customer satisfaction at CV Era Sinar Listrik Medan.

1.3 Problem Formulation

Based on the observation that is done by the writer during the online research, the writer finds several problems faced in, which are:

1. What does the service innovation that has been used by CV Era Sinar Listrik Medan?
2. What make CV Era Sinar Listrik Medan customers satisfied?

3. Is there any relationship between service innovation and customer satisfaction at CV Era Sinar Listrik Medan?

1.4 Objective of the Research

The objectives of the research that the writer can get are as follows:

1. To know about the service innovation that has been used by CV Era Sinar Listrik Medan.
2. To know about what make CV Era Sinar Listrik Medan customer satisfied.
3. To know and understand about the relationship between service innovation and customer satisfaction at CV Era Sinar Listrik Medan.

1.5 Benefit of the Research

The result of the study are expected to be beneficial both theoretically and practically which will be elaborated in the following section:

1.5.1 Theoretical Benefit

In connection with academic context, this research will give more understanding about the relationship between service innovation and customer satisfaction at CV Era Sinar Listrik Medan. Correspondingly, it can increase the writer's knowledge and also serves as an input for other writers who are interested in conducting similar or related research in the future. It can give ideas to other writers about what to be done in their research project.

1.5.2 Practical Benefit

a. For the company

This paper provides insight of the importance of relationship between service innovation and customer satisfaction which can make more customers to be loyal to the company and bring more demand for the company as well.

b. For the writer

This research will help the writer to know about how to build up a successful business in the future by using the service innovation to engage up with more customers, because customer satisfaction will bring up more customers for the writer's company in the future.

c. For family business

This research will help them to have some idea about how to implement the same idea or come up with different idea in service innovation so that there will be more customers come to the company in the future.

d. For other researchers

This paper will help them to get some idea about how to conduct a research when they want to find about the relationship between service innovation and customer satisfaction at another company.