

CHAPTER I

INTRODUCTION

1.1. Background of the Study

Nowadays world economy is not only participated by major conventional industries such as the state owned enterprise or usually called as BUMN, but also by numerous number of private sector companies. All of these companies are focusing on product or service field in order to fulfill not only local but also global market demand. Therefore, on the other side, it is also supporting national economic growth.

Product quality is one of the keys to competition among business actors and companies offered to consumers. Consumers always want to get a quality product in accordance with the price paid, although there are some people who argue that, an expensive product is a quality product. If that can be done by the company, then the company will be able to continue to satisfy consumers and can increase the number of consumers.

On the other hand, product quality is an important thing that must be sought by every company if they want the products produced to be able to compete in the market. The existence of a reciprocal relationship between companies and consumers will provide opportunities to know and understand what the needs and expectations that exist in consumer perception. Likewise, the company providing the product can provide good performance to achieve customer satisfaction by maximizing a pleasant experience and minimizing the experience that is less pleasant consumers in consuming products.

The growth of the way in which people feel satisfied and loyal to one particular product, leads to the emergence of a wide variety of product that has started to compete with another, thus ensuring that the consumer keeps making repeat purchases on the same product due to the quality.

If the commodity exceeds the customer's standards, it is reasonable for the customer to feel satisfied and tend to loyal to a certain product from

a certain company. (Djumarno and Said, 2018). Therefore, most businesses are trying to create successful customer loyalty programs while retaining the product quality.

General issues affecting Customer Loyalty
<ol style="list-style-type: none"> 1. Product always out of stock. 2. Price of the product are high. 3. **Different result/expectation of the product from the brochure/advertisement.** 4. Long waiting time for the delivery. 5. Infrequent event or promo.

Source: Prepared by writer (2020)

As pictured by the table above, there are several issues which affect customer loyalty. Nevertheless, the main goal for the writer to find out in this research is about product quality that affect customer loyalty which is stated in number 3.

As pictured on the table above, the writer paid attention closely to the general issues of number three, which are concerning about product quality delivered to the customers. The third complaint of the table above also mentioning or regarding about product quality. The customers expect a quality that can match with the advertisement. Sometimes a company can be so clever in doing advertisement to their products before they were bought by consumers, then after the purchase, consumers expect the quality of the product meet their standard and expect the quality of the product to meet their needs and wants. Otherwise, consumers somehow are not satisfied with the standard of the quality of the products or they feel that the quality is different compared to the brochure/advertisement. In the end, consumers feel cheated and the customer loyalty is no longer exist. Therefore, the statement triggered the writer to do this research by proving that product quality has the effect towards customer's loyalty.

Due to the tight competition in the market, in order to increase customer loyalty, the writer think that product quality maybe the key to solve the problem by proving the correlation between product quality

towards customer loyalty and based on that, the writer want to conduct the research with title “**The Effect of Product Quality Towards Customer Loyalty**”.

1.2. Problem Limitation

Due to the limitation of the researcher, therefore the researcher will limit and only focus on the complaint at number two and number five from the table complaint above with Product Quality as X variable with the indicators: Expectation, Knowledge, Information, Commitment, Negative Reviews, Expert Recommendation and Customer Loyalty as Y variable Repeat Purchase, A Habit in Using the Product, A Great Satisfaction for the Brand, Customer Determination for a Brand, Believe in the Product Value as the Best, and Recommendation to Others.

1.3. Problem Formulation

Referring to the background of study and problem limitation, the writer formulated the problem of the research to be solved:

- Does Product Quality have effect towards Customer Loyalty?

1.4. Objective of the Research

The purposes in doing this research is to identify whether there is an effect of product quality twoards customer loyalty.

1.5. Benefit of the Research

The benefits from conducting this research are shown on the next page of the research.

1.5.1. Theoretical Benefit

This research give benefit to developing theory of international business especially product quality and customer loyalty.

1.5.2. Practical Benefit

- a. For writer, this research can add writer's knowledge in international business especially product quality and customer loyalty.
- b. For the company, this research can provide recommendation to company in improving customer loyalty with product quality.
- c. For other researcher, this research can be used as reference to next research that related with this research topic.

