

# CHAPTER I

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Following the progress and development of the times, an increase in economic and lifestyle changes that affect the people of Indonesia on fulfilling the needs of refreshing, one of which was a visit to a restaurant. Now the transformation in the use of restaurant that is not just for eat but also as part of a lifestyle where the restaurant changes into a gathering place that is much in demand, even restaurant become identity and prestige symbol for the business community. In addition, there are also some other motives such as the motif of adventure, gratuities, socialization, and telecommuting as reasons people visit the restaurant. Like the developments in major cities in Indonesia, restaurants are also growing in Medan, known as the place of culinary paradise. Because the number increase, then the increase in competition became a challenge and a threat to every competitor. The challenge is how to acquire and retain loyal customers, as well as their threat is if consumers prefer a restaurant to another. Loyal customers are willing to come back to the restaurant choices and provide recommendations to others. Customer loyalty is very important for entrepreneurs who want to maintain the viability of its restaurant business. This makes the restaurant entrepreneurs competing to provide quality products and excellent service.

Abhipraya Restaurant is one of the restaurants in Medan for the middle class, especially among company. Abhipraya Restaurant needs to maintain consumer loyalty to sustain its business because of the increasingly fierce competition.

From several previous studies regarding the restaurant, customer loyalty to the restaurants affected by the quality of products and quality of service (Parsa et al., 2012; Weiss, 1997; Polyorat and Shoponsiri, 2010; Rashid et al., 2015 citedin Kusumasasti, 2017)

Quality products and good services are a collaboration that is essential for Abhipraya Restaurant to be able to compete with other restaurant. The competition was very competitive due to the high demand of a place to hang out or as the lobbying business place. This will encourage competition to provide best product and service to its customers to feel satisfy in order to create customer loyalty. Based on observations, writer has information that customer satisfaction has effect on customer loyalty.

The sales of restaurant are decreasing in the last 6 month of 2018 that can be cause by the quality of product, quality of service, price, economic condition, or other factor including employee quality. It can be seen from the table 1.1 below:

**Table 1.1**  
**Sales in July-December 2018**

Month	Sales	Change (%)
July	Rp. 172.472.782,00	
August	Rp. 169.284.921,00	(1.85%)
September	Rp. 165.892.827,00	(2.00%)
October	Rp. 165.924.282,00	0.02%
November	Rp. 152.281.229,00	(8.22%)
December	Rp. 150.627.542,00	(1.09%)

Source: Abhipraya Restaurant (2018)

Sales in Abhipraya Restaurant have a trend of decreasing. Management must find a way to solve this problem. Because if this condition not solve in the right time will have major impact to company financial condition and if this problem continue to occur for a long time, it will make the restaurant to stop the operation because of loss.

At this time, the number of customers in the company show unsatisfied feeling and their complaints of dissatisfaction with product of the company keep increasing. This is shown in the table of customer complaints regarding their satisfaction with the products.

**Table 1.2**  
**The Number of Customer Complains July-December 2018**

Month	number of Complaints	Complaint
July	1	1. Unsatisfied taste 2. Too salty, too spicy or overcook
August	0	
September	2	
October	1	
November	3	
December	5	

Source: Abhipraya Restaurant (2018)

We can see the increasing of customer complaint in the last 6 month of 2018. With the high competition and various option for customers to decide, it will be a problem if the restaurant not try to improve the quality to keep the customer satisfy because they will go to other place easily and will not loyal to this restaurant.

Based on description above, the writer want to conduct the research with title “**The Effect of Product Quality Towards Customer Loyalty at Abhipraya Restaurant**”.

## **1.2 PROBLEM LIMITATION**

The writer determines limitation this study is the indicator of the product quality such as Performance, Reliability, Conformance, Durability and Serviceability and the indicator of the loyalty Customer such as Word of Mouth, Repurchased Intention and Price Insensitivity.

## **1.3 PROBLEM FORMULATION**

Based on the background study above, the writer can take problem identification as follows:

How is the influence of the product quality on customer loyalty at Abhipraya Restaurant.

#### 1.4 OBJECTIVE OF THE RESEARCH

The purposes in doing this research are as follows:

To identify whether there is an effect of product quality on customer loyalty at Abhipraya Restaurant

#### 1.5 BENEFIT OF THE RESEARCH

The benefits from conducting this research are as follows:

##### 1.5.1 Theoretical Benefit

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

##### 1.5.2 Practical Benefit

- 1) For writer, this research can add writer's knowledge in hospitality management especially product quality and customer loyalty.
- 2) For the company, this research can provide recommendation to company in improving customer loyalty with product quality.
- 3) For other researcher, this research can be used as reference to next research that related with this research topic.

#### 1.6 SYSTEMS OF WRITING

The systems of writing in this *skripsi* will be as follows :

##### Chapter I : Introduction

In this chapter, the writer describes about the background of the study, problem limitation, problem formulation, objective of the research, benefit of research and systems of writing.

##### Chapter II : Literature Review and Hypothesis Development

In this chapter, the writer describes some theories that are related to the topic of the study, such as international business, product quality and customer loyalty. The writer

presents previous research, develops hypothesis, makes research model and framework of thinking.

### **Chapter III : Research Methodology**

In this chapter, the writer explains the research design, population and sample, data collection method, operational variable definition and variable measurement and data analysis method.

### **Chapter IV : Data Analysis and Discussion**

This chapter consists of general view of research object, data analysis and discussion.

### **Chapter V : Conclusion**

This chapter contains the conclusion, the implication and recommendation of this research.

