# CHAPTER I
# INTRODUCTION

## 1.1  Background of the Study

Nowadays, most customers are more critical in their life especially about buying products. Greater expectations, more value for less money. Companies always strive to find a way to attract and keep the customers. If customers is not excited with the products or service provided, customers will move to another company. The companies that have an orientation to Customer Relationship Management (CRM) tend to be more focused on managing and growing existing customers for long term benefit. They tend to prefer existing customers because it is cheaper and more profitable to boost sales rather than looking for new customers. Retention program is one of the main core of Customer Relationship Management (CRM), the implementation of customer retention strategy is by having the Loyalty Program (King, 2015). Loyalty programs is a program to encourage buyers to repurchase when they often make purchases (Chen, 2017). It will make the company to retain the customers, increase customer's satisfaction and make them not easily influenced by other offers from competitors.

In addition, advances in the business sector at this era are showed by the increasing number of companies that offer the similar products. As the rapid changing needs and behavior of customers, many companies increase their own promotion to get customers as many as they can. By having loyalty programs, it will impact the consumer purchase behavior. Customer behavior is physic and mental activities that happens in household and business users that result in pay for, purchase, and products or services decision and actions (Prasad & Jha, 2014). It makes the customers to decide decisions more dynamically when doing repetitive purchases with the company since they find benefits that they can earn. It also offers rewards on accumulative purchasing that improves customers' retention and encourages customers to make repetitive purchases by giving incentives which is advantageous for them. In this research, the influence of

loyalty programs on the customer behavior is being analyzed by learning the benefits of loyalty programs for the company and studying the different type of loyalty programs.

PT. Arianto Darmawan is presently the only one of its kind in Indonesia and South East Asia that offers such a wide-ranging of quality products, such as spare parts, lubricants, custom made machinery, water pump and support chemicals, together with offering after purchase services that meets the needs of customers. PT. Darmawan was founded in Bandung in 1966 where the headquarter is located. While in Medan, it is located at Jalan Letjen S. Parman no 261B/67 (Arianto Darmawan Company Profile, 2015). PT. Arianto Darmawan also imports some parts for their products from overseas. For example, their water treatment plants, they import their chemicals such as ion exchange resins from Dow Water technology which is based in Germany. Moreover, they also cooperate with Max Weishaupt Gmbh company and Klüber Lubrication company. Both of them are based in Germany. Major companies that are using Darmawan's product and services are Tempo Scan Pacific, Nestle, Indofood, Indocement, Krakatau Steel, Unilever and many more (PT. ARIANTO DARMAWAN, 2015).

From the manager's information, PT.Arianto Darmawan has served many customers for over than 50 years. However, the sales for water pump products decreased over the last 5 years. It can be seen in table below:

Table 1.1 Number of sales In PT.Arianto Darmawan Medan

| Year | Number of Sales |
|------|-----------------|
| 2014 | 254 |
| 2015 | 243 |
| 2016 | 225 |
| 2017 | 187 |
| 2018 | 173 |

Source : PT.Arianto Darmawan Medan (2019)

It can be seen from the table that there is a decreasing of the sales in year 2014-2018. The company cannot manage the existing customer with results that company should get new customer to cover the loss of existing customer. Based on my research, it happens because of the low level effort of giving loyalty program conducted by the company. The company does not focus on giving rewards to their customers. Customers expect more from the company that can

give special rewards for them.

Based on the description above, the writer is interested in doing this research by choosing the title as follows: "**The Influence Of Loyalty Program on Customer Behavior at PT Arianto Darmawan Medan**"

## 1.2 Problem Limitation

In this research, the independent variable is loyalty program, while the dependent variable is customer behavior. However, it had certain limitations, which are sample size, limited time and the scope of the research. Customer Behavior is also limited to the behavior of customers who repurchase products. First, the observation is only limited at PT. Arianto Darmawan that is located in Medan and can observe only their water pump product. Then the indicators are only limited for the independent variables which are direct, immediate, tiered, prestige and flexibility and for dependent variables which are needs and motives, perception, attitudes, learning and self-concept. However, all effort was made to come out with thorough research.

## 1.3 Problem Formulation

Based on the description in the background of study, the problem formulations determined will be:

1. How is the loyalty program in PT.Arianto Darmawan Medan?
2. How is the customer behavior of PT. Arianto Darmawan Medan?
3. Does the loyalty program have an influence of loyalty program on customer behavior at PT.Arianto Darmawan Medan.

## 1.4 Objective of the Research

Based on the problem formulation, the objectives of the research are:

1. To find out and analyze how is the loyalty program in PT.Arianto Darmawan Medan.
2. To find out and analyze how is the customer behavior in PT.Arianto Darmawan Medan.
3. To find out and analyze how much influence does loyalty program has on customer behaviour.

## 1.5 Benefits of the Research

### 1.5.1 Theoretical Benefit

1. For the writer, this research is expected in adding the knowledge and experience in marketing management especially in loyalty program and customer behavior.

2. For other readers, this research can be used as references for further research or research that has same field and topic.

### 1.5.2 Practical Benefit

For the company, this research is expected in giving the input and recommendation to the company in improving loyalty program and customer behavior and as a reference for other companies.

## 1.6 System of Writing

The systematic outline of writing in this final paper will be as follows:

Chapter I        : Introduction

In this chapter, the writer describes about the background of study, problem limitation, problem formulation, objectives of the research, benefits of the research, and systems of writing

Chapter II       : Literature Review and Hypothesis Development

In this chapter, the writer declares will discuss about about theoretical background, previous research, hypothesis development, research model, and framework of thinking.

Chapter III      : Research Methodology

In this chapter, the writer will discuss about 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 brief history of the company,

organization structure, descriptive statistics, tested result of data quality, test of hypothesis, and result and analysis.

Chapter V        : Conclusion

In this chapter, the writer describes about conclusion, implication, and recommendation.