

CHAPTER I

INTRODUCTION

1.1 Background of Study

Nowadays, the hospitality industry is one of the biggest businesses around the world, due to the high demand of travelling and relaxation from ordinary routine, which is an important aspect on foreign exchange and country development. From this reason, the hospitality industry becomes a promising industry and steadily grows over time.

According to Concierge Oxford Dictionary, the hospitality industry can be defined as a form of company that is involved in providing services to guests. Hence, the hospitality industry is divided into a few fields, which are lodging, food & beverage service, event, and transportation.

On top of it, the food & beverage industry is one of most growing and encouraging businesses. It is proven by increasing the number of restaurants and cafes, especially in North Sumatra, which serve many varieties of cuisine, drinks, and services along with a place to eat within the same premise. Restaurant provides the customer to come, order and eat; some also provide take away food services.

Here lies the outcome ratio of the number of medium and large scale of Food and Beverage establishments by the Central Bureau of Statistics Indonesia.

Table 1.1 Number of Food Business Establishment in Province Area

Province	Year	Number of Establishment
North Sumatra	2011	168
	2018	269

Source: Central Bureau of Statistics Indonesia (2020)

Based on data stated above, the numbers of F&B business in North Sumatra has increased significantly. In 2011, the number of F&B establishments counted in North Sumatra was 168. After 7 years passed, in 2018, the number of F&B establishments rose to 269, with addition of 101 new launches of F&B business. It is proven about how F&B industry has a great potential of becoming a main source of income, which is a positive impact in the future.

According to data from the Ministry of Industry, the restaurant industry has contributed 34.95% in 2017 to the GDP (Gross Domestic Product) of the non-oil and gas industry and in 2020; the restaurant industry is predicted to grow 3% until the end of year 2020. The restaurant industry is also still fertile ground for investors as a promising business in the culinary field. Besides this statement, the restaurant provides a space for doing several activities, such as gathering with family or friends. Therefore, the restaurant itself could become one of the tools to reach customer loyalty.

Nowadays, going to restaurants for hangout or personal purposes has become a trend of the new generation. They have been called Generation Z. Generation Z is the newest generation who were born in 1997 until 2012/15 and currently between 8-23 years old. In terms of deciding on a restaurant to eat, rather than choosing based on good quality of food and service, they relatively

choose a restaurant based on its brand. In conclusion, brand is a powerful weapon for restaurants in gaining customer loyalty, especially in newer generations.

Restaurant industry is categorized as a business which has a good prospect in the future, in the view of human needs, in which food and beverage is a primary commodity in human life because humans need food and beverage in order to do daily activities. From the many restaurants built in these days, many things become a consideration for customers to choose the place to eat they want according to their tastes and preferences. A restaurant will meet the criteria that consumers desire, consider both in products, services and also brand, of course, so that it can satisfy the customers themselves.

More restaurants are being established; result in the arising of fierce competition between restaurants in order to stand out in the competition. In gaining new customers, restaurants try their best to implement the best marketing strategy and become innovative in their product and concept release. On the other hand, customers have plenty of choices to choose restaurants which suit their preferences.

The result of intense competition has raised the difficulty for restaurants to increase their market and gain new customers. Fierce competition will indirectly affect a restaurant in maintaining market share. For that reason, restaurants must work hard in gaining customer loyalty to maintain their market. For restaurants to exist in order to survive in F&B business; they have to take further steps such as making various new innovations and developing the restaurant to obtain optimal

profits and can strengthen its brand image in facing competition. Efforts in maintaining consumer loyalty are important tasks that restaurants must always do.

Brand image has transformed into an important aspect for restaurants. One way to make a product or service easy for customers to recognize and remember is to create a good brand image for the product. Brand image is the differentiator between one product and another in a certain product category.

Brand image is a strategic function for the restaurant in penetrating an increasingly competitive market. A brand image tends to create a good attitude towards a product or service by explaining positive characteristics so that it can affect consumer feelings and emotions as well as individual perceptions in choosing a product. Moreover, a good brand image will produce a result of increasing sales volume and restaurant image.

According to Kotler (2009) in Rusandy, D.S. (2018), brand image is about everything that is related to memory of a particular brand, which is created in customers' mind, is when customers capture the signals sent by a brand. When customers have a good bond with a certain brand, they will be encouraged to purchase the product unconditionally. Therefore, when customers repeatedly purchase a product or service, they have created loyalty towards a particular brand.

Brand, which is consistently being used, has an impact on customer loyalty. Loyalty is created based on the experience of customers in buying and using a product or service, one of which is a product that has a good brand image. Customers can be said to be loyal if they make repeated purchases of products

with the same brand. Loyal customers will not switch to competitors' products because they already have an emotional sense of the products used.

According to Kotler and Keller (2012) in Rusandy, D.S. (2018), customer loyalty is a situation when customers buy a product from a certain brand consistently. For customer loyalty to be created, the management team is obliged to determine factors which could create customer loyalty, which are: performance, characteristic, uniqueness, reliability, specification, durability, aesthetic, and quality (Kotler (2009) in Rusandy, D.S., 2018).

On the other hand, loyalty is not presented right away; it needs a strategy to achieve it. A restaurant has to determine the customer needs and expectation to gain an advantage in achieving higher customer loyalty. One of the ways to attain it is to create a good brand image towards customers.

Customer intimacy is being gained when a restaurant interacts with their customers in a positive way. Restaurants, who meet their customer needs and expectations, will gain customer satisfaction and loyalty, which will increase the brand image of a restaurant. The role of customer intimacy will drive customers to have emotional bonds with the restaurant.

In this research paper, the author aims to investigate the effect of brand image towards customer loyalty. In order to achieve it, the author will conduct a case study in Warung Adam Malik Medan. Warung Adam Malik is a casual dining restaurant with modern design and interior which gives a warm ambience. Situated at H. Adam Malik Street which is known as a busy district, it makes it

easy to be located. Warung Adam Malik contains a spacious place which can accommodate a large group of customers, for exactly 260 people on maximum status. However, in the history side, the first brand name of Warung Adam Malik is Warung W.K.K (WAKAKA), which was established on 2nd March 2018. On 1st August 2020, the brand name changed into Warung Adam Malik, based on its location, Jalan Adam Malik. Because of the matter mentioned above, Warung Adam Malik has become a suitable research object in this research, which is caused by the changes on brand name that has effect on customer loyalty of Warung Adam Malik.

Based on the sudden changes in brand name, it is being aware that most of the customers did not know about this brand changes matter. According to the pre-survey which is conducted by interviewing previous Warung W.K.K. customers, some of them rarely know that the brand name has been changed to Warung Adam Malik. Regarding to this problem, the review about Warung Adam Malik's brand image, which is listed in appendix G, is obtained and it proved that some of the customer did not aware of the brand changes. Therefore, the purpose of this research is to determine if the customer loyalty of Warung Adam Malik still can be maintained after the changes of brand name. Because of that, the writer is interested to conduct the research, with the title: **“The Effect of Brand Image towards Customer Loyalty at Warung Adam Malik, Medan”**.

1.2 Problem Limitation

The writer limits the study about “The Effect of Brand Image towards Customer Loyalty at Warung Adam Malik Medan”. In this paper, the writer does the research regarding Brand Image value and how it builds customer loyalty. The writer chooses Warung Adam Malik mainly due to the writer's ability to gain permission to do the research.

The problem limitation will be listed below:

1. The variable will be limited to brand image and customer loyalty.
2. The survey will be completed by the customers who have dining experience at Warung Adam Malik using online questionnaires.
3. The questionnaire will only be spread in a week.

1.3 Problem Formulation

In order to complete the aims to examine the effect of brand image towards customer loyalty at Warung Adam Malik Medan, there are some problem formulations that will be discussed:

1. How good is the brand image at Warung Adam Malik, Medan?
2. How good is the customer loyalty at Warung Adam Malik, Medan?
3. Does brand image affects customer loyalty at Warung Adam Malik, Medan?

1.4 Research Objective

The purposes of this research are:

1. To evaluate the brand image of Warung Adam Malik, Medan.
2. To examine the customer loyalty at Warung Adam Malik, Medan.
3. To recognize whether brand image has effect on customer loyalty at Warung Adam Malik, Medan.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

For theoretical benefit, the result of this study is expected to give a deeper understanding about brand image and customer loyalty in the hospitality industry especially in Medan.

1.5.2 Practical Benefit

- a. For the writer, the research will increase the knowledge about brand image and customer loyalty in real-life experience.
- b. For Warung Adam Malik, the research will give recommendations to enhance its brand image and customer loyalty.
- c. For other researcher, the research will help them to conduct similar studies in the future