

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Productive economy needs efficient, smart and healthy human capital. One of the supports of smart and healthy human resources is the quality of food which includes consumption of protein. As people age, once or twice daily intake of 30 to 45 gram of protein may be a way to add or maintain lean body mass and strength of muscle (Loenneke et al., 2016). Protein can be obtained from plant and animal sources. Plant sources include soy and cereals while animal sources include meat, fish and egg.

Eggs are popular as affordable protein source. As the population grows, consumption of eggs will follow. The average annual growth of egg consumption in Indonesia over the period 2009 to 2018 is 1.14% (*Sekretariat Jenderal Kementerian Pertanian, 2019*).

**Table 1. 1 Consumption of Eggs per Capita from 2009 to 2018**

Year	Egg Consumption (kg/cap/year)	Percentage Growth
2009	5.94	2.84
2010	6.71	13.01
2011	6.60	-1.55
2012	6.50	-1.57
2013	6.15	-5.34
2014	6.31	2.55
2015	6.09	-3.52
2016	6.24	2.46
2017	6.65	6.62
2018	6.49	2.42
Average growth from 2009-2018		1.14

Source: *Sekretariat Jenderal Kementerian Pertanian (2019)*

Production of eggs in Indonesia has also been increasing for these past few years. In 2018, egg industry production reached more than 4.6 million tonnes (Sekretariat Jenderal Kementerian Pertanian, 2019).

**Table 1. 2 Indonesia Egg Production from 2009 to 2018**

Year	Egg Production (tonnes)	Percentage Growth
2009	909,519	-4,86
2010	945,635	3,97
2011	1,027,845	8,69
2012	1.139.946	10,91
2013	1.224.400	7,41
2014	1.244.312	1,63
2015	1.372.829	10,33
2016	1.485.688	8,22
2017	1.506.192	1,38
2018	4.688.121	211,26
Average growth from 2009-2018		29,31

Source: Sekretariat Jenderal Kementerian Pertanian (2019)

Study shows that more than 50% of customers do not have brand preference in making purchase decision involving eggs (Guyonnet, 2012). This fact shows that customers can easily switch from one seller to another easily. Therefore, it is crucial for egg producers to understand how customers make purchase decision and the factors that influence customer purchase decision.

Purchase decision is one of the steps in consumer decision-making process, which consists of recognizing a problem, searching for information, evaluating alternatives, deciding to purchase and postpurchase behavior. Because purchase decision is a part of the overall buyer decision process, marketers should not pay attention to only purchase decision. Instead, marketers should pay attention to the overall buyer decision process (Kotler et al., 2018).

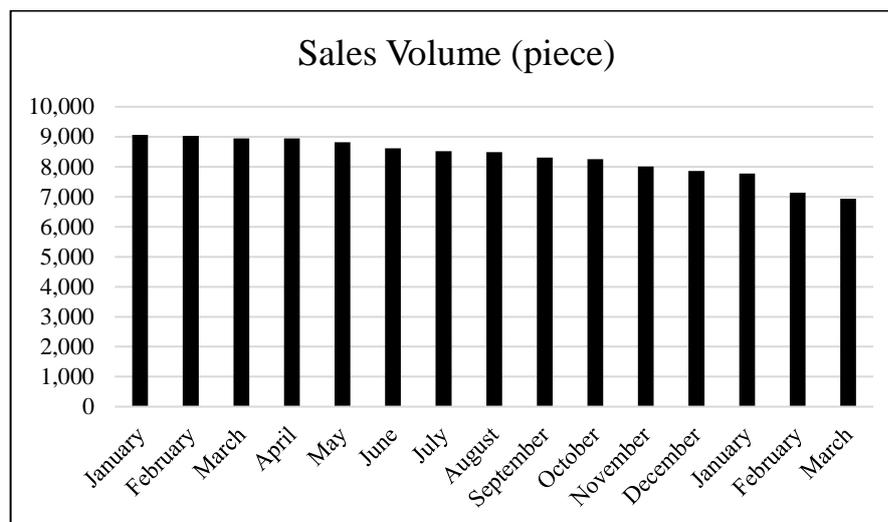
Kotler et al. (2018) also stated that the five steps of buyer decision process take part in every purchase that consumers make, whether quickly or slowly.

Consumers may also skip some steps in high frequency purchases. Therefore, understanding the buyer decision process is necessary for every business no matter what product or service it sells.

When a customer makes a purchase decision, there might be causes that results in disruption or cancellation of the actual purchasing activity. The causes can be other's attitude or unexpected situations (Kotler et al., 2018). One example is a potential customer who had made decision of purchasing a skin care product but cancels due to rude and unfriendly salesperson. The case example above shows how disrupted purchase decision caused by unexpected situational factor costs business its sales.

Buyer decision process takes part in all purchasing decision of customers, including eggs. Guntur Farm is an egg producer who seeks to increase its sales through understanding customer purchase decision. The farms are located at Dusun I Kelurahan Tanjung Jati, Kecamatan Binjai, Kabupaten Langkat and Jalan Terong, L.K. VII, Kel. Paya Roba, Kec. Binjai Barat, Binjai. It was founded at the year 2012 by Fanny Guntur.

Guntur Farm provides eggs for distributor agents and end consumers. Distributor agents acquire eggs in large volumes and distribute them to other cities. The demand for eggs from these distributor agents are relatively stable. Additionally, Guntur Farm also sells eggs to end consumers who purchase eggs in smaller volumes. Because of how easy it is for end consumers to defect to another sellers, Guntur Farm must ensure that the buying decision stage is not disrupted or cancelled.



**Figure 1. 1 Sales Volume of Guntur Farm to End Consumers from 2019 to 2020**

Source: Owner, Guntur Farm (2020)

From Figure 1.1 above, it is known that sales volume of Guntur Farm to end consumers is declining. The expectation of sales performance in Guntur Farm is increasing sales instead of declining sales. Because there is a gap between the expected sales and the obtained sales volume, it can be concluded that there is a problem in consumer purchase decision in Guntur Farm.

Additionally, the sales volume to end consumers seems to decline even through national holiday. For example, sales declined through Eid al-Fitr in June. This is a problem because demand for eggs normally follows the holiday pattern. In the ideal situation, demand for eggs will increase during periods leading to holiday (*Sekretariat Jenderal Kementerian Pertanian, 2019*). Because the sales volume to end consumers is far from ideal situation, a study of which factors influence purchase decision at Guntur Farm is needed.

Even though sales performance to end consumers have been declining since 2019, the further decline in early 2020 might also be caused by the rising

cases of COVID-19. Even though the first confirmed case of this virus is announced at March 2, 2020, the news of rising cases in other countries are popular in the first months of 2020 so people may feel the need to curb on purchasing some products, including eggs, excessively.

The end consumers of Guntur Farm mostly live in the vicinity of the farms and within the city of Binjai. Those who live near the farms commonly visit the farms when they intend to purchase some eggs. On the other side, consumers that do not live near the farm but within the city of Binjai will order eggs via call or chatting and the eggs will be delivered to them by Guntur Farm staff. The demographics of Guntur Farm's end consumers are below.

**Table 1. 3 End Consumers Demographics of Guntur Farm**

Age	25 to 60 years old
Gender	Mostly women
Education	Junior highschool, senior highschool
Location	Binjai
Family size	4 to 6
Income level	Low to middle

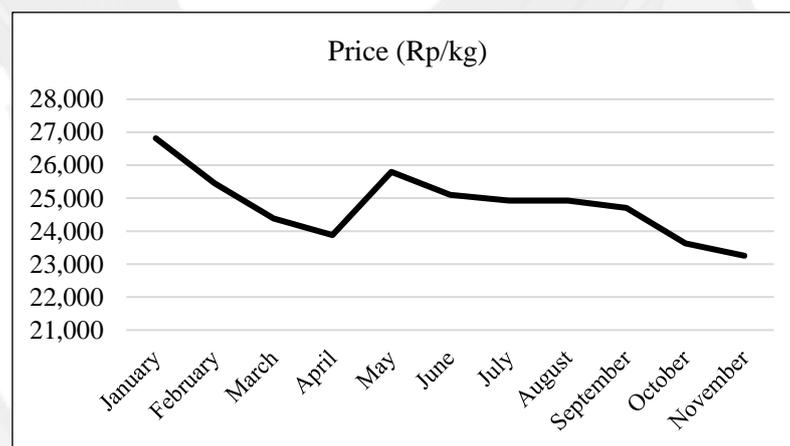
Source: Owner, Guntur Farm (2020)

This paper focuses on end consumers as the farm is seeking to increase sales in that segment. The profit margin gained from selling eggs to the end consumers is higher than that gained from selling to distributor agents. However, the downside of selling to end consumers is the unstable demand. In contrast, profit margin gained from selling eggs to distributor agents are lower as selling prices are cheaper. But, demand from distributor agents are stable.

From the preliminary research in the form of interview with few end consumers, the problems regarding price fluctuation and service quality were

mentioned. An interviewee complained that sometimes the price of eggs at Guntur Farm is higher than other sellers. Regarding service quality, a customer also complained that oftentimes there is no employee personnel in position to serve and facilitate the purchase of eggs when he visits Guntur Farm. Other interviewee mentioned that sometimes it is difficult to contact the employees of Guntur Farm and that the delivery of eggs to her house takes too long.

Price of eggs sold to customers tend to fluctuate. Example of price fluctuation can be seen in the table below.

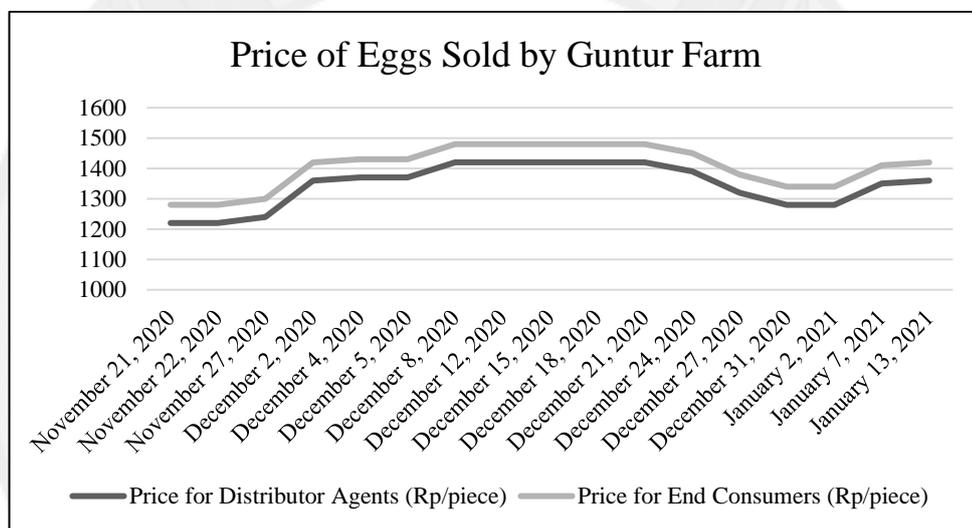


**Figure 1. 2 Price of Eggs in 2019**

Source: *Sekretariat Jenderal Kementerian Pertanian* (2019)

Fluctuation of egg prices are caused by supply and demand of the market. In the periods leading to Eid al-Fitr, for example, demand for eggs and prices of eggs will increase. The rising demand may be caused by the increasing usage of eggs to make cookies for Eid al-Fitr (Khairunnisa, 2020). In the example table above, the prices of eggs rose during the April and May 2019 because those are the periods leading to Eid al-Fitr 2019.

Prices of eggs tend to decrease in the months of June to July as demand for eggs lowers. The decreasing demand in these months is caused by people who consume less because they will start enrolling their children to schools (Khairunnisa, 2020). From the table above, it can also be seen that prices of eggs fell during June and July 2019. Other than increasing demand, the rising prices of eggs can also be caused by the rising cost of day old chicken (DOC) and chicken feed. (Nasution & Zuraya, 2020).



**Figure 1. 3 Prices of Eggs Sold by Guntur Farm**

Source: Owner, Guntur farm (2021)

The table above shows that prices of eggs at Guntur Farm tend to fluctuate every two to sixteen days. End consumers normally purchases eggs in one or two *papan*. Each *papan* contains thirty eggs. If price of eggs increase by Rp200,00 per piece of egg, then price of one *papan* of eggs will increase by Rp6.000,00. The small increase in price ignites complaints from end consumers. This may be caused by the low income level of most end consumers of Guntur Farm. If they are bothered by the fluctuating prices, they may move to other sellers for eggs.

Historically, the major factor that influences customers' choices is price (Kotler et al, 2018). Price is the value of goods or services that is measured by the amount of money paid by buyers to obtain combinations and goods or services. When consumers are experiencing difficulty in judging the quality of complex products offered to satisfy their needs, price becomes the measurement tool (Indrasari, 2019).

Price plays two crucial roles in decision making process. The roles include allocation and information role. Allocation role refers to how price aids customers in deciding how to get the greatest expected benefits or highest expected value according to their purchasing power. Information role refers to how price convey information about product factors such as quality to consumers (Indrasari, 2019).

According to Mutiawati et al. (2019), service quality refers to the ability of service provider in delivering service to users. Additionally, Firmansyah (2018) states that purchase decision is influenced by eight purchase decision structures, one of which is decision about service. Purchasing situation of consumers affects their purchase decision.

Previous research by Nasution and Lesmana (2018) shows that price and service quality have partial and simultaneous positive and significant influence towards purchase decision. Price and service quality also have positive and significant influence towards purchase decision both partially and simultaneously in the result of study by Septarini and Nurseto (2017).

To solve its problem, Guntur Farm must take a look at price and service quality as the factors that affect purchase decision. From the explanation above,

the title of this research is “**The Influence of Price and Service Quality towards Customer Purchase Decision at Guntur Farm, Binjai**”.

## **1.2 Problem Limitation**

The time allocated for the conduct of this research is from January 2021 to April 2021. Due to time limitations, this study is limited to “price” and “service quality” towards “purchase decision” at Guntur Farm, Binjai. Price and service quality are the independent variables while purchase decision is the dependent variable. Guntur Farm’s sales channels include distributor agents (large volume) and retail or end consumers (small volume). The author will only conduct research on end consumers because the problem exists in end consumer sales and Guntur Farm seeks to increase sales to retail or end consumers.

To obtain data, this study will use convenience sampling method where survey will be given to customers randomly. The author will meet the respondents directly. However, with the consideration of the COVID-19 pandemic, the meeting will be conducted with minimal 1.5 meter of physical distance between the author and the respondents. Also, the time allocated for each respondents will be limited to fifteen minutes. To analyze data, multiple linear regression is used through SPSS software.

## **1.3 Problem Formulation**

The problem formulation obtained from the problem described are:

1. Does price influence customer purchase decision at Guntur Farm?

2. Does service quality influence customer purchase decision at Guntur Farm?
3. Do price and service quality simultaneously influence customer purchase decision at Guntur Farm?

#### **1.4 Objective of Research**

1. To analyze the influence of price towards customer purchase decision at Guntur Farm
2. To analyze the influence of service quality towards customer purchase decision at Guntur Farm
3. To analyze simultaneous influence of price and service quality towards purchase decision at Guntur farm

#### **1.5 Benefit of the Research**

##### **1.5.1 Theoretical Benefit**

For this study results to provide a source of information and knowledge related to influence of price and service quality towards customer purchase decision.

##### **1.5.2 Practical Benefit**

Practical benefits of this research are:

1. For the writer to gain knowledge of the influence of customer service towards customer purchase decision

2. For the company to understand and improve customer purchase customer decision in order to increase sales
3. For other researchers, this research can be used as reference and information source in doing research related to price, service quality and purchase decision.

