

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Nowadays, the Increasingly tight business competition in service industry encourages the company's ability to continue to increase customer loyalty competition is getting tougher. So that the companies are still competing to innovate in order to win the competition. According to Muchson (2017), entrepreneurship is the ability to dare to meet the needs of life and solve life problems, promote business or create new businesses with the strength that is in oneself. It argues that success in competition will be fulfilled if the company can create and maintain its customers. To achieve these goals, a company requires various efforts so that the goals that have been planned are achieved. The company will strive to achieve the goals effectively and efficiently. Every organization, institution or corporation needs human resources to achieve its goals. Resources are needed to create power, movement, activities, and actions in an organization, institution or corporation. The role of maintaining the quality of service and customer loyalty is needed by a company engaged in the service sector.

According to Goetsch & Davis in Tjiptono & Chandra (2016: 115) states that quality is a dynamic condition related to products, services, human resources, processes, and the environment that meet or exceed expectations. It argues that services are activities or benefits that can be offered by one party to another and which are basically intangible and will not lead to ownership of something. Because

of the growing level of competition and the number of competitors, every business must always pay attention to their customers' needs and preferences, and strive to fulfill their standards by offering services that are more satisfying than those provided by competitors. Thus, only qualified companies can compete and dominate the market. The tighter competition in the service industry will encourage the company's ability to continue to increase customer loyalty.

According to Kotler and Keller (2016), service quality as the overall characteristics and characteristics of service products that support the ability to satisfy needs. Service quality is very important in running business. The improvements in information technology, physical facilities, and non-physical services are all aimed at improving service quality in addition to offering a diverse range of items. Companies that have loyal customers can be optimized in developing their businesses. The prospect of customers can be seen from their loyalty to the company. Some customers' complaints may include their many requests for maintenance and repairs while human resources technicians are still very limited; spare parts needed by customers aren't always available and customers sometimes don't understand how to use machine system. Moreover, the companies engaged in services whose products are intangible. Therefore, customer loyalty is one measure of the quality of service provided.

To fulfill a good service quality in the service industry, service quality is very important for companies to be managed properly. Service quality is a level of excellence to fulfill customer desires. Good service quality starts from customer perceptions, not from the company.

According to Marcus (2017), service quality is an expected level of excellence. Controlling at this level of excellence helps to satisfy customer expectations. Providing high quality service is a must to achieve customer loyalty. For a company, service quality and customer loyalty come from organized service, thereby creating a good perception of customers. Customer's perception of service quality is a total assessment of the superiority of a product in the form of goods or services. On the other hand, Human resources are one of important factors and have a role in realizing the success of service quality with all their work ethics, skills, and business power.

According to Partua Pramana (2016), customer loyalty is the result of an initial trial of a product that is strengthened through satisfaction so that it will lead to repeat purchases. Repurchase by customers of course will increase sales volume which means it will increase company profits. This loyalty will be one of the goals that must be achieved by a company in defending its customers from the invasion of similar competitors. Customer loyalty has a huge effect on business profitability. Loyal customers are likely to display a positive attitude and actions, such as re-buying the same brand and positive feedback that can impact real or future customers. Customer loyalty will indicate how much support and level of trust a customer has for the company's provided product or service. Therefore, satisfying and professional service is a very important component. So that the customer's trust in the company is well maintained. These elements will be the main key to the success of service companies to improve their performance.

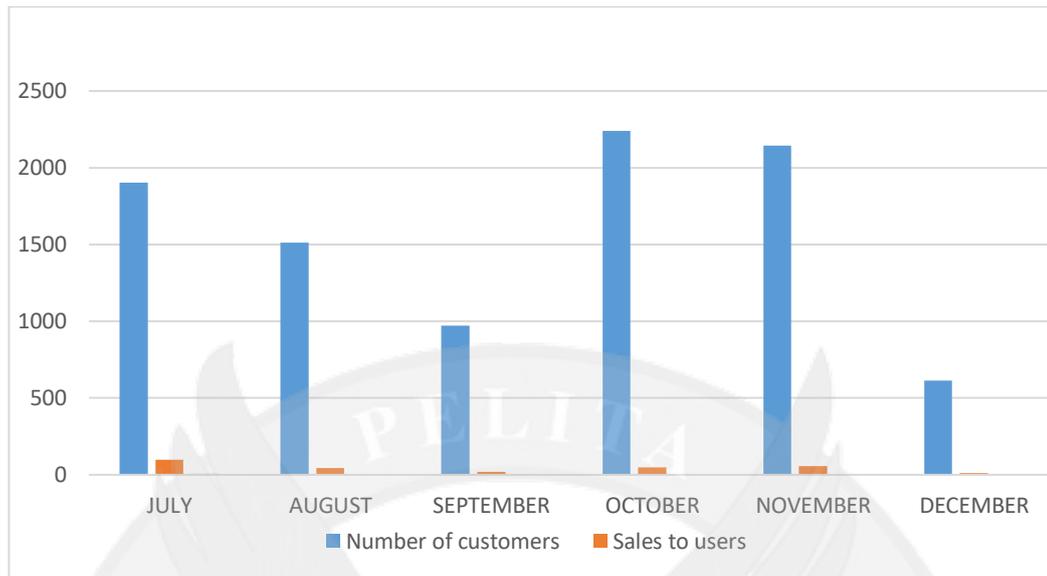
According to Olson (2017), In developing the company, the company must ta have loyal customers that can be optimized. From their loyalty to the company, the prospect of customers can be seen. Although human resources technicians are still very small, concerns from some customers which include their many demands for maintenance and repairs, replacement parts required by customers aren't always available and customers sometimes don't understand how to use the machine system. According to Amelikeh (2019), Many companies have understood that achieving high standards of service quality is a critical way that provides loyal customer with service organizations, as service quality is a necessary ingredient to make customers select an organization that is more convenient than others.

PT Alfa Scorpil Medan is a company which is engaged in the distributor of Yamaha motorcycle dealer that was established on August 25, 1987 in Medan. At the beginning of establishment, the company had 35 employees and now the company has mastered the Yamaha motorcycle market for the North Sumatra, Nanggroe Aceh Darussalam and West Sumatra regions. PT Alfa Scorpil Medan is located on H. Adam Malik Street No 30. PT Alfa Scorpil Medan currently markets Yamaha motorcycles with various types including Yamaha Vega R, Yamaha Mio, Yamaha Juviter, Yamaha RX King, Yamaha Smash and so on.

**Table 1.1 Monthly average of sales in PT Alfa Scorpil in July to December 2020**

<b>Months</b>	<b>Number of Customers</b>	<b>Sales to User</b>	<b>Closing</b>
JULY	1905	98	5,14%
AUGUST	1512	44	2,9%
SEPTEMBER	970	20	2,06%
OCTOBER	2240	47	2,10%
NOVEMBER	2144	58	2,71%
DECEMBER	615	10	1,63%

Source: Data Processed by the Writer (2020)



**Figure 1.1 Graph from Monthly average data**

Source: Data Processed by the Writer (2020)

From the data above, we can see that the data of sales to users in last 6 months. The evaluation is done monthly to know the customer loyalty in PT Alfa Scorpii. Based on the data above, it can be seen that, from July to December, the sales to user increased 98 in July. It can be seen that, in August, the sales to users decreased to 44. In September, the sales of user were 20, which is closing in 2,06% lower than the sales in August. In October, the sales of user increased to 47. which make the increasing percentage to 2,1 %. Then, it can also be seen that in November, the number of sales of user continuously increased. Then in December, the sales of users decreased again to 10 which was closing in 1,63%.

As we can see from the table above, there are some problems that make the company has a decreasing sale. Based on the interview that actually the problem is some of the customers complain about the service provided by the employees. There's an employee that can't explain well about this kind of product quality of the motorcycle, so that it makes the customers feel uncomfortable when the

employees explain the product quality to the customers. Another problem is about the delivery time from the company that can't be on time due to the manufacturing is in the busy situation that makes the customer must wait for so long.

Based on the descriptions above, the writer is interested to write the research in the form of final paper entitled "The Effect of Service Quality towards Customer Loyalty at PT Alfa Scorpil Medan". This research is hoped to be able to bring positive benefit for the company to achieve their objectives.

## **1.2 Problem Limitation**

Based on the research that has been made by the writer, this research has limited source in service quality as independent variable and customer loyalty as dependent variable at PT Alfa Scorpil Medan. Moreover, the writer will limit the research object where the research will only take place in PT Alfa Scorpil Medan.

## **1.3 Problem Formulation**

Based on the background of the study, the problem formulation of these research are:

1. How is the service quality in PT Alfa Scorpil Medan?
2. How is the customer loyalty in PT Alfa Scorpil Medan?
3. Does service quality effect customer loyalty in PT Alfa Scorpil Medan?

## **1.4 Objective of The Research**

The purpose of this objective research are:

1. To analyze the service quality in PT Alfa Scorpil Medan

2. To analyze the customer loyalty in PT Alfa Scorpii Medan
3. To identify the effect of service quality towards customer loyalty in PT Alfa Scorpii Medan

## **1.5 Benefits of Research**

This research is expected to provide benefits, in terms of both practical and theoretical as follows:

### **1.5.1 Theoretical Benefits**

Any Authors are expected to better understand & deepen their knowledge regarding commitment of relationships, service quality, quality of time, quality of engineering / HR, trust in customer loyalty, so that it can be used to contribute to academic area.

### **1.5.2 Practical Benefits**

1. Benefit for company

This research aims to help the company to improve their performance and be able to compete in order to grow better. This research provides the information of PT Alfa Scorpii regarding on the effect of service quality towards customer loyalty.

2. Benefit for researchers

This research can develop our knowledge and information of the effect of service quality towards customer loyalty.

3. Benefit for writer

This research is expected to increase knowledge and experience and be able to apply the effect of service quality towards customer loyalty.