

CHAPTER I

INTRODUCTION

1.1 Background of The Study

There are many aspects become a consideration for a consumer, to choose a company that provides product and service the customer wants. When going to buy needs, a consumer tends to be a picky person or always has some considerations before choosing and deciding to purchase a product or service. Besides the aspects of price and availability of goods, another thing that consumers are looking for is the quality of shop service.

The service qualities are classified into two criteria: the good and poor service quality. This Service quality is not something permanent or rigid, but rather flexible and changeable. This change is definitely in the form of improving the Service quality to make it even better. In the process of changing the Service quality, several things are needed to support the process. For example, surveys or observations to customers, including in the form of input, opinions, and feedback about services that have been provided.

Service quality is important because it will have a direct impact on the company's image. Good Service quality will be an advantage for the company. If a company has received a positive value in the eyes of consumers, then that consumer will provide good feedback, and they may become repeat customers. Therefore, it is crucial to consider aspects of customer satisfaction related to the Service quality provided. The types of services that can be provided for example,

are in the form of ease, speed, ability, and friendliness which is appeared through direct attitude and action to consumers.

Research by Leninkumar (2016) states that service quality dimensions which consist of tangible, reliability, and empathy have a significant effect on customer loyalty. The company needs to develop proper reliable services to customers so that the customers will be satisfied and become loyal to the company. Customer loyalty is a crucial problem for a company to maintain its business continuity. Loyal customers are those who are very satisfied with particular products and services, so they have the enthusiasm to introduce them to anyone they know. Furthermore, at the next stage, these loyal customers will expand their loyalty to other products or business owned by the same company. And in the end, they are consumers who are loyal to a particular manufacturer or company forever.

PT. Multi Sukses Engineering is a company engaged in construction and cold storage services. Based on the preliminary interview with director, the company system uses a contract system for its services. The customer contracts with the company for a specific time then the company will carry out routine service activities to the customer. Some customers do not carry out ordinary service contracts and only place orders when they need company services.

The phenomenon that occurs in the company is a decrease in customer loyalty. Several things that show a decrease in customer loyalty in the company are namely decreased customer satisfaction, customers lose trust in the company, bad experience from transactions with the company & decrease in the number of

repeat purchases. Customers show dissatisfaction with the company by providing criticism and complaints to the company.

Based on the interview with marketing manager, the company divided customers into two groups which is new customers and old customers. This is one of the marketing strategies that divided that also divided employees into 2 groups. Basically, the company will put the senior employees to handle new customers because they need to explain more about the services and contract available at the company, to reduce errors explanations to customers. Besides, the company needs to give the best impression to new customers to attract them. While for old customers, they will be handled by junior employees, because most of them already know about the company, and only to continue the contract or reuse the company's services. Although the company already set the groups like that, but some errors still can occur. This can because of the error from employees or because the change in customers' demand. The marketing manager explained about some complaints that happened in the 2nd semester of 2020 for both new customers and old customers:

Table 1.1 Customers Complaints in the 2nd Semester of 2020

Month	Number of Customer Complaints	Reasons
July	3	<ul style="list-style-type: none"> – Raw materials used for cold storage construction don't comply with the agreement. – Not satisfied with employee service. – Inaccuracy of the company in completing work.
August	4	<ul style="list-style-type: none"> – Not satisfied with employee service – Dissatisfied with slow response from the employee about customer's problems. – Dissatisfied with the slow pace of the company's administrative system.
September	5	<ul style="list-style-type: none"> – Dissatisfied with the employee because difficult to contact marketing. – Slow response from the worker – Dissatisfied with the price.

		- Dissatisfied with the service maintenance because it is not fully verified.
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Month	Number of Customer Complaints	Reasons
October	4	<ul style="list-style-type: none"> - Dissatisfied with additional costs incurred after the construction work contract. - Slow response from the worker - Dissatisfied with the warranty period which is considered too short. - Difficult to contact marketing.
November	5	<ul style="list-style-type: none"> - Slow response from the worker - Dissatisfied with the Service quality - Dissatisfied with employee attitude - Dissatisfied to company because company did not keep promise. - Employee lack knowledge about products
December	6	<ul style="list-style-type: none"> - Employee lack knowledge about products - Employee cannot explain customers' questions. - Dissatisfied with additional cost incurred after contract. - Difficult to contact marketing - Employee not professional in doing maintenance to cold storage.

Source: PT. Multi Sukses Engineering, 2021

The following data shows the decrease in the number of repeat purchases:

Table 1.2 Diminish in Number of Repeat Purchase in Year of 2020

Month	Repeat Purchase	Percentage
January	157	-
February	151	-3,82%
March	145	-3,97%
April	132	-8,97%
May	130	-1,52%
June	124	-4,62%
July	122	-1,61%
August	114	-6,56%
September	111	-2,63%
October	105	-5,41%
November	101	-3,81%
December	96	-4,95%

Source: PT. Multi Sukses Engineering, 2021

Repetition purchases are purchases made by customers who have registered in the company's system, meaning that they have already made purchases from the company, both in the form of purchases due to cold storage

construction, repair, and maintenance services, and the purchase of spare parts related to cold storage. The data above shows that the repeat purchase is decreasing from January until December 2020.

The operational manager explained that the services provided by company divided into 2 groups which are production of new purchase and service/maintenance. New purchase is new construction of cold storage system. The customers will sign the contract about the specifications of the materials used in the construction process, the time schedule and other information needed based on the agreement between company and customers. While for the service/maintenance is about the routine maintenance about the cold storage system.

The director explained that there is competitor that often fight with the company by offering lower prices from the customers, especially for customers from out of town. The company finds it difficult to compete because additional costs are required for off-field construction so that the price quotation cannot be pushed down any further. The company offers a long working experience with a good reputation of the company that have longer experience than competitors. Although there are customers who prefer the company, but customers in general are more interested in low prices so it is difficult for the company to maintain customer loyalty.

The customer loyalty is indicated by satisfaction, emotional bonding, trust, choice reduction and habit, and history with the company (Astuti and Amanda, 2020). The director explained that the company always strive to maintain customers' satisfaction, but the satisfaction level is differ for every customers that

make company difficult to satisfy all customers. The company always maintain good relationship to customers to gain emotional bonding and trust from customers. The director explained that the most important thing that the company pays attention is the customer experience with the company. When customer feel happy with the last transaction with the company, they will more sure to comeback to repurchase.

One of the problems that caused a decrease in customer loyalty is service quality. Service quality can be indicated by tangible, reliability, responsiveness, assurance, and empathy (Sudarso, 2016). The company needs to pay attention to the factors above to achieve the good service quality.

The service quality will be started since the first time customers contact the company, whether it was a visit to company or the company's employees that come to customers. The company needs to give good impression to customers from the first time, because it can build initial trust from customers to the company. Based on the interview with marketing employees, the company doesn't have special room for customers that come to company. They don't have differentiated living room whether for director guests, customers, or from other parties such as from banks. After the customers meet up with marketing, they will be deliver to marketing room. The company pays less attention to customer convenience such as providing choices of drinks other than mineral water or snacks for customers. This is because the company put the product quality at the main factor so that other supporting factors are not as important as product quality.

The production head explained, the marketing division sometimes made agreement with customers based on the common schedule, for example the contract will be estimated to 1 month. There is less coordination among divisions in the company. Problems happened when the purchasing department cannot fulfill the materials in time, the production department that still have another deadline to be completed, and other factors. This problems make the marketing to reschedule the contract and caused customers to feel unreliable with the company. The problems also occur when marketing signs contract about the routine maintenance before coordinating with service department, making it difficult for them to make the time schedule. The error time schedule can lead to dissatisfied on service quality.

Service quality problems that occur for example: problems with timeliness of service. After making a purchase agreement with the company, the company will send an order to the project department to do the services. Delays in sending information from the company to the project department often result in the fact that the service is late. This problem often causes customers to be disappointed with the company so that they will make purchases from other companies that offer more appropriate service times. Another problem that occurs in company services is accuracy problems. Often the schedule information from the company differs between the information obtained from the agreement and the actual situation. This difference is due to a lack of coordination between the employees at the office and project location, resulting in errors in conveying information to consumers likewise.

In addition, when there is a complaint about the quality of the product, namely: related to differences in expected result and schedule to the actual situations, the problem-solving process is slow. Customers consider that the level of responsiveness of the company is still slow, making it difficult to improve customer loyalty. Responsiveness is: the level of speed on the part of the company to answer complaints from customers. Customers are not satisfied when complaints from them are only received but are not given an immediate answer. Based on the description above, the writer want to research entitles “**The Effect of Service Quality towards Customer Loyalty at PT. Multi Sukses Engineering.**”

1.2 Problem Limitation

The problem in this research is a decrease in customer loyalty caused by dissatisfaction with service quality. Customers show dissatisfaction with the company by providing criticism and complaints to the company.

Due to the limitation of time and cost, this research will be limited to the problem of service quality and its effect on customer loyalty. The research will take place at PT.Multi Sukses Engineering, with the population of all customers of PT. Multi Sukses Engineering in 2020 which is amounted to 83 customers.

The writer will explain service quality with indicators of tangible, reliability, responsiveness, assurance, and empathy (Sudarso, 2016, p.97-98). The writer will also explain customer loyalty with indicators of satisfaction, emotional bonding, trust, choice reduction and habit, and history with the company (Astuti

and Amanda, 2020, p.69-70).

1.3 Problem Formulation

The problem formulation is as follows:

1. How is the service quality at PT. Multi Sukses Engineering?
2. How is the customer loyalty at PT. Multi Sukses Engineering?
3. Does Service quality have influence on customer loyalty at PT. Multi Sukses Engineering?

1.4 Objective of the Research

The objectives of the research are as follow:

1. To find out the service quality at PT. Multi Sukses Engineering.
2. To find out the customer loyalty at PT. Multi Sukses Engineering.
3. To find out the effect of service quality towards customer loyalty at PT. Multi Sukses Engineering.

1.5 Benefit of Research

1.5.1 Theoretical Benefit

This research can be used as additional understanding about service quality and customer loyalty, and to compare theories and practices in the company.

1.5.2 Practical Benefit

This research can be used as a reference for company to maintain and improve customer loyalty by using service quality.

