

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Animal feed is one of the important elements in the business needs of chicken farmers. With the continuous improvement in the economy in recent years, the people's need for quality of life is getting higher. The demand for meat, milk and eggs is increasing. This condition requires more high-quality feed to meet market demand. By having quality feed will produce livestock that have high quality for consumption.

During increasing business competition every year, companies must continue to get developments in carrying out their business activities. However, at this time, the COVID-19 pandemic which is an endemic has made various business sectors experience difficulties. This also creates new challenges for companies in maintaining the ability to earn stable and increasing income during the pandemic. Good marketing activities always pay attention to the needs of consumers. Through a clear marketing flow, the product will be distributed well. Strategic marketing as a selected line of action chosen by a company to achieve a marketing target both in short and long term. It is also possible to consider strategic marketing management as the art of formulating, applying, and reviewing cross-functional options that will help a business to reach its desired goals (Mustapha, 2017).

In running a business, the company's ability to market products is the main thing. According to Armstrong (2017), individuals and companies gain what they

need and want through the creation and exchange of value with others through marketing, which is a social and management activity. In a more limited sense, marketing entails developing profitable, value-laden trade relationships with customers. As a result, we describe marketing as the process by which businesses generate value for customers and establish strong customer relationships in order to collect that value.

Consumer purchase decisions play an important role in the company's revenue. With a high number of purchases, the company's income will increase. According to Arfak et al (2019), purchase decisions are consumer activities that are directly involved in making decisions to make purchases on products offered by sellers. A high purchase decision from consumers for a product is the most important aspect for a company in carrying out its business activities.

Price is the value offered by the company to customers in exchange for a product. Competitive pricing will be one of the considerations for customers in buying a product. According to Lie et al (2019), price measurements play a vital role in the process of interchange with an object with a clear pricing list. Price is the quantity money available to get a mixture of goods and products service.

Distribution as part of the marketing aspect which is an activity to facilitate the delivery goods to consumers. According to Tjiptono (2017, p.346), distribution refers to various marketing activities that seek to expedite the delivery goods and services from producers to consumers, so that their use is as needed.

PT New Hope Medan is a company that engaged in consumer goods with animal feed as its products. PT New Hope Medan was a subsidiary of New Hope Liuhe Co., Ltd that based in China. New Hope Liuhe Co., Ltd is considered as one of the biggest farming and animal feed production enterprises in China and the third in the world. PT. New Hope is the largest feed producer in China, had annual capacity of that to 20 million tons. New Hope Liuhe Co., Ltd has over 80,000 employees and 10,000 people who are the most outstanding professional technicians. In 1996, New Hope Co., Ltd began overseas development. After 10 years so far, it has built 8 subsidiaries in Vietnam, Philippines, Bangladesh, Indonesia, Cambodia, Sri Lanka, Singapore, Egypt, and 25 including current constructed buildings. New Hope Co., Ltd also create their subsidiary company in Medan which is called PT New Hope Medan. PT New Hope Medan has a factory and office that located at Jalan Medan – Lubuk Pakan No. Km, RW.5, Tj. Morawa.

In running the animal feed business, PT New Hope Medan has several competitors in the same field in the sale of animal feed, including the following table.

**Table 1.1**

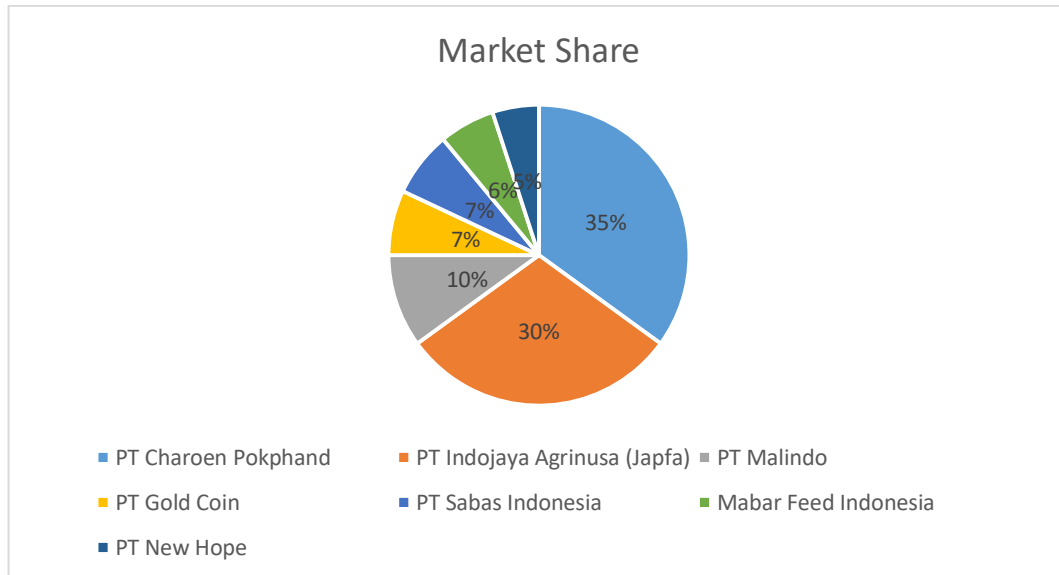
**Competitors Company of PT New Hope Indonesia**

| No | Competitors Company          |
|----|------------------------------|
| 1  | PT Charoen Pokphand          |
| 2  | PT Indojoya Agrinusa (Japfa) |
| 3  | PT Gold Coin                 |
| 4  | PT Malindo                   |
| 5  | PT Sabas Indonesia           |
| 6  | Mabar Feed Indonesia         |

Source: Prepared by the writer (2021)

In terms of purchase decisions in the company, PT New Hope is still unable to compete in terms of the company's market share with other companies. The

following is the company's market share from data taken from PT New Hope for now.



**Figure 1.1 Graph of Market Share**

Source: PT New Hope Medan (2021)

From the current market share data that has been obtained from the company, at this time the company is still unable to compete with other competing companies that have been in North Sumatra. The total market share of PT New Hope is only 5% for the North Sumatra region. The current amount of market share shows that the company is still unable to compete with other competing companies in terms of interest in consumer purchase decisions.

Price is the cost that the customer must pay to get the product or service. The price of chicken feed is one factor that is highly considered by customers, because the main purpose of customers (chicken farmer) to raise broiler chickens are to get the maximum profit. Therefore, if the price of feed is too high or not worth the results, the chicken farmer cannot maximize their profit and can even suffer

losses. For this reason, the price of animal feed will affect the purchase decisions of farmers.

For the prices offered to consumers at this time, the company has problems with higher prices for this type of animal feed compared to other competitors. Although the company offering higher prices, the company are offering good product quality. However, in this case, the company does not provide products at low prices for consumers to choose so that the company tends to find it difficult to compete with other companies that offer several animal feed products at low prices. The following is price comparison data with competing companies.

**Table 1.2**  
**Comparison Price**

| <b>Duration of Chicken Feed</b> | <b>PT New Hope (Price)</b> | <b>Japfa Comfeed (Price)</b> | <b>Pokphand (Price)</b>   |
|---------------------------------|----------------------------|------------------------------|---------------------------|
| 1 days - 21 days                | B11 A<br>(Rp 467.500)      | BR1 Super<br>(Rp 457.500)    | 511 Bravo<br>(Rp 462.000) |
| 22 days - harvest               | B12 A<br>(Rp 460.000)      | BR1I Super<br>(Rp 450.000)   | 512 Bravo<br>(Rp 455.000) |

Source: PT New Hope Medan (2021)

From the price comparison with PT New Hope against other competitors, the same type of product with the similar quality has a higher price difference. The duration of feed used differed from livestock for 1 days to 21 days and 22 days until adult using different feeds. The price difference can be seen from the type of feed and the price difference is quite far compared to competitors. This shows that the price offered by the company is still unable to compete with other competitors.

According to Budi's research (2016), the availability of chicken feed products or distribution of the product is the most important factor according to chicken farmers when considering the purchase of a chicken feed. Chicken farmers will experience difficulties if the feed they used for their chickens turns out to be

limited in production or difficult to get, because their chicken could death or sick due to lack of feed. Changes in chicken feed can affect the health and growth process of chickens because chickens that are accustomed to certain feeds will experience stress if the feed is changed/replaced. This causes product availability or distribution to be of major interest to consumers in choosing feed.

In distribution channel problems, the company experienced general problems in distributing products to customers. In product distribution, there are still problems with delays that occur. The following is data on delivery delays.

**Table 1.3**  
**Delivery Delays of PT New Hope Medan**

| No | Months    | Number of Delivery Delays | Problems   |
|----|-----------|---------------------------|--|
| 1  | January   | 3                         | <ol style="list-style-type: none"> <li>1. There is damage to the delivery car</li> <li>2. Error at the destination address</li> <li>3. Driver not present</li> <li>4. There is damage to the product being delivered, such as damaged packaging during delivery</li> <li>5. The customer's remote location makes the delivery route hampered</li> <li>6. Frequently empty product stock</li> </ol> |
| 2  | February  | 4                         |  |
| 3  | March     | 5                         |  |
| 4  | April     | 5                         |  |
| 5  | May       | 6                         |  |
| 6  | June      | 2                         |  |
| 7  | July      | 3                         |  |
| 8  | August    | 2                         |  |
| 9  | September | 5                         |  |
| 10 | October   | 6                         |  |
| 11 | November  | 7                         |  |
| 12 | December  | 8                         |  |

Source: PT New Hope Medan (2021)

From the data obtained in the number of distributions experiencing problems, the highest number of late deliveries was in December of 8 times. On the problems faced when distribution experienced delays such as problems with car damage, absent drivers, wrong addresses, product damage during delivery, empty product stock and distant consumer locations. This shows that the distribution in the company currently still needs improvement to avoid delivery delays that occur.

The writer choose the price as the variable of this research because the price offered by the company to the customers is more expensive than other companies' products even though their product's quality is quite similar. Most of the customers of PT New Hope Medan are buying in a big quantity, so it could give quite an impact for them when there are price differences between brands. When the product's price of PT New Hope Medan are increasing, customers are considering to purchase from other brands with similar quality but lower price. Other than price, customers are also complaint about the distribution problem of the company like availability of the products, delivery delay, damaged goods and others. For the customers, distribution is one of the important aspect when choosing a chicken feed, because they needs to feed their chicken daily and on time, so if the feed is often unavailable and the products could not arrive to customer's place on time, so the chicken may become sick, die, or it could make the growth of the chicken to be slower because of the hunger. So in this research, the writer are choosing price and distribution as the variables to see the condition and which factor that has most impact to the customers. Company's resources is limited, so this research is to know which factor has more impact to the customers so we could focus on solving that problem.

Based on this review in background of the study, the writer decides to conduct a research entitled **“The Influence of Price and Distribution towards Customer Purchase Decision at PT New Hope Medan”**

## 1.2 Problem Limitation

The object research has higher selling prices compared to other companies with similar product quality, delayed distribution and decreased purchase decisions from the data on the company's market share, so the writer is focusing on price and distribution and its influence on customer purchase decision at PT New Hope Medan as the main problems in this study. The population in this research is the direct user (chicken farmer) and distributors (wholesaler) that buy chicken feed from PT New Hope Medan. Direct user is the chicken farmer that directly raise the chicken and buy the chicken feed from PT New Hope Medan to feed their chicken and the distributors is the wholesaler that buy products from PT New Hope Medan and then resell it to the direct users.

Problem limitations are price (X1) and distribution (X2) as the independent variable and customer purchase decision (Y) as the dependent variable. Indicators of price (X1) as the independent variables include affordability of price, price compatibility with product quality, price competitiveness, price compatibility with benefits. (Lubis, 2016), indicators of distribution (X2) as the independent variables include distributor distance, long from when ordering, stock at distributors, and delivery mechanism (Panjaitan and Cahyanto, 2017) and indicators of customer purchase decision (Y) as the dependent variables include introduction of needs, information search, alternative evaluation, buying decision and behavior after purchase product quality (Anggita and Ali, 2017).



### **1.3 Problem Formulation**

Based on a background explanation in this study, formerly at this research is formulated on the problem as follows:

- a. How is the price offered at PT New Hope Medan?
- b. How about the distribution at PT New Hope Medan?
- c. How about the customer purchase decision at PT New Hope Medan?
- d. Does price have influence on customer purchase decision at PT New Hope Medan?
- e. Does distribution have influence on customer purchase decision at PT New Hope Medan?
- f. Does price and distribution have influence on customer purchase decision at PT New Hope Medan?

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

The objectives of this research are as follows:

1. To identify the price that implemented at PT New Hope Medan.
2. To explain distribution at PT New Hope Medan.
3. To evaluate customer purchase decision at PT New Hope Medan.
4. To analyze whether price have partial influence on customer purchase decision at PT New Hope Medan.
5. To determine whether distribution have partial influence on customer purchase decision at PT New Hope Medan.
6. To investigate whether price and distribution have simultaneous influence

at purchase decision at PT New Hope Medan.

## **1.5 Benefit of the Research**

### **1.5.1 Theoretical Benefit**

This study is expected to be useful to the writer to add experience in doing research and apply theories obtained from the lectures, as a reference and useful information for other writer who wish to do further research. It can provide descriptions and useful information for the company in conducting policies related to the company. The results of this research are also expected to contribute to the theories of price, distribution and customer purchase decision

### **1.5.2 Practical Benefit**

The practical benefits of this study related to price, distribution and customer purchase decision.

a. For the writer

This research can be an additional lesson and knowledge in marketing area as a reference and guideline of them especially related to price, distribution and customer purchase decision in a business.

b. For the company

This research brings a positive impact for the company by providing suggestions and feedback on how to manage distribution price towards customer purchase decision for the company as a follow-up program for better market.

c. For other Writer

This research may be useful for the readers in the future who wish to conduct research and write a paper on their own may find this writing as a reference and guideline of them especially related to price, distribution and customer purchase decision.

