

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Retail industry is one of the most prospective businesses to conduct in Indonesia. With the large population, rising middle class with the increase of household spending, and increase of modern shopping habits, retail businesses are growing rapidly. Retail involves the direct sales of a company's products or services to the consumers. Retailer's responsibilities are finding the most cost-effective way to obtain products from suppliers and deliver the advantages to the consumers. Besides that, retailers also contribute in warehousing and storing activities to ensure the availability of products.

It is widely known that the globe has been experiencing tremendous challenges when the Covid-19 first arose in China in 2019. With the arrival of pandemic in the March 2020 in Indonesia, it has been negatively impacted the nation economy. According to Statista (2021), retail industry revenue for offline retail has slowly declined because the government has instructed partial and total lockdown policy. As presented in Figure 1.1 by Databoks (2020), retail industry were the sixth most impacted by the downturn with the decrease of 84.6%. Construction industry were the fourth most impacted by the downturn with a decrease of 87.94%.

**Table 1.1 Most Affected Business Sector during Pandemic Covid-19**

<b>Sektor Usaha</b>	<b>Persentase Penurunan Pendapatan</b>
Akomodasi dan Makan/Minum	92.47
Jasa Lainnya	90.9
Transportasi dan Pergudangan	90.34
Konstruksi	87.94
Industri Pengolahan	85.98
Perdagangan Ritel	84.6

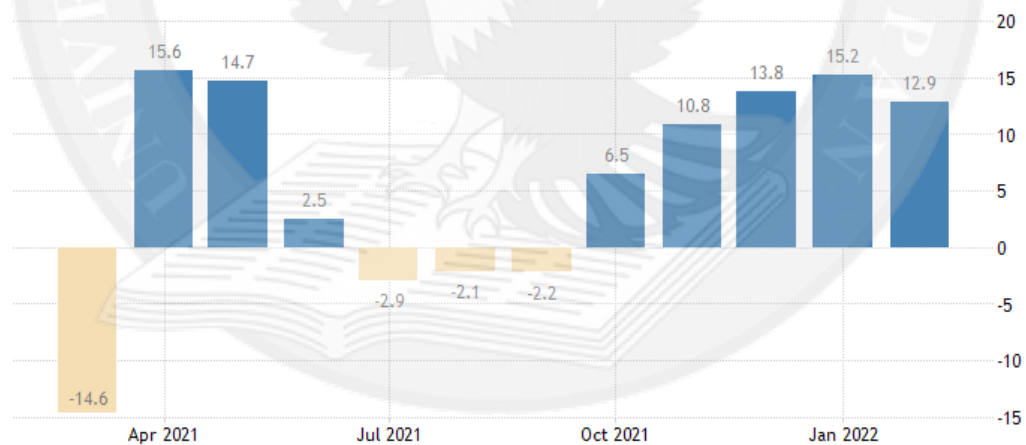
Source: Databoks (2020)

As this study focused on analyzing retail businesses specialized in electrical and lighting products, it will be closely related to the condition of the construction industry. During the Covid-19, construction industry has been impacted by the increased project delays and stalled construction on active project. This is supported by the government instructions to reduce Covid-19 risks in construction service works by minimizing physical contact at work. Also, consumers spending habit has changed to become more mindful to spend money and are increasingly looking for ways to cut their spending because their income are decrease. Most people are more focus spending their money on their basic needs than building their houses (Statista, 2021).

With the stopped/delayed projects, it has been impacted the electrical industry because electrical installations are required for house building. Similarly, lighting industry has been impacted because lighting installations are needed for the internal house building. However, lighting industry specialized in light bulb might not be significantly impacted as people spend most of their time at home, therefore they will desire for a good lighting to do their activities more comfortable. According to SindoNews (2021), there is an increased demand for light emitting diode (LED) bulbs because LEDs are considered brighter and consume less electricity.

Although the industry has been heavily impacted in the midst of Covid-19 pandemic and suffered significant losses in comparison to previous years, presently Indonesia pandemic condition has been recovering with relaxation of community activities further following rising vaccinations.

The Figure 1.1 below shows that retail sales in Indonesia has increased by 6.5% YoY in October 2021, recovering steeply from a 2.2% drop in September 2021. This was the first increase in retail trade since June, as Covid-19 restrictions were eased. According to Trading Economics (2021), home appliances got -20.3% with 4.6% increment from a month earlier (-24.9%). Furthermore, it can be seen that retail store sales have increased for five months in row, with current data in February 2022 stating that retail sales in Indonesia have increased by 12.9%, following a 15.2% increase in January 2022.

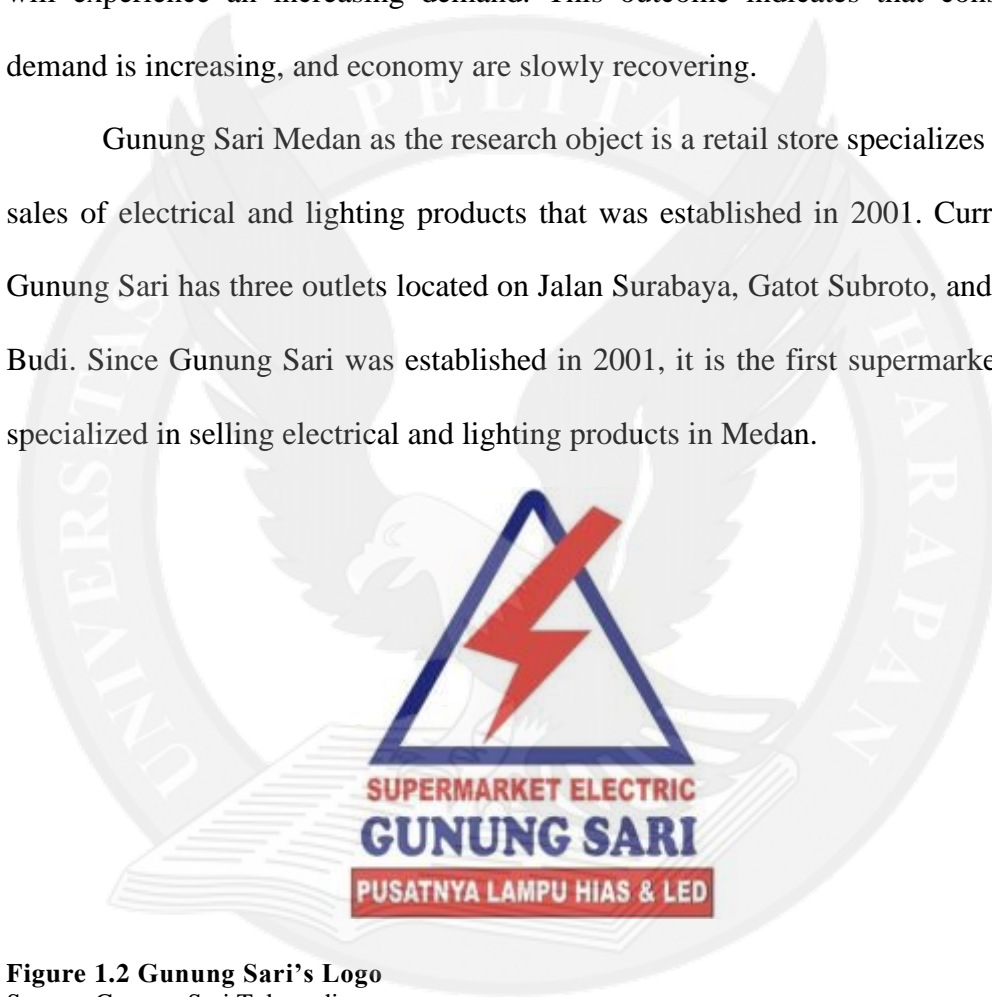


**Figure 1.1 Indonesia Retail Sales YoY**  
Source: Trading Economics (2021)

Reflecting from the data above, the retail store specializes in electrical and lighting products has been recovering because people started continuing their delayed house/building projects. According to GlobalData (2022), construction

industry is projected to record a growth of 7.2%. As construction has been continued, electrical and lighting industry also has been recovering. According to Bisnis.com (2022), electrical company for cable production are projected to increase by 20% in 2022. While lighting company for light bulb production also will experience an increasing demand. This outcome indicates that consumer demand is increasing, and economy are slowly recovering.

Gunung Sari Medan as the research object is a retail store specializes in the sales of electrical and lighting products that was established in 2001. Currently, Gunung Sari has three outlets located on Jalan Surabaya, Gatot Subroto, and Setia Budi. Since Gunung Sari was established in 2001, it is the first supermarket that specialized in selling electrical and lighting products in Medan.

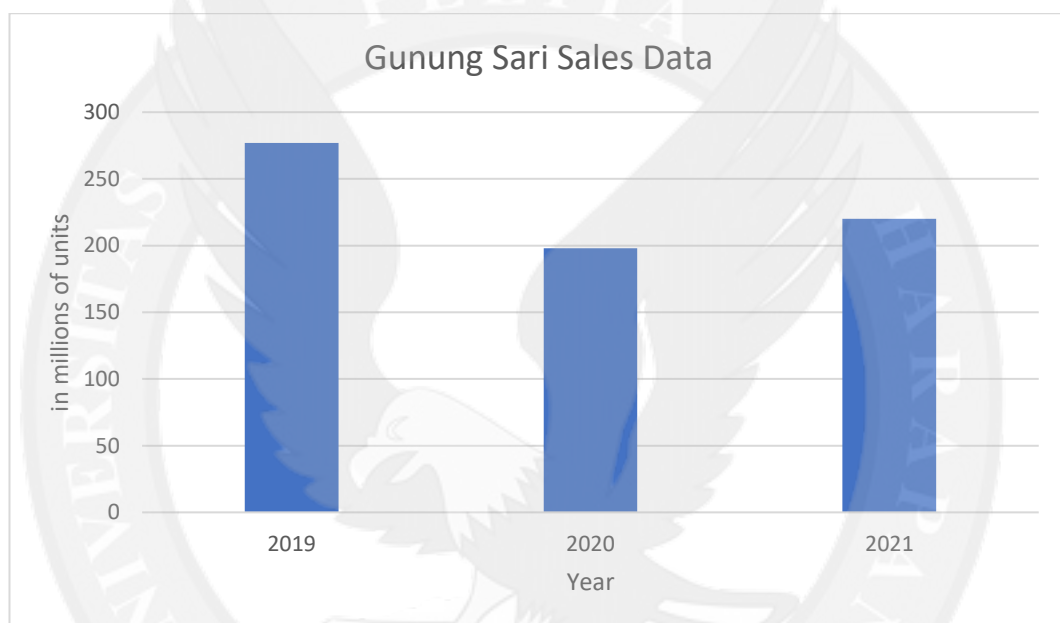


**Figure 1.2 Gunung Sari's Logo**  
Source: Gunung Sari Tokopedia

According to Murni and Rahmanto (2018), purchase decision is a thought process made by customers to purchase certain product after overviewing the completeness of products, product quality, competitive prices, promotion, pleasant services and facilities, and a convenience shopping atmosphere, all of which are in one retail store/ supermarket. After having the thought process, an individual will

choose one of numerous alternative sources to answer his desires. Purchase decision is critical to a company's success because the more desire a customer to purchase, the greater the likelihood for profit and retention.

To further having the picture of customer purchase decision in Gunung Sari Medan, the following figure shows the sales of Gunung Sari in the year of 2019 - 2021.



**Figure 1.3 Gunung Sari Sales Data in 2019-2021**

Source: Prepared by Writer (2022)

Based on the Figure 1.3 above, Gunung Sari's sales in millions of units during the pandemic in 2020 suffered a significant decline because customers' purchasing power decreased. And in 2021, their product sales increased slightly compared to 2020, even though they could not reach sales in 2019.

While Gunung Sari has been able to survive, however, with increasingly fierce competition, Gunung Sari has many retail competitors in Medan. Ace Hardware and Home Smart can be considered as Gunung Sari competitors because they sell lighting and electrical products. This increasingly fierce competition has

made customers have higher standards for the products or services they will receive from a company because they have more alternatives to choose a company that can give them superior customer value. This standard is tightly linked to customer satisfaction. According to Szyndlar (2021), customer satisfaction is a barometer that defines how proficient a company's services or products fit the needs of its customers. Satisfaction will come around when expectations/ beliefs set by customers prior to making a purchase decision can fit or exceed their subjective perceptions of product/ service performance after use. When companies can achieve an optimal level of customer satisfaction, it will make consumers happy, encourage them to extend buying at the company, spread their favorable experiences, and ultimately can lead to the creation of customer loyalty.

Based on the purchase decision definition, it can be reflected that product diversity and promotion are the elements that can affect customers make purchases. An effective combination of product diversity and promotion can lead companies to attain their success. This combination will become a marketing tool that will make the target market respond in accordance with the company desire. The right execution will give company gain better insight in formulating a better strategy to retain customers, influence customer purchase decision, and further lead to customer satisfaction.

According to Firmansyah and Nasikha (2020), product diversity is the collection of products in relation to its completeness, which includes brands, designs, sizes, quality, and its availability in very varied quantities and types, allowing consumers to pick and purchase products anytime based on their desires.

Presentation and variation of products in the company are vital in addressing the diversity because it will result in a positive customers' perception and will prompt greater consumption by encouraging customers to buy products that were not in their mind before.

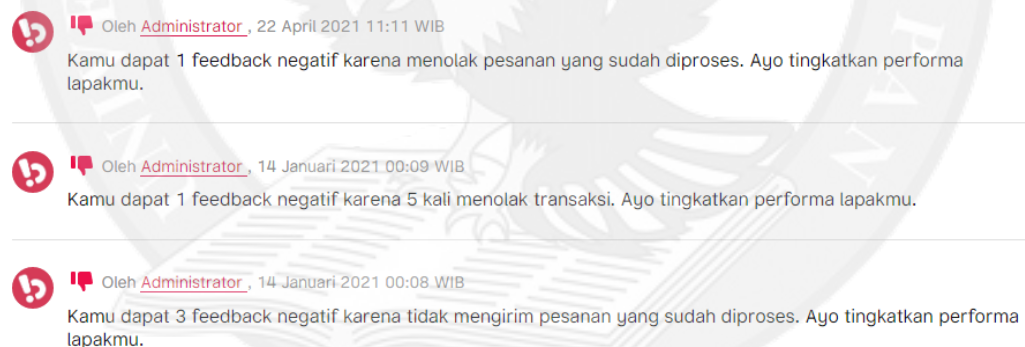
Gunung Sari sells a wide range of products with brands such as Broco, Domae, EAA, Eternal, Goal, Loyal, Merz, Panasonic, Philips, Schneider, Uticon, and Ray, where these brands have various product types such as light bulbs, Miniature Circuit Breaker (MCB), cables, light switches, and many more. With the variety of product brands and types, customers can have one-stop shopping at Gunung Sari without bothering to find their electrical and lighting product needs elsewhere. However, it was found that Gunung Sari's product diversity has several problems/weaknesses.

Gunung Sari sometimes cannot meet the product sizes that customers want. For instance, when customers want to buy downlights, LEDs with a certain wattage, or cables in certain sizes, the stock is unavailable or insufficient. This outcome causes customers to feel disappointed as the products that they need do not fit with their house specifications.

Besides that, it was discovered that Gunung Sari sometimes gives incorrect information about the products' availability since they have diverse products in their warehouse. Based on the manager's information, sometimes when customers want to buy certain products in large quantities, the information given about the product availability is inadequate, but in fact it has an adequate product quantity.

At the end, customers left the store without buying, making Gunung Sari miss a good opportunity to obtain sales because customers switched to other retail stores.

Other cases also happened on Gunung Sari's Bukalapak ecommerce platform that was used to sell products online. It was discovered that this platform sometimes did not provide the updated information for their available products' quantities. On the surface, customers can still click on the quantity as much as they want, but in fact, the quantity is inadequate. As a result, customers that have already done their checkout activity will then get their order rejected. When customers receive this kind of treatment, it will make them feel disappointed with the company. This outcome will cause the company to have a bad reputation and they will lose their prospective and loyal customers. The negative feedback of customers in Bukalapak can be seen in Figure 1.4 as follows.



**Figure 1.4 Negative Feedback for Gunung Sari**

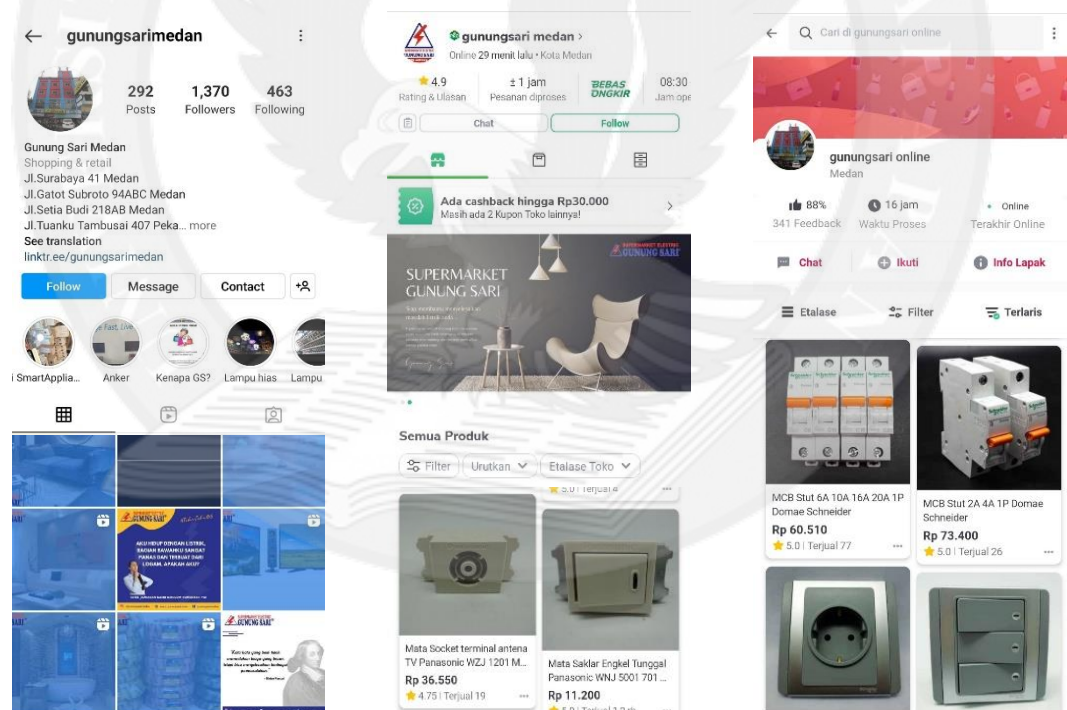
Source: Gunung Sari Bukalapak

According to Adriani (2020), promotion is one of the marketing mix variables that contributes in the communication process between companies and their prospective customers. The communication process is informative and persuasive where the company first informs customers about product's existence and features, and then encourage them to acquire the product that they were



previously uninterested in. Retail stores must utilize promotion as one of their marketing strategies to influence the customer behavior and perception in forming purchase decision. With the Internet, technological advancement, and the emergence of various digital and social platforms, companies can have a lowest cost-effective way to promote their products, and reach more customers easier.

Gunung Sari frequently offers sales discounts promotion to customers and can adapt to technological advancement with their availability on Instagram, WhatsApp, Tokopedia, and Bukalapak. Through these platforms, Gunung Sari can more effectively introduce and inform the audience about their products. The Figure 1.4 below are the platforms that Gunung Sari used to promote their products.



**Figure 1.5 Gunung Sari's Promotion Media**  
Source: Gunung Sari Instagram, Tokopedia, and Bukalapak

However, it was found that Gunung Sari's promotion has several issues/weaknesses. Gunung Sari sales promotions are less attractive because they often

implement discount promotions and Buy One Get One (BOGO) deals. Also, it was found that some customers did not know Gunung Sari had a membership program because the employees rarely informed the customers about it. It might be unfortunate for Gunung Sari because the membership program can make customers more interested in making repeated purchases on other occasions.

Besides that, some of Gunung Sari employees who usually assist customers by offering products, giving products explanations and suggestions to choose product are less friendly in helping customers. The employees are considered less friendly because they seem less active in helping customers.

Furthermore, in Gunung Sari Instagram account that is used for advertising was discovered to be less active in posting contents. This is considered as serious issue because technological advancement has changed people's shopping habits that tend to conduct online research before purchasing.

According to DataReportal (2022), the number of Indonesia active social media users increased by 12.6%, or 21 million users between 2021 and 2022, with the most popular platforms namely, YouTube, Facebook, Instagram, and TikTok respectively. According to Iqbal (2020), Instagram can instantaneously congregate users to become one of the most influential and largest social media platforms. Instagram is an important marketing platform because it allows people to share photos, videos, and stories with captions to complete the post. In the business world, these features are important because it is the way for companies communicating with the audiences and build their brand equity. Social media users are utilizing

social media to explore products and most of them are more possible purchasing products and services based on social media referrals.

This situation will cause Gunung Sari to lose engagement with their prospective buyers because they are not actively giving information about discounts promotion or the newest products. It will make customers think Gunung Sari does not offer any special offers or new products.

Based on the phenomenon, the writer decided to do a research study and analyze in greater depth whether product diversity and promotion have influence towards customer purchase decision and customer satisfaction, which will be written in a paper format with a title: **“The Influence of Product Diversity and Promotion Towards Customer Purchase Decision and Customer Satisfaction at Gunung Sari Medan.”** The motivation for choosing Gunung Sari as the research object because this company has a vision to grow the number of customers in Medan and become a leading electrical and lighting company in Medan. The purpose of choosing this title is to investigate previous studies so that the writer can gain more knowledge, and it is also expected to solve company problems and help the company achieve its objectives.

## **1.2 Problem Limitation**

Due to limited time, resources, and to avoid the occurrence of problems discussion that are not in accordance with the research study, then the researcher decided to give limitations of the problem that includes:

1. The study focuses on analyzing two independent variables which are the product diversity and promotion, along with one dependent variable which is customer satisfaction, and one intervening variable which is customer purchase decision.
2. The research object will focus on Gunung Sari stores in Medan
3. The data collected through questionnaire distribution using Google Form limited to 100 respondents who ever purchased products from Gunung Sari Medan in the last two years, with the aged between 18-60 years old
4. Research and analysis of questionnaire results will use SPSS software

### **1.3 Problem Formulation**

Based on the background of study, there are several issues that the writer would like to discuss more, which are:

1. Does product diversity significantly influence customer purchase decision at Gunung Sari Medan?
2. Does promotion significantly influence customer purchase decision on Gunung Sari Medan?
3. Do product diversity and promotion significantly influence customer purchase decision at Gunung Sari Medan?
4. Does customer purchase decision significantly influence customer satisfaction at Gunung Sari Medan?
5. Does customer purchase decision mediate the influence of product diversity on customer satisfaction at Gunung Sari Medan?

6. Does customer purchase decision mediate the influence of promotion on customer satisfaction at Gunung Sari Medan?

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

In accordance with the problem formulation, the objectives of this research are as follows:

1. To examine if product diversity significantly influences customer purchase decision at Gunung Sari Medan
2. To examine if promotion significantly influence customer purchase decision at Gunung Sari Medan
3. To examine if product diversity and promotion significantly influence customer purchase decision at Gunung Sari Medan
4. To examine if customer purchase decision significantly influences customer satisfaction at Gunung Sari Medan
5. To examine if customer purchase decision mediates the influence of product diversity on customer satisfaction at Gunung Sari Medan
6. To examine if promotion mediates the influence of product diversity on customer satisfaction at Gunung Sari Medan

## **1.5 Benefit of the Research**

The result of the research title “The Influence of Product Diversity and Promotion Towards Customer Purchase Decision and Customer Satisfaction at Gunung Sari Medan” are expected to give benefit in both theoretical and practical way which will be described as follows:

### **1.5.1 Theoretical Benefit**

This research will give a better theoretical understanding about the influence of product diversity and promotion towards customer purchase decision and customer satisfaction. Therefore, it will broaden the writer knowledge and will give references for others who are interested in conducting similar or related research, as well as helping them in writing their research papers.

### **1.5.2 Practical Benefit**

a. For the company

This research is expected to provide comprehensive insight for business proprietors or Gunung Sari management team about the importance of product diversity and promotion that might influence customer satisfaction through customer purchase decision. It also provides input for the company’s management team in formulating better strategies to improve the company’s performance and stand out among competitors in the industry.

b. For the writer

This research will help the writer in gaining broader insights and knowledge about the components that are related with customer purchase decision and customer satisfaction, which are product diversity and promotion.

Moreover, the acquired knowledge in this study will help the writer in doing real life work practices.

c. For readers/ future researchers

This research will provide a reference for readers/ future researchers to obtain and gather information in conducting research that related to the influence of product diversity and promotion towards customer satisfaction through customer purchase decision in other companies

