

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Surabaya is one of the largest cities in Indonesia with a very promising economic development. It is strongly supported by the development or progress in the field of tourism which encourages people to establish businesses that associated with lodging and people who are traveling. One example that is quite attractive for businessman in the city of Surabaya is the hotel business with various types of facilities. Businessmen benefit from these businesses, and contribute to the revenue the government of Surabaya. The big number of population of Surabaya city (Table 1) means that Surabaya is a lucrative market for businesses.

Table 1

*Population of Big Cities in Indonesia*

Rank	City	City Population	Province
1	Jakarta	9,588,198	DKI Jakarta
2	Surabaya	2,765,908	East Java
3	Bandung	2,393,633	West Java
4	Medan	2,109,330	North Sumatra
5	Bekasi	1,993,478	West Java

*Note.* From Data Statistik Indonesia (2011)

Table 2 shows that Surabaya's economy is keeps growing every year. The economic growth in Surabaya is observed in the growth of the tourism industry. Since 2008 until 2010, tourism industry in East Java continues to experience growth by 17%. Currently, Java has had 760 Tourism Destination Region (DTW), 264 DTW of nature tourism, cultural tourism from DTW 306 and 190 from DTW special interest tours. Of the total GDP of Rp 778.45 trillion in the year 2010, approximately 30.9% contributed by tourism sector. Meanwhile, domestic tourists

visiting East Java this year reached 27 million, up by 2.9 million from 2010. Foreign tourists who visit East Java through airport reached 134,876. In other words there was an increase of 7.78% over the same period in 2010 as many as 125,145 people. This supports that tourism industry is positively growing.

Table 2

*Surabaya Economic Growth*

Year	Growth
2007	6.38%
2008	6.26%
2009	5.30%
2010	6.67%
2011	6.73%

*Note.* From Surabaya Post Online (2011).

Moreover, the hospitality industry in the city of Surabaya has risen sharply. This is evidenced by the significant increase of number of hotels in Surabaya. In 2006, there were 25 hotels, whereas in 2010, there was a recorded 121 hotels (Table 3).

Table 3

*Hotel Industry Growth in Surabaya*

Year	Number of Star-Licensed Hotel	Number of Non-Star Licensed Hotel	Total
2006	16	9	25
2007	17	22	39
2008	22	53	75
2009	26	78	104
2010	29	92	121

*Note.* From East Java Tourism Board (2011)

According to information above, it is shown that the hospitality industry in Surabaya is growing. If the number of hotels continues to grow, competition between hotels will be more stringent. To that end, hotels in the city of Surabaya

should develop marketing mix if they want to survive or win the competition. As Kotler (2009) has stated, along with the increasing level of industry competition, marketing orientation began to shift to the concept of four Ps: price, place, product (or service), and promotion.

There is sufficient evidence that the 4Ps have a major impact on the decision-making process in today's competitive market (Satit, *et al.*, 2012). Walker (2009) concluded that price discount will drive customer to decided to stay in a hotel. Smith (2004) stated that hotels near public facilities tend to has higher occupancy rate. Jeffrey *et al.* (2002) explained that loyalty and experience as pat of staffs' service contributed to hotel's occupancy performance. In addition, Jeffrey *et al.* (2002) verified that personal promotion to customer generated stronger occupancy performance.

Choi & Kimes (2003) wrote that hotel demand is stronger on weekdays versus weekends, particularly for business-oriented properties that comprise the majority of hotels for large hospitality enterprises (and that also forms the basis for this analysis). In hotel industry, occupancy rate can be a measurement for customer buying decision (Kim, 2010). Satit *et al.* (2012) investigated the relationship between the 4Ps, namely price, promotion, place and product, and customer decision-making over travel agents in Palembang, Indonesia. The researcher investigate these variables plus seasonality in d'SEASON Hotel.

Economic situation in Surabaya which keep on growing bring a positive effect to the growth of tourism industry in Surabaya. This situation has made number hotels in Surabaya increasing. Same thing goes to positive growth experienced by d'SEASON Hotel. d'SEASON Hotel is an interesting object to observe because d'SEASON Hotel faces a tough competition in the future with other new hotels in the future years.

Based on the interview with the CEO of d'SEASON Hotel, the hotel has been established and legalized in 18 March 2009. In this era of tough competition, especially in hotel business, d'SEASON Hotel tries to provide a hotel with different concepts. The Hotel's design and minimalistic room, added with facilities such as swimming pool, parking lot, and 24 hour Wi-Fi services across hotel area, completed with friendly and systematic services supported with 48 rooms consist of many types from business room to suite room has made this hotel one of the most comfortable place to stay in Surabaya.

Positive accomplishment in occupancy rate has been achieved since the establishment of hotel. In year 2009, d'SEASON Hotel reached an occupancy rate of 80%. In year 2010 with total room of 48, occupancy rate reached 85%. To keep up with challenges, since October 2010, d'SEASON Hotel increases the capacity of rooms to 48, with an addition of superior rooms suited for business traveller. In year 2011, d'SEASON Hotel successfully achieve occupancy rate close to 90%. Most customer are corporate and/or professionals.

Table 4

*Occupancy Rate of d'SEASON Hotel Surabaya*

Month	Occupancy Rate		
	2009	2010	2011
January		85.7%	89.1%
February		92.4%	84.3%
March	40.3%	91.9%	89.7%
April	56.8%	89.8%	85.6%
May	80.2%	94.9%	94.5%
June	85.9%	96.9%	92.8%
July	89.6%	99.3%	94.1%
August	70.9%	87.5%	77.7%
September	78.2%	94.2%	90%
October	83.7%	87.5%	96.6%
November	91.4%	89.4%	94.1%
December	92.9%	92.4%	89.4%

*Note.* From d'SEASON Hotel (2011)

Table 4 shows an increasing occupancy rate at d'SEASON Hotel. Promotional activities done by d'SEASON Hotel also became more diverse and intensified. This progress encourages the researcher to determine the relationship between promotion and sales, in this case shown by occupancy rate in d'SEASON Hotel.

Of all d'SEASON Hotel guests, 68% are corporate guest, 9.3 % are from travel agents, and 22.6% are from individual account booking. Fifty-three percent of the guests from travel agent and 78.3% guests from individual account booking are staying in the hotel for business purposes. Fifty-one percent of the fuest of the hotel come from Jakarta, 17.82 % percent are from Surabaya, 12.6% are from Bandung 3.3% are from Semarang, 3.8% are from Medan, 7.3% are from Malang, and the rest are from other areas like Borneo, Sumatra, Sulawesi, Papua, and overseas.

Based on the description above, the researcher conduct a study entitled: *“Factors Influencing the Customer Buying Decision of D'SEASON Hotel Surabaya”*.

## **1.2 Research Problems**

The research problems are as follows:

1. What are the demographic characteristics of customers of d'SEASON Hotel?
2. Do price, place, service, and promotion have an effect on customer buying decision of d'SEASON Hotel?
3. Does seasonality affect customer buying decision of d'SEASON Hotel?

## **1.3 Research Objectives**

The objectives of this research are to determine whether the following factors influence the customer buying decision of d'SEASON Hotel:

1. Demographic characteristics of customer;
2. Customer information of price, place, service, and promotion; and
3. Seasonality.

#### **1.4 Research Contributions**

Advantages from the research entitled: “Factors Influencing the Customer Buying Decision of d’SEASON Hotel” are shown below.

##### **1.4.1 Theoretical Advantages**

This study explains the effect of 4 elements of marketing mix (price, place, service, promotion) and hotel occupancy rate towards consumers’ buying decision as the variable of d’SEASON Hotel. Result of this study may become useful references for study in the similar field.

##### **1.4.2 Empirical Advantages**

Result of this study may be useful by providing further information to d’SEASON Hotel regarding its overall strategy implementation (including marketing, financing, and operation). It may help the company in indentfitying significant effect of 4 elements of the marketing mix that affect consumers’ buying decision of d’SEASON Hotel. The result will also be a reference for companies in hotel industry regarding the effect of marketing mix to its occupancy rate. This study can be a reference for prospectivr investors who are willing who invest in the hospitality industry.

#### **1.5 Research Limitation**

This research is limited to one object (d’SEASON Hotel) and may not be applicable to other hotels, especially licensed. The variables used in this research are limited only to price, place, promotion, service, and seasonality. Other indicators might also be interesting to consider.

## 1.6 Research Outline

This thesis consists of chapters explained below:

- Chapter I : This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.
- Chapter II : This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of marketing mix (price, service, place, promotion), seasonality, and customer buying decision theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.
- Chapter III : This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.
- Chapter IV : This chapter organizes a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.
- Chapter V : This chapter outlines the implications, conclusions, and recommendations supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.